

Ideas for addressing poverty that are better than BIG

Current proposals for a Basic Income Grant (BIG) seem to neglect successful precedents for conquering poverty. I believe its proponents should tell us what alternatives they have studied and give good reasons why they rejected them. Have they, for example, read *The mystery of capital: Why capitalism triumphs in the west and fails everywhere else* by Hernando de Soto? Or *From poverty to property: Five steps toward real transformation in South Africa* by Professor Themba Sono? These books are both by men who are particularly sensitive to the lot of the poor, are familiar with the problem on a first-hand basis, and have put a great deal of thought into their publications. Have any of the BIG proponents read their works? And if they have, why do they reject those carefully reasoned ideas in favour of a completely untried experiment?

Looking at historical examples we find that West Germany's recovery from the ravages of war was much more dramatic than that of its victors across the channel, despite the fact that Britain suffered less damage during the war and was also the biggest beneficiary of Marshall Aid. The Germans were pleasantly surprised when they got the third most aid under the plan. But in 1948 they did something which should be an object lesson for anybody who wants to tackle the problem of a severely depressed and impoverished nation: they cancelled the inflated Reichsmark as legal tender and gave each and every West German a once-off 1 000 Deutsche marks. The West German government also cancelled price control, thereby destroying the black market and overcoming the need to use cigarettes and liquor as currency. This was no piece-meal dole but a substantial negotiable capital injection that in today's South Africa would have the purchasing power of at least R16 000. Just as the move by the German government meant empowerment for a downtrodden nation, a similar move could mean empowerment for South Africa's poor, the very people who have been overlooked in all the empowerment schemes to date.

De Soto stresses that whether a nation becomes prosperous or not is determined by how widespread the ownership of negotiable capital is. The settlers in America, Australia, New Zealand and South Africa were typically given the land on which they settled, together with negotiable title to it. The indigenous people were given no comparable opportunity and consequently suffered a serious economic disadvantage. Their land remained communal property and not available for either buying or selling or for use as collateral for loans. And so it remains in the traditional communities even today. Effectively, the land belongs to everybody and nobody, and casual observation reveals a tremendous difference in the condition of communal and freehold land. On the one side of the boundary the land is fully utilised for food production to feed the nation, while on the other side the efficiency of production is severely constrained by the absence of private ownership.

Nevertheless, in the early 20th Century many astute black South Africans saw the advantage of owning land outright, and some of them started buying up land from poor whites that had migrated to the cities. Black farmers became prosperous and would have continued to do so if white prejudice had not resulted in the adoption of the discriminatory Land Act of 1913, which effectively denied blacks any right to freehold land. Black people were prohibited from owning land, hiring land, and even from farming in partnership with white farmers. The retention of the communal land ownership system in the homelands was an insidious way of inflicting the equivalent of the feudal system on South African blacks. Black people living under the communal system have no more chance of attaining prosperity than did the peasants of feudal Europe. Giving the traditional communities the right to grant freehold title to land in their areas, as proposed by Professor Sono, would empower rural people more than an income grant could ever do.

In considering the basic income grant its proponents have given insufficient attention to the crucial factor of cost and method of delivery. We know that our present system of pension payouts has many problems. People drop dead while queuing. And for every payment the government makes it incurs running costs of R100, and this after much effort to reduce those costs. So every BIG monthly payment of R100 will cost at least another R100 in administration. The estimated total cost of R24 billion per year for BIG must therefore be doubled to R48 billion. This is worse than the equivalent of having the arms scandal as an annual event!

As it is, the police, the courts, education, health services and the prisons are hopelessly under-funded. What government expenditure would government cut to provide the large sum needed to fund the basic income grant? Ever-increasing funding would be required, as it would soon become clear that the proposed BIG monthly amount is incapable of making any meaningful difference to the lives of South Africa's poor. Clamouring for increases would commence almost immediately, especially in the face of accelerating inflation. Economic development would be stifled by the inevitable increase in taxation to fund the increased expenditure, which is already far too high for the economic health of the country. By contrast, Professor Sono's innovative suggestions would cost a great deal less to implement and provide far greater benefits for the poor than the BIG proposals.

Professor Sono advocates transferring ownership of the state industries to South Africa's poor as a democracy dividend that would be of the same order of value as was the thousand Deutsche marks in the case of Germany. He also advocates utilising the state's vast land holdings to give the landless plots of land: for housing in the urban areas and larger plots for farming in the rural areas. This would be in addition to the freehold title rights granted to traditional communities. Elsewhere it would take the form of upgrading of all existing apartheid property titles to full freehold title. In addition, Sono suggests selling most state property, with a few exceptions such as the Union Buildings and parliament, in order to pay government debt and improve the efficiency of government's property utilisation practises. And finally, he proposes declaring all former "black" areas, both urban and rural, to be economic development areas in which businesses and their employees would not pay tax, and be exempted from specified onerous regulations, for a period of at least five years. The purpose of the latter proposal would be to bring about the rapid development and transformation of both rural areas and urban townships.

In all cases Sono's plan would amount to a Hand Up to give people real hope, rather than the proposed continuing Hand Out of the BIG scheme that would fritter away billions of rands without any significant hope of creating economic self-sufficiency. Professor Sono's sweeping and large-scale transformation proposals would not harm the economy yet achieve significantly more for development, economic growth, black advancement, and the poor, than any other ideas that have yet been put forward. In fact, if accompanied by large doses of economic freedom, they would set the country on a spectacular growth path.

Further reading

Saunders, Peter (2002) *What future for welfare?*, Occasional Paper 11, Free Market Foundation, Johannesburg.

Sono, Prof Themba (1999) *From poverty to property: Five steps toward real transformation in South Africa*, Free Market Foundation, Johannesburg.

This *Briefing Paper* was written by Paul N Malherbe, a freelance researcher and writer and author of *A pragmatic approach to the creation of value, enrichment and prosperity*. This article appeared first on the Free Market Foundation's website, www.freemarketfoundation.com.