

Radicalising upliftment

Government's decision to grant property rights in diluted form to former homeland tenants on State and communal land could signal a change in the process of uplifting the poor. This follows Free Market Foundation president Professor Themba Sono's proposed "five steps to real transformation".

In what encapsulates free market thinking to withdraw the State from the economy, revamp relief for the poor and focus upliftment on those in genuine need, Sono argues that *apartheid's* economic distortions and the denial of opportunities to blacks need radical responses outside of the Gear macroeconomic package.

Five radical steps

Measures should target the poorest, he says, mostly but not always blacks in rural and informal settlements.

Noting that the per capita income of black Americans exceeds that of white South Africans, Sono would have Government:

- give shares in public corporations to means-tested poor;
- hand State land to the homeless;
- abolish almost all taxes and regulations in former "homelands" (where 16m people live);
- sell off surplus State property to reduce the national debt; and
- alter the process of welfare spending so that cash grants go to poor individuals.

The first step – "democracy dividend" – would involved a one-off *bonsella* of shares via vouchers in State industries estimated to be worth R75bn. Sono says this would be worth R8 000 – R15 000 per poor family in shares exchangeable for units in participating unit trusts.

Giving the homeless property entails reducing Government's ownership of about one third of South Africa's land surface. Allocating every landless rural family 5 hectares and every urban one 200 square metres would barely dent state land ownership, changing it from 32m hectares to 31m hectares, and a new property-owning class would be born.

This, he thinks, would mean a land transfer worth R5 000 – R10 000 to each homeless family, at little cost to the fiscus. Special housing zones would be free of restrictive laws on building and urban planning.

The former "homelands" could be declared economic development areas for five years with no personal income taxes, company taxes or VAT, and limited trading restrictions. Perhaps this should apply only to black business, Sono says.

The State could sell excess properties it owns and lease some back, making new landowners responsible for maintenance.

Finally, because "a welfare State is not a feasible option", Sono believes health care provision, education subsidies and so on must be paid to individuals – but only to the indigent – either in cash or through smart cards, with special allowances for various benefits. People could shop around for private sector-supplied services.

Providing opportunities for the poorest

Sono calculates his proposals mean an effective transfer of R200bn to the poorest, at little cost to the Exchequer. Some of this encompasses thinking from elsewhere (share vouchers in Czechoslovakia, smart card payments in Switzerland and Japan, the abolition of housing standards in Peru).

Most of his suggestions, especially transferring land ownership, privatising *en masse* and providing welfare without bureaucracy, make sense. But why focus radical tax breaks on former homelands”?

However benevolently intended, it harks back to old border industry distortions of the market and would be open to abuse.

Why entice people to stay in areas that make little economic sense? Cost savings in service provision and lower birth rates in urban areas suggest concentrations of people are better than dispersals.

Decreasing the State’s welfare burden

Still, SA needs to review upliftment. And economic growth is really the primary means of doing so. The withdrawal of State-directed service provision would help this process, as would freeing more privately-directed money into the economic stream.

Total State spending at 36% of GDP last year, mostly on welfare (debt servicing aside) but in the form of bureaucrats’ pay, does little for economic growth.

A study of Government expenditure and economic growth prepared for the US House of Representatives last year indicates that though “small government by itself is not an asset”, a 10-percentage point increase in State expenditure as a share of GDP “reduces an economy’s investment rate by about 1.6 percentage points”. The authors predict that “if the government had not expanded its share of the economy between 1960 and 1996, real 1996 US GDP would have been US\$9,16 trillion rather than R7, 64 trillion”.

The 10 countries with the highest economic growth between 1980 and 1995 had either largely stagnant or declining State outlays as a percentage of GDP.

Among the stable democracies of the OECD, the greatest economic success is claimed to have been achieved by the US between 1960 and 1995. The US also had by far the lowest increase in government expenditure as a percentage of GDP.

The authors of the report suggest economies achieve their optimal growth when State expenditure as a proportion of GDP stays around 15% which means South Africa’s way out.

Successful transformation

Compared to the industrialised world, SA is relatively poor. Yet past injustices, the need for social stability and plain decency mean much of the country’s focus has to be on increasing opportunities for the poorest. And that makes Sono’s suggestions for doing so effectively while withdrawing the State from inefficient roles apposite. It merits wider debate.

Further reading

Sono, T (1999) *From Poverty to Property: Themba Sono’s Five Steps to Real Transformation*, FMF Books, Johannesburg.

This Briefing Paper was written by Paul Pereira, Assistant Editor Finance Week and Finansies & Tegniek, and first appeared in Finance Week in April 1999.