In the Balance

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For many people, it goes without saying that a UBI scheme would be unaffordable. But such blanket verdicts are misguided. Before pronouncing on the cost of a UBI scheme we have to be clear about its design. And before declaring it unaffordable, we have to consider the financing options.

The cost will depend on many variables, including the payment amount, decisions about who is eligible, whether and how the payment is gradually phased in, whether it is indexed to inflation or another indicator, whether it is paid instead of or in addition to other social provisioning, the administrative burden it entails, and more. In addition, the context in which a UBI operates is decisively important. That context is shaped by fiscal considerations, macroeconomic choices and political calculations – and they differ from country to country.
WHAT A BASIC INCOME WOULD COST

An abundance of UBI costing calculations has been done in recent years, mostly in industrialised countries and often arriving at exceedingly expensive estimates. Widely varied assumptions are built into these costings, and they should be assessed carefully.

In the context of the United States, for example, Robert Greenstein of the Center on Budget and Policy Priorities calculated that paying a UBI of US$10 000 per year to each of the over 300 million Americans would have cost US$3.3 trillion in 2016.¹ That amounted to approximately three-quarters of the entire federal budget and almost equalled the total annual federal tax revenue. Making the UBI taxable would reduce the annual cost by roughly one-third, to about US$2.4 trillion. Halving it (to US$5 000 per year) would reduce the cost further, but would put the payment well below the poverty line for individuals (US$12 700 in 2016).² Paying the income only to adults would reduce costs even further, while also reducing its impact. Other, less eye-watering estimates have also appeared. A household-based negative income tax that is set at the poverty line in the United States (to lift all families’ incomes above that line) would cost about US$219 billion per year, according to calculations done by Jessica Wiederspan and her colleagues.³ A negative income tax is not an ideal way to achieve a basic income, but the broader point remains: the claim that a UBI is unaffordable is not axiomatic.⁴

In Canada, the UBI Works campaign has proposed a combination of a Can$500 per month non-taxable payment to every adult (effectively a basic income) and a variable guaranteed income to ensure that each adult has a minimum income of Can$2 000 per month. It calculated the total cost at Can$199 billion per year,⁵ a little more than the Can$180 billion in federal bonds which the Bank of Canada purchased in 2020 as part of its Quantitative Easing programme.⁶ Groups in the United Kingdom have campaigned for a similar UBI, which would phase into a permanent UBI. One such proposal, from the social advocacy network Compass, is to use a UBI to introduce a solid income floor for everyone.⁷ The design is complex and includes topping up an existing child benefit – in effect a basic income for children.
The basic income would then be pared back to a smaller but permanent basic income, to provide a floor beneath the current social security system (while additional unemployment, housing and disability benefits are maintained). Compass claims the scheme would be highly affordable.

In one Compass proposal, an eventual UBI would be small, totalling about £10 400 per year for a family of four, but eminently affordable at £20 billion (equal to about half of the aggregate cuts made to benefits in the United Kingdom since 2010, and equal to the cost of the government’s 2020 wage subsidy scheme over three months). Larger payments would, of course, involve higher net cost. To finance the intervention, Compass proposes a small rise in tax rates and adjustments to some personal income tax allowances that are of no benefit to low-income earners and people who are out of work.8

Variables affecting the cost in South Africa

South Africa has a much less complicated and less extensive welfare system than most developed countries, which simplifies the ways in which a UBI would interact with other forms of social assistance. Many of the remaining considerations, though, resemble those shaping the examples cited above: who is eligible, what payment amount is chosen, whether or not the UBI is phased in, at what rate the amount changes, whether the UBI is paid in addition to (which) existing forms of social support or as a supplement, and more. The first two variables have the biggest effect on the cost of a UBI scheme.

Consider, for example, setting a monthly UBI payment at an amount equivalent to the food poverty line (R585 per month in 2020), or the lower-bound poverty line (R840 in 2020) or the upper-bound poverty line (R1 268 in 2020),9 and paying it to adults aged 18–59 years (older people would receive the old-age pension, worth R1 860 per month). In 2020, there were approximately 34.1 million South African citizens and residents in that age group, so a UBI equivalent to the food poverty line would have cost approximately R239 billion (or US$15.9 billion at
an exchange rate of 15:1). The corresponding annual amounts for a UBI pegged to the lower-bound poverty line and the upper-bound poverty line would have been R343 billion and R519 billion, respectively. By way of comparison, current social grants were expected to cost approximately R188 billion in 2020/21.10

The cost would also be influenced by how a UBI links with existing forms of income support. It could represent the floor or basis for certain other cash transfers. For example, a UBI of R840 per month that is paid to adults aged 18–59 years could constitute the first R840 of the disability grant (worth R1 860 in 2020) or of the foster care grant (R1 040 in 2020) paid to people eligible for those grants. Or it could be paid in addition to those grants. The choice skews the total costs significantly.

Similarly, the UBI could subsume the child support grant (R440 in 2020), or be paid in addition to it (since, strictly speaking, that grant is intended for children younger than 18 years even though the money is transferred to an adult caregiver). A truly universal UBI would be paid to both adults and children, which is especially important in societies with high rates of child poverty and where single parenthood is common. If children are eligible, it requires deciding whether they receive the same amount as adults or a smaller amount. If children are not deemed eligible, the cut-off age (15 years or 18 years, for example) becomes relevant and has cost implications: in South Africa, about 29% of the population is younger than 15 years of age and 34% is younger than 18 years.11 Whether a UBI is paid only to citizens or to all documented residents or to all residents also has cost (and other) implications. There is a strong moral case to include documented residents, including asylum seekers.12

The criteria need not remain fixed and can evolve over time, allowing a UBI to be phased in even though its initial versions are not, strictly speaking, universal. So, a UBI can be phased in by restricting access initially to certain categories of beneficiaries (starting with out-of-work adults, or with adults earning less than a specified amount, for instance), then steadily relaxing access; and by progressively increasing the amount (starting with a small amount that increases along a schedule or as specified criteria are met).
Ideally, a UBI payment would have to be indexed, to prevent it from being devalued by inflation over time. A UBI therefore can be configured along different lines, each of which leads to different cost estimates.

Ultimately, the goal of universality has to define the process, even if the steps towards achieving a UBI are incremental.\textsuperscript{13} What must be clear is that the mechanism is not simply an elaboration of safety-net social policy, with the basic income functioning as a supplementary ‘grant’ to support ‘those left behind’ during times of crisis. As Scott Santens puts it:

The basic income should be designed with flexibility and long-term viability in mind. It should operate as a platform we construct above the poverty line, that we can continue ratcheting up year after year ever further above the poverty line, but at any point adjust and optimize through ongoing funding method decisions.\textsuperscript{14}

### Some costing estimates for South Africa

The debate around a basic income in South Africa revived in the late 2010s, but it was the COVID-19 crisis that sparked fresh recognition of the need for new forms of social provisioning.

In mid-2021, a coalition of forty civil society organisations,\textsuperscript{15} along with prominent religious figures, academics and human rights lawyers, called for the introduction of a monthly payment of R1 268 (equal to the upper-bound poverty line) to all adults. In-principle support for a basic income has been voiced in other quarters, too, including the Congress of South African Trade Unions, the South African Federation of Trade Unions, the ANC and the national Department of Social Development. In mid-2021, President Cyril Ramaphosa said that a BIG for unemployed people was being considered.\textsuperscript{16} But very different arrangements were being mooted.

Whereas the activist-driven #UBIGNOW campaign campaigned for immediately introducing a basic income worth R1 268 per month, other proposals were much less ambitious. For example, in August 2020, the ANC’s Social Transformation Committee proposed a phased approach, starting with a R500 per month payment for unemployed...
(but economically active) adults from 2024 and then gradually expanding. The proposed initial amount was lower than the minimum a person needed to meet basic daily nutrition needs and it would be paid on highly exclusive terms, only to adults (aged 19–59 years) who do not receive any other cash transfers.\textsuperscript{17} Operating alongside the payment would be job programmes to train and channel young people into employment. The payments would be funded through the tax contributions of employed individuals and other tax mechanisms. Estimates indicated that paying such a basic income to about 33 million eligible recipients would cost R198 billion annually.\textsuperscript{18}

In 2020, the Department of Social Development proposed offering a basic income payment to age groups it considers to be at greatest risk (18–24 or 18–35 year olds and the 50–59-year age group) and then gradually broadening coverage over three to five years. It emphasised combining a basic income payment with job training and other support to ease people’s entry into the labour market.\textsuperscript{19} As the COVID-19 pandemic raged on, the department went further. In August 2021, it released a Green Paper (or draft policy document) which signalled emphatic support for converting the COVID-19 social relief of distress grant into a UBI, as part of a broader reform of social security.\textsuperscript{20} The preference was for an income payment for people aged 18–59 years, which would be ‘unconditional, individually targeted and at a level that will at least lift the individual out of poverty’.\textsuperscript{21} It would be paid in addition to the existing social grants for children, the elderly and people with disabilities. The Green Paper highlighted the simplicity, efficiency and social inclusiveness of a UBI:

The key benefit of universal benefits is that it promotes social solidarity and buy-in to the system; and it is administratively much simpler to administer with fewer exclusion challenges. It reduces stigma of the poor and discontent amongst the wealthy who feel that they are the ones funding the system. It also reduces fragmentation of systems as we see in South Africa where we have tax thresholds and grant thresholds set at very different levels. South Africa’s tax authority is
also significantly more advanced than the Social Security Agency, hence relying on the Tax Agency ability to test income is likely to be a lot more effective than through Social Security Agency.\textsuperscript{22}

Financing could occur at least partly by recouping the cost through technical adjustments to income tax brackets. If set at the food poverty line, the income support would cost approximately R200 billion, requiring a 10\% increase in income tax, according to the Green Paper. At that amount, the main objective would be to reduce hunger, though the paper held out the prospect of a basic income graduating to higher, aspirational amounts.\textsuperscript{23} Weeks later, following criticism from the National Treasury and business organisations about a proposal to use income tax increases to fund a state-controlled social security fund, the paper was withdrawn.\textsuperscript{24}

The Department of Social Development’s proposal closely resembled that of the Black Sash, which also recommended converting the COVID-19 social relief of distress grants into a ‘basic income support’ for unemployed people aged 18–59 years. In December 2021, an expert panel convened by the Department of Social Development and the International Labour Organization made a similar recommendation.\textsuperscript{25} Pegged at first to the food poverty line, the payment would increase stepwise until it became a fully fledged UBI. It would augment, not replace, the wider social protection system.\textsuperscript{26}

The most detailed costed options have come from the Institute for Economic Justice.\textsuperscript{27} These also use a phased-in approach, with scaled-up versions of the COVID-19 emergency grants functioning as a bridge to an eventual comprehensive UBI.

Such an incremental approach is likely to be more palatable fiscally and more marketable politically, while providing some socioeconomic support. Despite its low amount of R350 per person per month, the COVID-19 social relief of distress grant reduced food poverty within the first few months of implementation (though hunger and food insecurity remained at distressingly high levels).\textsuperscript{28} Even with incomplete uptake, the grant could prevent
approximately 6.8 million people from going hungry if it were increased to R585 per month (equivalent to the food poverty line).29

The Institute for Economic Justice calculated cost scenarios for monthly payments pegged to the food poverty, lower-bound poverty and upper-bound poverty values, amounts it believes are affordable in the short term.30 It also calculated the total cost of monthly R2 500 and R3 500 payments (both well under the national minimum wage of R4 045 in 2020). Recipients (people aged 18–59 years) were grouped into several eligibility categories (Table 5.1).

The targeted options shown in Table 5.1 reflect an awareness that, ‘in the context of finite resources, there is a trade-off between increasing the pool of recipients and the amount which they receive.’31 However, targeted and means-tested options are also administratively burdensome and costly, and can be highly inefficient for reaching the designated beneficiaries, as experiences with the COVID-19 social relief of distress grants showed (discussed in the final part of this section). They are prone to long delays and to missing individuals who churn in and out of piecework or informal employment. Some forms of targeting would be very difficult to administer fairly and efficiently – for example, if the basic income targets people who are unemployed or who work in the informal sector, as the income sources for impoverished people constantly shift.

Targeting obviously also renders the basic income less than universal. A UBI that is paid to everyone aged 18–59 years (with an old-age pension going to everyone aged 60 years and older) should be the goal – with a target date and schedule for reaching the goal. That would provide campaigning organisations with the leverage to hold the state accountable to its commitments.

A UBI paid to all residents aged 18–59 years (roughly 34.1 million people in 2020) is also more expensive (Table 5.1). Annually, it would cost:

- R239 billion for a UBI payment equal to the food poverty line;
- R343 billion for a payment equal to the lower-bound poverty line;
- R519 billion for a payment equal to the upper-bound poverty line; and
- R1 023 billion for a payment worth R2 500 per month.
By way of comparison, South Africa’s 2020/21 budget allocated R384.7 billion for education; R229.7 billion for health; R221.5 billion for social protection; R207.1 billion for police, courts, prisons, defence and state security; and R229.3 billion for debt service costs.\(^{32}\) Table 5.2 places the annual cost of various UBI payments in a wider fiscal context.

The impact on poverty and inequality would be substantial. Modelling done by Applied Development Research Solutions indicates that, even if set at a low amount (equal to the food poverty line), a UBI that is paid to all adults aged 18–59 years would reduce the poverty gap in South Africa by more than half within five years (Table 5.3).\(^{33}\) If raised to the level of the upper-bound poverty line, the payment would reduce the

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Table 5.1: Total estimated annual cost of a basic income at different levels of eligibility, uptake and value (in rand) in South Africa, 2020

<table>
<thead>
<tr>
<th>18–59 years</th>
<th>Number of recipients</th>
<th>R585 per month (food poverty line)</th>
<th>R840 per month (lower-bound poverty line)</th>
<th>R1 268 per month (upper-bound poverty line)</th>
<th>R2 500 per month</th>
<th>R3 500 per month</th>
</tr>
</thead>
<tbody>
<tr>
<td>All</td>
<td>34.1 million</td>
<td>239 billion</td>
<td>343 billion</td>
<td>519 billion</td>
<td>1 023 billion</td>
<td>1 432 billion</td>
</tr>
<tr>
<td>All (80% uptake)</td>
<td>27.3 million</td>
<td>192 billion</td>
<td>275 billion</td>
<td>415 billion</td>
<td>818 billion</td>
<td>1 146 billion</td>
</tr>
<tr>
<td>All (60% uptake)</td>
<td>20.5 million</td>
<td>144 billion</td>
<td>206 billion</td>
<td>311 billion</td>
<td>614 billion</td>
<td>859 billion</td>
</tr>
<tr>
<td>Informal workers*</td>
<td>2.5 million</td>
<td>18 billion</td>
<td>25 billion</td>
<td>38 billion</td>
<td>76 billion</td>
<td>106 billion</td>
</tr>
<tr>
<td>Unemployed</td>
<td>11 million</td>
<td>78 billion</td>
<td>111 billion</td>
<td>168 billion</td>
<td>330 billion</td>
<td>462 billion</td>
</tr>
<tr>
<td>Not economically active</td>
<td>13.4 million</td>
<td>94 billion</td>
<td>135 billion</td>
<td>203 billion</td>
<td>401 billion</td>
<td>562 billion</td>
</tr>
<tr>
<td>Not formally employed</td>
<td>22.4 million</td>
<td>157 billion</td>
<td>226 billion</td>
<td>341 billion</td>
<td>672 billion</td>
<td>940 billion</td>
</tr>
</tbody>
</table>


Note: Numbers of eligible recipients were calculated using Statistics South Africa data and have been rounded. Unless otherwise indicated, the costings assume 100% uptake in each of the categories.

* This refers to informal sector workers only (not domestic workers, precariously employed persons, etc.).
poverty gap by more than 80% over five years and by over 40% within the first year. A UBI paid to residents of all ages (adults and children) and pegged to the upper-bound poverty line would entirely eliminate the poverty gap within a year. Both an adult basic income and a UBI would reduce income inequality by 14–18% over five years. In addition, the payment bias towards low-income households (which have a higher propensity to consume than high-income households) would generate a positive impact on economic growth and employment, especially in the UBI scenarios.

Devil in the detail

Although fiscally more attractive and politically more ‘winnable’, an evolving UBI that is phased in poses important conceptual and practical issues. There is a very obvious, immediate need for additional
Table 5.3: Estimated annual cost (in rand) of different types of UBI at different amounts, and modelled impact on poverty in South Africa, 2020–2025

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Unemployment grant**</td>
<td>Unemployed, 18–59 years, not receiving any other grants, not in school</td>
<td>8.9 million</td>
<td>R882 (L-BPL)</td>
<td>R1 072 (L-BPL)</td>
<td>R94.2 billion</td>
<td>38.8% to 27.6%</td>
<td>13.3% to 7.6%</td>
</tr>
<tr>
<td>Unemployment grant**</td>
<td>Unemployed, 18–59 years, not receiving any other grants, not in school</td>
<td>8.9 million</td>
<td>R1 331 (U-BPL)</td>
<td>R1 618 (U-BPL)</td>
<td>R145.6 billion</td>
<td>38.8% to 23.3%</td>
<td>13.3% to 6.5%</td>
</tr>
<tr>
<td>Adult basic income A**</td>
<td>Adults, 18–59 years</td>
<td>35.3 million</td>
<td>R614 (FPL)</td>
<td>R747 (FPL)</td>
<td>R259.9 billion</td>
<td>38.8% to 25.3%</td>
<td>13.3% to 7.6%</td>
</tr>
<tr>
<td>Adult basic income B**</td>
<td>Adults, 18–59 years</td>
<td>35.3 million</td>
<td>R1 331 (U-BPL)</td>
<td>R1 618 (U-BPL)</td>
<td>R563.4 billion</td>
<td>38.8% to 13.2%</td>
<td>13.3% to 2.0%</td>
</tr>
<tr>
<td>Universal basic income A**</td>
<td>All ages</td>
<td>59.5 million</td>
<td>R614 (FPL)</td>
<td>R747 (FPL)</td>
<td>R438.7 billion</td>
<td>38.8% to 13.9%</td>
<td>13.3% to 3.6%</td>
</tr>
<tr>
<td>Universal basic income B**</td>
<td>All ages</td>
<td>59.5 million</td>
<td>R1 331 (U-BPL)</td>
<td>R1 618 (U-BPL)</td>
<td>R950.9 billion</td>
<td>38.8% to zero</td>
<td>13.3% to zero</td>
</tr>
</tbody>
</table>

L-BPL = lower-bound poverty line; U-BPL = upper-bound poverty line; FPL = food poverty line
Sources: Adapted from Adelzadeh, A. ‘Preliminary Modelling Results of a Basic Income Grant in South Africa’. Presentation to #UBIG Workshop, 29 January 2021; Applied Development Research Solutions. ‘Fiscally Neutral Basic Income Grant Scenarios: Economic and Development Impacts’. The Bridge no. 7 (May 2021).

* Unemployment defined according to Statistics South Africa’s ‘broadly unemployed’ category.
** Current state grants such as the child support, care dependency, old-age pension and disability grants remain in place.
*** Both the poverty rate and poverty gap were calculated using the upper-bound poverty line (2021 value) and annually adjusted upward by 5%.
**** Payments adjust upward by 5% annually.
support and protection in the face of chronic lack, insecurity, suffering and stress, not least during the COVID-19 pandemic. Hence the emphasis to be found in several UBI proposals in South Africa on prolonging the emergency relief grants that were introduced in 2020 and extended in 2021, and then transforming those grants into a basic income payment, with steadily widening eligibility. Such a phased, maturing strategy would respond to a pressing need for non-wage livelihood support.

But such a tactical compromise turns the putative universal basic income, even if only for the time being, into something qualitatively different: a means-tested and targeted income payment. The pitfalls of means-testing and targeting were on clear display with the COVID-19 social relief of distress grant. Research commissioned by the Black Sash found that the design of the application system effectively excluded large numbers of eligible beneficiaries, and that up to one-third of applications were rejected due to incorrect or out-of-date information on government databases. Successful applicants had to wait several months before receiving their first payment and were re-assessed on a monthly basis to ensure that they had no other income source. The amount the eventual beneficiaries received was enough to pay for about 60% of the minimum nutrition intake for an adult.36

In sum, the grant combined the worst of means-tested and targeted social support. Miserly and inefficient for reaching all eligible recipients, it was designed and implemented in ways that underscored the state’s intrusive authority, distrust of citizens and unjustified faith in its own efficiency.37 In every respect, that conflicts with the democratising and emancipatory appeal of a fully fledged UBI. There is also no guarantee that a phased-in intervention will steadily evolve towards a generous UBI without being arrested in stunted form. That will depend on the social and political forces driving the UBI demand, a matter considered more closely in the next chapter.
PAYING FOR A UNIVERSAL BASIC INCOME

For a middle-income country such as South Africa, a debt-financed UBI would be an unattractive route over the medium to long term. However, there may be scope in the short term for some debt-based financing of a UBI, while other financing options are introduced. (Some of the tax-related mechanisms, for example, could require several years of legislative and other preparation.) In some economies, a social dividend fund financed from the exploitation of natural resources (such as the Alaska Permanent Fund) has been proposed. However, relying on natural resource rents is not compatible with an ecologically responsible growth path, nor are options that require high rates of carbon-intensive economic growth to increase the tax base.

Income and other taxes

Most attractive to UBI proponents is a combination of existing tax instruments, such as increased VAT or general sales tax, excise tax (for example on luxury items and/or capital goods), personal income tax and wealth tax, as well as ‘sin’ taxes on tobacco and alcohol.

During the BIG campaign in South Africa, Pieter le Roux argued that the net impact of a VAT increase would be progressive and that the mechanism would distort the economy less than increases in income taxes or corporate taxes.38 Similarly, Jeremy Seekings and Heidi Matisonn have claimed that VAT increases would ‘spread the burden across a wider range of quintiles, although the top quintiles continue to pay the lion’s share’.39 While increased excise taxes (particularly on luxury goods) could be a redistributive source of financing, increasing VAT would be regressive (all else being equal), since VAT represents a much larger share of spending for low-income households than for those in higher-income brackets (the lower half of income earners spends approximately 80% of income on items or services that are subject to VAT). Relying on increased indirect taxes would significantly reduce the net gain to low-income recipients.
In the South African scenario, for example, Le Roux calculated that a 50% increase in indirect taxes would reduce a nominal R100 monthly UBI payment to between R59 and R90 per month for people in the bottom five income deciles. A basic contention of the BIG Financing Reference Group remains valid:

The structure of taxation must ultimately be overhauled, both to make the tax system more progressive (i.e., to shift a larger proportion of the total tax burden onto higher income earners) and to increase total revenue collection.

Among the most detailed tax-based calculations currently available for South Africa are the estimates prepared by the Institute for Economic Justice. Those calculations suggest that a combination of 18 financing sources (16 of them tax-related) could yield almost R260 billion in the 2022/23 financial year, rising to R335 billion in 2024/25.

The largest financing sources would be a social security tax (contributing about 25% of the total), a resource rent tax (15%), reducing or recovering a minor proportion of wasteful or irregular state expenditure (about 15%), eliminating retirement fund contributions and medical tax credits for high-income earners (about 11%), removing corporate tax breaks (about 7%), and introducing a 25% VAT on luxury items (also about 7%).

The biggest single financing source in the Institute’s scenarios is a social security tax on income, levied on a sliding scale on all taxable incomes. Starting at 1.5%, it would rise to 2% for annual incomes higher than R80 000, 2.5% for incomes between R350 000 and R1 million, and 3% for incomes higher than R1 million. It would be ring-fenced and dedicated to expanding social security. Having an earmarked funding source could help safeguard a UBI against cutbacks or removal; the Alaska Permanent Fund, for example, is explicitly tied to Alaska’s guaranteed income.

Levying a social security tax on low-income taxpayers, however, would slash the net benefits they receive from a UBI. In addition,
relying predominantly on a personal income tax, especially if levied against relatively modest incomes, may stoke resentment and undermine public support for a UBI, a concern which Yanis Varoufakis has highlighted. Given that upward income redistribution towards the top 10% of earners in South Africa appears to occur also at the expense of earners in the middle-income deciles, it may be advisable to consider targeting a social security tax at higher-income brackets (for example, R200 000 and up). Certainly, people earning less than the minimum wage equivalent (about R42 000 per year) should be exempted.

In greater detail, the other financing mechanisms proposed by the Institute are:

- a resource rent tax, levied on the economic rent of extractive industries;
- a luxury goods VAT of 25% and a temporary increase in excise duties;
- a wealth tax of 1% on the top 1% of taxpayers, rising to 3% on the top 0.1%;
- abolishing medical tax credits and retirement fund contributions for high-income earners (above R1 million per year);
- increasing the dividends tax from 20% to 25%;
- increasing the estate duty tax, on a sliding scale, for large estates;
- a currency transaction tax of 0.005% on onshore currency transactions;
- a financial transactions tax of 0.1%;
- cancelling the employment tax incentive;
- raising the carbon tax to one-quarter of the European Union standard;
- reducing irregular state expenditure (by 30%) and wasteful expenditure; and
- reducing profit-shifting by multinational corporations.

Several of these options are necessary sources of redistribution irrespective of whether or not a UBI is introduced. A wealth tax holds both fiscal and moral appeal, despite some concerns about its administrative
complexity. It is estimated that the wealthiest 10% of South Africans own more than 90% of total private wealth.\textsuperscript{50} Many of these high-income earners substantially reduce their tax liabilities by converting income into illiquid assets, such as real estate, stocks and other investments. A wealth tax would narrow that iniquitous option. Similarly, medical tax credits for high-income earners deepen inequality and function as mechanisms for transferring income upwards. The same can be said of the current lack of a progressive inheritance tax, which helps sustain economic inequality across generations. The surfeit of corporate subsidies and tax breaks or exemptions also requires rigorous review.\textsuperscript{51}

The Institute for Economic Justice also sees VAT (currently at 15%) as a possible way to recoup part of the UBI cost.\textsuperscript{52} As noted earlier, the net effect would be to ‘tax back’ a portion of UBI payments from the individuals who need them the most. To boost the impact of a UBI, it would be preferable to broaden current VAT exemptions to include more of the goods and services which low-income households are most likely to purchase regularly. As the Davis Tax Committee highlighted, the efficiency of VAT as a revenue source is undercut by unfairness in the absence of pro-poor exemptions and if significant revenue is not ‘recycled’ in the form of social grants.\textsuperscript{53}

**A corporate dividend**

It is vital, of course, to find the money for a UBI, but it matters also where one finds the funds. Relying on personal income tax increases as a primary source of UBI financing raises more than fiscal concerns: it could have a corrosive effect of alienating low- and middle-income taxpayers, which could doom a UBI politically. It seems more advisable to fund a UBI from returns on capital. Notably, many of the UBI financing options circulating currently neglect or play down taxes on the business sector, and focus instead on individuals. This is not surprising. A tax on capital returns speaks implicitly to the ways in which wealth is produced and appropriated in capitalist societies. Such a tax would acknowledge
the reality that wealth is created collectively, but is then ‘privatised’ and appropriated as the ostensible product of individual risk, enterprise and toil.54

Capital accumulation is underpinned by the extraction of value from human labour, soil, air and water, and it is bankrolled by public money and social labour: care and reproductive work, publicly funded education and healthcare, research and development, infrastructure, corporate subsidies, tax breaks and more. At this fundamental level, wealth is socially produced (by people’s labour, paid or not, and by the state) and is reliant on commons (most obviously, non-human nature). The wealth is then privately appropriated. This reality is expunged from the standard narrative which claims that wealth is privately generated and then socially appropriated (through taxation).

Given the unacknowledged and largely unrecompensed collective contributions to corporate wealth, argues Varoufakis, ‘the commons have a right to a share of the capital stock and associated dividends.’55 That share can be used to finance a UBI and other public goods. Varoufakis proposes that a portion of the returns to capital be channelled into a social wealth fund from which everyone is paid a dividend. The Alaska Permanent Fund operates along similar lines; it is capitalised from oil revenues (by way of a resource rent tax; see below). An increasing number of social wealth funds have been established since 2000, though most are not deployed primarily or at all for social purposes.56

There are several ways to bring capital into such a fund. Legislation can be passed requiring, for example, that a percentage of capital stock (shares) from initial public offerings (an ‘IPO tax’) be channelled into the fund. Or it can be financed through a one-off tax on the market capitalisation of publicly traded companies or a lower ongoing tax (the total market capitalisation of the Johannesburg Stock Exchange, for example, was approximately US$1 trillion in 2020).57 A mergers and acquisitions tax is an additional option. It can be set at 2%–3% of the transaction value (with a minimum threshold to exclude small businesses). A financial
transactions tax (see below), a resource rent tax and a raised inheritance or estate tax are other options to bring capital into the fund. If used to finance a UBI (or ‘universal basic dividend’, as Varoufakis prefers), such a corporate dividend would represent a small but significant step towards socialising the wealth countries produce and towards reducing inequality.

A resource rent tax

Contemporary capitalism is driven increasingly by the extraction of economic rents that do not require additional expenditure or effort from companies. Platform capitalist giants like Facebook and Google, for example, extract digital rents by monetising data which users freely provide (and selling the resulting services to advertisers). It has become commonplace for companies, including non-financial ones, to drive up their stock prices by buying back their own shares (thus generating financial rents) rather than investing in productive activities. The capital gains of those rising stock prices add nothing of value to the real economy. Mining, oil, gas, lumber and other extractive companies are able to extract high economic rents when commodity booms increase prices well in excess of the levels needed to cover their inputs and reasonable profit margins. That excess economic rent represents a profit glut that arises from factors that companies themselves are not influencing. A resource rent tax, as proposed by the Institute for Economic Justice, would redistribute a portion of those excess profits, much of which would otherwise not enter the real economy. Several countries and territories already impose such a tax. China levies it on oil sales (once the oil price exceeds a designated level) and Alaska’s Permanent Fund does the same. In East Timor and India, the tax is activated when rates of return for oil companies top a projected rate. The trickiest aspect of such a tax is to accurately determine the rent portion of targeted profits. Because the value of extractive commodities tends to fluctuate wildly, it is also difficult to reliably predict the amounts that can be raised with the tax.
Financial transactions tax

A tax on financial transactions (an FTT, sometimes called a ‘Robin Hood tax’ and occasionally also likened to the ‘Tobin tax’ which made headlines in the late 1990s) is frequently proposed as a financing option. Such a tax would be levied on the transfer of ownership of designated financial assets (for example, stocks and equities, bonds, international currencies, and derivatives and securities such as futures, options and credit default swaps). In Joshen Bivens and Hunter Blair’s view, FTTs are most effective when applied to a broad base rather than to particular classes of assets or financial marketplaces, an approach which reduces the space for tax avoidance and increases the efficiency of collection.

The tax has two major potential benefits: it can discourage financial market speculation by raising the costs for speculators, and it can be a substantial source of additional government revenues. Proponents claim it would help reduce asset price volatility and bubbles, and encourage longer-term investment. Hardly a novel tool, FTTs are being used effectively, though conservatively, in different market conditions. The United Kingdom, for example, raises about US$6.5 billion per year from a 0.5% tax on stock trading (via a stamp duty). At least 15 other countries operate some kind of FTT or have done so in the recent past. Several European Union countries have adopted FTTs in some form, as have Brazil, Egypt, Hong Kong, India, Malaysia, Singapore and South Africa, among others. United States Democratic Party presidential candidate Bernie Sanders proposed an FTT in 2019, as part of his free college tuition plan.

By way of example, the French FTT is set at 0.3% on French equity trades and 0.01% on high-frequency trading. Belgium imposes a sliding-scale stock exchange tax on transactions of stocks and bonds, while Switzerland taxes the transfer of equities and bonds at 0.15% for Swiss securities and 0.3% for foreign securities. Brazil’s version targets a range of financial operations, including currency transactions and transfers of bonds and securities, while India imposes a securities transaction tax on share purchases and sales at designated stock exchanges. South Africa
implemented a very limited FTT in 2008, in the shape of a securities transfer tax that levies a 0.25% tax on the purchase and transfer of securities. These arrangements commonly include numerous exemptions.67

Part of the attraction of such a tax is that the base is so large that a very low tax rate can yield impressive revenues: the 0.1% tax applied on stock trading in Hong Kong, for example, raised 1.3%–2.1% of GDP in 2008–2009.68 It can also reduce incentives for rent-seeking and speculation. Varoufakis points out that a tax on financial capital can help stabilise financial markets and mitigate harmful macroeconomic effects.69 This is particularly important in a period when financial capital is increasingly detached from the real economy,70 while exerting great influence on the design of macroeconomic policy, the allocation of investment across economies, and the distribution of incomes across societies. The tax can be seen also as a form of partial reparations for the economic costs and damage associated with the activities of the financial sector in recent decades.

An FTT tends to draw two main criticisms: that it would encourage tax avoidance (through offshoring and other ruses) and that it would distort productive financial trading (which, by reducing liquidity, will raise the cost of capital and discourage investment). The potential for tax avoidance highlights the need for efficient regulatory institutions and the effective enforcement of those laws and regulations. South Africa, for example, possesses the regulatory and technical means for minimising such avoidance, but has chosen a macroeconomic strategy which relies heavily on large flows of portfolio capital;71 the obstacles to prudent governance in this case are less technical than political. The second objection seems anachronistic, given the surfeit of liquidity since the 2008 global financial crisis, a glut which has been augmented again during the COVID-19 pandemic.

Leonard Burman and his colleagues have counselled caution with regard to the amounts of revenue an FTT can realistically raise.72 They calculated that a putative FTT in the United States context would raise a maximum of 0.4% of GDP (equivalent to US$75 billion in 2017), with a base tax rate set at 0.34%. They also warned that higher rates
would have a discouraging effect on all trading, not only speculative and rent-seeking activities, and could contribute to market volatility. In addition, they argue, as a tax on gross rather than net activity, a broad FTT would be poorly targeted at the most harmful financial sector activities. Another study arrived at a similar estimate for the United States and an estimate of €119 billion (0.69% of GDP) for the European Union as a whole. Focusing on the United States economy, Robert Pollin and his collaborators have criticised Burman’s estimates as overly conservative and for being inconsistent with empirical evidence from financial markets. Bivens and Blair also regard those estimates as ‘excessively pessimistic’. Depending on how financial transaction volumes are affected by an FTT (their elasticity), they envisage potential gross revenues of US$110–403 billion annually, in line with several other estimates which predict a net revenue potential in the United States of about US$220 billion per year (equal to about 1.2% of GDP).

Whereas wealth taxes are readily avoidable through tax avoidance manoeuvres, a wide-angled FTT would narrow such escape routes. The only way to avoid it would be to reduce trading, that is to say, lessen demand for goods and services in the financial sector. Pollin and his co-authors believe that if an FTT is designed to apply across stock, bond and derivative markets (and with minimal tax exemptions), it can be expected to lower trading elasticity, all else being equal. Current evidence leaves it unclear whether such reductions would be mainly in unproductive trading or also in transactions that provide liquidity. But the converse has not been true: as noted, increased financial transactions have not been associated with rising productive investment. Other empirical evidence suggests that a reduction in stock market trading need not have a significant negative effect on productive investments by non-financial corporations.

Carbon tax

A carbon tax is an attractive financing source, as well as a potentially effective way to discourage and reduce greenhouse gas emissions. An increasing number of countries are introducing such a tax. It can be
levied in a number of ways, for example against carbon emissions as well as against the consumption of carbon-intensive goods and services. The tax can be calculated at a set rate, which can be increased annually to function as a steadily growing disincentive for carbon-emitting economic activities. The revenue can be fashioned into a ‘climate dividend’ to be paid to citizens as a UBI or in some other form. Canada, for example, is considering an option that would recycle about 90% of carbon tax revenue to citizens. A carbon tax will not, in the long term, be a sustainable source of financing for a UBI if it successfully spurs shifts away from carbon-based economic activities. Over time, its contribution would need to be supplemented increasingly from other sources.

South Africa introduced a carbon tax in 2019 on entities that operate emissions-generating facilities at a combined installed capacity equal to, or above, a specified carbon tax threshold. In the first phase, a tax rate of R120 (approximately US$8.30) per tonne of CO₂ was imposed, with the rate increasing annually by inflation plus 2% until 2022, and then by inflation thereafter. This is an exceedingly light touch. Extensive tax-free emissions allowances have also been built into the policy (ranging from 60% to 95%). The actual carbon tax rate will be between R6 and R48 per tonne of CO₂, which is negligible and which hardly pays lip-service to the stated goal of prompting rapid reductions in carbon emissions. The rates amount to a mere 1%–8% of the US$40 cost per tonne, which the World Bank sees as the lowest level of carbon tax that would be compatible with the objectives of the Paris Agreement. Eskom, the national energy supplier which produces about 90% of the country’s electricity, will not have to pay the tax until 2023. Clearly, there is considerable room and need to increase a carbon tax in South Africa.

The very low current carbon tax rate in South Africa reflects the National Treasury’s concerns with minimising possible trade-offs between economic growth, job creation and reducing greenhouse gas emissions. Received wisdom holds that a carbon tax would reduce economic growth – by up to 5% in a country with South Africa’s energy profile, according to some estimates. But more detailed economic modelling in
South Africa has found that a carbon tax with broad sector coverage, if coupled with efficient recycling of the revenue, would have a marginally negative impact on GDP growth in the short term, while significantly contributing to greenhouse gas emission reductions. Over the long term, the tax would support a transition to a low-carbon economy.  

**Land-value tax**

This revenue option is oddly neglected. Not to be confused with a property tax (which taxes the value of the built structures on an area of land), a land-value tax would be applied against the value of real estate minus the structures built on it. Given the very high levels of wealth and asset inequality in many countries (South Africa being an especially egregious example), some of it tied to the skewed distribution of real estate ownership, a land-value tax would be highly progressive. Implicit in such a tax is the recognition that the value of individual assets derives from and is dependent on larger collectives; the value of a piece of land is fundamentally dependent on its surroundings.

A strong practical case also exists for a land-value tax. It is difficult to evade (since the tax base is literally immovable and can be verified relatively easily by assessors) and it is considered to be the least distortive of taxes. Because the tax is levied irrespective of whether and how the land is used (i.e. whether or not ‘economic rent’ is extracted), it may promote more efficient use of land. It is also likely to discourage land price bubbles.

Land-value taxes have the potential to become significant sources of government revenue. Research in New Zealand has indicated that a 1% per annum tax on all non-government-owned land would have raised the equivalent of 20% of all income tax revenue in 2010. More recent research from Indonesia, Nicaragua, Peru and Rwanda suggests that taxing one-half of land rents could increase government budgets by up to 15%.

In South Africa, a recurrent land-value tax could gradually replace the existing transfer duty. To safeguard the redistributive effect of a land-value tax, it would be necessary to use a tax threshold that exempts subsistence farmers and low-income households from the
tax. Other practical considerations include liquidity and the ability to pay the tax (for example, retired persons with limited income); such concerns can be addressed through careful exemptions.

There is a perception that implementing a land tax would be expensive and administratively challenging in developing countries. Like many other countries, however, South Africa has fairly robust municipal property registers (though the valuation methods vary across municipalities) and it commands the technical tools for assessing land values. Until the early 2000s, the taxation of urban land values in fact was a significant source of revenue for many local governments in South Africa. However, legal changes then eliminated the option of a ‘split-rate tax’ in favour of a single property tax.

* * *

Given the range of financing options that are available, there is no straightforward answer to whether a UBI is financially feasible or not. That will depend on the amount of the payment, how eligibility is determined, how those two variables change over time (by, for example, phasing in a UBI scheme), and which financing strategies are selected. On the latter front, the scope for action is much larger than is typically claimed by UBI sceptics. Viable scenarios exist for a country like South Africa, almost all of which can have a progressive redistributive impact, irrespective of whether they are used to finance a UBI.