BUSINESS UNITY SOUTH AFRICA

NATIONAL OFFICE
61 Katherine Street, Sandton, 2196
P.O. Box 652807, Benmore, 2010
www.busa.org.za
+27 11 784 8000

Updated BUSA position on BIG

High levels of unemployment and poverty, both of which have been deepened by Covid-19, load-shedding, and the rise in inflation of basic goods, demand responses by society at large, and business is fully committed to working with government and our social partners to address these enormous challenges and their complex causes. We recognise that peoples' needs are wide ranging – for an income, for assets, for employment, for skills, for infrastructure to support cheaper transport and data costs, for geospatial integration, for better education, better policing, and better health care – a better quality of life, in the broadest sense, for everyone, of all ages.

Inequality in South Africa runs along all these lines and is deep and multifaceted – entrenched, in part, by the lack of reform led, labour intensive growth. Income inequality is only one element.

It is crucial, however, that South Africa deals with these challenges in a sustainable way so that we can progressively and continually improve people's quality of life. It's critical that the steps we take do not further jeopardise what progress we have made or risk undermining other programmes such as existing grants, or to cut spending on healthcare, education, or security.

Indeed, business has been occupied in recent years in NEDLAC and elsewhere constructively trying to discuss more comprehensive social security reform – as well as how to reform healthcare access to enrich the overall social wage, the value of which is, by government's estimates, already in excess of R1 trillion a year. Business has been insistent throughout such processes and interactions with social partners that sustainability of such reforms is crucial.

This is the context within which debate about a basic income grant must be situated. It is clearly true that cash transfers to households improves their welfare and living standards. But that is only true if a grant is affordable, if it does not break South Africa's already over-stretched public finances, and if the imposition of large new taxes does not further undermine growth and employment creation. From the point of view of reducing poverty, an unaffordable basic income grant or one that undermines our very fragile growth path will be self-defeating. We need to take a view of the entire system and the entire economy.

Business has backed a time-limited, post-Covid and post-unrest extension of the SRD grant, paid for from one-off windfall revenues from the commodities price boom. This is not a sustainable model, however, to fund the basic income grant model being proposed now by many.

Some civil society organisations for example have recently proposed that a universal basic income grant at the level of over R600 per month be implemented from March next year, and that the value of this rise "at least" to the level of the upper-bound poverty line. This would cost nearly R300 billion in new spending in 2023/24, rising to more than double that as the value of the grant increases. There is no way to raise levels of funding of this magnitude through taxes or new debt in a manner that does not undermine the economy or in a way that does not compete for revenue from other spending imperatives. Indeed, it would also drain resources away from other policy measures that are critically needed – such as wider quality access to healthcare or a broader social security safety net that is contributory from employment.

This is not a decision to allocate a few billion rand for a few years, but a "forever" decision. It therefore must be considered very carefully as it realistically – in political and in social terms – cannot be reversed once implemented and will act like a ratchet within the budget. Tax choices made to fund a BIG will also not then be as readily available for other social wage measures.

Business continues to commission work on options to fund a basic income grant, including looking at the amount of debt that could be sustainably financed. The available evidence however points a highly constrained tax base and severe limits on what can be cut from expenditure or paid for through new debt being raised. Put simply, it will shave consequences that are likely to destabilise already weak tax revenue growth and, critically, lead to costly and disruptive shocks to the macroeconomy from which SA may struggle to emerge for a generation.

Business backs a broad and affordable balance of spending priorities on education, healthcare, transport, infrastructure, and existing grants (including employment incentives) which should not be put at risk or crowded out by a basic income grant in a world where funding constraints are real and binding and cannot be wished away. The only way to afford all these priorities is to grow the tax base through faster long-term growth, driven by reforms and investment. These are the reforms that business regularly puts forward to provide a more robust and dependable 'doing business' environment.

In other words, the upside generated by reform and fiscal sustainability now must be (and can be) progressively shared to back broad coverage and multi-faceted support for the poorest South Africans through a higher social wage. Whilst reform can and must lift as many people out of poverty and unemployment as possible – given the depths of the challenges in our country, there will certainly be many who continue to need support.

To chart a path to this point, in the medium to long term, Business can back a proposal for expanded social support through an unemployment insurance type product (that might be popularised as a Basic Income Grant) under each of the following conditions:

- It is phased in only as deep structural and regulatory reforms such as (but not limited to) those outlined by Operation Vulindlela, labour market reforms that support labour absorption and reducing the barriers to entry for SMMEs, are successfully implemented and bear the fruits of sustainable and faster GDP growth and faster tax revenue growth from an expanded tax base.
- Fiscal sustainability is not compromised, and a grant does not cause a widening of the long-term trajectory of the deficit which should remain on a path toward debt reducing levels that can help reduce funding costs for government itself and business.
- It is not universal but is targeted at those in need, it is well designed and does not exacerbate social problems through its design
- Cognisance is given to the fact it is only one of many elements of a broader social wage and that tax options cannot be tapped successively.

Business looks forward to engaging with government and social partners on ensuring that the upside from reform-led and labour-intensive growth can be spent progressively on a social wage in the broadest conception, in a sustainable and practical manner over time – taking the broadest view across different elements of the social wage, not just focusing on a BIG.