Chapter 11

The Case for a 'Workable' Basic Income Grant for Addressing Income Inequality

Celeste Campher

Introduction

Can a basic income grant (BIG) reduce poverty and inequality in South Africa? In 1967, Martin Luther King said that guaranteed income is the most straightforward approach to abolish poverty. Nearly six decades later, the South African government is still grappling with the implementation of a universal basic income grant for the millions of destitute South Africans.

The South African government has a constitutional obligation to progressively realise the universal right to social security or social assistance within its available resources. Section 27 of the South African Constitution guarantees the universal right to social security, and – read with Sections 7 and 36 – requires a realisation of this right without unjustifiable delays. It is necessary to introduce social security for adults (18-59 years) who currently are not covered. This necessity is particularly urgent given the current labour market status and depressed incomes.

However, a critical decision for policymakers is whether a BIG should be provided universally, or targeted. According to the Institute for Economic Justice (IEJ),[1] a universal BIG (UBIG), if fully realised, would see all persons in society being eligible for its benefits, while the better-off and wealthy would progressively finance it and pay it back through taxation. A targeted BIG would attempt to select, identify, and distribute its benefits to a specific population subgroup, excluding others. The decision on which

design option to choose will have a significant bearing on how effective it will be and its impacts at a society-wide level.

Recently, the government announced extending welfare grants to the unemployed to introduce a more permanent BIG. The Presidency and National Treasury proposed in August 2022 to replace the Social Relief of Distress (SRD) grant with a jobseekers, caregivers, and household grant. The SRD grant expires in March 2023, and the ANC government is looking into possible extensions or alternatives to the SRD. National Treasury proposes partially replacing the SRD R350 grant with a jobseekers grant or household grant for some, possibly in combination with a truncated version of a caregivers grant, while excluding other poor persons entirely. The proposal from the Presidency, titled "Putting SA to Work", focuses on the possible extension of, or alternatives to, the SRD grant. The proposal also takes a more detailed and thoughtful approach to broader issues, such as the acknowledgment of the international evidence on the developmental value of grants, that they assist people in the labour market and promote economic activity. The Presidency acknowledges that the country needs immediate, high-impact interventions to address the poverty crisis and that employment strategies will only have an impact over the medium term.

The fiscal risks of this decision are enormous. Given SA's deteriorating credit ratings and fiscal position, these decisions will only exacerbate the country's explosive debt situation. However, on the political side, the ANC government runs the risk of losing votes if they do not extend the payments of these grants, more so since a deteriorating economy translates into much higher unemployment numbers and, therefore, more people demanding grants. So, in essence, the ANC and its government are damned if they do pay these grants, and damned if they do not.

The Deteriorating State of the South African Labour Market and its Inability to Create Jobs for the Majority of the Unemployed

In the context of widespread hunger, declining incomes, and job losses, calls for a BIG have intensified and seem inevitable. In the

2nd quarter of 2020, Statistics South Africa (Stats SA) estimated 2.2 million job losses. In the 3rd quarter of 2020, Stats SA found that only 543 000 of these jobs were regained, meaning a net loss of just under 1.7 million jobs in quarters 2 and 3 of 2020.[2] In the 2nd quarter of 2023, Stats SA reports a decrease in the official unemployment rate to 32.6 percent.[3] While this sounds positive, it must be read in the context of an already upward trend in the unemployment rate prior to the pandemic in 2020, with the official unemployment rate consistently increasing from 24.73% in 2012 to 28.18% in 2019, less than a decade later. Unemployment and job losses affect the most vulnerable (women, low income, rural, low/unskilled) more severely. Food insecurity, defined as running out of money to buy food, is at least twice as high as in 2016, with surveys reporting that 37% of households are affected.[4] Hunger is rampant, and depressive symptoms have doubled. Currently, approximately 70% of adults (18-64) live below the upper-bound poverty line (UBPL) of R1 265 per person per month, with approximately 40% living below the World Bank's $1.90 a day (R436 pm) measure.[5]

SA's unemployment rate of 42.2% (according to the expanded definition of unemployment) is the highest since 1994. Furthermore, South Africa needs a more skilled workforce to be employed in specialised employment opportunities and has an education system that fails to equip students with these skills. The majority of the unemployed in South Africa are young (15-34-year-old), black people who have never had formal employment. As with many other developing countries, more than waged employment is needed in South Africa to achieve social inclusion. For the millions of poor South Africans who are employed, the type of employment fails to provide a livable, secure income sufficient to break the cycle of poverty. Millions of unemployed (and even employed) South Africans are forced to rely on social grants. In September 2021, social grants were paid to approximately 25 million recipients, compared to the less than 15 million people employed in the formal sector.

With at least eight different social grants available, benefitting more than 18 million people (which excludes individuals who receive the temporary SRD grant), the SA

government extends a much-needed lifeline to many. The percentage of individuals who benefited from social grants steadily increased from 12.8% in 2003 to 30.9% in 2021, excluding those receiving the SRD grant.[6]

In 2021, the annual spending on social grants amounted to approximately R244.2 billion, or 12.5% of the annual budget allocation. This figure includes spending on the SRD grant, which amounted to approximately R18.0 billion or 0.5% of the total annual grant expenditure. In March 2022, approximately 18.7 million grants were paid out in South Africa, excluding the SRD grant. With roughly one in three people benefiting from some form of social grant, SA already has the second-largest share of households receiving state transfers in the world after Iran, according to World Bank data. Indeed, more people in South Africa received grants than people were employed, even before the impact of COVID-19 on employment numbers. In terms of grant dependency, the number is deteriorating. There were 313 employed people per 100 social grants in 2001; in 2019, 91 were employed for every 100 social grants.[7]

The old age grant, disability grant, and care dependency grant each amount to R1 890 per month per beneficiary, while the child support grant amounts to R460 per month, and the war veterans grant amounts to R1 910 per month. In 1999, the old age grant constituted nearly 71% of the total grants the South African government paid. This has since been reduced to 20.2% in 2021, with the child support grant constituting 70.5% of the total grants paid (up from only 0.9% in 1999) – see Figure 1 below.

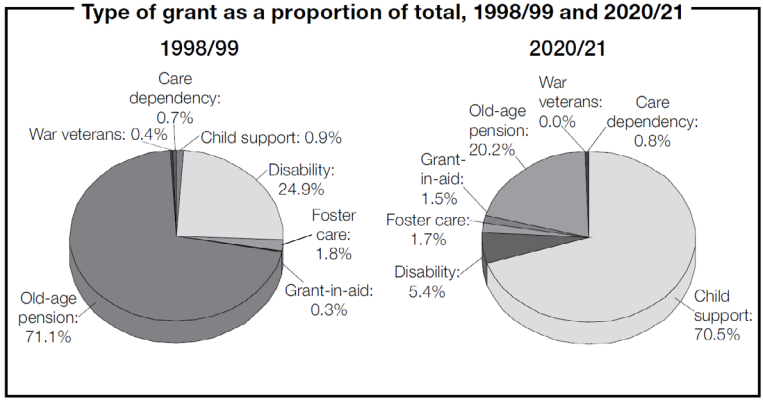

Fig. 1: Type of grant as a proportion of total, 1998/99 and 2020/21. Source: Centre for Risk Analysis, 2021

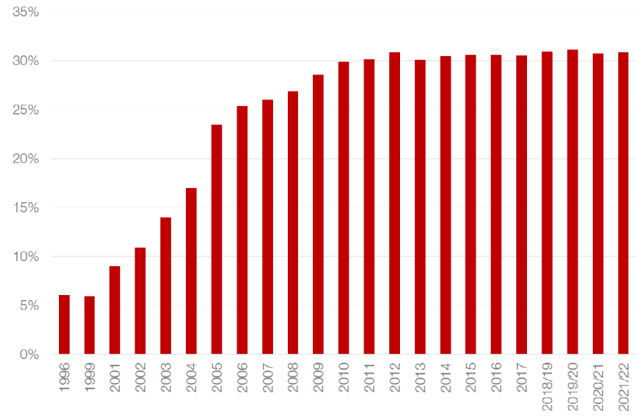

Fig. 2: Social grants as a proportion of the total population, 1996-2022. Source: Centre for Risk Analysis, 2021

Figure 2 shows that total grants as a proportion of the total population have increased from 6% in 1996 to 30% in 2022.

According to Stats SA, black South Africans rely heavily on social grants as a source of income – almost as much as they depend on salaries/wages/commissions as a source of income. In 2021, 55.1% of black households reported receiving an income from some grant – up from 50.3% in 2010. The proportion of white

households relying on a social grant increased from 9.9% in 2010 to 14.8% in 2021, although this is still notably lower than for the other race groups. Approximately 11%, 19%, and 9.8% of people in South Africa live in the Eastern Cape, KwaZulu-Natal (KZN), and Limpopo provinces respectively, with 14.8% of the total grant beneficiaries coming from the Eastern Cape, 21.3% from KZN, and 13.7% from Limpopo. Although Gauteng accounts for 26.6% of the SA population, only 16.6% of grant recipients come from this province, indicating a higher dependency on social grants in rural areas than in urban areas.

Evidence of the Impact of a Basic Income Grant on Poverty Reduction

Several studies have been undertaken to gauge the likely poverty-reducing effects of SA's welfare grant system, which is widely acknowledged as one of the most effective in the developing world – though a grant targeting the unemployed is still not a permanent feature. Recognising the need for empirical economic analysis of social protection policies in SA, the Inclusive Society Institute (ISI) commissioned such a study early in 2022. The main objective was to determine the macroeconomic impact of a BIG fixed at the food poverty line (R624 per month at the time). According to a World Bank report, these programmes contribute substantially to combating poverty. For the 79 countries with sufficient monetary information that were surveyed, social protective programmes reduced the incidence of absolute poverty ($1.90 at purchasing power parity per day) by 36%, whereas relative poverty (the bottom 20%) was reduced by 8% on average.[8]

Locally, the South African system of social protective programmes is extensive in terms of the number of people it covers, and the number of fiscal resources required for its funding. SA stands out among its peers for virtually all social protective programme indicators. It is ranked second among upper-middle-income countries for the ratio of government expenditure on social protective programmes, and second among all developing countries for the percentage of the population that receives social grants.

However, it is evident that – notwithstanding SA's success in expanding its social protection system over the past decade – the number of poor people has steadily increased since 2015. This coincides with a persistent deterioration in the country's economic performance, which resulted in a progressive decline in the real GDP *per capita*. Between 2012 and 2015, the food poverty headcount declined by 35%. Over the same period, the real value of social protection spending *per capita* rose by 6%, but real GDP *per capita* only rose by 1%. Between 2015 and 2021, the headcount increased by 37%, social protection spending *per capita* increased by 9%, and GDP *per capita* decreased by over 6%.

This suggests that – apart from any fiscal affordability and sustainability considerations – devoting progressively higher proportions of government revenues to social protection transfers will not succeed in reducing poverty by itself. It needs to be accompanied by a supportive environment.

Making the Grant Work for its Beneficiaries

What value is added to the lives of the many who simply receive this monthly hand-out to pay for the most essential goods and services? How do these hand-outs empower these millions of destitute citizens to free themselves from the claws of poverty and inequality? Poverty, inequality, and unemployment are three interdependent socioeconomic challenges policymakers seek to address. Addressing this 'triple challenge' in South Africa is critical for the country's future, but an unfunded expansion of the social transfer system could lead to even worse economic outcomes. So, in essence, the medicine should not be worse than the disease.

The vast majority of grants are child support grants (R500, or around US$27, a month) paid to a child's primary caregiver based on a means test. There is ample global evidence that such cash transfers bring many positive outcomes. For instance, they reduce child hunger, improve school attendance, and help reduce poverty. Although social grants are mainly spent on food, there is growing evidence that they are also used for productive investments in livelihood activities. People

undertake these actions to meet their basic needs, such as food, shelter, and clothing. Grant recipients find various ways to 'grow' their grant by engaging in informal work and other income-generating activities.

It has been reported that 31% of grant beneficiaries engage in informal work.[9] These are jobs with no written contract and where the businesses are not registered for tax. They include care work, informal trading, or self-employment. In 2021, grant beneficiaries were more likely to do informal than formal work. There was a greater probability of child support grant beneficiaries engaging in survival-oriented business activities (11%), followed by 9% of beneficiaries of the SRD grant and 4% of old-age pensioners. Grant beneficiaries strongly desire to be productive – such as having a job, starting their own business, and finding ways to improve income and personal and family wellbeing. They also face significant barriers to promoting livelihoods, reducing poverty, and improving psychosocial wellbeing. This indicates the need to design multi-pronged poverty reduction strategies combining grants and livelihood support services.

A new approach towards the state's role is increasingly gaining traction globally as a sensible and socially responsible welfare policy option, the essence of which is that beneficiaries now have *obligations* and *rights.* It incorporates the view that traditional cash benefits fail to support a proportion of recipients in becoming self-sufficient, and therefore passive implementation has been substituted by more active labour market policies or workfare (temporary employment). From a political perspective, a shift towards workfare programmes should be appetising, as it would include prospects for more excellent fiscal stability, increased self-sufficiency of beneficiaries, the prevention of social exclusion, and an increase in employment.

Some good examples of the aforementioned programmes are found in Brazil and India. These countries have had widely acclaimed success with initiatives to combat poverty based on either conditionality in grant payments or workfare arrangements. Brazil's Conditional Cash Transfer programmes aim to reduce poverty in a multi-dimensional manner by

requiring beneficiaries to comply with conditions aligned to enhancing human capital. The country's success boils down to a partnership approach between civil society and the state, a decentralised system that avoids undue political influence, and has sound governance standards, a registry of beneficiaries based on reliable and accurate data, and political appeal (due to its significant impact on poverty). India has also achieved significant progress, but with the implementation of workfare programmes, especially in the areas of part-time employment to unskilled rural dwellers via the National Rural Employment Guarantee Act. Its emphasis is on water-harvesting initiatives, supplemented by other infrastructure-related projects. Another flagship social protective programme is the subsidisation of rural housing, with the requirement that the beneficiaries must build their own houses.

These two examples show that it is possible to lower poverty in a sustained manner by integrating millions of people into the economic and social mainstream of the country without compromising other economic development goals. Policymakers in SA would do well to consider introducing some of their elements into the future refining of domestic welfare programmes.

In essence, a more economically sustainable approach to the grant system would be to ensure that these beneficiaries become productive, income-generating members of society by providing them with a grant that is coupled with a resource or skill that would allow them to grow a vegetable garden, start a road-side hawker's stall, or build wooden furniture in their backyards. Instead of teaching the destitute to queue for a monthly hand-out of milk, would it not be more beneficial to teach them how to use their hands to care for their cow and then milk it? Thus, while we need a welfare system, it must be one that reduces welfare dependency.

Informal work is a crucial livelihood strategy for grant beneficiaries who supplement their income through multiple livelihood activities. Most grant beneficiaries work in elementary occupations, services, sales, and craft-related trade. A small

proportion are self-employed, running survivalist businesses. This contradicts the view that beneficiaries are passive and disengaged from the labour market or do not desire to work. There is a need for greater recognition of informal work and its role in poverty reduction as a national policy objective.

Moreover, social grants plus complementary livelihood supports are needed. These include access to capital, credit, and small loans. The development of knowledge and skills and mentoring and coaching are also critical. Few government departments target beneficiaries for livelihood supports such as small-scale farming and entrepreneurship programmes. There is a need to explore innovative delivery modalities – whereby livelihood supports may be crafted onto existing government programmes. Incentives should be provided for those who wish to pursue productive activities. There is room to scale up livelihood supports through existing governmental, NGO, development agencies, and CSI programmes. However, more research and experimental intervention research are needed to inform the design of livelihood support policies and strategies.

As for the unemployed, instead of an unconditional grant, the grant should be paid so that the unemployed workers also attend training to make them more employable. Childcare and foster care grants should be paid on condition that the caregiver ensures that children are in school or, as in Brazil, that the child is vaccinated. Ensuring that children are in school is essential, given the large dropout numbers of learners between Grades 10 and 12.

In the past, Joel Netshitenzhe and Trevor Manuel quoted Roman statesman and lawyer Marcus Cicero saying, "People must again learn to work instead of living on hand-outs." In his 2003 State of the Nation Address, even former president Thabo Mbeki raised his concern about the millions of South Africans who rely on social grants. However, nearly 20 years later, the SA government is far from the developmental state it proposed and envisioned. Instead, we have an ailing welfare state and expanding welfare dependency.

Feasibility of the Grant

The macroeconomic implications of a BIG will depend on the approach to funding it. While a BIG would provide poverty relief and economic opportunities to many people, the fiscal sustainability of such a scheme needs to be assessed. Given South Africa's already high level of public debt, the opportunity to fund a BIG through higher debt is limited. On the one hand, a BIG would decrease economic growth through three main channels: increased borrowing costs, increased taxes, and crowding-out of private and public non-transfer spending. On the other hand, it would positively impact economic growth through one main channel: an increase in consumption by poor households. Overall, it is widely suggested that the adverse economic effects of expanding social grants would outweigh the positive effects.

Intellidex[10] argues that sustainable expansion of transfers would only be fiscally sustainable with expansion of the tax base and that expenditure reprioritisation at the required scale is unfeasible. Intellidex (2022) estimates that a BIG would lead to a six-percentage-point increase in debt to GDP in an optimistic growth scenario with tax financing, and a 30-percentage-point increase in the public-debt-to-GDP ratio under debt financing. Their 'viable' BIG option requires accelerated economic growth and reforms or a modest R50 to R100 billion expansion in transfer through higher taxes. They estimate that raising R50 billion in extra revenue would require a minimum 9% increase in personal effective tax rates (2.5 percentage points at each tax bracket), and R100 billion would require a minimum 19% increase in effective tax rates (almost five percentage points at each tax bracket).

The Expert Panel on Basic Income Support (2021)[11] estimates that a universal grant would cost between R137 and R534 billion and presents various summaries of options for financing grants, with a R350 grant level requiring a three-percentage-point increase in personal income tax rates across all bands, for example. They present CGE-based estimates of the impact on growth, which depend on assumed macroeconomic impacts and financing choices, ranging between -0.9% to 1.2% change in GDP in 2021 and -7% to 6.2% long term, turning

positive if the scenario finances some of the increased transfers from productivity improvements and investment expenditure rises. The panel report notes that the universal and means-tested social grants would have similar impacts on poverty and inequality, reducing the Gini coefficient to 0.54 from 0.65.

It would likely pay for itself if a more redistributive fiscal policy stance were to raise growth and reduce spreads. On the contrary, if a more redistributive stance were unaffordable over the long term, it could weigh on growth as interest rates ratchet up and contribute to fiscal sustainability risk. This would not enhance welfare for the citizens of the country. Berg and Sachs (1988)[12] show a link between income inequality and debt rescheduling, suggesting a link between inequality and sovereign risk. The channel they propose is countries with high levels of inequality are under more pressure to redistribute income. This demand for redistribution can often only be met through foreign currency borrowing, which, in turn, raises the likelihood of a debt crisis, something South Africa cannot risk at this stage.

Conclusion

Without a welfare system aligned with a pragmatic growth and development strategy, long-term income inequality and poverty reduction will remain elusive. To reverse the cycle of poverty and inequality that characterises many poor communities, a broad-based strategy is required to ensure the sustainability of the fiscal resources required for immediate poverty reduction (such as cash grants) and policies designed to enhance the income-generation potential of poor people. Due to the existence of empirical evidence supporting a positive causal effect between welfare grant payments and economic output – including the fiscal backflow (in terms of a broadening of the taxation base) – it is not anticipated that a BIG will place undue pressure on the public finances, while simultaneously lowering the extent of income inequality and poverty. The most effective way to combat poverty is by creating jobs at remuneration levels above the national poverty line. Every job thus created obviates the need for a welfare payment to the relevant person. Such initiatives, which will eliminate food

poverty in SA, will also significantly reduce socioeconomic unrest in the country. Both directives remain in urgent need of attention.

Endnotes

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