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THE 'GUINEA FOWL SCENARIO' FOR SOUTH AFRICA

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We have drawn up a scenario for South Africa in 2020. The scenario is based on a process whereby South Africa adopts a ‘new economics’ policy early in the new century. It could be called the Guinea Fowl scenario, by analogy with the Ostrich, Lame Duck, Icarus and Flamingo scenarios drawn up by the Mont Fleur scenario team in the early 1990s. This team, under the chairmanship of Professor Pieter le Roux, was made up of a broad spectrum of representatives from South Africa’s political, economic and civil domain.

The bird names given to the scenarios speak for themselves. Clearly the Flamingo scenario was the preferred one. Flamingos take off slowly, fly high and fly together. The features of the scenario are those of political settlement, broad participation, a supportive international environment, good government, social reconstruction and sustainable economic growth. With regard to the first three of these features the flamingo scenario has been very much on track. They were the issues of paramount relevance and concern when the scenario was drawn up. We are not so sure about the last two items. South Africa is experiencing a ‘lame flamingo’ reality, to quote Minister of Finance, Trevor Manuel.

The Flamingo scenario, as well as most other scenarios promoted by various teams in the course of the past decade - e.g. by Shell, Anglo-American, Nedcor/Old Mutual, and the S A Foundation - seek to promote a South Africa striving for excellence using deregulated and flexible labour practices in a bid for a competitive advantage in a globalised market. This is what futurist Hazel Henderson calls the reigning paradigm of economic wisdom; and it is not delivering on its promises. She contrasts this with the emerging paradigm represented in South Africa by the Guinea Fowl scenario. The needs of a just and sustainable society are seen very differently through this lens.

What are the characteristics of the guinea fowl? It is a bird indigenous to Africa. It is not beautiful, fast or sleek, but it is well adapted to the realities of life on this continent. It lives well off simple pickings even in the midst of an affluent first-world environment. The guinea fowl scenario is based on ‘new economics’ policies with a safety net of a citizen’s income which is paid not in rands but in a complementary currency called the bata (barter and trade aid). This currency is not exchangeable on international currency markets. The bata can be used to purchase government goods and services such as education and health. Pensions and disability grants are paid in terms of them. They can also be used for local trading as a type of national LETS (local economic trading system) currency. Because batas cannot purchase imported goods they act as a stimulus for local development. The scenario puts forward a vision in which real meaningful work opportunities are once again in full supply, where South Africa is no longer at the mercy of global monetary manipulation; informal and formal economies are well integrated; inflation and interest rates are stabilised; and income and wealth are more evenly distributed. The process by which South Africa might achieve such a social and economic structure is described in this scenario.

SUMMARY OF NEW ECONOMICS AND THE GUINEA FOWL SCENARIO

SOME PRINCIPLES OF NEW ECONOMICS

- 'Rules of the Economic Game' designed such that people, in acting in own self-interest, also act in interest of greater good
- Tax focussed on value subtracted rather than value added, and on inputs rather than income
- Local currency which will not leak out of economy but will encourage local multiplier effect
- Citizen's income as safety net to ensure survival of individual; spending power generated will stimulate economy
- Working towards an interest- and inflation-free currency
- Reward reflecting real value added; interest rates reflecting real services offered by financial sector
- Limiting the influence of speculative financial markets.

INTRODUCTION OF NEW ECONOMICS POLICIES

- Around turn of century South Africa goes through critical period of economic disintegration
- Awareness of 'new economics' options grows rapidly
- World economy hits depression; reigning paradigm of globalisation disintegrates
- South Africa drops dead-end efforts at becoming global player in favour of local economic development
- As in political transformation, South Africa takes lead in economic transformation.

IMPLEMENTATION OF NEW ECONOMICS

- Mutual credit schemes such as LETS (Local Exchange Trading Systems) are encouraged widely
- BATA (Barter And Trade Aid) currencies introduced - first locally, then nationally - and used to pay citizen's income
- Government goods and services can be paid for in batas
- Local trading using batas takes off; formal economic sector starts to recognise and accept batas
- Batas cannot pay for imported goods, thereby stimulating inward industrialisation
- Tax structure is reformed from income to input tax, thereby promoting employment and reducing environmental impact
- Both informal and formal economies blossom.

CHANGES IN LIFE STYLE

- Densification of urban living; improved public transport
- Transformation towards more community oriented and environmentally sustainable lifestyles
- Eco-village living spreads both in rural and urban environments
- Overseas travel becomes increasingly expensive; information technology cheaper and global
- Aspirations for luxury first-world living thwarted but later no longer felt
- Massive growth in activities aimed at uplifting local communities
- Happier and more stable nation.

NEW ECONOMICS IN THE NEW SOUTH AFRICA

LOOKING BACK FROM 2020

In 1994 a New South Africa emerged amidst great expectations of liberty, peace and prosperity. Liberty certainly did arrive, but prosperity did not. Soon the peace was broken by escalating crime and militancy related to diminishing employment opportunities and lost hopes. Income distribution became increasingly polarised between the rich few and the poor many.

For several years South Africa experienced economic disintegration. Fortunately, soon after the turn of the century the country dropped its dead-end efforts at becoming a global player with a free trade policy and adopted a bold new economic approach. Today, in this year 2020, South Africa has moved into a stable mode again, but a mode very different from that of the previous century. This new economic mode required major adjustments in life- and work-styles. This was facilitated by the worldwide collapse of faith in global markets and unfettered free trade.

South Africa has now set a lead in pioneering a redesign of the 'rules of the economic game' so that people, acting in their own self-interest, also act in the greater good. It has established a safety net to ensure the survival of the poor; has stopped the local currency from leaking out of the economy through imports, foreign spending and speculation; and has changed the concept of interest rates to reflect reward for real services offered, instead of providing unearned money which in the old days boosted inflation and reduced economic activity.

THE INTRODUCTION OF NEW ECONOMICS POLICIES

Why was this new direction taken at the beginning of the 21st century? Firstly, the existing economic system — free competition, globalisation, decreasing labour intensity and jobless growth — was not providing solutions. Secondly, the chaos resulting from the global economic collapse, heralded in South-East Asia in 1997 and culminating in the melt-down of share markets early in the new millennium, ended the free market ideology. In South Africa by the late 1990s, it was clear that the GEAR programme suffered from the unintended consequence of large scale unemployment and impoverishment. The government recognised that the approach prompted by the IMF, based on export-led growth and structural readjustment, was vain in a time of world-wide contraction. It saw the need for local development rather than for globalisation.

A major research programme was coordinated in the new century by the South African New Economics (S A N E) Network. This provided substantial evidence for the feasibility of many 'new economics' principles as well as for other economic alternatives. As a result of an intensive lobbying, education and publicity programme, the government adopted an approach aimed at local economic development and community upliftment.

The first step taken by the ANC government at that time was to foster mutual credit systems similar to ***Local Exchange Trading Systems*** **(LETS)** in first-world communities. This encouraged local economic activity and reduce dependence on formal employment and the rand currency. Later a new local currency called the ***bata*** **(barter and trade aid)** was introduced. The bata was initially distributed in a few selected communities, but today it operates at a national level. There is no formal rate of exchange between the bata and the rand, and therefore it also has no standing as a medium of international money exchange. The supply of batas is controlled to match the productive capacity of the population and is introduced as a basic (citizen's) income. Every citizen is given a monthly allocation of batas which can be used to buy government services such as education, community health services, membership of libraries and food from community kitchens. The bata is set as nominally equivalent to the rand, and government services can be paid for at equal prices in batas or in rands.

Soon after the bata was introduced the tax base was shifted from tax on income to tax on inputs (e.g. land, energy and resources) and from value added to value subtracted tax (e.g. tax on pollution and negative social impact). Increasingly government contracts and salaries were partly paid in batas until today they represent 60% of the salary bill which is much less of a burden on government financial resources than wage bills paid in rands in former days. Welfare and tax structures are much simpler now and therefore cheaper to administer. Many former government activities are now also dealt with at community level, for example teacher appointments and clinic administration.

IMPACT OF THE BATA CITIZEN'S INCOME

The bata cannot purchase imported goods, nor most goods produced in the formal economy which have a significant import component. The introduction of the bata-activated local industry, particularly in townships. Traders could charge in either rands or batas, or a mixture of the two. Informal exchange rates between batas and rands were negotiated. Today the bata is the principal currency in internal trade and business, and South Africa is becoming increasingly self-sufficient. The bata has also improved the efficiency of government service because users have become more discriminating in choosing which services to use since they now pay for them, usually in batas.

Within about eighteen months of its nation-wide introduction, the new bata currency became a major stimulus of community economic activity. Batas not used to buy government services provided a medium of exchange for multilateral bartering, not unlike, but much more far-reaching than that provided by LETS (local exchange trading system) currencies.

Because of the great need in deprived communities, batas have had the opposite effect to that of dole payments to the unemployed. Not only has the informal economy blossomed but the formal sector, too, has grown. This growth is stimulated by the increased stability and human energy of the last ten years. Rands earned in the formal economy are used in deprived communities to supplement bata transactions for their non-local component. Rands consequently circulate to a far greater extent within communities than was formerly the case. The formal economy also has to use local manpower and resources to make products for purchase in batas by those in deprived communities who do not have the rands to pay for imported goods. Increasingly the formal economy is therefore trading in batas. This has resulted in a leap forward in inward industrialisation, decreased leakage from the economy to exports and therefore growth in the formal national economy.

For about five years after their introduction batas largely by-passed affluent citizens, who were not prepared to accept them as payment, or to stand in long post-office queues to collect their personal allocation. However, these people changed their attitude as the bata came to be used ever more widely. Because the formal economy is now largely inwardly industrialised and based on local resources it is protected from the worst vagaries of foreign economic turbulence.

Because of both the new structures and the collapse of global markets, lifestyles have adjusted dramatically. Private transport and low-density living have become increasingly non-viable. Because of the emigration of many wealthy people, and the insecurity of living in homes with large grounds, it has become preferable to live in built-up areas closer to public transport. Through unfavourable exchange rates for the rand and the changed tax structure, overseas travel has become very expensive.

However, telecommunication across the globe is cheap and widespread. We can think globally but are constrained to act locally. South Africans in general no longer hanker after the days of wasteful and luxurious living, nor do they seek to emulate overseas countries. Our lifestyles are now based on South African realities of the 21st century and not on the former glories of Europe or Hollywood.

At first, in poorer communities, the aspiration to first-world living thwarted local economic activity. However, as a result of global malaise and environmental destruction, the desire for unsustainable lifestyles and the resistance to appropriate third-world solutions melted away. No longer are poor communities characterised by unemployed, unmotivated and often criminalised young people. People have responded to the increase in small manufacturing and trading by becoming increasingly resourceful, both materially and in the energy directed towards improving their living.

FINANCING THE CITIZEN'S INCOME

The means of financing the citizen's income was a crucial and much-debated issue at the time in its early days. Funded from rand taxes it would have placed an impossible burden on the taxpayer. The cost of paying 40 million citizens R200 a month in the year 2000 would have been about R100 billion, or nearly 50% of tax income. This problem was answered by some radical changes in monetary and fiscal policy.

In the old economic system, new money was generated through commercial bank loans. In the 1990s much bank credit went towards financing personal consumption, which contributed more to balance of payment problems and inflation than to growth. Starting up a citizen's income out of normal taxation would have presented a major obstacle. Some relief appeared with the release from past external debts as a form of foreign aid. But this relief was slight, as this debt was small in comparison with internal debt.

It was recognised that money should ideally be created to match potential supply of locally produced goods and that the existing system of money creation by banks through debt financing was fundamentally flawed. It was also recognised that South Africa was no match in the battle for market share in the global economy. At the time the readily exchangeable nature of the rand currency on global markets resulted in the import of consumables which could also be manufactured in South Africa, albeit often at a level of production and quality not competitive or readily acceptable in global markets.

The best way of dealing with this problem was to create a complementary national currency which could not be exchanged on global markets. The bata, issued as a citizen's income at a level compatible with the level of production in the internal production system, provided the answer to this need. This production system was at the same time given every incentive to develop through the encouragement of small and medium scale enterprises and an education system aimed at meeting practical local realities and needs. The success of this strategy for uplifting the local third-world economy allowed a rapid increase in the distribution of batas and hence a rapid improvement in the quality of life of rural and unemployed people.

The introduction of a citizen's income reduced the need for welfare grants and pensions and this saving was applied to funding citizen's incomes. Previously free services such as public health were now paid for in batas. These services are now much more widely available than formerly and their cost has been reduced because paying users do not waste them.

Another change to the monetary system was the rapid raising of the fractional reserve requirements for bank lending. This decreased the power of the banks to create money by financing consumer loans and allowed the government to take on a major role in money creation. This money creation was matched to real supply capabilities in the local economy and not to consumer borrowing.

The issue of the financing of government pensions was another area of major revision of fiscal policy. In the last years of the old regime the Public Pension Fund (PPF) was converted from ‘pay as you go’ to ‘fully funded’. Pensions, formerly paid from the contributions of active civil servants, were now paid out of investment income. To set up the PPF fund the government of the time created a vast debt, amounting to about 30% of the annual GDP, by issuing government bonds. The PPF became the major investor in these bonds through the Public Investment Commission (PIC). Thus the government borrowed from itself in an illusory attempt to secure pensions and retrenchment packages.

Under the New Economics plan the PPF was returned to a pay-as-you-go’ structure and pension security was renegotiated. Government bonds, indirectly owned by the South African government itself through the PIC, were cancelled. The government's equity investments were liquidated between 2000 and 2005. The tax money saved on interest payments was channelled into the funding of government benefits through the citizen’s income.

CONCLUSION

Much more could be said about the process that led South Africa out of the economic mire of free market economics, the trap of unlimited growth and unsustainable lifestyles, and on to the firm ground of the much brighter present, in this year 2010. Meaningful work opportunities are once again in full supply and South Africa is no longer at the mercy of global monetary manipulation and local destitution and crime. Income and wealth are more evenly and appropriately distributed. The rich, ‘first world’ section of the population may not have quite the same high material standard of living of former times, but other important human needs such as those for protection, identity and participation, are being met. People have new vision and energy. We are a happier and more stable nation than seemed possible at the time of the millennium.

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