Is a universal income grant the answer?

*Cosatu, civil society and a variety of church groups have been mobilising for a universal income grant. **Haroon Bhorat** looks at whether such an intervention will significantly reduce or impact on poverty.*

One of the key challenges facing government is to develop a consistent and coherent strategy to significantly reduce poverty levels. These challenges have proven all the more acute given that high incidence of poverty overlap with high levels of unemployment. The economy has not been functioning effectively as a creator of jobs. Therefore, government cannot rely on the growth process alone to reduce national poverty levels. This has led to the growing importance of the state as a provider, in some form, to alleviate the potential consequences of poverty. At the centre of such an intervention lies the social security system. It has therefore, been argued that social transfers from the state to the people, must be viewed as a key ingredient in any national poverty alleviation strategy.

Provision for social security

Operating under the ambit of the Growth, Employment and Redistribution strategy (Gear), one of government's objectives was to reduce the fiscal deficit. This approach has influenced expenditure outlays made in recent years. What this means is that any thinking around further provisions for poverty alleviation or job creation, has to begin by the realisation that government, through the National Treasury, views fiscal restraint as vital to any of its annual expenditure outlays for the different government departments.

Keeping this in mind, it is useful to examine current and projected state expenditure on social services provision, as indicative of the state's general provisions for immediate or long-run interventions designed to reduce poverty or engender employment. Table 1 on p 20 illustrates these expenditure values for the different categories of social services. It is evident, firstly, that expenditure on social services currently captures about 48% of government's total expenditure. Future estimates make it clear that this share of social services will remain constant at this level for the next three financial years

Within this high share of social service expenditure, the overwhelming proportion is allocated to education. Education accounts for close to half of total social service spending. As a percentage of both gross domestic product (GDP) and total fiscal expenditure, South Africa remains one of the highest spenders on education in the

world. Within the social services budget, this is followed by social security and welfare, which captures about 13% of total fiscal outlays in 2000. While social welfare is an important component of overall social spending, it remains well below the expenditure on education. What is noticeable however, is that, compared with previous budget years, where health expenditure was greater than welfare spending, government has reallocated funds away from health toward the social security and welfare vote.

State grant schemes

Within the social welfare budget there are a series of different allocations made by the Department of Social Development to various forms of social assistance. Of the nine transfers made, the old age pension is far and away the largest. This transfer reaches close to 2 million individuals as well as accounting for 63% of the department's total transfer expenditure. The value of the grant however, is not the highest, which at R549 per month per pensioner, is below that of the war veteran's pension and the disability grant.

The second most important transfer scheme is the disability grant. This grant reaches about 630 000 individuals, and accounts for about 26% of the department's transfer expenditure. Hence, close to 90% of the transfer expenditure in South Africa is accounted for by two schemes – the old age pension and the disability grant. While we have a well-developed and extensive scheme for two of the target groups in the society, for a significant number of indigent and needy communities the scheme is not adequate. A positive development, however, has been the increased importance of the maintenance grant and the child support grant. The latter, however, is set at an extremely low level.

Transfers for poverty reduction

While transfers are allocated to individuals – for example the aged or disabled – the ultimate impact of the grant must be understood at the household level. These income grants are important as a social safety for households, rather than individuals, living in poverty. As such then, these schemes are implicitly part of the society's household social safety net. This is made clear when one looks for example, at the role of the old age pension in supporting the unemployed, through the access this grant provides to the jobless, within the household.

When looking at non-employment income in relation to the unemployed in a household – 63,4% of the unemployed live in homes where there is no individual recipient of an income transfer. This implies that 36,6% of the unemployed have access to at least one recipient of an income transfer. In rural areas, 41% of the unemployed are in homes with at least one income transfer recipient. It is clear that in rural areas the dependence on transfer income is greater. A significant proportion of the unemployed live in homes with no income transfer recipient. However, it is important to note that

Table 1: Expenditure by Budget item, as % of total government expenditure

Budget Item	2001/2	2002/3	2003/4	2004/5
Education	20,37	19,73	19,79	19,53
Health	11,66	11,35	11,51	11,66
Social security & welfare	12,53	13,48	13,10	13,12
Housing	2,44	2,59	2,65	2,58
Other social services	0,63	0,63	0,67	0,58
Total social services	47,64	47,78	47,72	47,48
Interest burden	17,47	15,67	15,29	14,98

the social safety net, as represented by old age pensions and disability grants, does perform a welfare function for some of the unemployed. In this sense there is an indirect welfare effect in the social safety net. Income transfers are not only supporting their direct recipients, but also the unemployed dependants of the recipient.

A number of the unemployed are benefiting from the existent social safety net. However, we need to determine whether this, in itself, is poverty alleviating and enhances living standards. The results show that for these households with unemployed individuals in them, the transfer is not sufficient to place them above the poverty line. For example, among the African unemployed with access to old age pensions or disability grants, 80% live below the poverty line. The regional dimension is telling: amongst the rural unemployed, with access to two or more grants, 84% live below the poverty line. Hence, while some of the unemployed have access to income transfers of a fellow household member, this is not sufficient to raise the unemployed above the poverty line.

Ultimately, transfers provided by the state are assisting not only the direct recipients, but other household members. It is evident that these transfers on their own are wholly insufficient to act as a significant lever for reducing household poverty levels. Emerging from this has been the idea that government needs to consider a national basic income grant scheme. Such a scheme would not only widen the current social welfare provision of the state, but would target the unemployed.

Basic income grant estimates

An extremely useful starting point for the analysis of a universal income grant, is to try and determine, theoretically, what it would cost the state to eradicate household poverty in the society. Research based on the 1995 October Household Survey, found that given a total number of dwellings in the society is about 9,5 million, of which about 3 million are poor households, the minimum financial commitment necessary to eradicate poverty at the household level is approximately R12,9bn per annum in 1995 prices. The state's total expenditure in 1995, at current prices was about R154,9bn, and thus the cost of eradicating household poverty in the society constitutes 8,29% of this expenditure.

While African households form about 70% of the total household population, they constitute 95% of poor homes in the society. As a result, R12,1bn of the total expenditure will be allocated to African headed households. The location results reveal the importance of rural household poverty in South Africa. To eradicate poverty amongst rural households, the state would need to commit to at least an additional R8,9bn per annum, constituting 5,8% of the state's total expenditure in 1995. Notwithstanding the expected predominance of rural household poverty, 30% of fiscal expenditure on poverty alleviation would still need to be allocated to urban households.

The data illustrates for example, that the state would need to spend approximately R15bn per annum more, to keep all individuals in the labour force out of poverty. This static figure constitutes 9,7% of total government spending in 1995. Government might also need to take into account poverty existing amongst the employed.

Workers in agriculture and community and social services account for 85% of all the poverty amongst employed individuals in the labour market. These two groups of workers would require a substantial public expenditure commitment aimed at

poverty reduction. This suggests that should public expenditure take the form of a labour market intervention, due consideration should be given to the fact that poverty exists not only amongst the unemployed, but also amongst sections of the employed. There would remain though, the real danger of disincentive effects on the labour supply decision of these two cohorts of workers, from this type of government support.

With regard to farm and domestic workers, an interesting shift occurs when comparing data at an individual or household level. On an individual level domestic workers are seen to be poorer than farmworkers. However, taking into account household data, farmworkers come from poorer households than domestic workers. This difference could largely be accounted for by the fact that farmworkers are generally located in rural areas. The probability of multiple earners is also greater in domestic worker homes.

Another interesting facet of the individual and household differences is comparing the unemployed as individuals to the households they live in. As individuals, because the unemployed by definition earn no income, they are the poorest in the labour force. The poverty gap measure for households with unemployed is lower than that of domestics and farmworkers. It would appear then that farmworkers come from the poorest homes in the society, while the unemployed in fact live in homes that are generally better off than the other two categories.

The policy implications for government include the need to differentiate between household and individual poverty; labour market vulnerability should not simply be expressed as a distinction between the employed and the unemployed, given that pockets of deep poverty do prevail amongst the employed and finally, should the state opt to target households with domestic and farmworkers, or the unemployed residing in them, a large proportion of poverty in the society will be captured. As such, a targeting of expenditure in this way involves a creative and effective way in which to give credence to both the individual and household dimensions of poverty.

Income grant simulations

A series of simulations were conducted to determine the poverty-reduction effects on poor households by introducing a

universal income grant. The total cost of the scheme is not possible as the data available is per household rather than individual. Instead the study determines the poverty reduction effects on households.

An important point to remember is that a large household does not imply higher income. For example, a ten-member household will be earning on average about 1,8 times less than their counterparts with a smaller number of members. In terms of a national income grant, it means that a flat rate delivered to each household in the society will go disproportionately to larger dwellings, and by extension more will enter poorer households.

In addition to household size though, the initial household income levels are crucial predictors of the possible impact of a grant on the poverty status of the household The data reveals that high levels of income inequality mean a significant number of dwellings are stacked up at the bottom-end of the distribution. More importantly, though, a look at the lowest income levels suggests that a monthly universal income grant of say R100 could conceivably increase household income quite substantially by approximately 20%.

The survey looked at the impact on poverty if the income grant was set at different levels. The grant was set at four different values – R50, R100, R200 and R300 per month. The grant values are arbitrary, except for the R100 value which is based on the original Basic Income Grant (BIG) proposal from Cosatu

A R50 income grant to each individual in the society would result in a 3,72% change in poverty levels. A R100 grant would reduce poverty levels by 7,56% reduction. With the R200 and R300 grant, the poverty reduction effects reach into double-digits, with the R300 grant resulting in a change of 16%.

There would be fairly insignificant poverty effects arising from either a small or quite large grant. Put differently, even with a R300 grant to each African household, almost a third would remain below the poverty line. It would appear that poverty levels are fairly inelastic with respect to income transfers. At low levels of household income, there would appear to be little immediate poverty reduction effect from a grant set at any of the four different levels.

The problem with the above figures, however, is that they measure the change in absolute poverty, as opposed to relative poverty. Therefore, the income grant effect is only derived in the figures if a household moves from below the poverty line to above it. This is problematic of course, given that the relative poverty status of a household would undoubtedly have changed through such a transfer. Hence, a household earning for example R5 000 per annum, with a R100 grant would be earning R6 200 annually: the household is still below the poverty line, but is clearly less poor than it was.

The final simulation is not a direct universal income grant intervention, but rather an estimation of the poverty reduction effects in the event the age for qualification of the state pension was reduced. This was conducted largely as a result of the fact that the older and less educated will most likely never obtain a job in their lifetime.

In contrast, young unemployed individuals with some form of education can be trained up and provided with some of the skills that companies may find useful. In contrasting these two groups, whilst they are both officially unemployed, they present very different employment probabilities.

If one dissects the unemployed in this way, the unemployed youth are a job

creation issue. However, the older unemployed are not a job creation problem, as these workers are likely never to find employment again. The latter, in being unemployable rather than unemployed, are a poverty alleviation issue. Therefore, it is this group of individuals that the income grant needs to focus on. In other words, the idea of a social safety net for the poor is most potent when focused on those workers who are so marginalised, that no form of labour market intervention will extricate them from indigence. It is when trying to use the income grant – a poverty alleviation tool – for a problem that is a labour market challenge (such as the unemployed youth) that the scheme begins to lose its appeal and indeed its effectiveness.

The reduction in the qualifying pensionable age from 60 to 40 (for women) and 65 to 45 (for men) was the poverty alleviation intervention effectively simulated.

The idea of running this simulation is to examine the potential poverty alleviation effects if a more reduced version of the universal income grant was instituted. A reduction in the pensionable age for African-headed dwellings, would result in a 7% drop in the poverty gap measure. In addition for female-headed households, the figures are 3,1% and 4,9% respectively, which in fact is the smallest poverty impact amongst all the household types provided. This would suggest that female-headed households in particular have a low representivity of adults over the age of 40 for men and 45 for women. Put differently, this means that the age profile of adults in female-headed households is not particularly favourable to an age-based income grant intervention such as the one tested here.

The results broadly suggest that a reduction in the pensionable age as modelled here, would have a poverty-reduction impact similar to a R100 universal income grant intervention.

If the results are similar then the choice of scheme would depend on the relative administrative and operational costs. It would seem likely that the additional operational costs of reducing the pensionable age would be lower than the setting up of an entirely new grant scheme.

If we have provisional evidence that the new, lower pensionable age results in a poverty-alleviating effect of the same quantum as an entirely new grant scheme, then surely in the interests of lower costs and making the scheme more attractive to sceptics in government, this option is preferable? Apart from the high probability of much lower administrative and other costs, the lower pensionable age may not suffer from the problem of a disincentive effect as large as the universal grant. One would be implicitly targeting those individuals that have a very low chance of ever finding employment in their lifetime.

Conclusion

Detracting somewhat from pure cost considerations, this article intended to measure the potential poverty reduction effects from the introduction of a national income grant system.

The results indicate that according to the absolute poverty measure and depending on the value of the grant, household poverty would decline by between 4% and 16% nationally. When using the relative poverty measure, the figures are 4% and 23%. The simulation of the poverty effects when the pensionable age was reduced, reveals that the poverty effects are similar to the institution of a R100 universal grant.

This is an edited version of Bhorat's study.