The South African Solidarity Grant

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1. Introduction: News from the transition

The year is 2011. South African has been through a rugged ten years. Crime and social tensions around the turn of the millennium had brought home to the leadership of the country - government leaders, business leaders, trade unionists and leaders of the churches, community associations and civil society groups - that, unless they did something bold and equitable, they would fail the great work of Nelson Mandela and his colleagues who had not only fought to defeat apartheid but had laid the basis for healing the wounds.

President Thabo Mbeki has just handed over to his successor, having steered the country into social harmony and having just watched the bafana bafana win the World Cup (and a multi-racial cricket team narrowly lose to a multi-racial England). President Tito Mboweini left the Reserve Bank in good hands, with a governance structure in which all groups in society have a democratic voice. He has inherited a leadership role in which social and economic inequalities need some modification, but so much has been done that he can look forward with great confidence that South Africa will be a role model for the whole of Africa and for much of the rest of the world.

In 2011, the social crisis of the turn of the century seems a long way away. Back in 2003, several Acts had been passed, after fierce opposition from several national and international vested interests. A South African Health Service Act had unified the private and public in partnership where primary prevention and healthcare - or a public health culture, based on egalitarian principles - was given very high priority, and by which a mix of public service and private payments had made access for everybody feasible. A four-tier pension scheme was operationalized, with everybody able to draw part of their income during the course of their lives after age 30. "Work insurance" top-up benefits were made available to all those who change jobs or experience fluctuating incomes. The old Unemployment Insurance Fund was phased out after numerous fruitless efforts to tinker with it, as beyond salvation - rightly seen as a privilege for a minority who had lost 'formal' jobs and had also been fortunate enough to be covered, and

incapable of providing for those most in need. There are other public-private partnerships, in education, in social services, notably in the sphere of social care, and in personal development schemes.

Above all, the reformers of the time had realized that the *ad hoc* selective, apartheid-riddled social protection schemes they had inherited were not amenable to piecemeal reform. Poverty, economic insecurity and inequality - racially and geographically based, but by no means restricted to those two dimensions - were so deep-seated that even successful economic policies would have left the injustices to fester, endangering the whole long-term prosperity of the country. The growth in inequality is precisely what had happened in the late 1990s, and was worse in 2000 than had been the case in the great year of the "political miracle" seven years earlier. By the end of the last century, the estimated gini coefficient for personal income distribution was 0.58, which was one of the highest in the world and way out of line with all well-functioning economies. The business community, and mainstream economists, believed that macro-economic policy was sound, primarily because the wild business cycles of the apartheid era had been replaced by a more stable growth path. However, the value of the Rand had fallen steadily for over three years, and economic growth was sluggish.

What really forced policymakers to take redistributive reform proposals seriously was what the Taylor Committee among others referred to as the danger of a "four nation" society emerging, given that while overall inequality was increasing, this was mainly due to a great increase in the inequality *within the black community*, a finding brought out in the UNDP's Human Development Report for South Africa that came out as the Taylor Committee started its deliberations. The statistics showed that the poorest 50 per cent of the population had experienced a drop in household income since 1991.[1] About half of all the people in the country were living below the modest poverty line. And largely because of the AIDS epidemic, there was a growing demand for social protection,

[1] UNDP, The Human Development Report for South Africa (Pretoria, UNDP, 2000), p.63.

both for the millions of sufferers and for the orphans and other relatives of AIDS victims.

The situation demanded bold and decisive action to reduce poverty, economic insecurity and inequality. Some advocated measures such as land reform, but most authorities agreed that this would have little effect, largely for historical reasons. Similarly, there was little political 'stomach' for wholesale asset redistribution, in spite of the desirability of that on both economic and social grounds. They also realized that, although some economists claimed that the country suffered from inflexible labour markets, in fact the labour markets were highly flexible, so that - except for the short-term gains from reaction to reforms in the international capital markets - there was little mileage to be gained by rolling back the Government's labour legislation of the mid-1990s.[2] Others proposed a substantial increase in *public works*, but this was soon regarded as fanciful and poor economics. Not only was the scale required to make a dent on unemployment and poverty so huge as to be unrealistic – given that about six million people were classified as living below the poverty line - but also, as economists pointed out, there was ample evidence that such schemes were generally inefficient - especially when launched on a massive scale - as well as prone to serious displacement and deadweight effects, as the ILO review had showed in reviewing the available evidence.

Accordingly, in these worrying but propitious circumstances, the Government took what seemed at the time to be a risk of introducing the **South African Solidarity Grant**. They toyed with other names, none of which quite caught the political mood as well as this. Of course, there were important additional reforms, including the world-famous **South African Social Dividend Scheme**, in which workers and working communities have shared some of the

[2] A comprehensive assessment carried out in association with the Presidential Labour Market Commission had reached this conclusion some years earlier, and since then labour markets had become even more 'flexible'. G.Standing, J.Sender and J.Weeks, Restructuring the Labour Market: The South African Challenge (Geneva, ILO, 1995).

benefits of successful business ventures as South African firms have become world-class dynamically efficient companies. I will leave that aside here.

Before recalling the debate around the introduction of the Solidarity Grant, it is worth recalling two other changes that took place in the middle years of the last decade. NEDLAC gradually lost its Gauteng centralism. Regional Solidarity and Development Councils emerged from Provincial Development Councils and the Social Development Forums. The latter had been too voluntaristic, and largely collapsed. There was some talk of a Millennium Council, but this was too vague to take off. There had also been lingering unease over the existence of the Development Chamber of NEDLAC. It was felt that there was not enough space for social protection issues, and that economic and social policy needed to be integrated, rather than be seen as occupying separate and even competing spheres. So the RSDCs emerged, in which a multi-partite governance structure made sure that policies were progressively made more democratic, more equitable, efficient, transparent and accountable.

These soon became primary organs of social protection policies, and eventually were responsible for major decisions over part of the new **Social Investment Funds**, spending to improve vital social services, which even today still vary in different parts of the country, largely because local groups seem to have different priorities - which is their constitutional right. The SIFs helped to boost national investment in the early 2000s, after a period of decline - gross domestic investment had fallen from about 25 per cent of GDP in the mid-1980s to about 15 per cent in 2000.

The other relevant breakthrough was the introduction of the **South African Solidarity Card** (SAS Card or Solidarity Card). These may seem obvious now. But back in 2000 they still seemed fanciful, even though old-age pensioners had "smart cards", with which there were problems because of lack of a protective environment. Solidarity Cards seemed fanciful and idealistic until old Charlie Meth, now enjoying his retirement walking the hills around Durban, stood up and in his customary mild language proposed that they should be introduced through a

public-private partnership, which is essentially what happened, regulated by statute and operationalized under licence by several private firms.

As you know, Solidarity Cards are used by everybody now, and are used to give people their monthly solidarity grants and supplementary cash entitlements for those with special needs, such as physical or mental impairments (not disabilities, which people soon realized was a paternalistic notion). And they give cash points for educational and training development initiatives. The cards certainly make many transactions easier and make receipt of benefits less stigmatizing and hard to obtain. There is the technology dispersion unit in the Ministry of Trade and Industry with responsibility for making sure that technological breakthroughs are made accessible for everybody these days, rather than for a privileged minority as was once the case.

2. The South African Solidarity Grant

The idea of the solidarity grant was fiercely resisted in 2001, which seems strange now because everybody takes it as a normal way of helping to strengthen our sense of community and society. We know it is no panacea; it is just a valuable part of the overall package of policies and services. It was proposed originally by members of the Taylor Committee of Enquiry, when the idea was quite modest - a small amount paid to every citizen and legal resident who had been in the country for more than one year legally. From the beginning it was paid to every individual as a right, not based on the household unit, and it was paid regardless of marital status, family status, race, gender and perceived work status. You may recall that its introduction was advanced by several Constitutional Court cases, in which the Court ruled that the Government had an overriding obligation to ensure the right to basic security in order to be able to survive, function and develop as human beings.[3]

[3] A landmark case was *Government of RSA vs.Grootboom and others*, of October 4, 2000. One factor in the successful introduction of the solidarity grant was that the Taylor Committee learned from the experience of GEAR and the Presidential Labour Market Commission of 1995. The latter was

Let me recall the main objections, in the course of telling you what the researchers have shown to be the main advantages. Initially, the Ministry of Finance and a few well-placed, and well-paid, economists objected on the ground of *cost*, as well as on grounds of *churning* and a *lack of targeting.*

2.1 The cost argument

Cost claims amounted to the big political issue. Critics did a little arithmetic, and produced scary sums, which they leaked to the media with snide sarcastic comments as if they had a monopoly of common sense. Proponents had to campaign hard, and took several angles into the debate. First, they pointed out that under the UN Declaration of Human Rights and the International Covenant of Social, Economic and Cultural Rights, and other international treaties, the Government had a commitment to provide *everybody* with enough income on which to survive and develop. Not only that, but all political and social leaders publicly subscribed to that principle.

The critics said that the country could not afford it, and talked about the commitment to move 'progressively' towards constitutional rights. But economists in and around the Taylor Committee pointed out that, besides the fact that over the previous few years the country had moved *away* from the direction required by the Constitution, paying for it was really about government and social priorities, not about the ability to pay. They pointed out that if you replaced government transfers that went predominantly to the middle-income and upper-income groups and merely returned the income distribution to what it had been at the time of the political miracle, when almost everybody in any public position said it was too great for sustainable development, the money would be available to pay every South African citizen a modest income grant on which to survive.

somewhat pre-empted by the quick launch of GEAR, which was not subject to any substantive evaluation before its announcement and which was therefore accepted as official policy without delay or possible derailment by criticism from within the ANC.

Moreover, it was not even that hard. Just reversing the tax cuts to the richest 1 per cent of the population made in 1999-2000 and the proposed tax cuts for this super-affluent elite in 2000-2001, would give almost enough to make it work. Savings could be generated by cutting subsidies to the affluent, including cutting the R2.6 billion given to private sector medical aid subsidies. Then some awkward advocates of the grant pointed out that each year the Government's social ministries and departments substantially under spent their budgetary allocations, which could be used to help pay for the solidarity grant. Then they noted that the National Development Funds had huge amounts locked up that could be used to give people basic income security. Besides unspent trust funds, some whizz-kid of the time (who has gone on to greater things, quite justifiably) pointed out that the Lottery Fund, introduced in March 2000 if I recall correctly, was generating an unspent surplus of over ten million Rands per month.

Other sources were quickly identified. The Taylor Committee proposed a special temporary measure, an earmarked Solidarity Levy, which was a wealth tax by another name. This was modest, but was regarded by most sensible affluent people as a worthwhile price to pay to help reduce poverty and the social threat that it brought with it. Put bluntly, they saw it as a form of investment in their future and, more significantly, in the future of their children and other relatives.

There was even moral pressure exerted on the private pension fund industry to contribute part of what was know as 'pension fund surplus" - estimated to be 80 billion Rands at the time (or about 10 per cent of GDP), although they really reflected accumulated reserves. A 10 per cent solidarity grant levy on those surpluses generated a huge initial amount, and incidentally helped make those companies more efficient in how they used their funds, so becoming more truly defined benefit pension funds.[4]

[4] As the surplus shrank, partly because the levy encouraged pension funds to reduce their surpluses, the funding of the solidarity grant was augmented by the profits from the Social Investment Funds.

The cost considerations were soon shown to be a veneer for other less laudable objections - like not wishing to alter the functional and personal income distribution, because those economists had their friends and relatives in the boardrooms around them, and not altering the distribution of public expenditure so as to reduce poverty and inequality directly.[5] With wage and income differentials among the greatest in the world, supply-side economic arguments about the need to cut social spending in order to give savers, investors and high-income earners greater incentives through tax cuts looked rather contrived.

Some economists argued against the idea on grounds of *fiscal discipline*, claiming that the whole economic strategy depended on reducing the budget deficit, which required the government to reduce social spending. Proponents of the solidarity grant, including prominent social leaders and ANC members, pointed out that even if one accepted the economic orthodoxy, cutting the budget deficit merely required revenue and expenditure to become closer. This did not mean that social spending had to fall. The fact was that public revenue as a share of GDP was low by international standards. South Africa was a low-tax country, and was still lower in effective terms because despite the effort of the South African Revenue Service, which had improved the tax take by reducing tax evasion and arrears. By the end of the century, government revenue was less than many developing countries, and was less than two-thirds of the average in industrialized countries. The average tax ratio of 26 per cent was also low by international standards in general.[6] And it was low for countries with similar economic characteristics.[7]

It was also pointed out that, expressed as a share of national income, social protection spending was low by international standards. At the end of the 20th

[5] The economic orthodoxy of the 1990s was still prevalent among the slow-adapting economists in some circles. It went under the name of the Washington Consensus, which fortunately has long since been discarded as misguided.

[6] M.Samson, K.MacQuene, I.van Niekerk and T.Ngqungwana, "South Africa's apartheid debt" (Johannesburg, ESSET, 1997).

[7] R.Harber, "South Africa's public finances" (Pretoria, USAID).

century it was about 23 per cent of GDP, which was actually an overestimate of the true amount because unlike most countries most of the expenditure was in the private service sectors. Part of private expenditure is essentially consumption rather than protection spending, reflecting consumer demand, often reflected in conspicuous perks. Nevertheless, even taking the 23 per cent figure as the reality, it compared with over 40 per cent in several industrialized countries, including France and Italy, and was lower than many developing countries as well.

When the solidarity grant was introduced, because it did not involve a means test, it was found that very soon many more people were entering the recognized monetary economy, boosting visible economic growth and raising taxable income - a dynamic cost-balancing effect that had not been taken into account in static cost analysis. The increased visibility and legitimacy of small-scale economic activity had a beneficial effect on the international capital markets, because it was included in measures of national income showed that the country was experiencing more rapid economic growth than had been thought and that more employment growth was occurring than had been recognized, which the old labour force statistics had largely concealed (which is another story). In short, the *dynamic* costs were even less than the *static* costs.

The critics had also said it would be *inflationary*. But this proved unfounded, because the shift in the structure of demand for goods and services led to a rise in the demand for basic domestically-produced tradable goods and services, and induced an increased supply of such goods and services and a cut in the demand for high-sot imported goods. That, of course, had favourable effects (small at first) on the balance of payments, which tended to strengthen the Rand and reduced inflationary pressure. Another cost-reducing effect of the solidarity grant was that it started to generate small community projects that reduced the need for some government-funded schemes that had high administrative, efficiency, displacement and deadweight costs.

However, you must remember that the greatest cost saving bonus took time to take effect. Petty vandalism and the incredible level of crime in the country started to fall. Research in the middle part of the past decade, around 2005, tells us

that people, especially the young, started to have more self-respect, with a bit of money in their pockets, and the wherewithal to travel in search of work opportunities, education and so on. Criminal activity started to become less an acceptable part of the survival strategy of urban and rural youth, and moral pressures to behave like true South African citizens started to grow. Of course, once crime started to fall, investment - especially foreign direct investment, with modern technology - started to grow. The cost of the solidarity grant began to look not just affordable but essential.

2.2 The "targeting" argument

The critics then turned to the theme that a solidarity grant would cost more than a targeted, means-tested social assistance scheme. This was subject to intense debate. A social assistance scheme gives a basic income to those who fill in a form to show they are poor. It might appear that a universal solidarity grant is more expensive because it is given to everyone, but it is claimed back in higher taxes on the non-poor. The associated "churning" cost was soon shown to be minor compared with the cost of administering and monitoring, and policing, a selective scheme.

Another cost saving claimed by advocates of a means-tested alternative was something they could not make too explicit, which was that only a minority of the poor would actually obtain a means-tested benefit, so that the actual cost would be less than the budgeted cost. They tried to say that those not claiming "could not need the money". But this was soon ridiculed, even by the media. Critics and proponents eventually agreed that the cost comparisons should be based on budgeted cost figures. As for churning, it was soon realized that with modern technologies it was an easy matter to claw back from the non-poor in taxes, effectively moving to what we all take for granted in 2011, an integrated tax-benefit system.[8]

[8] Moves towards such integration were greatly strengthened by the expansion of the Earned Income Tax Credit in the USA in the 1990s, and the Family Credit in the United Kingdom.

The word "targeting" was one of those loaded euphemisms of the time, which have long since been shown to be rather silly. Anyhow, it was argued by critics that it should not be given to the non-poor as well as to the poor; better to use a traditional social assistance scheme, they said, by giving only to those who satisfied a means test. In response, supporters of the solidarity grant pointed out that nowhere in the world did a means-tested scheme reach the overwhelming majority of those living in poverty, because of low take-up rates, stigmatization, lack of knowledge, fear of authorities in going to apply, and so on. Evidence from industrialized countries showed that even where there were well-developed administrative facilities, only a minority of those entitled to means-tested benefits actually received them. The thought of complex means tests and asset tests functioning efficiently or equitably in rural and low-income urban areas, such as the townships, was mildly absurd. A targeted scheme would not reach the really poor.

In response to this argument, a few defenders of means testing cited the social pension, which had proved to be one of the major forms of successful re-distribution, apparently reaching nearly three out of every four elderly people in the country at the time. This on paper operated on the basis of a means test. But ironically, the success of the social pension proved to be one of the reasons for the eventual acceptance of the solidarity grant.

First, it was almost undeniable that the pension was beneficial for poor blacks, often helping to pay for the schooling of grandchildren, as well as being redistributive to the poorest groups in society. Second, and crucially, it was successful primarily because in practice it did *not* follow the letter of the law, in that the means testing was largely a gesture. Third, it was noted that even though it was an excellent scheme in practice, nevertheless it did not reach all the elderly. Only 72 per cent of those entitled to the pension actually received it. Fourth, it became the basis for the solidarity grant, because it was realized that it was in effect a grant for the elderly population, which was easily converted into one without the written pretence of a means test.

So, the lobby for targeting and selectivity gradually lost credibility. International evidence was simply too strong, showing that while it was a way of reducing public social spending, it was also a way of denying minimal income security to a large proportion of the poor and economically insecure.

2.3 The "uncontrollable level" argument

Another criticism at the time was the fear that it would become uncontrollable, rising as a result of populist political moves, perhaps just before general elections. Even defenders of the proposal saw this possibility as real enough to cause them concern. The answer proved quite simple. Just as monetary policy was taken largely out of the hands of politicians by making central banks independent of government - as the Reserve Bank had been – so it was agreed that the value of the solidarity grant would only rise at a rate equal to the rise in the value of national per capita income. One-off upgrading could only be agreed if two-thirds of Members of Parliament voted for that change.

Just as the determination of the level was made independent, the administration of the grant was also made independent of government, overseen by the Solidarity Grant Commissioner.[9] In these ways, the fear of populist misuse of the grant was assuaged.

2.4 The "disincentive to labour" argument

The next big line of criticism at the time was that a solidarity grant given to everyone without obligation would induce laziness. It would, they said, be a disincentive to labour. My dear, what a fuss they made about that! Defenders of the idea had to explain again and again the positive effects of the *bolsa escola* and *renda minima* schemes in Brazil, and the *progresa* scheme in Mexico. But they began by pointing out that, compared with means-tested selective schemes, a universal grant actually provided a greater incentive to search for and to take jobs,

[9] Fortunately, an experienced person was available, having been Unemployment Insurance Fund Commissioner, Shadrack Mkhonto. He became the first Solidarity Grant Commissioner in 2002.

particularly low wage jobs or low-income own-account activities. Since this is precisely where most new work opportunities were emerging, this was crucially important.

This led back to the *poverty trap* and the *unemployment trap*. With means-tested targeted schemes, there is a very marginal tax rate for those moving from having no income to some income, or in moving from being unemployed and receiving unemployment benefits to low-income employment. This is because one day you have a benefit and the next you have an earned income that results in the loss of the benefit. The effective tax rate is a combination of the tax paid on the earned income and the loss of state benefit. So, presuming that no tax at all was paid either on benefits or initial income, if a person was receiving social assistance of 520 Rands and then obtained a job paying 600 Rands, the effective tax rate would be nearly 87 per cent. So, taking a job and working 44 hours a week would give about 20 Rands - hardly an incentive.

The Ministry of Finance, or Treasury, realized that this would have been absurd, and that such a system would accentuate the problem of barriers to entry to the legal labour market and an inducement to work in the grey economy. They realized that this would expose more workers to unsafe working conditions and result in a failure to build up long-term entitlements, a failure that would eventually result in their being dependent on state social assistance because, being in the grey economy they would not have private insurance benefits or access to state-based support.

2.5 The "lowering of wages" argument

A worry on the political left about the solidarity grant, which was a concern of some in COSATU, was the view that the payment of a guaranteed solidarity grant to workers would allow employers to lower wages and increase the "exploitation" of workers. Although those advocating the South African Grant understood the fear, they pointed out that it would have the advantage of strengthening people's ability to say "no" to the offer of very low wages - the

assurance of a modest guaranteed income giving them a slightly stronger ability to say "drop dead" if offered a derisory wage, or if treated badly in a job.

There was some confusion with the "minimum wage", to which the trade unions were firmly committed. Some commentators and activists thought that the Grant was to be instead of a minimum wage, and this caused some resentment. However, it was pointed out that the two policy instruments were quite separate. Moreover, the evidence suggested that a statutory minimum wage, if set at a level to reduce the incidence of poverty, would actually have little impact on poverty levels, and have a significant labour displacing effect.[10] One of the problems with a minimum wage is that in informal, flexible labour markets, it is quite hard to enforce, involving costly monitoring, use of labour inspectors and lengthy legalistic procedures. However, the most important point was that it was recognized that one could decide on the merits or otherwise of a minimum wage quite apart from the solidarity grant.

3. The advantages for South African children

One of the great advantages of the solidarity grant was that it helped reduce child poverty by providing money directly - the grant is for all people, albeit at 50 per cent for children under the age of 12 - and by providing their mothers with a grant, which they were able to use to support their children. It must never be forgotten how close the country came to abandoning the first post-apartheid generation.

An official report entitled The State of the Nation's Children published in late 2000, along with a study for the Children's Budget Project, showed that poverty among children was not only extremely high but was also rising - with 72 per cent

[10] H.Bhorat, "Are wage adjustments an effective mechanism for poverty alleviation? Some simulations for domestic and farm workers" (University of Cape Town, Development Policy Research Unit Working Paper, No.00/41, September 2000).

of all children aged 0-18, more than 12 million children, in poverty, and with the mortality rate of children aged 0-5 years rising. This was before the effect of AIDS became substantial, but even then a large and growing number of households were actually "headed" by youngsters aged 10 to 17. This potentially amounted to a very disappointing legacy for the first generation of political leaders after the end of apartheid. Politicians dislike the thought of a negative legacy, and in this case they did not wish to fail for noble reasons. They realized the danger, and knew that decisive action was required. The solidarity grant was an effective way to address the crisis.

A related advantage was that the grant was linked to school attendance. Payment of the solidarity grant to parents was initially made conditional on obligatory school attendance by their children if they were aged 7 to 14.[11] This resulted in higher *and more equal* school participation levels, and that in turn put pressure on local authorities to make more facilities available. Another good point about the solidarity grant was that it enabled some children living a long way from the nearest public school to be able to pay for local transport and to be more nourished, because of the income, and to be more capable of attending school and *concentrating* once they were there. We have seen the advantage of better attendance rates in recent years, especially now that more black children are moving into tertiary education. As such, we can say quite legitimately that the solidarity grant has strengthened the country's long-term economic growth potential.

4. The advantages for women

Neo-classical economists predicted that giving an unconditional income transfer to people would reduce work. Proponents of the solidarity grant argued at

[11] As in the Brazilian *bolsa escola* schemes, the rule from the outset was that children had to have a 90 per cent attendance rate over each term, unless they were ill or there was some other *bona fide* reason for non-attendance. There was some initial concern about school over-crowding, but with more children being able to attend school, local pressures soon resulted in more concerted action by local authorities to improve the quantity and quality of school facilities.

the time that it would do precisely the opposite. In this, they were supported by the experience and detailed evaluations of the *bolsa escola* schemes in Brazil. The introduction of minimum income schemes in Brazilian cities had led to sharp increases in female labour force participation rates.[12] The reasons were that it gave the women enough money to be able to afford clothing and travel to go in search of employment, and that their children were more likely to be attending school.

A second reason for the outcome confounding the predictions of the neo-classical economists was more subtle, and gave new meaning to human development. Old labourist schemes of social insurance tied the provision of benefits to the performance of labour, which meant in practice formal wage labour. But, of course, many forms of work are not labour, and many have greater use value for individuals, families and their local communities than many forms of wage labour. The work of *caring* for children, elderly relatives, people with impairments, victims of AIDS surely deserved just as much social protection as the labour of making tea for the boss. *Community work* and *voluntary work* were also valuable and undervalued in national accounts. *Informal petty farming* was often neglected in labour statistics as well.

In all of these cases, women in South Africa were heavily involved, and in that they were contributing to the real process of human development - and not being recognized as doing so. The solidarity grant helped to legitimize those activities, and in some cases led to a marketization of the activities, suddenly transforming them into economic activity, thereby boosting observed growth. And by increasing their visibility, it helped to lead to the emergence of organizations to represent their interests and needs.

[12] L.Lavinas et al, "Evaluating the *renda minima* schemes in Brazil" (Geneva, ILO Socio-Economic Security Programme Policy Paper, 2000).

5. The advantages for the unemployed

A virtue of the solidarity grant is that as it is unconditional, *all* the unemployed receive it automatically. This is unlike any workers' compensation scheme or unemployment insurance benefit scheme, or an unemployment assistance scheme. In the 1990s, the Ministry of Labour spent a great deal of time and money devising an improved unemployment insurance system, going through numerous drafts of a revised law to rectify the worst abuses of the old apartheid-ridden scheme. There is no doubt that their efforts produced a much-improved design. However, the reformers were swimming against the international tide. For everywhere in the world, unemployment benefit systems were proving to be increasingly ineffective.[13] In almost all countries where they existed, only a *minority* of the unemployed actually received benefits, and in many there had been a steady drift to reliance on means-tested unemployment assistance, which also did not reach a large proportion of the unemployed. Governments had introduced numerous conditions for entitlement, which were almost always somewhat arbitrary and hard to define consistently or equitably. As they had tightened conditionality, and shortened the duration of entitlement to benefits on the grounds that they had to encourage job seeking, so the clumsiness of the schemes became more obvious to all but the most blinkered of observers. By the 1990s, other countries were quietly moving away from unemployment insurance benefits altogether.

By contrast with unemployment benefits, the solidarity grant makes no *a priori* judgment on whether the person's unemployment was *voluntary* or *involuntary*, and does not pry into people's job seeking behaviour or their willingness to work, or insist that they queue pointlessly to prove that they are unemployed and available. It treats people with respect, and essentially presumes

[13] G.Standing, "Unemployment benefits and income security" (Geneva, ILO Socio-Economic Security Programme Policy Paper, 2000).

that the vast majority of people without work and able to work do in fact want work, because in work they find at least part of their social and economic identity. It presumes too that the vast majority of people would not be content to live off a very modest guaranteed income. They want to do better than that, for themselves, their families and for their future.

6. The advantages for social equity

The ethical case for the solidarity grant was not a minor matter. The Taylor committee realized that the economic dimensions alone were possibly not sufficient to win the struggle for the new policy. The moral case had to be made. Accordingly, they took time to speak to church leaders, whose status in the community was justifiably high in the aftermath of the struggle against apartheid. These leaders scarcely needed convincing that inequality and social injustice had to be addressed more constructively. What they needed to know was whether a transparent, straightforward solidarity grant was economically feasible and a means of rectifying income injustices.

To them, and to other community leaders, providing a solidarity grant seemed morally sound, because it reflected a means of counteracting the inequalities that were the legacy of a thoroughly unjust system. They were also able to appreciate the appeal of Thomas Paine's classic argument that everybody in society has an equal right to share in the fruits of past development. Economic rights were essential for all other rights, an argument being developed within the United Nations High Commission for Human Rights. They also saw the developmental appeal of such a solidarity grant, in that it would move towards "a level playing field" for all South Africans. In the end, the support of church and community leaders was impressive and important, along with the support given by a group of enlightened employers.

7. The advantages for the economy

One of the difficulties at the turn of the century was that the demand for basic wage goods and the services that lower-income groups would want was low because the purchasing power of the poor was definitional small. The Solidarity Grant helped rectify that, and stimulated the so-called informal economy, consisting mainly of small-scale, African businesses. Some described this as petty capital accumulation; others used the populist term of "the informal sector".

Whatever the name, the boost given to it by the solidarity grant was much more effective and sustainable than would have been the case if heavy subsidies had been given to what were called "SMEs" (small and medium enterprises), because such subsidies were prone to hefty deadweight and substitution effects. The payment of a grant to people who became consumers meant that there was pressure immediately to produce goods and services that people actually wanted, and put more pressure on small enterprises to be efficient. And then of course there was the multiplier effect, the money in low-income communities generating demand for more products and more employment. The long-term beneficial effects of this raised the country's long-term (or what some economists called 'natural') economic growth rate.

8. Conclusion

The South African Solidarity Grant seemed bold, even radical, at the time it was introduced. Some politicians were worried about the gross sums of money involved, and mused about the dangers as they saw them. Fortunately, others warned of the greater dangers of timidity, of the mounting violence and erosion of support for the ANC (as demonstrated in the local elections of November 2000).

Some noted that, as the great social scientist Albert Hirschman had observed - every progressive idea has been greeted by three reactions - the claim of *futility* - that it would not work - the claim of *perversity* - that it would have unintended adverse effects on other parts of society and the economy - and the claim of *jeopardy* - that it would endanger other goals or accomplishments. As Hirschman

had shown, once policies had been introduced, those objections tended to slip away. It took courage to make the break, even when it was clear to everybody that the poverty and inequality were not being defeated by more conventional policies. Fortunately, the courage and vision were there.