

Social Assistance Strategies as Means of Addressing Poverty: Lessons for South Africa.

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DECLARATION

Except where explicitly stated otherwise and acknowledged, “Social Protection Strategies as a Means of Addressing Poverty: Lessons for South Africa”, is wholly my own work and has not been submitted to any other University, Technikon or College for degree purposes. All sources I have used or quoted have been indicated and acknowledged by means of complete references.

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ABSTRACT

Poverty is a daily reality which a majority of South Africans live with. Social security in the form of cash grants has been the main poverty reduction instrument, albeit with limited success. The thesis aims to propose improvements which can be made in the government's current social protection system and formulate alternative directions towards reducing poverty. An overview of the three most researched social security strategies around the world (i.e. Nordic, Latin American, and U.S. models) revealed two dominant instruments: conditionality and universalism. If applied in South Africa, universalism may be costly and unsustainable unless the right funding method is used. Attaching education and health attainment conditions to an adult grant would be inefficient and even burdensome to recipients. In terms of child grants, there is little evidence to suggest that the demand for and private levels of investment in education and health are insufficient. Therefore attaching health and education conditions to social grants may only serve to highlight the severe supply side inefficiencies in South Africa. Attaching marriage as an alternative condition may disadvantage poor and needy beneficiaries as marriage is an expensive institution in South Africa. Furthermore, enforcing the marriage condition would violate the constitutional rights of recipients who do not necessarily place a high value on the institution. To strengthen the poverty reduction efficiency of social grants and reduce dependency, the thesis suggests that social cash grants, regardless of whether universal and/or conditional or neither, should be temporary and used in conjunction with other strategies which encourage inclusive economic growth. Social assistance alone will not reduce poverty and ultimately, inclusive economic growth remains a more viable approach to reducing poverty. How to achieve the required inclusive economic growth in South Africa therefore provides further research opportunities.

ACRONYMS AND ABBREVIATIONS

ALMP	Active Labour Market Policies
ANC	African National Congress
ASGISA	Accelerated and Shared Growth Initiative for South Africa
BEE	Black Economic Empowerment
BIG	Basic Income Grant
CCT	Conditional Cash Transfers
CDG	Care Dependency Grant
COSATU	Congress of South African Trade Unions
CSG	Child Support Grant
DG	The Disability Grant
FCG	Foster Care Grant
GDP	Gross Domestic Product
GIA	Grant in Aid
GEAR	Growth Employment and Redistribution
HCBCS	Home and Community-based Care and Support Services
ILO	International Labour Organization
IMF	International Monetary Fund
MDG	Millennium Development Goals
INP	Nutrition Programme
NGP	New Growth Path
NP	National Party
OAP	Old Age Pension
OECD	Organisation for Economic Co-operation and Development
RAF	Road Accident Fund

RDP	Reconstruction and Development Program (South Africa)
SACP	South African Communist Party
SAPs	Structural Adjustment Programmes
SASSA	South African Social Security Agency
SMG	State Maintenance Grant
SRM	Social Risk Management
UCT	Unconditional Cash Transfers
UIF	Unemployment Insurance Fund
UK	United Kingdom
UN	United Nations
UNIFEM	United Nations Development Fund for Women
U.S.	United States of America
WVG	War Veterans Grant

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CHAPTER 1: INTRODUCTION.

The problem of poverty has perplexed local governments, academics, international aid agencies and civil society alike for centuries. Consequently, when world leaders convened for the Millennium Summit in New York in September 2000 to discuss economic challenges faced by developing countries, poverty reduction emerged as top on the list (United Nations Development Programme, 2000 and Sneyd, 2005). At the Summit, the year 2015 was set as the deadline by which all developing nation signatories should have halved their poverty rates. Only a few countries have successfully met the goal and, with only one year left, other participating countries will have to evaluate their progress and intensify their efforts if they wish to meet the target. When South Africa signed the United Nations Millennium Declaration, it was viewed as one of the most likely developing countries to succeed in meeting the millennium development goals (MDGs) (Patel, 2011 and United Nations Development Programme, 2013).

With a booming tourism industry, a productive agricultural sector, ample natural resources such as platinum and gold and a GDP of over US\$ 380 billion, South Africa is Africa's second largest economy (Central Intelligent Agency, 2011 and Trading Economics, 2013). Nevertheless, poverty and inequality remain as the country's prominent economic hurdles. The country's Gini-coefficient of 0.63 renders it as one of the most unequal nations in terms of income distribution (Donnelly, 2013). No consensus exists but estimates of the proportion of South Africans living in absolute poverty ranges from 35 per cent to 60 per cent (Adato *et al*, 2006:228, Mbuli, 2008:iii and Govender, 2011:1; and STATSSA 2014). Twenty per cent of households do not have adequate housing and over a quarter do not have access to adequate sanitation and clean water nearby (Hall, 2007:2). The income inequality has prompted commentators such as Mbuli (2008:iii) and Mubangizi (2008:175) to label the poverty in the country as 'poverty amidst plenty'.

1.1. DEFINING AND UNDERSTANDING POVERTY.

A precise definition of poverty is critical to anti-poverty measures and policies. As a result of its multi-faceted nature, poverty cannot be restricted to a single definition or mode of measurement (Woolard and Leibbrandt, 1999:3). Therefore, South African researchers frequently devise their own measurements. By setting the poverty line at R460 (in 2007 prices) per person per month, Statistics South Africa and the National Treasury estimated the proportion of poor South Africans to range between 37 and 63 per cent depending on the province (Africa Scope, 2010). Armstrong *et al* (2009:11) conducted a similar study (with the line set at R322 in 2000 prices) and estimated the proportion of poor South Africans to be 47 per cent. By using an income measure of poverty, South Africa is following the World Bank's example which has set the poverty line at US\$1.25 per day (Economist, 2012). Although, income is the most frequently used proxy for poverty, Wuyts *et al* (1992:15) and Burkey (1993:29) argued that the measurement is too narrow and thus deflects the attention away from non-measurable aspects of poverty such as freedom, dignity, control over resources and an adequate standard of living. However, Calandrino (2003:6) and Glennie (2011) supported the World Bank's direction and argued that excluding income from poverty definitions could be used by employers to defend a policy stance opposed to increasing the wages of those affected by poverty. Since multidimensional poverty is difficult to measure, income remains a popular proxy.

Poverty can be conceptualised into two categories; absolute and relative poverty. The former is defined as the inability to attain basic commodities for survival whilst relative poverty is more multi-dimensional and relates the concept of poverty to a reference group (Studies in Poverty and Inequality Institute (SPII), 2007:24). Therefore, in contrast to absolute poverty, relative poverty classifies people as living in poverty only if they are poor compared to those around them (SPII, 2007:25). The concept of relative poverty can have negative implications for anti-poverty measures because some people will always be 'poor' in relation to others (Noble *et al*, 2004:8). Additionally, a relative measurement of poverty changes its meaning depending on time and place (Bhorat *et al*, 2004:5). Brady (2003:721) dismissed the categorisation of poverty into different types and argued that the compartmentalisation yields a plethora of policy implications which may prove challenging to implement simultaneously. However, Woolard and Leibbrandt, (1999:3); Matunhu, (2008:2); and Mbuli (2008:20) conceded that an absolute definition of poverty is more relevant to developing countries

whereas a relative definition is more appropriate for developed countries. Consequently, South African researchers frequently use the absolute measure of poverty.

1.2. PROBLEM STATEMENT.

The country's leadership recognises the need to address the poverty phenomenon with effective reduction measures. Consequently, in 2004 the presidency listed poverty eradication as a "central part of the national effort to build the new South Africa" (Los Angeles Times, 2004). Accordingly, the government has initiated and implemented more than 29 966 poverty reduction projects since the fall of apartheid (Luyt, 2008). The projects have only had minor success and poverty remains one of the country's major economic issue.

At the forefront of the anti-poverty strategies is social protection in the form of cash transfers. Social grants represented 3.5 per cent of GDP and covered over 16 million recipients, and according to Mubangizi (2008:177); May (2010:7) and Govender (2011:1) served as the country's chief poverty reduction tool. For a developing middle income nation, the system is well-established and wide in coverage (Hall, 2007:5 and Saunders, 2013). South Africa's pattern seems to follow international trends as several prominent international organisations and aid agencies (including the World Bank and IMF) have come to concede that social protection is the best way to address poverty and its related issues (Adesina, 2010:3 and Ulriksen, 2012:3). The United Nations, IMF and World Bank acknowledged that markets are imperfect and thus social safety nets for vulnerable individuals are necessary to avoid and/or mitigate human disasters (Barrientos and De Jong, 2006: 546; Ulriksen, 2012:3 and Agarwal, 2013). The United Nations, in particular, advocates social cash transfers to the poor as a preferred poverty reduction strategy (Ulriksen, 2012:3). However, despite favourable reviews, Ulriksen, (2012:5) maintained that social protection was still secondary to the economic growth agenda in most countries including, South Africa.

In recent years, there has been an increased interest in social protection (particularly in the form of cash transfers) as the best way to address poverty and other poverty-related issues (Ulriksen, 2012:5). The awareness has been fuelled largely by the worldwide welfare state restructuring which occurred throughout the latter part of the 20th century, particularly in the 1990s (Barrientos and De Jong, 2004:9). Due to the changing economy (as a result of globalisation) and demographic patterns (e.g. overall life expectancy increased globally), governments felt it necessary to 'modernise' their welfare state to be less costly and more

mindful of budgetary limitations, whilst simultaneously propelling economic growth (Seekings, 2002:2 and Brunori and O'Reilly, 2010:3).

Social protection generally refers to a set of public actions or mechanisms - carried out either privately (by the private sector) or publicly (by the state) – which seek to minimise people's vulnerability to the consequences of a particular socially recognised condition (e.g. poverty) (Norton *et al*, 2001:7 and Garcia and Gruat, 2003:1). The strategy typically comprises of programs and policies aimed at reducing poverty by encouraging effective labour markets and enhancing people's capacity to manage socioeconomic risks, such as sickness, exclusion, unemployment, old age and disability (Norton *et al*, 2001:7; Samson, 2009:43 and Barrientos, 2010:8).

Social protection encompasses three key elements: social assistance, social insurance and labour market regulations (Food and Agriculture Organisation of the United Nations (FAO), 2009 and Oxford Policy Management, 2011). The social assistance prong involves cash transfers to the eligible poor and the provision of basic services such as education, health and housing (Rawlings, 2004:3 and Holmes, 2013). Social insurance programmes are contributory schemes whereby beneficiaries make regular premium payments to protect themselves from vulnerability in case of an unexpected shock such as unemployment (Rajda, 2012:16). Health insurance schemes are a popular social insurance strategy. Labour market regulations provide for the poor who are capable to gain employment. The regulations can be both passive and active. Active labour market policies (ALMPs) aim to increase employment and thus directly focus on increasing the access to employment opportunities through reducing the risk of unemployment and increasing the earning capacity of workers (Cunningham *et al*, 2011:1). ALMPs may include among others, increased investments in the general education system, job training and direct employment generation. On the other hand, passive labour market policies are concerned with alleviating the financial needs of the unemployed and are not necessarily designed to improve their employability. Examples include: income support, unemployment insurance and changes in labour legislation (Martin, 2014:3).

Cash transfers are South Africa's largest social protection strategy (Mbuli, 2008:164). Additionally, some forms of in-kind transfers such as the School Nutrition Programme and the Disaster Relief Programme (administered by the Education and Social Development Departments respectively), form a minor part of South Africa's welfare system (Hunter *et al*,

2003:16). Three grants dominate the cash transfer system in South Africa: the Child Support Grant (CSG), Disability Grant (DG) and the state Old Age Pension (OAP) (Williams, 2007:5).

Although, over half of South African households are dependent on cash transfers from the government, the system is plagued by numerous challenges such as corruption and claims of welfare dependency (Kahn, 2013). Ultimately, the system has been criticised for being inefficient in addressing long-term poverty (Phakathi, 2012; Dodds, 2013a; and Kahn, 2013).

A careful review of the poverty dynamics and social protection strategies in South Africa is thus necessary. Also essential is a more vigorous and direct approach to poverty reduction strategies. If South Africa is to experience genuine democracy and inclusive growth, economic constraints such as poverty have to be dealt with effectively.

1.3. RESEARCH OBJECTIVE.

The goal of the thesis is to propose improvements which can be made in the government's current social protection system and to formulate alternatives for reducing poverty.

1.4. METHOD.

The thesis takes the form of an extended literature review. By employing a post-positivist approach, secondary data will be used to examine theory and empirical findings on the subject of social protection. Works by several prominent international and local commentators on social protection strategies will be consulted for their validity and application within the South African context. The commentators include Adato (2007, 2009); Adesina (2010); Barrientos (2004, 2006, 2009, 2010); Samson (2001, 2002, 2004, 2009) and Woolard (1999, 2003, 2010, 2011). Additionally, documents from South African government departments (e.g. Basic Education and Social Development) and various prominent international institutions (e.g. IMF, World Bank, IFPRI, ILO, etc.) will be examined towards critically analysing the subject. The thesis relies heavily on secondary data and thus mainly employs qualitative research processes.

According to Punch (2005:238), the quantitative approach to research conceptualises reality in terms of variables and the relationship between them. The approach rests on the measurement of data and does not typically view context as central. Its samples are typically larger as it aims to formulate universal generalisations. Consequently, the quantitative

approach is more easily replicable. In the thesis, some aspects of the approach were made use of in chapters 2, 5 and 6 when constructing the figures and tables.

The qualitative approach is multidimensional, more variable and less replicable. It focuses more on cases and as such, is sensitive to context and processes. The sample sizes are relatively small and Punch (2005:238) noted that the sampling is governed by theoretical and not probabilistic considerations. One of the most popular methods of the qualitative approach is the use of case studies. Other common methods of the approach include interviews and triangulation. According to Soy (1997), the case study method is naturally empirical and examines existing observable facts in their contexts in an effort to clarify ambiguities where they may appear. The thesis employs the qualitative approach and more pertinently, the case study method in chapters 4 and 5 where universalism and conditionality are contextually examined.

Using both the qualitative and quantitative approaches, the thesis will also analyse popular practices in Brazil, Mexico, the U.S. and Scandinavia with regards to social protection as a poverty reduction instrument, and synthesize them to fit the South African setting. The insights drawn from the various real world experiences of social protection schemes will be used to inform the country's current policy-making strategy and suggestions for alternative social protection policy paths which could be made.

1.5. THESIS OUTLINE.

The thesis is structured into seven chapters. Chapter 1 is introductory and highlights the purpose of the thesis and overall rationale.

Chapter 2 is a literature review on social security including its varying definitions and conceptualisations. The economic rationale for social security is also discussed along with the validity of the arguments.

Chapter 3 explores the history and evolution of the South African social security system. The chapter shows how the current system developed in order to remedy structural imbalances created by the pre-1994 system.

Chapter 4 commences by exploring social strategies around the world whilst highlighting the distinctions between strategies in developed and developing countries.

In Chapter 5 universalism within the South African context is discussed. Discussions explore the feasibility, affordability and sustainability of the Basic Income Grant (BIG). The proposed funding options are critically evaluated along with their potential social and economic effects.

Chapter 6 investigates the economic rationale for instituting conditional cash transfers. International evidence pertaining to the grants is investigated along with the potential efficiency and suitability of conditionality in the South African context.

Chapter 7 summarises the main findings of the thesis, concludes and makes recommendations aimed at reducing poverty and strengthening South Africa's current social security system.

CHAPTER 2: LITERATURE REVIEW: UNDERSTANDING SOCIAL SECURITY

In the last two decades, there has been an increased interest in social protection (particularly in the form of cash transfers) as the best way to address poverty and other poverty-related issues (Ulriksen, 2012:5). The awareness has largely been fuelled by the worldwide welfare state restructuring, which occurred throughout the latter part of the 20th century, particularly the 1990s (Barrientos and De Jong, 2004:9). Due to the changing economy (as a result of globalisation) and demographic patterns (e.g. overall life expectancy increased globally), governments felt it necessary to ‘modernise’ their welfare state to be less costly and more mindful of budgetary limitations whilst simultaneously propelling economic growth through cash transfers (Seekings, 2002:2 and Brunori and O’Reilly, 2010:3).

Social security is a broad phenomenon and thus encapsulates a wide range of aspects. The concept is not static but depends on the context, time and place. For example, social security in the United States is understood and applied differently from the way Britain does (Haarmann, 2000a:24).

The chapter provides an overview of literature on social security. Definitions, components, origins and the different types are also discussed. Special attention is given to the social assistance prong (especially cash transfers) of social security as it has a greater share in South Africa’s social policy. The economic rationale for social protection (especially cash transfers) will also be evaluated.

2.1. DEFINING SOCIAL PROTECTION.

The terms social security and social protection are often used interchangeably and accordingly, the chapter follows the same pattern. Social protection, like poverty, is challenging to define and changes depending on time and context. However, the concept generally refers to a set of public actions or mechanisms - carried out either privately (by the private sector) or publicly (by the state) – which seek to minimise people’s vulnerability to the consequences of a particular socially recognised condition (e.g. poverty) (Norton *et al*, 2001:7 and Garcia and Gruat, 2003:1). Social protection typically comprises of programs and policies aimed at reducing poverty by encouraging effective labour markets and enhancing

people's capacity to manage socioeconomic risks such as sickness, exclusion, unemployment, old age and disability (Norton *et al*, 2001:7; Samson, 2009:43 and Barrientos, 2010:8).

The World Bank defined social protection from a Social Risk Management (SRM) perspective and viewed the strategy as a viable poverty reduction tool as it allows the vulnerable to accumulate and invest in assets which assist in smoothing their consumption patterns (Holzmann, 2003; and Brunori and O'Reilly, 2010:3). Another conceptualisation of social protection is that of a necessary component of an inclusive pro-poor growth strategy (Brunori and O'Reilly, 2010:3). The latter view is shared by a number of commentators and institutions such as Barrientos *et al* (2005); Department for International Development (DFID) (2006); Baulch *et al* (2008); UNICEF (2008a) and OECD (2009). In addition, some governments (e.g. Ghana and Tanzania) also supported the interpretation and the Zambian government, for example, explicitly stated that: "No meaningful and sustained economic growth can be achieved in the absence of social protection (Republic of Ghana, 2005; Republic of Zambia, 2006:210; and United Republic of Tanzania, 2008).

As a result of the issues which social protection policy aims to address, the International Labour Organization (ILO) and UN classify it as a human right (Haarmann, 2000a:25 and Govender, 2011:11). The rights-based approach to social security acknowledges individuals as having duties and obligations within society and the state as being the "duty-bearer" and therefore in charge of ensuring individuals' rights are not violated (Global Extension of Social Security (GESS), 2006). The approach is also enshrined as such (a human right) in the UN's International Covenant on Economic, Social and Cultural Rights (1966) and its Universal Declaration of Human Rights of 1948 (GESS, 2006; Heredero, 2007:5 and Sepúlveda and Nyst, 2010).

Advocates of the rights-based approach argued that social protection is economically beneficial. The reasoning followed that high levels of vulnerability and risk negatively affected the wellbeing and productivity of individuals which further deterred their capacity to increase short to medium term income (Slater, 2011:255). Additionally, rights-approach advocates hypothesised that tackling vulnerability and risk could also have a positive socio-economic impact in the long-run. This was because social protection essentially placed an emphasis on investing in people thereby reducing the intergenerational transmission of poverty (Mkandawire, 2006:3 and Slater, 2011:255). In South Africa, access to social

security is considered a basic human right and thus is enshrined in the Constitution (Govender, 2011:11).

The different definitions result in varying approaches to social protection. The next section explains in detail, the economic rationale for social protection policies.

2.2. THE CASE FOR SOCIAL PROTECTION.

Conventional economic wisdom advocates for a free market economy. As a result, government intervention is frequently criticised for causing inefficiencies and violating individual liberty (Bernholz, 1986:669). Social protection can be viewed as government intervention and thus the section examines the necessity and potential socioeconomic benefits of such a strategy.

2.2.1. Social security and equity.

‘Natural’ free markets are generally efficient. However, the efficiency does not always translate into equitability. Opportunities, capabilities and talents are frequently disproportionately distributed and therefore, benefits from a free market system may not extend to everyone. Governments can, and often engender equity through expenditure and taxation policies. However, taxation can be costly to administer and may lead to inefficiencies (Auerbach and Hines, 2002:1349). In addition, social security can also be used by governments as equity promoting tools.

Van der Merwe (2000:718) and Garcia and Gruat (2003:10) noted that economic growth was often viewed as the best equity promoting tool whereas social policy instruments were noted as counterproductive. The belief holds that high and continuous economic growth will have a trickle-down effect and automatically reduce poverty and inequality (Van der Merwe, 2000:718). The view that economic growth translates into lower inequality levels is theoretically based on Kuznets’ (1955) hypothesis which states that as an economy develops, market forces will engender an increase and then decrease in income distribution. Kuznets’ (1955) argument followed that the reduction in economic inequality would occur as the economy transformed from rural to urban and from agricultural to industrial, resulting in an expansion of the labour force in the industrial whilst a fall in the agricultural sector. However, economic growth has historically benefited high-income earners the most (Van der Merwe, 2000:718; Danzinger, 2012 and Romero, 2013). Dollar and Kraay (2002) conducted

a study on 92 countries and concluded that on average, growth did not have significant impact on income inequality, especially in developing countries. Similarly, Chen and Ravallion (1997) and Easterly (1999) showed that although economic growth may decrease poverty levels, the effect was not the same on inequality. As a result, many poor individuals and groups are often excluded from the benefits of economic growth. Benefits of economic growth include the generation of new employment opportunities and higher government revenue (creating more scope for social protection spending) (Adler, 2001:89 and Hull, 2009:70). Therefore, to tackle absolute poverty effectively, economic growth could be combined with redistribution measures (e.g. social protection). Moreover, redistribution could also potentially address the phenomenon of jobless growth in South Africa.

2.2.2. Risk reduction and social security.

Unemployment, disability and sickness can expose individuals to the risk of poverty. Social security limits some of the risks that individuals face. Poverty is multidimensional and is thus not only about insufficient income, but also about deprivation and insufficient outcomes in consumption, health, nutrition, education and social relations. Therefore, social security could provide a safety net and ensure a minimum standard of living for society's vulnerable groups (Barrientos, 2010:33). Certain segments of a society are more vulnerable than others and thus more prone to poverty and deprivation (Barrientos, 2010:15). Vulnerable groups in society include: women, minorities, rural inhabitants, the disabled, the aged, the youth and children (Massachusetts Institute of Technology (MIT), 2000 and Govender, 2011:20).

According to the United Nations Development Fund for Women (UNIFEM) (2010), women make up 70 per cent of the world's poor population. Women tend to receive lower pay than men and in 2008 the average wage gap between the genders was 17 per cent (Govender, 2011:22). Since women tend to have a larger share of family responsibilities, they generally spend fewer years in the labour force compared to men, further contributing to the wage disparities (Govender, 2011:23). Women's poorer earning capacity often results in them not saving or inadequately saving for their later years. A study in Southeast Asia concluded that as they advance in age, most women's opportunities, capacities and responsibilities change (usually to the women's disadvantage) thus impacting their well-being (Moore, 2004:8). Relative to their male counterparts, women were more negatively affected by the advancement in age as family and societal responsibilities increased at a relatively faster rate

(Moore, 2004:8). In essence, women are more likely to be exposed to vulnerability with advancing age.

Historically, women have lived longer than men and the occurrence still prevails today (Doughty, 2013). The number of years by which women outlive men depends on the country of residence and its socioeconomic indicators (Economist, 2013). In the last fifty years, the gap has narrowed in developed nations as men give up heavy manual labour and more women take on the stress of work (Doughty, 2013). The gap is broader in developing countries (Doughty, 2013). Therefore, females are more likely to survive their male spouses and if the male spouse is the sole breadwinner (as such is usually the case in poor countries), the female is more likely to run out of resources later in life. Therefore, social security directed at women could greatly reduce poverty and vulnerability levels.

According to Govender (2011:24), minorities usually have a relatively limited access to social services such as education and health leading to an increased risk of exposure to poverty and deprivation. Minorities are disadvantaged religious, cultural, ethnic, national or linguistic groups whose numbers are smaller than the rest of the population (ORCHR, 2013). The groups often wish to maintain their identity. In the United States, minorities (particularly Hispanics and Blacks) comprised over half of all poor Americans (Gradin, 2008:2). Minority groups in Britain, especially Caribbeans, Bangladeshis and Pakistanis have the poorest health of all Britons (Govender, 2011:24).

Provision of and access to social services in rural areas is lower compared to urban areas (NPC, 2010). Therefore, poverty in rural settlements is more pervasive. Rural areas are usually situated further from ports and markets and have inferior infrastructure in terms of electricity, water quality and road transport (Mntuyedwa, 2013). Although rural poverty is usually associated with less developed countries, the phenomenon is also experienced in developed countries. In 2005, over 15 per cent of American rural inhabitants were classified as being poor (Jensen, 2006:2). Therefore rural inhabitants may need more social protection.

Disability can be both a cause and consequence of poverty. Poor people often have limited access to adequate health care and in such cases a debilitating illness may lead to disability. According to the World Health Organisation (WHO) (2010b), approximately 10 per cent of the world's population is disabled and children make up over 30 per cent of the disabled. Disability can lead to incapacity to generate income. Additionally, disabled people tend to have lower income and education levels and are thus likely to have less assets and savings

(Govender, 2011:26). Hence, there is a case for social security to compensate for a physical or mental disadvantage, especially if the individual was born with the condition. At the social level, protecting and caring for the disabled is frequently motivated in terms of social justice or equality (Govender, 2011:26).

Due to their dependence on adults for the provision of basic needs, children are disproportionately represented among the poor (Holzer *et al*, 2007:134). Sometimes, parents do not make the best choices in the interest of the child, leading to disadvantages later in life. Harper and Marcus (1999:1) asserted that exposure to childhood poverty (even for a short period) is more likely to have long term economic and social effects on the individual concerned compared to adult poverty. By placing the poverty line at R4 560 per capita per annum in 2000 Rand values, Streak *et al* (2008) found 65.6 per cent of South African children to be poor. The prevalence of poverty means that millions of the country's children live under conditions where their constitutional rights are violated. Morality is commonly cited as an argument for fighting child poverty. However, reducing this kind of poverty has economic implications as well (Holzer *et al*, 2008: 43 and Mestrum, 2011). Poverty hinders both the length and quality of children's lives and makes them less likely to become productive members of society who positively contribute to the economy. Furthermore, Holzer *et al* (2007:134) argued that children growing up in poverty are somewhat more likely to engage in criminal activities.

2.2.3. Efficiency and social security.

Markets sometimes fail and social security can be instrumental in promoting economic efficiency by addressing market failures. According to Van der Merwe (2000:720), poor people are usually the most affected by market failures and therefore has equity implications as well. Poor and low-income individuals usually do not qualify for loans and if they do, they incur high interest rates on account of the high risks associated with such loans (Van der Merwe, 2000:720 and Bateman, 2012). Therefore, during periods of financial setback (e.g. illness, disability, etc.), the poor may find it challenging to maintain their living standards as they have limited access to money and capital. In such cases, social security may prove to be a suitable remedy for the market failure.

2.2.4. Social security and socioeconomic stability.

According to Dethier (2007:1), social security provides for a cohesive and harmonious society. In the absence of social security, poverty and circumstances which give rise to the

phenomenon may lead to increased criminal activities among poor individuals and increased social tensions in society (Govender, 2011:18). According to Van der Merwe (2000:719), the strategy can also potentially reduce the risk of political upheaval and unrest. The links between social security and socioeconomic stability are further explored in chapters 4 and 5.

2.2.5. Other benefits of social security.

In developing countries, children are frequently viewed as a commodity as they can be a useful insurance against the uncertainties of old age and a source of income through marriage (through bride prices) and cheap labour (Harrison, 2005 and Tembo, 2013). In such instances, fertility rates soar and put pressure on the country's resources. Social security could decrease fertility rates in developing countries with high rates by reducing the need for children as a source of financial security. According to Van der Merwe (2000:721), social security can also address some of the problems associated with disintegrating, extended and nuclear families.

Searching for employment can be expensive and risky. Samson *et al* (2004) asserted that, in South Africa, individuals receiving social grants put more effort into finding employment and are more successful in finding jobs compared to those from households not receiving social cash transfers. Furthermore, Posel *et al* (2006:837) affirmed that social grants have a significant and positive impact for South African female labour migrants as they assist in financing women's migration for job search and help older people in caring for the labourers' children. In essence, social security (especially cash transfers) can increase the beneficiaries' consumption of goods and services, build long-term human capital and raise living standards (Farrington and Slater, 2006: 500 and Samson, 2009: 43).

In light of the arguments for social security, the next section examines the various approaches to social security and the associated advantages and disadvantages.

2.3. APPROACHES TO SOCIAL SECURITY.

When designing a cash transfers system, public authorities have to choose how the system is to be administered. Popular options include: targeting or universalism, conditional or unconditional transfers and cash or in-kind transfers (Van De Walle, 1998:231).

2.3.1. Targeting versus Universalism.

Targeting offers benefits to a select group of individuals within the population. In contrast, universalism covers the entire population or all individuals belonging to a particular section

of the population (e.g. ‘all infants’ or ‘all old people’, etc.) (Villanger, 2008:241). In essence, universal social security transfer systems are all-inclusive and extend social benefits to the entire population. Targeted cash transfers on the other hand, are only administered to the section of the population deemed eligible (Pai, 2012).

In the 1960s and 1970s, the prevailing approach to social protection policy in both developing and developed countries was predominantly universalistic (Pai, 2012). However, since the 1980s approaches have tilted toward targeting (Mkandawire, 2006:4). The switch in approaches was largely due to shifts in ideologies. In the 1980s most countries (specifically developed countries) faced large budget deficits resulting in a move towards neoliberalism (Pai, 2012). The neoliberal ideology set limitations on social protection policy and advocated for market delivery of social benefits and services (Mkandawire, 2006:6). Historically, universalism has been associated with the United Nations whilst the World Bank and IMF have tended to favour targeting in poverty reduction efforts (Barrientos and De Jong, 2006: 546 and Agarwal, 2013).

Several methods of targeting have been identified. One of the popular methods is through ‘self-selection’ which is designed in such a way that the targeted group (usually the poor) chooses to join whilst the privileged abstain from joining (Stachowski, 2012:170). Self-selection schemes usually have incentives and conditions (such as ‘work-for-cash’ or ‘education-for-work’) which encourage the participation of the poor and discourage the more affluent from taking part (Van De Walle, 1998:236). Currie and Gavhari (2008:341) posited that the “trick” to achieve effective self-targeting was to calibrate the costs associated with attaining the public good to fall more heavily on the non-targeted group so that only the targeted group will be willing to endure them and take up the good. Ethiopia’s food for work (FFW) programmes serve as an example of self-targeting mechanisms where food assistance is offered on condition that beneficiaries find employment (Barrett and Clay, 2003:153). The programmes offer unlimited employment, however, the wage is low enough that only the truly destitute are willing to participate. Two challenges with the targeting criterion are that it can stigmatise welfare and exclude the needy who for one reason or another cannot meet the conditions for eligibility (Villanger, 2008:240).

Another targeting method includes targeting groups of individuals based on geographical location. The scheme is rooted in the concept of geographical poverty which theorises that certain geographic locations are more prone to produce and sustain poverty as they are

deficient in the necessary sustainable livelihood capacity and economic base (Gray and Moseley, 2005:9). The challenge with the geographical targeting method is that it may encourage emigration to the targeted location and further exclude genuinely needy individuals who are unable to move to the targeted geographic location (Villanger, 2008:241).

Targeting can also involve intervention by the state or aid donors at the market level. The method is usually administered through subsidising goods which are used mostly by the needy (e.g. staple foods) (Stachowski, 2011:70). For example, Egypt and Morocco subsidise rough, dark flour, a commodity WHICH is disproportionately consumed by the poor and shunned by the rich (Alderman and Lindert, 1998:213). Harvey *et al* (2005) argue that targeting downplays the multidimensional nature of poverty. Furthermore, Villanger (2008:241) added that targeting schemes in general are economically unfavourable as they encourage beneficiaries to maintain their status quo.

Targeting has also been associated with an economic advantage. Lower levels of public expenditure implied lower taxes which in turn, fostered a positive economic climate conducive to growth. Marx *et al* (2013:4) argued further that economic growth directly benefitted the poor and simultaneously increased the fiscal base for redistributive policies.

Advocates of targeted cash transfer systems argued that the system is more efficient than universalism as it directs scarce sources to the “most needy and deserving” (Villanger, 2008:240). Another argument in favour of targeting postulates that the option is less costly than universal transfers as it is directed at a select group of the population (Mkandawire, 2006:4). On the other hand, proponents of universalism argued that although targeting is potentially cost effective, the efficiency is offset by its substantial administration costs (Villanger, 2008:240).

Govender (2011:193) adopted the rights-based approach and argued that by focusing on a select section of the population, targeting could potentially exclude individuals who are genuinely poor and further reinforce socioeconomic disparities.

Targeting essentially recognises the differences in the poor which may confine them to poverty. The differences, which may be in the form of income, race, gender, class and other characteristics, consequently characterise and form a part of official public policy (Villanger, 2008:241). Advocates for universalism argue that the categorisation of the society into

socially different groups can solidify the differences and make them seem permanent and natural (Villanger, 2008:240). MacAuslan and Riemenschneider (2011:64) further argued that the categorisation of society based on their differences can divide societies into “receivers” and “givers”. The division may further result in discrimination and stigmatisation against beneficiaries and therefore reduce the number of recipients, thus exacerbating the disparities (Samson, 2009:50).

According to Lindgren (2008:2), protagonists of targeted social protection systems tend to view universal transfers to the non-poor as a waste of resources, since they create an unnecessary expenditure trade-off between the poor and non-poor. From that perspective, every insurance dollar spent on the non-poor is a dollar not spent on the poor. Accordingly, Goodin and Le Grand (1987:215) argued against universalism and reasoned that the approach was wasteful and counterproductive as it was less redistributive.

In their highly influential paper Korpi and Palme (1998: 681) noted the ‘paradox of redistribution’ and argued that greater degrees of targeting tended to have lesser redistributive effects and thus were less likely to reduce poverty and inequality. The reasoning follows that, selective systems are generally smaller and consequently less redistributive, despite their design to that effect. Korpi and Palme’s (1998: 663) argument was unpinned by empirical evidence which displayed a strong inverse relationship at the country level between means-tested social transfers and the redistributive impact. The trend was partly explained by prevailing problems associated with means-testing and partly through political dynamics. Problems associated with means-testing include higher administrative costs, potential dependency traps and exhaustive monitoring (Marx *et al*, 2013:5). Additionally, earnings-related benefits could be subject to higher non-take up rates due to stigmatisation. Politically, welfare states which exclude the middle-classes are less likely to amass significant political support and thus, decreasing the total budget assigned to income transfers. Korpi and Palme (1998:663) suggested that more universalistic welfare systems aimed at maintaining certain levels of living standards tended to “encourage coalition formation between the working class and the middle class in support for continued welfare policies. The poor need not stand alone”. Moene and Wallerstein (2001:20) echoed the same sentiments and noted that “when benefits are low and narrowly targeted and voters are self-interested, a majority prefer to eliminate welfare benefits altogether. The ideal, favoured by many, of a limited welfare state that pays benefits only to the very poor may be politically unsustainable in the absence of

altruistic voting”. In essence, Korpi and Palme (1998: 681) theorised that robust targeting implied weak redistributive outcomes.

Several studies such as Forma (1997); Moene and Wallerstein (2001); Nelson (2007); and Ferrarini *et al* (2013) confirmed that universal welfare schemes provoked the largest political support because of their inclusion of the middle class, however, the schemes become more politically robust in times of austerity. However, Moene and Wallerstein (2001) stressed that social security needn't be exclusively universal or means-tested and that universality and selectivity can coexist within one system.

In critiquing Korpi and Palme's assessments, Lindgren (2008:4) noted that the distributive effect of a country's social security crucially depended on the degree of income inequality prevailing in the country. In countries with low income inequality, the empirical evidence tended to corroborate with the “paradox of redistribution view”. Countries with higher income inequality tended to display opposite distributive effects (Lindgren, 2008:4). Therefore, with relatively high income inequality, arguments stressed by supporters of means tested systems may be more relevant in the South African context

Lindgren (2008:4) criticised Korpi and Pulme (1998) because of their small sample size (11 countries), which was particularly sensitive to outliers. Kenworthy (2011:57) further added that prior to the year 1995, countries with more universal benefits achieved more redistribution. After 1995, the direct relationship between the two variables became less clear. However, Kenworthy's (2011:58) sample was also small (10 countries) and thus particularly sensitive to outliers. Other studies analysing Korpi and Pulme's (1998) findings such as Marx *et al* (2013:35); and Brady and Bostic (2014:33) illustrated that the “paradox of redistribution view” depended on context and the methods used to measure and define redistribution and egalitarianism.

The common argument against universal cash transfer schemes is that they are expensive and cause fiscal imbalances which are often less feasible and desirable in poor countries (Villanger, 2008:240). However, Soares and Zepeda (2007:1) argued that experience from Latin America has demonstrated the universal programmes can be applied even in the poorest of countries. Furthermore, Ulriksen (2012:7) asserted that countries which have a more generous and universal approach to social protection policy (especially cash transfers) tend to have lower levels of poverty and inequality. Universalism is discussed in greater detail in

chapter 5. In essence, universal systems tend to be more effective than targeting in addressing poverty and related issues as they are associated with lower transaction costs.

2.3.2. Cash and in-kind benefits.

When designing a poverty alleviation social protection scheme, policymakers frequently have to choose whether to allocate transfers in the form of cash or in-kind. In some cases (e.g. the USA) both mechanisms are used as part of a comprehensive social protection policy (Smeeding, 1977:361 and Cunha, 2012:1). In-kind transfers are noncash payments made by the government or aid agencies to eligible recipients (Glaeser, 2012). In-kind transfers can be in the form of food stamps, medical care, housing, and other components which the government may view as necessary to alleviate poverty (Smeeding, 1977:361). The main argument in favour of in-kind benefits is that individuals are imperfect and irrational in their decision-making and therefore in-kind benefits encourage recipients to consume certain goods (e.g. food) and services (e.g. education and health) which the government deems as suitable for combating poverty (Block, 2002:196 and Cunha *et al*, 2013). Cunha *et al* (2011:2) advocated for in-kind transfers and maintained that they are relatively cost-efficient as they prompt the less needy to self-select themselves out of the scheme. Additionally, in-kind transfers make strategies based on targeting more effective and as such, the strategy is frequently praised for having less inflationary and security risk and being less prone to diversion and corruption (Currie and Gahvari, 2008:353; Chene, 2010; and Cunha *et al* 2011:19).

The value of in-kind transfers can be challenging to calculate because they are non-monetary in nature and have externalities. However, the value can be estimated in three ways: the market value approach, the poverty budget share approach and the recipient value approach (Smeeding, 1977:364). The market value approach estimates the cost and value of the in-kind benefit if it were to be purchased in the market (Smeeding, 1977:364). The poverty budget share approach limits the value of the in-kind transfer to an amount that equals the proportion of income that those with incomes at the poverty line typically spend on that good (Citro and Michael, 1995:221). The recipient value approach is based on the assumption that recipients would prefer a smaller amount of cash, without strings attached, to spend as the recipient wishes (Smeeding, 1977:365).

Panagaria (2012) identified cash as a more suitable alternative as it capacitates beneficiaries instead of placing them at the mercy of the government or aid provider. Villanger (2008:233)

also added that cash is less expensive to transfer and audit and that in-kind benefits (e.g. food parcels) can result in greater leakages and corruption because their physical control is more difficult and expensive to carry out.

Foster and Verbist (2012:12) were of the opinion that in-kind benefits take away the beneficiaries' freedom of choice and further ignore the multidimensionality of poverty. Furthermore, Samson (2009:49) posited that poor individuals know more about their state and have better information about their needs than policymakers, and cash transfers harness that information more efficiently than in-kind payments. Since cash provides beneficiaries with a greater degree of flexibility, it enables them to assign resources based on their most critical needs (Tietjen 2003: 9 and Samson, 2009:49). Another criticism against in-kind transfers (particularly in the form food parcels) is that they can potentially destabilise local agricultural markets, especially when the local farmers can provide the food in exchange for cash which poor individuals lack (Barrett, 2006). To prevent the potential negative effects on the local agricultural markets, Villanger (2008:231) suggested that purchasing food aid from local areas with food surpluses and disbursing it to the needy instead of relying on imported food could yield positive multiplier effects in the local communities.

Kebede (2006) found that distributing in-kind food transfers in Ethiopia cost 39-46 per cent more than cash transfers. However, Villanger (2008:233) warned that handing out cash when the supply of food is insufficient to meet the minimum requirements of a population could have excessive inflationary effects. In India, the costs of purchasing, storing and redistributing food was at least double the value of food received by beneficiaries (Villanger 2008:233). Accordingly, cash systems are frequently preferred over in-kind transferred as they have the potential to stimulate local economies and provide a multiplier impact (Samson, 2009:49).

Although school enrolment in South Africa was high, malnutrition in children remained a challenge. An estimated 15 per cent of infants are born underweight (UNICEF, 2008b and World Bank, 2010). The World Bank (2010) estimated that South Africa lost over US\$1.1 billion in GDP annually to vitamin and mineral deficiencies resulting from malnutrition although it would only cost US\$55 million per year to scale up core micronutrient nutrition interventions. In an effort to address the country's child malnutrition challenges, the government introduced the National School Nutrition Programme (NSNP) in 1994 as part of the RDP initiative (Public Service Commission, 2008). The NSNP was introduced with the

goal to foster better quality education whilst simultaneously reducing child poverty rates (Child Health Unit, 1997). In children, poor nutrition could result in attention deficits, sensory impairments, and poor school attendance (UNICEF, 2008b). The NSNP is a food-aid in-kind transfer system where learners are fed snacks or meals at school in an effort to reduce short-term hunger and improve child nutrition in order to enhance concentration abilities and academic performance. Over 9 million South African children had access to school meals (Department of Basic Education, 2013:x; and Biz community 2014).

Engelbrecht (2005) argued that school feeding schemes displayed positive externalities and thus benefitted the whole society and not just the individual child. Feeding schemes are noted to contribute positively to the future human capital pool which leads to higher productivity, leading to higher combined earnings and eventually to greater economic growth (Engelbrecht, 2005). The relationship between higher productivity, economic growth and welfare are discussed in chapter 5. Engelbrecht (2005) also identified a link between school meals and lower HIV/AIDS rates. The World Food Programme (WFP) (2004) noted that food security was the prominent challenge in most HIV/AIDS-affected households and communities in Africa. Therefore, by increasing child consumption rates through school meals, the WFP (2004) predicted a decrease in infection rates. Other positive external effects of education include lower birth and crime rates, thus reducing the pressure on governments to provide additional health care and police facilities. Amin and Chandrasekhar (2009:9) recognised the positive contribution of school nutrition but noted that the initiative may lessen the determination of pupils to progress to secondary school if it was limited only primary schools.

In essence, food aid especially in the form of school feeding schemes contributes to better child nourishment and health. Higher child health and nourishment levels translate to a lower disease burden and consequently ease government budgets. The resultant mental and physical development of beneficiary children leads to more productive and intellectually capable adults in future and consequently, a better performing economy. The link between nutrition, education and economic growth are be briefly discussed in chapter 5.

However, criticisms against in-kind transfers in favour of cash postulate that cash payments are economically superior as they place beneficiaries on a higher indifference curve and expand their budget lines (Cunha, 2012:5; Glaeser, 2012; and Panagaria, 2012). Case studies from Ethiopia, Latin America and OECD countries confirmed the hypothesis and

demonstrated that cash transfers are more efficient in addressing poverty and related issues (Villanger, 2008:234; Forster and Verbist, 2012:47; and Cunha *et al*, 2013).

Although the general consensus is that cash transfers are economically superior, there is a common agreement that in-kind transfers have a role to play in the fight against poverty (Villanger, 2008:234; Samson, 2009:49; and Panagaria, 2012). Moreover, the role of in-kind transfers is amplified when a market failure and/or humanitarian crisis (e.g. war, food shortage, natural disaster, etc.) occurs (Villanger, 2008:234; Samson, 2009:49 and Glaeser, 2012).

2.3.3. Conditional and Unconditional Cash Transfers.

Social cash transfer systems can be either conditional or unconditional. Unconditional cash transfers (UCTs) are awarded to eligible recipients based on economic criteria rather than recipient action (Lund *et al*, 2008:3 and Villanger, 2008:9). Once a person becomes eligible for an UCT, the amount becomes an entitlement for a fixed period of time (Lund *et al*, 2008:3). The transfers are usually targeted toward economically vulnerable groups of people such as the aged, disabled and children (Williams, 2007:9). The current South African social cash transfer system is targeted and almost entirely unconditional (Williams, 2007:68).

Conditional cash transfers (CCTs) have become popular in recent years due the success of Latin America's PROGRESA (Mexican) and Bolsa Familia (Brazilian) CCT programmes (Villanger, 2008:231). CCTs are child-oriented and awarded to poor recipients on condition that the recipients meet certain criteria. It is normally required that the children in the recipient household attend school and visit healthcare centres regularly (Rawlings and Rubio, 2005: 29). Consequently, the social cash transfer system becomes not only a short-term social assistance instrument, but a vehicle for improving and accumulating human capital for the current and future generations. The main difference between unconditional and conditional cash transfers (CCTs) is that the latter is linked to the eligible recipient's behaviour and therefore awarded based on the recipient's action(s) (Govender, 2011: 144).

The conditions attached to CCT programmes largely depend on what the specific country deems as the root cause of poverty (De Janvry and Sadoulet, 2006:2). Additionally, CCTs are designed in accordance to the socioeconomic area in the specific country which needs the most investment to advance the poor's standard of living (Govender, 2011:144). In most countries, CCTs are not viewed as a poverty reduction panacea but rather as part of a bigger

social protection policy strategy (Farrington and Slater, 2006:509; Govender, 2011:144 and Stampini and Tornarolli, 2013).

One of the chief aims of CCTs is to ensure that recipients allocate the cash allowance to activities which positively contribute to their development (Farrington and Slater, 2006:508). However, in recent years, a growing body of work has emerged which questions the efficiency and necessity of the conditionality attached to cash transfer programmes (Stampini and Tornarolli, 2013). Although found to be effective in increasing child school attendance and in decreasing child labour in Latin America, CCTs to encourage child school enrolment have been found to be largely unnecessary in South Africa since the enrolment rate is already high in the country (Lund *et al*, 2008:17 and Govender, 2011:321).

Since their emergence in the 1990s, CCTs have become increasingly popular not only in Latin America and the Caribbean but in some parts of Asia and Sub-Saharan Africa (Barrientos and Hinojosa-Valencia, 2009:32). Currently, there are over 40 CCT schemes globally (Coren, 2012). CCTs are available in most Latin American countries with the notable exception in Venezuela, Nicaragua and some Caribbean countries (Bither-Terry, 2008:31 and Moore, 2009:2).

CCTs as an antipoverty tool has two objectives: to tackle poverty in the short-run by addressing immediate consumption and restrain the transmission of intergenerational poverty by investing in human capital (Moore, 2009:2). CCT programmes are conceptually designed to address market failures that are deemed to be core sources of poverty and the poor's low investment in human capital (Barrientos and Hinojosa-Valencia, 2009:17). Therefore, CCTs are designed to directly interfere with the demand-side of the market and further forge social accountability between governments, service providers and beneficiaries (Rawlings, 2004:6).

The CCTs in Latin America have a similar general design: they transfer monetary (sometimes combined with non-monetary) benefits to the beneficiary contingent upon certain conduct; they target the extremely poor; poverty is viewed as a multidimensional phenomenon and the household is the focal constituent of the system (Rawlings, 2004:2). However, there are some differences in how countries administer the schemes. Targeting methods vary from one country to the next (Azevedo and Robles, 2013:452). Additionally, the conditions and the strictness with which the conditions are imposed also vary between countries (Rawlings, 2004:7).

A prominent argument against CCTs comes from supporters of the rights-based approach to social protection. Proponents of the rights-based approach view human rights as being unconditional and therefore CCTs in this context are regarded as being morally perverse (GESS, 2013). A further concern raised by CCT critics is that the beneficiaries' success in meeting the conditions does not solely depend on them (beneficiaries) but on the availability of the conditional services (GESS 2013). Bello (2012) argued that the services (hospitals, schools, etc.) required to qualify for a CCT are severely few and limited in most developing countries.

GESS (2013) advocated for a mixture of the rights-approach with conditionality and reasoned that conditions attached to CCTs do not only bind beneficiaries but also bind government officials and public authorities. In this manner, CCTs ensure the fulfilment of human rights to standard education and health and further pressurise authorities to upgrade the quality of basic social services delivered in education and health. Furthermore, since the upgrades are more likely to be carried out on a large-scale, they will not only benefit CCT recipients but society as a whole (Jain, 2011 and GESS 2013).

Another argument against CCTs and in favour of unconditional cash transfers is concerning administration costs. CCTs require a monitoring system which will ensure that the beneficiaries are actually acting in accordance with the grants' requirements (Villanger, 2008:237). Furthermore, the administration costs can swallow a large portion of the social security budget and make CCTs more complex (Villanger, 2008:238).

2.3.4 Esping-Andersen's analysis of Welfare States.

In the influential work, *'The three worlds of welfare capitalism'*, Esping-Andersen (1990:1) set out to examine the welfare systems of Western European countries in an effort to illustrate that welfare state types are diverse. The work posited that the historical characteristics and political trajectories of states played a crucial role in determining the emergence and intensity of their 'welfare-statism'. In examining the welfare state, Esping-Andersen (1990:1) categorises two approaches to the concept into a narrow and a broad view. The narrow approach associates the welfare state with conventional social-amelioration policies such as income transfers and social services. The broad approach on the other hand, takes the political economy into consideration. Accordingly, wages, employment issues, the overall microeconomic climate formed an integral part of the broader view.

The Esping-Andersen (1990) primarily focused on the broader approach and argued that the concept of the welfare state was commonly and too frequently defined in narrow terms. The study identified three welfare regime types, namely, liberal, conservative and social democratic types. The liberal regime was prevalent in Anglo-Saxon states and was commonly characterised by heavy reliance on private, market-driven benefits along with targeting and means-tested approaches to social services provision. Accordingly, the model deemed state intervention through minimum income schemes only necessary when both family and markets solution failed. The Conservative models were characterised by paternalistic outflows of social protection via employment avenues and thus places greater emphasis on social insurance. Therefore, in the conservative model, the state's main focus remained on maintaining the social welfare status of existing beneficiaries (Esping-Andersen, 1990:52 Ebbinghaus and Manow, 2001:9 and Emmenegger *et al*, 2015:5). The Social democratic model was more prevalent in Scandinavian states and more universal in character and thus, the state played a large role and acted as the main social protection provider (Esping-Andersen, 1990:55). The categorisation was created using the decommodification of labour, the public-private expenditure on social services provision and the stratification of citizens as proxies. Esping-Andersen (1990:35) used the term decommodification to indicate the “process by which both human needs and labour power become commodities and, hence, our well-being came to depend on our relation to the cash nexus.” In essence, the study acknowledged that a welfare regime was an institutional matrix of state, market and family forms systematically interwoven to generate welfare outcomes.

Using the categorization, South Africa could arguably be classified as being liberal in its approach to social welfare which uses means-testing and focuses on targeting services to poor individuals. However, Noyoo (2014) contested this view and asserted that the country also partially straddled the Scandinavian redistributive model as evidenced by its provision of social services such as social grants, various government grants and universal access to certain basic services by the poor. Noyoo (2014) further attested that the South African welfare system owed its design to its historical trajectory which evolved from colonialism and apartheid to a mass democratic movement. The evolution of the South African welfare system is further discussed in chapter 3.

Dowd (2013) posited that Andersen-Esping's (1990) welfare models were based on democratic states where citizenship rights were granted indiscriminately to all individuals. Dowd (2013) along with Sainsbury (1994:4) further argued that the assumption does not

always hold and furthermore, Andersen-Esping (1990) failed to address the distinction between the genders. Apart from its gender-blindness, Esping-Andersen's analysis was criticised on three fronts: its androgynous concept of decommodification, the overlooking of gender as a form of social stratification and the lack of consideration given to role of women and the family in providing welfare (Lewis, 1992; 200 and Sainsbury, 1994:9). Ignoring the socioeconomic difference between genders, Esping-Andersen (1990) left out a significant part of welfare anti-poverty efforts. The role of women in effective poverty reduction strategies is discussed in chapter 6.

Maress (2009:93) criticised the classification for its lack of typologies for emerging and developing nations. Seekings (2005:2) further noted that Esping-Andersen's (1990) classification was inadequate in explaining socio-economic conditions and welfare states in developing countries condition mainly due to its failure to examine ways in which states influence distribution through shaping the development or economic growth path. However, Noyoo (2014) argued that although aimed at categorising developed societies, the classification could be a useful tool for explaining how welfare outcomes of certain countries are attained. Cnaan (1992:70) criticised the finding for its failure to provide sound empirical evidence to buttress its theoretical formulations. Bambara (2007:1100) criticised the book finding on theoretical grounds and alleged that Esping-Andersen's (1990) use of only 18 countries resulted in incorrect welfare regime classifications especially for countries such as Italy and Japan. Commentators such as Leibfreid (1992); Ferrera (1996) and Bonoli (1997) asserted that if Italy and the Latin rim countries of the European Union (Spain, Greece, Portugal) were to be added to the analysis, a fourth welfare state type would emerge. The welfare state type would be characterised as a fragmented system of welfare provision, consisting of diverse income transfer schemes, ranging from the targeted to the more universal, and a healthcare system that provides only limited and partial coverage (Leibfreid, 1992:252). Other prominent features of the system included the reliance on the family and voluntary private sector (Bambara, 2007:1100).

In analysing Esping-Andersen's (1990) work, Croissant (2004:510); Walker and Wong (2005) and Aspalter (2006:295) concluded that the East Asian welfare states (Hong Kong, Singapore, Taiwan and South Korea) and Japan deserved their own welfare state category which would be characterised by Confucian ideology. Prominent features of the Confucian Welfare state included limited government intervention and low levels of social welfare investment and public service provision and a heavy reliance on the family and voluntary

sector for social safety net provision (Bambara, 2007:1100). In essence, the Confucian welfare state regime could be considered as combining some elements of the Conservative, Liberal and Latin rim- type regimes. Gough (2013:206) questioned Esping-Andersen's (1990) classification's applicability to developing countries and alleged that by concentrating on labour market practices and income maintenance it overlooked critical social programmes like education, health, and housing which did not conform to the welfare regime patterns.

Having looked at the economic rationale for social security and the various approaches to the strategy, the next section analyses some of the disadvantages and controversies surrounding the system.

2.4. THE CASE AGAINST SOCIAL SECURITY.

Social cash transfers can promote human development and have a substantial poverty and vulnerability reduction impact. In many developing countries, including South Africa, they are one of the government's most effective tools for tackling poverty (Samson, 2009:46). Therefore, arguments against the strategy are concerned with operational issues rather than their impact. Therefore, major criticisms revolve more around design, procedures and management and institutional arrangements of the strategy as an anti-poverty tool.

2.4.1. The political dimension of social security.

Failure is not limited to the market. Government failures also occur. Heald (1983:88) described X-inefficiency as a situation where more inputs than necessary are used to provide a certain output. X-inefficiency is not limited to governments; however, the absence of competition can exacerbate the problem and lead to government failure (Van Der Merwe, 2000:721). Politicians, bureaucrats and interest groups can also turn the system to their own advantage. Social assistance programmes have to be financed from the national budget and thus the system can be an emotive issue among politicians and the electorate (Govender, 2011:168). By targeting and attaching conditions that are more pertinent to the majority of the population, social security systems can be used as a tool to attract voters. The situation can result in some genuinely poor groups of individuals being excluded from the system because they lack influence. Cash transfers can also alienate middle and upper-class individuals whose tax burden is impacted by the programmes (Van Der Merwe, 2000:721).

2.4.2. The cost and affordability of social transfers.

Social security systems can be expensive to administer and thus have the potential to take up a sizeable share of GDP. In developed countries such as Sweden and the Netherlands, the programmes cost up to 30 per cent of GDP (Fishback, 2010 and Nation Master, 2013). In developing countries such as Cuba and Chile, the programmes cost up to 17 per cent of the GDP (ECLAC, 2010). Of the approximately 3 per cent of GDP spent on social security in South Africa, 80 per cent goes to social assistance (Van der Merwe, 2000:722 and to Samson, 2009:47). Some criticisms of social assistance revolve around issues of affordability and sustainability. Of particular concern are the low income countries whose government budgets may be overly burdened as the number of social security claimants' increase. Affordability can be both a long-term and short-term issue. In lower income countries, social protection programmes are funded by the government in partnership with donor agencies (McCord, 2009:1). In the short-run, poor countries may be able to fund the programmes. However, ambitious programmes may alienate donor agencies and therefore become unsustainable in the long-run. Developing countries usually have limited resources and many priorities and objectives towards which to direct the resources and consequently, in developing countries, social security is relatively less feasible. However, Samson (2009:47) argued that affordability is multidimensional and largely dependent on political will. Therefore, the different levels of spending on social security among countries reflect the differences in national priorities and perceptions of affordability and political will.

Since social protection is usually financed from taxation, a concern frequently raised asserts that most developing countries lack the administrative and institutional capacity and thus cannot mobilise sufficient domestic resources through the system (Bird *et al*, 2004:4). In sub-Saharan Africa, tax collection usually amounts to about 25 per cent of GDP while in other low-income countries the amount is as little as 10 -18 per cent (Stotsky and Wolderiam, 1997:51 and Gordon and Li, 2005:6). Therefore, all things remaining equal, social security commitments could require half or more than half of the government's total budget in some countries. In South Africa, there are approximately 6 million registered tax payers which is about a third of the 16 million grant recipients (IRIN News, 2011). Consequently, the system is criticised for exhausting the small tax base and being unsustainable in the long run (Dodds, 2013b).

Although thought to be relatively cheaper to administrate than in-kind transfers, cash transfers can contribute to rising food prices. Slater (2011:254) and Kebede (2006:592) argued that for cash transfers systems to become successful in reducing poverty and vulnerability, increased investments in roads, markets and basic services (e.g. health, education) are necessary. Without the investments and the effective functioning of the resources and services, the impact of social assistance spending on asset building, broader asset protection and on consumption smoothing may be severely constrained.

2.4.3. Welfare Dependency.

Social assistance is frequently criticised for providing disincentives for employment and encouraging dependency. Samson (2009:46) argued that ‘dependency’ is a vaguely defined term and concept with strong emotional connotations. However, dependency in the context of social security generally refers to “the choice by a social transfer recipient to forego a more sustaining livelihood due to the receipt of the social assistance” (Samson, 2009:47). The term can also be defined as a state where recipients of social transfers become permanently dependent on ‘hand-outs’ from the government and lose the inclination to improve their circumstances (Chronic Poverty Research Centre (CPRC), 2011:2). The term can have a ‘positive’ meaning in that every vulnerable member of the society (children, the aged and disabled) whose survival depends on support from others receives adequate support from the state to sustain their livelihood (Regional hunger and vulnerability programme (RHVP), 2010:3). An assumption commonly associated with the dependency argument asserts that poor people spend their social grants unproductively and destructively (e.g. on alcohol) (CPRC, 2011:2). Concerned about dependency, governments and donors are frequently sceptical about making long-term commitments to social assistance programmes.

Given that it is properly defined and sufficient information on social assistance programmes is available and accessible, dependency can be empirically tested using panel datasets and other survey resources (Samson, 2010:46). There have been attempts in both developing and developed to estimate and determine the existence and/or level of dependency. The results have been inconclusive (in both developing and developed) (Van der Merwe 2000:723 and CPRC, 27:3). Results from a survey conducted in Ethiopia concluded that compared to non-recipients, food aid recipients recorded lower labour supply and lower participation and investment in farming (RHVP, 2010:6). However, under further scrutiny, it was discovered that the beneficiaries received food aid precisely because of the inability to work (as a result

of physical ailments, etc.) (RHVP, 2010:6). In Mexico, a positive relationship between cash transfers and increased recipient labour search and activity was discovered (RHVP, 2010:6).

The CHRC (2011:2) concluded that concerns about dependency largely come from developed industrialised countries where the level of benefits is higher. In developing countries, dependency is less feasible as benefits are generally sporadic (rarely guaranteed) and not large enough to produce disincentives (RHVP, 2010:1). Arguments about dependency can be biased and Atkinson (1987:865) asserted that “considerable scope [exists] for the conclusions drawn to be influenced by prior beliefs”.

2.4.4. Further arguments against social security.

Any system can be corrupted and inappropriately used. Some systems are more prone to maladministration than others. Accordingly, government programmes, like social security are open to corruption and maladministration. Developing countries receive criticism for having fragmented systems which are difficult to manage and control (Van der Merwe, 2000:722). The South African system is frequently criticised for lack of efficiency (Dodds, 2013a and Phakathi, 2012). Approximately 2 million eligible children do not receive social grants. The system is also bedevilled by corruption and Phakathi (2012) reported that fraudulent claims by ineligible beneficiaries amounted to R40 billion between 2009 and 2011.

Social security can reduce the incentive to save. Depending on the level of benefits, the need to save for unforeseen hard times may become less important if people realise that the state will support them during such periods. The negative impact of social security on the level of savings is usually emphasised by proponents who view savings as a vital component of economic growth (Van der Merwe, 2000:724). However, Mohr (1991:2) observed that “low saving is not the cause of low economic growth. It is a symptom. Low investment is a cause”.

Social security is usually financed through payroll taxes. Van der Merwe (2000:724) noted that the provision of social insurance may increase the relative costs of labour and thus incentivise capital-intensive production. High labour costs raise the cost of manufactured goods and negatively impact the international competitiveness of a country. Out of twenty factors, labour costs ranked sixth in influencing German foreign investment decisions (Van der Merwe, 2000:724).

2.5. SUMMARY AND CONCLUSIONS.

In this chapter, the need and economic rationale for social security was evaluated. Specific attention was on social assistance (cash transfers). Although different, the various definitions of social security share some common features such as identifying the concept as a safety net and as a measure of raising living standards. Various international institutions (e.g. the UN and ILO) view the strategy as a basic human right and thus necessary for every individual.

There are various prominent arguments for social security. The strategy can promote equity and reduce the risks which expose individuals to poverty such as unemployment and sickness. Vulnerable groups and individuals such as women, children, the aged and disabled are over-represented among the poor and therefore stand to gain the most from social security. The strategy can also foster socioeconomic stability and improve economic efficiency by addressing market failures. Additionally, social security can reduce fertility rates, intensify employment seeking efforts and assist in improving the consumption patterns of beneficiaries.

The different conceptualisations result in various approaches to the provision of social security. Targeting offers benefits to a select group of individuals within the population whilst universalism is all-inclusive and extends benefits to the entire population. Targeting is criticised for stigmatising welfare and excluding needy individuals who are unable to meet the conditions required for eligibility. On the other hand, universalism is criticised for being expensive to administer and therefore less feasible in developing countries. However, countries with universal systems tend to have lower poverty levels.

Social assistance can also be in the form of cash or in-kind transfers. Although challenging to administer, in-kind transfers make targeting strategies more effective and are associated with less inflationary risk and corruption. Cash transfers empower the recipients to spend it in any way and can stimulate local economies as the recipients' consumption levels increase. Therefore, cash transfers are more preferred worldwide as the strategy is more effective in addressing poverty as a multidimensional phenomenon.

Cash transfers can be conditional (CCTs) or unconditional (UCTs). Unlike UCTs, CCTs are usually child-oriented and awarded to poor recipients on condition that the recipients meet certain criteria. CCTs can improve a country's investment in infrastructure as social services provision has to be capable to serve recipients. Cash transfers are only short-term in nature

and effect and CCTs in particular may infringe on the recipients' personal freedom. However, CCTs have become more preferred worldwide mainly because of the poverty reduction success in Latin America.

Although attractive to liberal social economists, social transfers may be associated with various challenges. The political dimension associated with the system can compel politicians, bureaucrats and interest groups to use them inappropriately to serve their interests. Additionally, the strategy may be associated with high costs which may be out of reach for developing countries. The tax burden can potentially drive middle and upper class individuals to immigrate and therefore impact the developing's economy negatively. Issues of cost and affordability of social transfers are largely dependent on the host country's political will and prioritisation. Social security is also criticised for creating a culture of dependency and discouraging savings and employment efforts among recipients. Fragmented systems in developing countries also make the strategy challenging to administer.

In essence, the difficulties in properly defining poverty result in various approaches to social security and make the strategy challenging to administer. The advantages and disadvantages attached to the strategy and its various approaches largely depend on the context, time and place in which administered. Lastly, the effectiveness of social security in meeting its goals depends on the willingness of policymakers and the cohesiveness of the host society.

CHAPTER 3: EVOLUTION OF SOCIAL SECURITY IN SOUTH AFRICA.

Much like any country, South Africa's history cannot be viewed in absolute isolation. Despite the country's distinctive economic and political development, notable events which have transpired throughout the course of its history have to be viewed within a broader context and related to what was simultaneously happening around the globe. Similarly, it makes sense to view social security policy in South Africa within an international context. Triegaardt (2007) thus noted that during their formative years, social security systems in developing countries (including South Africa) were heavily influenced by those already existing in European countries and especially in Britain.

The chapter examines social security policy in South Africa and its historical background. The survey is divided into three distinct time periods; pre-apartheid (mid 1880's to 1947), apartheid era (1948-1994) and post-apartheid (1994-present). The challenges and criticism of the current South African system are then examined.

3.1. SOCIAL SECURITY ARRANGEMENTS BEFORE APARTHEID.

Although the country's modern social security system traces its origins to the advent of colonialism. Maqubela (1997:19) proposed that African societies had an informal social security system which predated the arrival of the first European settlers on African soil. Traditional African societies were divided into small manageable clusters/kinships consisting of extended families (Tembo, 2013). Each kinship had a headman whose responsibility was to manage and ensure the welfare of the members. Some of the responsibilities were extended to the headman's wife and brothers and in the case of his death, the headman's brothers assumed his responsibilities (Maqubela, 1997:19). Therefore, the system ensured that the disadvantaged (children, women, etc.) were provided for. The system mainly provided immediate temporary relief for destitute kinship members. Children were usually tasked with the responsibility of helping the family to take care of the elderly members of the family (Tembo, 2013). Maqubela (1997:20) argued that the view was reflected in the tendency of African people to have large families as children were regarded as a form of insurance. Several other arrangements were put in place to cater for different situations. The arrangements which still exist to some extent today, included burial societies, saving clubs, mutual aid societies and organisations called *stokvels* (Govender, 2011: 78).

Jan Van Riebeeck, the first Dutch settler to set foot on South African soil, landed on the Cape coast in 1652 to set up a refreshment station. Within a few years, a number of his fellow countrymen followed him and settled in the Cape (Mountain, 2003:27). The Dutch system, including its approach to anti-poverty measures was adopted by the new settlers and by 1657, the Dutch East India Company and the Dutch Reformed Church had formed a scheme which catered relief to White (particularly Afrikaners) farmers whose crops had failed (Brown and Neku, 2005:302). As a result of their adherence to Calvinism and thus a belief in the concept of predestination, the early Dutch settlers were less willing to extend the relief to the natives (Backus and Benedict, 2011:310). Likewise, destitute settlers did not receive aid from the indigenous population. Therefore, formal social security in the country was distinctly racial from inception. The state played no role in providing social security and thus the church and society took the responsibility (Govender, 2011:80).

British occupation of the land in the early nineteenth century did very little to help the plight of poor Africans. During the period, two dominant yet opposing ideologies on social security prevailed in Europe. Grounded in Victorian principles, Britain held to a liberal laissez-faire economic position and thus did not favour extensive social security (Van Der Berg, 1997:485 and Fisher, 2010:50). Other European countries held a different view and were convinced that the destitute deserved assistance (Van Der Berg, 1997:485). The British settlers valued their native Poor Laws and had pre-Victorian views on poverty and the poor (Van Der Berg, 1997:485 and Govender, 2011:80). Accordingly, they made distinctions between deserving and non-deserving poor. Consequently, the racial bias in the provision of social services was further strengthened and the situation prevailed for the next two hundred years (Govender, 2011:80).

The discovery of minerals in the 1860s brought about a shift from an agrarian economy to one that was increasingly industrial (Brown and Neku, 2005:303). The growing mining industry employed Blacks from the 'native reserves' as labour but barred them from bringing their families (Brown and Neku, 2005:303). Therefore, the Blacks were restricted to a life of migrant labour. Brown and Neku, (2005:302) added that the Black workers were paid meagre wages insufficient to provide for their families. The booming industry resulted in increased urbanisation as people seeking employment flocked to the mining areas in large numbers. The industrialisation coupled with urbanisation resulted in increased poverty for both Blacks and Whites (Brown and Neku, 2005:302 and Turok, 2012:3). The affected Whites were mainly farmers who had previously relied on agriculture as the main economic activity. This

became known as the so-called "poor White problem" and Van Niekerk (2003:363) asserted that the government moved swiftly to address it. The rising poverty levels prompted the formulation of a formal social security system. The Transvaal Republic introduced the first pension in 1882, however, Van Der Berg (1997:485) urged that it could not be viewed as social insurance as it was not legislated.

3.1.1. Social insurance.

Following the Boer War (1899-1902), the Afrikaners walked away defeated and the British gained control of the land (Fremont-Barnes, 2003:11). Therefore, in 1910, the British colonies were united with the former Boer Republics under a British parliamentary system to form the Union of South Africa (Schneider, 2000:415). Despite the shift in powers the plight of non-European South Africans did not change. Voting was still only restricted to Whites and since Afrikaners made up most of the White population, they dominated the political realm (Schneider, 2000:415 and Bauer, 2012). Two parties dominated the political arena - the Afrikaner-inclined National Party and the British-affiliated South African Party under Jan Smuts (Kesselman *et al*, 2011:486). Both parties shared a vision of White supremacy and segregation and therefore the social welfare of non-Whites did not feature on their agenda. Consequently, the Native Affairs Department (NAD) was established to oversee and enforce segregationist legislation (Evans, 1997:33). The NAD was especially effective in controlling the influx of Blacks into urban mining areas.

Taking into account the health dangers associated with mining activities, the state formalised the first insurance scheme in 1911 to compensate miners who sustained injuries or caught phthisis and silicosis while at work (Govender, 2011:81). The result was the adoption of the Workers Compensation Act in 1914. However, Van Niekerk (2003:363) maintained that employers frequently opted to abandon or return their incapacitated (Black) workers to their native reserves.

From inception, the cheap Black labour posed a threat to White compatriots with no educational and trade skills. The Industrial Conciliation Act was implemented in 1924 to "protect White wages from being undercut by cheaper non-White wages" (Govender, 2011: 81). The state extensively intervened in labour market affairs to create White employment and in 1924 created the Department of Labour in an effort to help Whites find work (Faure and Lane, 1996:221). Through the years, the state implemented more social insurance policies which sought to protect White workers and place them high above their non-White

counterparts. Consequently the Wage Act was promulgated in 1925 to insulate White wages against competition from cheaper Black wages in the labour market (Visser, 2004:3). The Mines and Works Amendment Act of 1926 was tasked with preserving White mineworkers' employment and protecting them from job losses (Govender, 2011:82). Over the same period, the social welfare of the other races was largely disregarded and the Great Depression only served to fuel sympathy for White poverty (Govender, 2011:82). The Unemployment Act of 1937 was relatively inclusive of all races. However, African mining, agricultural and domestic workers earning below £78 per annum were excluded from benefit (Bhorat, 1995:596 and Govender, 2011:82).

Driven by the booming gold mining industry, the country's real GDP grew at an average of 5 per cent during the 1930s (Bromberger, 1982:173). During the same period, manufacturing had come to dominate the South African economy and real output in the sector exponentially increased and employment grew at an annual rate of 6 per cent (Schneider, 2000:416 and Govender, 2011:83). The booming economy trajectory continued into the 1950s despite interruption by the World War (Schneider, 2000:419 and Govender, 2011:83).

3.1.2. Social Assistance.

The social assistance prong of the pre-apartheid social security system began in 1913 with the government's declaration of the Children's Protection Act (Govender, 2011: 81). The Act aimed to provide maintenance grants for poor White children. The state was unwilling to extend fiscal resources and services to people of non-European descent, therefore, the grant system remained exclusively White (Kruger, 1992:159 and Govender, 2011: 80). African children were expected to be catered to by the informal kinship system (Maqubela, 1997:20). To supplement the child maintenance grants, the Transvaal Provincial Council introduced the country's first school feeding scheme in 1916 (Bhorat 1995: 596). The scheme provided meals to pupils in winter and was partially funded by parents. The feeding scheme programme was amended and administered at national level by the Department of Social Welfare. All racial groups excluding Blacks were catered to by the feeding scheme. The scheme was subsequently discontinued in 1949 (Moll, 1985:5). The state amended the Children's Protection Act in 1921 by extending coverage to include Coloured children (Govender, 2011:80). However, the grants remained racially biased and white families were awarded almost double the amount of Coloured families.

Following the promulgation of the Old Age Pension Act in 1928, non-contributory social pensions were established which specifically targeted and covered age-eligible poor Whites and Coloureds (Woolard and Leibbrandt, 2010:7). Under the Act, all males over the age of 65 and females over 60 received pensions. White pensioners received R5 per month whilst coloureds received R3 (Pollak, 1981:157). African and Indian pensioners were excluded from benefit until 1944 when coverage was extended to all racial groups (Haarmann, 2000a:12 and Govender, 2011:82). However, spending on social assistance for non-Whites remained relatively low despite White beneficiaries constituting a small percentage. Borat (1995:597) maintained that the maximum pension for Blacks was five times less than those of White counterparts whilst Indians and Coloureds received almost half that of Whites.

As urbanisation and industrialisation increased, the 'poor White problem' intensified. The government faced increasing political pressure from various stakeholders to formalise and create a comprehensive social security system. In response, the Department of Social Welfare was created in 1933 to address White poverty and its causes (Govender, 2011:83). Some of the pressure also from White liberals who sought to draw to public attention the plight of poor Blacks and the White government's apathy toward native affairs (Cook, 2006:66). However, by the start of the 1940s, the 'poor White problem' was almost extinct (Visser, 2004:3).

The Union government administered several other non-contributory grants including the War Veterans grant which began in 1941 to help destitute White pensioners who had served in the Boer war and the First World War (Govender, 2011:84). The Blind Persons Act of 1936 sought to promote the welfare of blind people and thus transferred cash benefits to such individuals. To qualify, applicants had to be either White or Coloured, over 19 years of age, South African, and lacking economic means to support themselves (Jones, 1944:513, and Lliffe, 1987:141). The maximum amount transferred to beneficiaries was £36 and £24 per annum for White and Coloureds respectively (Jones, 1944:513). Although there existed no official legislation catering for mentally and physically challenged individuals, the Department of Social Welfare instituted a financial assistance scheme in 1937 to provide for such persons (Jones, 1944:514). Only White citizens earning below £2 per month qualified for assistance (Jones, 1944:514). The assistance to the disabled was temporary and applicants could only receive benefits for a maximum of twelve months. Beginning in 1934, the Union government also instituted a series of a number of public works programmes with the intention of absorbing surplus labour and abolishing unemployment (Jones, 1944:514). The

programmes were specifically targeted at unemployed able-bodied European males. However, the scarcity of such individuals prompted the state to start employing non-Whites beginning in 1938 (Jones, 1944:515).

3.2. SOCIAL PROTECTION ARRANGEMENTS DURING APARTHEID.

In the 1948 elections, the National Party emerged victorious and the new government instituted an apartheid policy based on separated development (Beck, 2000:136 and Henrard, 2000:49). Within a decade, separate departments were created to cater to the four racial groups, along with six homelands and four independent areas (Maqubela, 1997:14). Concerned with poor White Afrikaners, the apartheid government instituted affirmative action style policies which sought to uplift Whites (Govender, 2011:85). Therefore, social spending for Afrikaners was significantly increased. The separation of services according to race perpetuated discrimination and unequal distribution. For example, Blacks received their welfare allowances every second month while Whites, Indians and Coloureds received theirs monthly (Brown and Neku, 2005:303). Furthermore, pensions for Blacks only were payable from the date of approval while those for the other races were payable from application date (Brown and Neku, 2005:304).

According to Borat (1995:597), the expanding Black labour force unsettled the Nationalists and as a result the government intensified policy to protect White workers. A minimum income level for Blacks to qualify for the Unemployment Insurance Fund was introduced (Haarmann, 2000b:10). Since Blacks already earned significantly lower wages than their counterparts from other races, the move effectively disqualified them from benefit. The minimum income level for Blacks was set at £182 in 1949 and adjusted to £278 per annum in 1957 (Govender, 2011:85). Although, Indians and Coloureds qualified for unemployment benefits, the period of assistance was limited to 13 weeks after which they were obliged to accept alternative employment provided by the state or relinquish further benefits (Bhorat, 1995:598 and Govender, 2011:85). The Industrial Conciliation Amendment Act of 1956 sought to strengthen the separate development agenda by prohibiting the existence of mixed-race unions. The Act also made it illegal for all workers in essential industries (especially mining and manufacturing) to join a strike and prohibited any political affiliation among workers' unions (Mariotti, 2008:94). The act was regarded as an attempt to protect Whites against unemployment as it authorised the Labour Minister to reserve any job on a racial basis (Mariotti, 2008:94 and Govender, 2011:87). Consequently, income inequality between

the poor (mainly Blacks) and the rich (mainly Whites) significantly widened during the first decade of apartheid (Nix, 2007).

The Pensions Funds Act of 1956 was enacted in an effort to regulate pension funds (Govender, 2011:86). In accordance to the norm of the day, lower skilled workers (predominantly Blacks) were excluded from coverage (Van Der Berg, 1997:485). Govender (2011:86) asserted that by 1958, there were approximately 347 000 social old age pensioners and although Africans constituted 60 per cent of beneficiaries, they received 19 per cent of expenditure.

During the 1970's, the economy stagnated as a result of a decline in the agriculture and manufacturing sectors (Bell and Madula, 2001:8). Furthermore, declining gold revenues, rising oil prices and increased international competition in other traditional export commodities contributed to the slow economic growth (Nkomo, 2010:12 and Williams, 2013). As in other oil-importing countries, unemployment (especially among Blacks) in South Africa increased (Wakeford, 2006:5). Govender (2011:88) asserted that the skills shortages exacerbated the problem and thus the Nationalist government began to realise that the sole reliance on White workers to sustain the economy was ineffective in the long run. As a result, laws regulating job reservation were repealed (Govender, 2011:88).

In the 1970s, the recently legalised Black trade unions grew increasingly vocal and focused their attention on wage and political issues (Van Der Berg, 1997:486). Mixed-race unions gained momentum while White union membership declined (Govender, 2011:88). As a result, some of the discriminatory labour market practices were relaxed. The Unemployment Insurance Act of 1977 abandoned the racial differentiation of payments (Govender, 2011:89). During the period, an increased growth rate for Black wages was recorded while growth for White wages declined (Nattrass, 1977:252 and Mariotti, 2012:1105).

By the end of the 1970s racial differentials in the provision of social security had narrowed as a result of political pressure (Van der berg, 1997:489). Following the trend which prevailed in the 1970s, the 1980s period was characterised by economic stagnation and elevated levels of unemployment (Nattrass and Seekings 2010:2). During the 1960-1974 period, the annual real economic growth rate averaged 5.5 per cent but declined to 1.9 per cent per annum between the years 1974 and 1985 (Levy, 1999:4 and Govender, 2011:90). Additionally, job creation in the formal sector declined during the period. At the time, there were large numbers of workers entering the labour market and thus there was a heightened need for new jobs (Van

der Berg, 1989:188). During the 1980s decade, overall living standards declined and population grew at a faster rate than economic expansion (De Lange, 2000). The economic downturn coupled with the international sanctions, which the country was experiencing at the time, resulted in fiscal constraints. As a result, budgetary allocations for social security were limited (Govender, 2011:90). Consequently, the Nationalist government's apartheid policy made the goal of a competitive economy less achievable.

Pollak (1981:159) postulated that the Nationalist government justified the difference in social security provision by reasoning that Africans needed to be provided for under a system more in line with their indigenous customs and practices. Govender (2011:85) also noted that since majority of the taxpayers were Whites, the state's logic was that welfare disbursement had to reflect the taxation capacity of the four races.

In 1981, the Preservation of Pension Interests Bill was proposed. The statute made the preservation of pension rights compulsory when people switched employment (Visser, 2004:6). The intention was to preserve pension rights upon employees' withdrawal from a fund. The unions (especially Black unions) fiercely resisted the Bill as they interpreted it as an attempt by the government to control their money (Van Der Berg, 1997:490). As a result of the fierce opposition, the government was forced to rescind the Bill. The victory was seen as a symbol of Black worker unions' political power.

Following the victory, trade unions' interest in retirement benefits peaked (Van Der Berg, 1997:490). Provident funds began to carry more favour with employees than pension funds (Van Der Berg, 1997:490). Retired pension fund members received about a third of their benefits as a lump sum pay-out and the rest was received as a monthly pension (Sunday Times, 2010). However, their provident fund counterparts were eligible to receive their entire benefit as a once-off lump sum. Tax dispensation served as another legal distinction between the two. Provident fund member contributions are subject to full income tax, but received a significant tax benefit upon retirement (Sunday Times, 2010). However, pension fund contributions were tax-free, but pension benefits were taxed upon retirement.

As a result of the economic stagnation and international pressure, apartheid legislation began to fall out of favour with the majority its supporters in the 1980s (Levy, 1999:2). In an attempt to legitimise the system, the then PW Botha-led government decreased the 'real increase' in social assistance to Whites in an effort to garner support from Indians, Coloured and Africans (Govender, 2011:90). Although parity in social security spending levels was the

desired goal, fiscal constraints reduced the possibility of the move (Visser, 2004:6). Blacks made up 70 per cent of the total pension beneficiaries and eroding White pensions was seen as a politically safe move as they (disabled and elderly poor Whites) were in the minority (Van der Berg, 1997:487 and Govender, 2011:91). Therefore, the deracialisation of benefits was achieved by significantly cutting White and enhancing Black pensions.

By the end of the 1980s decade, the racial gap in social security provision had significantly narrowed. Africans constituted 54 per cent of the total welfare spending, an improvement from their 1960 level of 25 per cent (Van der Walt, 2000:71). The largest change was in the provision of Old Age Pensions. In 1972, the African Old Age Pensions as a percentage of their White counterparts was 16 per cent (Govender, 2011:91). In 1993, the percentage had risen to 85 per cent (Bhorat, 1995:600). However, the poor administration in the homelands resulted in ineffective delivery to a large proportion of the African poor (Govender, 2011:91). The final move toward parity in social protection provision in apartheid South Africa was the Social Assistance Act of 1992 which made all discriminatory provisions illegal (Woolard *et al*, 2011:361).

3.3. AN OVERVIEW OF MACROECONOMIC SOCIAL POLICIES IN POST-APARTHEID SOUTH AFRICA.

In 1990, FW De Klerk, the then President of the Republic, unbanned the African National Congress (ANC) and other political organisations such as the South African Communist Party (SACP) and the Pan Africanist Congress (PAC) (Wood, 2000:181). The move came after both sides recognised that a radical transformation was necessary; the ruling Nationalist Party realised that a repressive minority-state could not be indefinitely sustained and the ANC did not possess the capacity to forcefully overthrow the apartheid regime (Van Niekerk, 2003:368). Furthermore, with the fall of the Soviet Union, the ANC lost the financial support which had sustained the party's resistance campaign against the Nationalist rule (Filatova, 2011). The events opened the gate for negotiations toward an inclusive government.

3.3.1. The Reconstruction and Development Programme (RDP).

Upon its unbanning, the ANC entered into negotiations with the SACP and the Congress of South African Trade Unions (COSATU) to form a strategic alliance, which became known as the Tripartite Alliance (Younis, 2000:172). COSATU was the country's largest workers' union and at the time had over 1.2 million members organised in fourteen industrial unions (Visser, 2004:6). Before the 1994 democratic elections, the ANC adopted COSATU's

Reconstruction and Development Programme (RDP) as its election manifesto (Knoesen, 2008:3). The ANC's victory at the polls officially ended the National Party's reign. However, its legacy was still apparent. Therefore, the newly elected government's main priority was to address the imbalances created by the previous system.

As a result of apartheid policies, the economy in the early 1990s had plummeted. Hirsch, (2005:26) noted that the country was left a step behind in world economic trends and had grown increasingly susceptible to international economic shocks. The economy was also characterised by high levels of poverty, inequality, unemployment and interest rates, a large budget deficit, a lack of foreign exchange reserves, and inflation of about 15 per cent (Aliber, 2003:475 and Govender, 2011:94). To revamp the economy and improve the socioeconomic indicators, the RDP which had become the government's macroeconomic guiding document, advocated a "growth through redistribution" policy (Aliber, 2003:476 and Visser, 2004:6). Providing for the basic needs of people was the programmes' first priority. Therefore, the task of providing access to clean water, decent jobs, land distribution, healthcare and improved standard of education was upgraded to the top of the government's agenda (Government Gazette, 1994). Between 1994 and 1996 the RDP was the paradigm within which all the government's development policies were discussed (Brown and Neku, 2005:304).

The RDP did achieve some results in the provision of social security. Officially adopted in 1996, South Africa's new constitution made social security a basic and enforceable right for all citizens (Kaseke, 2010:160). Under the guidance of the RDP, the government established an extensive welfare system to cater for economically vulnerable groups of individuals such as the disabled, the aged, foster parents and children in need (Visser, 2004:7). In addition, pregnant women and children under six could access free healthcare and approximately 5 million school children received free meals (Heymans, 1995:57 and Marais, 2001:190).

The RDP outlined several programmes necessary to rebuild the country. The programmes were: democratising the state and society, meeting basic needs, rebuilding the weakened economy and developing human resources (Government Gazette, 1994). Because the RDP was "too broadly formulated", the government had difficulties meeting its ambitions (Terreblanche, 2003:109). Visser (2004:7) argued that the program failed to spell out a detailed programme for attaining its main aims. One of the aims was economic growth rates of between four and six per cent per annum. However, the actual growth rate was about 2.5

per cent (Visser, 2004:7). Furthermore, the latter half of the 1990s saw economic growth considerations dominating government policy (Govender, 2011:98). Consequently, meeting the RDP's goals became less urgent for the government. The ruling party's commitment to fiscal discipline and macroeconomic balance also left very little fiscal space for implementing the programme's social protection strategies (Terreblanche, 2003:109).

Hirsch (2005:61) and Visser (2004:7) asserted that the RDP staff lacked sufficient implementation skills and therefore, backlogs in providing access to basic services, as defined in the programme, ensued. By March 1996, only R5 billion of the programme's allocated R15 billion had been spent (Visser 2004:8). In February 1996, the new government encountered its first major currency crisis when the value of the rand declined by more than 25 per cent (Visser 2004:7 and Hirsch, 2005:57). In an effort to address the crisis and stimulate the economy, the government abandoned the demand driven neo-Keynesian RDP and shifted focus to supply-side/neoclassical oriented conservative macro-economic strategies. Therefore in March of the same year, the RDP was officially abolished (Visser, 2004:8).

3.3.2. Growth, Employment and Redistribution (GEAR).

To respond to the Rand Crisis, the government adopted a conservative macro-economic policy called Growth, Employment and Redistribution (GEAR) (Heintz and Jardine 1998:17). Unlike the RDP, GEAR was not formulated in consultation with the SACP and COSATU. As a result, the policy frequently generated internal disagreements within the Tripartite Alliance (Terreblanche, 2003:112). In GEAR, the government replaced the RDP's 'growth through redistribution' orientation with a 'redistribution through growth' strategy (Visser, 2004:9). The programme stressed economic growth and projected an annual average growth rate of 6 per cent and 400 000 new jobs created by the year 2000 (Hunter *et al*, 2003:13). Other components of the GEAR strategy included: government deficit-reduction trade liberalisation; tight monetary policy; removal of exchange controls, regulated flexibility of labour markets; improvements in productivity and education and training improvements (Heintz and Jardine 1998:17 and Mohamed, 2003:10). Government deficit was not to exceed 3 per cent of GDP.

In contrast to RDP, the GEAR strategy argued for smaller government intervention and therefore, a private sector-led economic development. Moreover, the strategy encouraged international competitiveness and an export orientated economy (Visser, 2004:9).

GEAR's main focus was on growth and the ANC hoped that the economic growth would trickle down and help address socioeconomic issues such as poverty and unemployment (Govender, 2011:99). Therefore, under the strategy, economic growth was first and welfare second. The government's task was to focus on the necessary adjustments that would create an ideal climate for private investment (Govender, 2011:100).

Although GEAR did meet some of its set targets, many of its other macroeconomic objectives were not fulfilled (Visser, 2004:10 and Govender, 2011:136). Instead of the projected 6 per cent annual growth rate, the recorded figure was 2.7 per cent in the period 1996-2001 (Visser, 2004:108). Instead of expanding, employment levels contracted and more than a million jobs were destroyed in the same period (Terreblanche, 2003:117 and Visser, 2004:10). Additionally, real government investment only grew by a small margin while real private sector investment dropped significantly (Terreblanche, 2003:117). Health and welfare spending also fell. In essence, the strategy resulted in jobless growth in both the private and public sector (Govender, 2011:99).

Despite its intentions, GEAR failed to fully address the poverty problem. According to Govender (2011:99), inequality and poverty became more entrenched during the GEAR period as a result of cuts in welfare and healthcare spending. Furthermore, the architecture of the strategy meant that its success was almost entirely reliant on the response of the private sector (Visser, 2004:9). Following its dismal results, the strategy was abandoned and replaced with a different one. Adelzadeh (1996:92) assigned GEAR's poor performance to its commitment to fiscal prudence and failure to present an analytically sound and empirically justified strategy.

3.3.3. Post-GEAR Policies.

After the collapse of GEAR in 2006, it was replaced with another macro-economic policy called the Accelerated Shared Growth Initiative for South Africa (ASGISA). ASGISA like GEAR prioritised accelerated growth but unlike GEAR, the job creation goals were bigger. The policy's focus was developing a Second Economy as part of a wider agenda (Behar, 2006). ASGISA's other focus areas included expanded job creation through the national youth service (NYS) and the expanded public works programme (EPWP), offering support to small and micro-enterprises (SMEs) and endorsing Broad-Based Black Economic Empowerment (BBBEE) (Competition Commission, 2005). Much like GEAR, the frugal and optimistic nature of ASGISA led to its downfall. In 2011, a new macro-economic policy

called the New Growth Path (NGP) was unveiled and it identified inequality, poverty and unemployment as South Africa's major economic challenges (South African government, 2011). The NGP was modelled on the East Asian developmental state economic model and aimed to create 5 jobs million by the year 2030 through a more inclusive, efficient and labour-absorbing economy (South African government, 2011). Natrass (2011:1) argued that to create 5 million jobs the country would need to achieve a sustained annual growth rate of 6 per cent which was unlikely in the existing global economy. Natrass (2011:2) further noted that the high labour costs in the country were unlikely to make the targets a reality. The results of the policy strategy remain to be seen.

3.4. CURRENT SOCIAL WELFARE PROGRAMMES IN SOUTH AFRICA.

The country's social protection policies and programmes can be divided into two principal categories: social insurance and social assistance. The latter category, social assistance involves cash transfers to the eligible poor and the provision of basic services such as education, health and housing to ensure that people have adequate economic and social protection during unstable times such as unemployment, ill-health, child-rearing, old age, disability, etc. (Rawlings, 2004:3 and Potts, 2012:77). Social insurance is usually targeted at the working middle class. Social assistance is non-contributory and funded by the government through taxes. Social insurance on the other hand, is financed by employers and workers and is often compulsory (Potts, 2012:77).

3.4.1. Social Insurance.

The country's social insurance arrangement consists of statutory funds financed by road users (through fuel levies), employers and employees. Should citizens want more than what is provided by the government, voluntary funds such as medical insurance and retirement pensions can be obtained from the private sector. Although not compulsory, companies often encourage their workers to obtain membership as it provides tax incentives for companies and employers (Govender, 2011:103).

The Road Accident Fund's (RAF) objective is to compensate victims for income loss, funeral, medical and general expenses in cases of road accidents caused by negligent or wrongful driving of another driver (Becker, 2008:59). Compensation Funds, administered by the Department of Labour, aim to provide income and medical benefits to employees who contract occupational diseases or are injured at work (Standing *et al*, 1996:466 and Govender, 2011:105). In the case that an employee is fatally injured while on the job, the Compensation

Funds also provide income benefits to the deceased's family (Woolard *et al*, 2011:5). The Unemployment Insurance Fund (UIF) covers workers (in both formal and informal sectors) earning over R12 478 per month (Bhorat *et al*, 2013:5). In addition, the government regulates voluntary social insurance funds such as retirement funds and medical schemes. As a result of the widespread poverty and unemployment prevalent in the country, contributors to voluntary funds form a small proportion (Govender, 2011:110). Only about 16 per cent of the population are on medical insurance (Makholwa, 2013). Many are dependent on the state for medical care and pensions. In essence, the social insurance branch of the country's social security arrangement is much smaller than the social assistance branch.

3.4.2. Social Assistance.

Prior to 2008, social grants were administered by provincial governments with varying delivery efficiency (Govender, 2011:114). The arrangement resulted in various challenges including delays in the approval and payments of grants, substantial transfer costs involved in delivery, possible corruption and fraud in the system and inaccessible pay points (Govender, 2011:114). Against this backdrop, the South African Social Security Agency (SASSA) was established to improve social grants delivery to the poor by administering applications and approval and payment of social grants at the national level (Saunders, 2013). SASSA currently administers 7 social grants: the War Veterans Grant, Old Age Pension, Child Support Grant, disability grant, foster child grant, the Grant-In-Aid and the Care Dependency Grant (May, 2010:7 and Saunders, 2013). Figure 2.1 below illustrates the current social security architecture in the country.

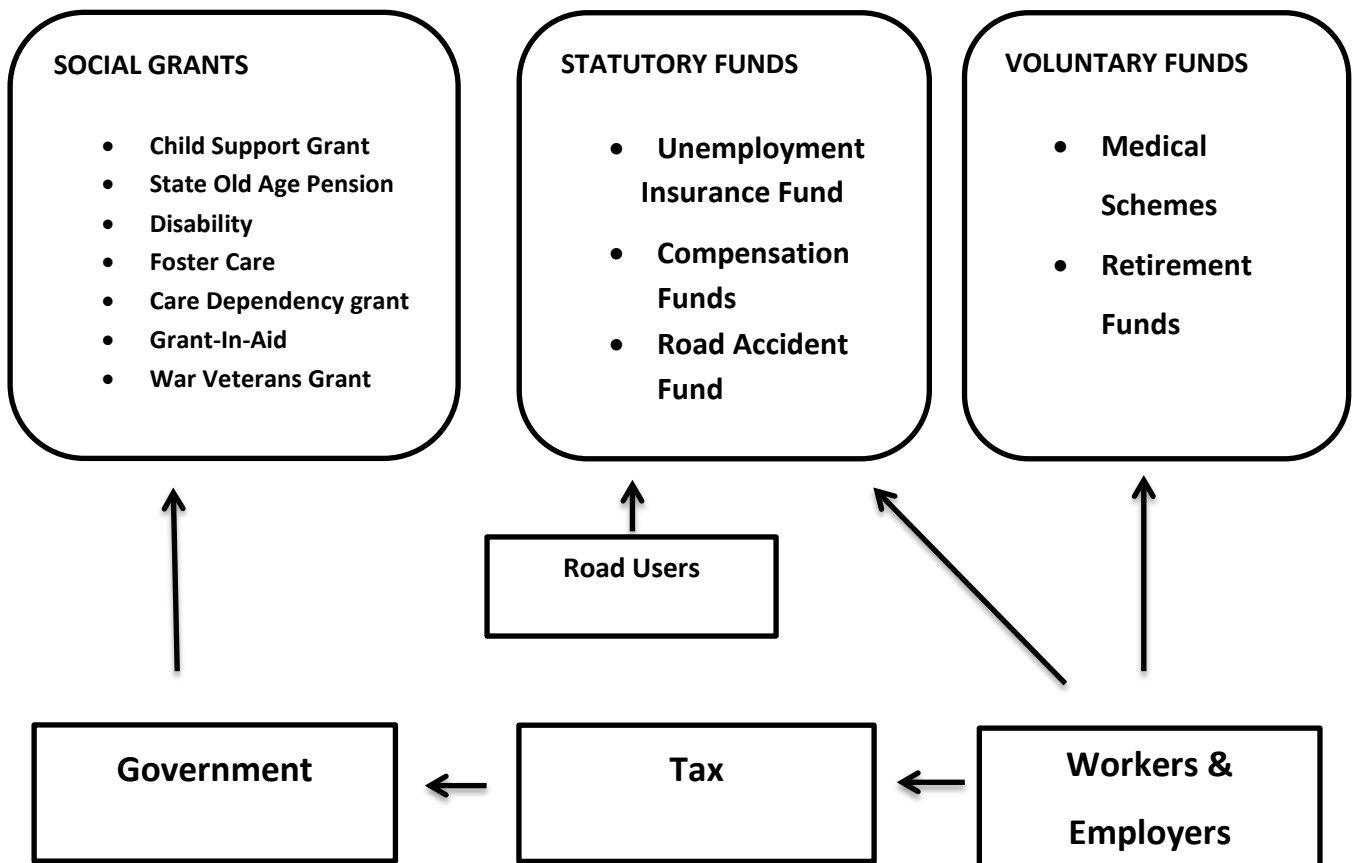


Figure 3.1: Architecture of social security in South Africa. (Woolard *et al*, 2011:359).

The country's social security system includes both social insurance and social assistance. The social assistance branch is far larger than the social insurance branch (Woolard and Leibbrandt, 2010:3). There are three primary schemes under the social insurance prong: the UIF, RAF and Compensation Funds (Woolard and Leibbrandt, 2010:4 and Govender, 2011:105). These are mostly involuntary and thus funded by individuals. The social assistance prong administers seven types of grants: the Care Dependency Grant (for severely disabled children under 18 who need full-time care), the State Old Age Pension (for income-eligible pensioners over the age of 60), War Veteran's Grant (for income-eligible former soldiers who fought in either of the World Wars, the Korean War or the Zulu War), the Child Support Grant (for children under the age of 18), the Disability Grant (for adults unable to work because of disabilities), the Foster Child Grant (for children under 18 under the care of court-appointed foster parents) and the Grant-in-aid (for people already on a social grant but cannot physically take care of themselves) (Jacobs *et al*, 2010:35 and Govender, 2011:115). The grants' cash is paid monthly and the value is occasionally adjusted for inflation (Hall, 2007:7). The social assistance programmes are funded by the government through taxation. Figure 2.2 shows the number of recipients and distribution of social grants.

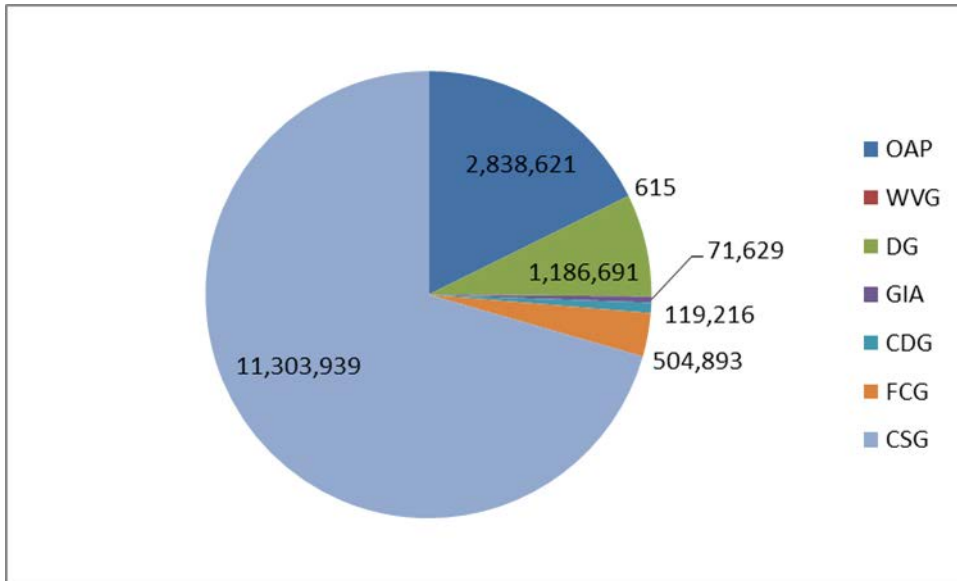


Figure 3.2: Distribution and number of social grant recipients. (SASSA, 2013).

As shown in figure 2.2, the Child Support Grant (CSG) is the largest in distribution with over 11 million recipients. The CSG is followed by the OAP with approximately 3 million recipients and the DG with about 1 million recipients. The WVG, GIA, CDG and FCG have fewer recipients and thus form a minor part of the system. This section gives a brief overview of the social cash grants administered in the country.

i. Child Support Grant (CSG).

The Child Support Grant was introduced in 1998 as a replacement to the State Maintenance Grant (SMG) which had just begun its phase out stage. The purpose of the grant was to ensure that parents of children living in poverty were able to finance and acquire basic needs such as nutrition, healthcare and education for the children (Pauw and Mncube, 2007:15 and Woolard *et al*, 2011:6). The SMG consisted of two elements: a child allowance and a parent allowance. The monthly value of both was R135 and R430 respectively (Haarmann, 2000b:81 and Govender, 2011:121). The child allowance was paid per child to a maximum of two children (Haarmann, 2000b:81). Initially, the SMG was intended for White children living in single-parent homes but eventually grew to include Coloured, Indian and African beneficiaries (Triegaardt, 2005:250). The grant was means tested and the children had to be under the age 19 or 22 if still in secondary school (Haarmann, 2000b:81). Although racially inclusive, the grant was skewed toward Coloured and Indian recipients. In comparison to two children per 1000 African SMG recipients, Coloured and Indian recipients constituted about 48 and 49 per 1000 children respectively (Makino, 2004:12). As a result of the SMG's racial asymmetry and fiscal strain on the government's budget, the grant was phased out in favour

of the cheaper and more inclusive Child Support Grant (CSG) (Haarmann, 2000b:83). At the time, the SMG cost the government about R1 billion and the cost of eliminating its racial disparity was estimated to be between R5 billion and R20 billion (Makino, 2004:13). The fiscally prudent GEAR was instrumentally in the phasing out of the SMG and the introduction of CSG (Triegaardt, 2005:253 and Govender, 2011: 122). The phase out took three years to complete and the last SMGs were dispensed in 2001 (Makino, 2004:13). According to Makino (2004:14), the CSG benefit reform was the first and so far the only case of a drastic decrease in benefit levels of social grants in the history of social assistance in the country since 1928. The contraction was to resolve the disparity, however, some beneficiaries lost almost 90 per cent of the value of their SMGs (Govender, 2011:123).

The CSG was initially intended for children up to the age of six but was extended in 2005 to children up to 14 and eventually to the age of 18 (Potts, 2012:79 and Tilley 2012). The grant was introduced as unconditional, means-tested and dispensed a monthly cash allowance of R320 a month per child to eligible primary caregivers (Pauw and Mncube, 2007:20 and Saunders, 2013). The eligibility income threshold for the grant was set at R3200 per month for single applicants and R6400 for marrieds. With over 11 million (55 per cent of children) beneficiaries, the Child Support Grant (CSG) accounted for 70 per cent of social welfare claimants (Nordic Africa Institute, 2013). Although the grant reached a quarter of the population in distribution, its benefits were widely spread as they usually spilt over and were shared by all individuals within a household (Hall, 2007:5 and Dodds, 2013a). According to Phakathi (2012), the grant reduced the beneficiaries' probability of being stuck in an intergenerational cycle of poverty. Although credited with reducing child poverty in the country, the CSG's amount of R320 was criticised for being insufficient to provide adequate welfare for the beneficiaries (Kahn, 2013).

ii. Old Age Pension (OAP)

The OAP is provided to South African citizens or permanent residents aged 60 years and older. The monthly value of the grant is R1350 for both men and women and the eligibility income threshold was set at R5150 for singles and R10300 per month for married applicants. Beneficiaries older than 75 years receive R1370 per month (South Africa Government Services, 2014). After the CSG, the OAP grant was the second largest in actual distribution. In the last 15 years, the number of OAP recipients has increased at an average yearly rate of 3.4 per cent (Govender, 2011:118). The OAP has approximately 2.5 million recipients, accounts for the largest proportion of social grants expenditure (37 per cent) and costs approximately 1.4 per cent of the GDP (Govender, 2011:118 and Potts, 2012:85). The grant covers about 18 per cent of total claimants but accounts for the largest proportion of social assistance expenditure (Arde, 2013 and Kahn, 2013). A significant proportion of elderly South Africans live in multi-generational households and coupled with the mass unemployment in the country, the grant is instrumental in increasing household consumption and reducing poverty (Woolard *et al*, 2011:21 and Potts, 2012:85). The OAP also provides other positive household benefits, especially when the recipients are female. Case and Deaton (1998:1356) concluded that in comparison to male headed households, female-headed households receiving a pension spent less on alcohol and tobacco. Furthermore, research by Samson *et al* (2004:69) found that children living in three generational African households with pensioners were 3.1 percentage points more likely to attend school than those in three generation African households without a member receiving a pension. The OAP has also been shown to cultivate potential dependency among members of recipient households.

iii. The Disability Grant (DG).

The DG is the only social grant programme in the country targeted at the working age population. The grant's purpose is to reimburse individuals for loss of income as a result of physical or mental disability. The DG is means-tested and non-contributory and only available to individuals disabled in circumstances other than work and road-related accidents (Potts, 2012:85). The eligibility income threshold is set at R5150 for singles and R10300 per month for married applicants (South Africa Government Services, 2014). The grant is disbursed to disabled individuals between the ages of 18 and 59 who do not receive other state social grants and are not cared for in state institutions (Van Der Berg and Siebrits, 2011:5). Benefits are dispensed on both a permanent and temporary basis depending on the

severity and duration of the disability. There are over 1.1 million DG beneficiaries receiving the R1350 monthly reimbursement (Govender, 2011:116 and Saunders, 2013).

iv. Foster Care Grant (FCG).

The FCG is the country's oldest child grant and its aim is to compensate foster parents for the cost of taking care of children who are not their own (Hall and Proudlock, 2011). Accordingly, the grant is not subject to means-testing and stops if the child is formally adopted. There are more than half a million Foster Child Grant beneficiaries receiving R830 a month cash transfer (Saunders, 2013 and South Africa Government Services, 2014). To become eligible, both the applicant and the child must live in South Africa. The eligibility income threshold for the grant is set R13500 for singles and R27000 per month for married applicants. Additionally, the applicant must present evidence of the court order giving them foster parent status (Department of Social Development, 2010:6). The child must be under the age of 18 and attend school. Due to the HIV/AIDS epidemic, applications for the grant have significantly increased over the last two decades (Hall and Proudlock, 2011).

v. Care Dependency Grant (CDG).

The CDG administers a cash allowance to parents with severely disabled children under the age of 18. To become eligible for the grant, applicants must demonstrate financial need and present a medical report confirming the child's disability and severity. Furthermore, the child should regularly attend school and not be cared for in a state institution (Govender, 2011:119 and Saunders, 2013). Successful applicants receive a maximum monthly cash transfer of R1350 (South Africa Government Services, 2014). There are approximately 120 000 CDG recipients. The Grant-In-Aid (GIA) is similar to the CDG but provides a R320 monthly transfer to people already on a social grant who cannot physically take care of themselves (Jacobs *et al*, 2010:35). Nearly 72 000 individuals receive the GIA.

vi. War Veterans Grant (WVG).

The WVG provides cash assistance to applicants who fought in the Korean War, World War I or World War II. The grant is means-tested and single applicants should not earn more than R49 920 (or double the amount for married applicants) a year (South African Government Services, 2013). Furthermore, the applicants must not be cared for in a state institution or recipients of other grants (Saunders, 2013). Successful applicants receive a monthly cash transfer amounting to R1370 (South African Government Services, 2014). In December 2012, there were 615 recipients of the grant (SASSA, 2013).

It should be noted that social grants for adults are paid on an income- dependent sliding scale. Consequently, if an applicant has an income exceeding R2025 per month for a single applicant (double the amount for married applicants), a reduced grant is frequently paid (South Africa Government Services, 2014). Grants for children are not paid on a sliding scale. Apart from the grants, there are other initiatives which the government has put in place to address poverty, especially child poverty. Two of them are the Integrated Nutrition Programme (INP) and the HIV/AIDS Home and Community-based Care and Support Services (HCBCS) (Hall *et al*, 2005:60; and Mpontshane, 2008:20). Poverty is closely related with food insecurity and thus children living in poor households are likely to experience frequent hunger and malnutrition (Hall, 2007:3). To address the child nutrition problem, the INP was launched nationally in 1995 to administrate feeding schemes in the nation's public schools where children are provided one meal a day (Hall *et al*, 2005:60; and May, 2010:8). The programme reached over six million primary school children (May, 2010:8).

With an estimated 5.6 million people living with HIV/AIDS, South Africa has the highest percentage of infected individuals in the world (Lob, 2013). Existing literature illustrates a direct link between poor health and poverty (Chiverton, 2011 and Wolfe, 2011:25). The disease is the leading cause of death in the country and resulted in an increased number of orphans and child-headed households (Timse, 2009 and Karim and Karim, 2012:375). There is also evidence that HIV/AIDS abates labour participation and consequently reduces individuals' capacity to generate income (Mbuli, 2008:85). Addressing the HIV/AIDS pandemic should therefore form part of a comprehensive anti-poverty strategy. Accordingly, the HCBCS initiative was launched with the aim of "ensuring that persons who are infected and affected by HIV/AIDS have access to integrated services which address their basic needs for food, shelter, education, health care, family or alternative care and protection from abuse and maltreatment" (Hall *et al*, 2005:61). Additionally, the HCBCS seeks to empower individuals, families and communities to take care of their welfare and health and to address the stigma associated with the disease (Mpontshane, 2008:20).

3.4.3. Expanded Public Works Programme (EPWP).

According to Vogel (2015:200), South Africa has one the highest unemployment rates in the world and over 50 per cent of individuals aged between 15 and 24 years old were unemployed. Unemployment in the country is particularly high among the unskilled youth. Most vulnerable groups (including children, the elderly and disabled) are covered by the

country's extensive social grant system. However, the able-bodied working-age unemployed poor are excluded from cover. Unemployment in the country tended to be concentrated in rural areas and particularly among Africans, youth, women and among those with no previous work experience (September, 2007:8). In response to the stubbornly high youth unemployment levels, the government launched the Expanded Public Works Programme (EPWP) in 2004 with the goal of reducing poverty and providing safety nets through temporary work and income relief (South African Government, 2015). It was further envisaged that the EPWP would promote economic growth and create sustainable development through assisting the unemployed gain skills while they work and improve their ability to earn an income in the future (Govender, 2011:128 and South African Government, 2015). The first phase of the programme was set from 2004 to 2009 with the aim of creating 1 million jobs and providing training, skills and work experience whilst also improving existing infrastructure (Mccord, 2005a:566 and Bokolo, 2013). Herz and Van Rens (2011) defined structural unemployment as a mismatch between available jobs and workers which occurs when there is a long-term decline in demand in an industry, resulting in fewer jobs as demand for labour falls away. Smit (1996:295); Fields (2000:6) and Kirk (2011) asserted that the unemployment in South Africa was mostly structural and accordingly, the EPWP sought to increase employment through limiting the number of machinery used and employing more people to perform the duties that would have been done using machines. The labour-intensive methods of production focused mainly on four economic sectors: environment, infrastructure, social and economic (McCutcheon and Parkins, 2009:198). During the first phase of the programme, the budget increased from R21 Billion in 2004 to R40.8 billion in 2009 (McCutcheon and Parkins, 2009:199 and Rönchen, 2014:18).

Public work programmes were not a South African invention. Various countries have adopted and implemented such programmes with diverse objectives (Del Ninno *et al*, 2009:1). Public work programmes can be an important counter-cyclical safety net instrument and have been used during times of unexpected socioeconomic shocks such as macro crises, natural disasters, and/or seasonal labour demand shortfalls (Bokolo, 2013). Del Ninno *et al* (2009:1) noted that the programmes could and have also been used by governments to protect households from temporary job losses, reduce poverty and create temporary and part time employment for the needy.

Del Ninno *et al* (2009:1) and Subbarao *et al* (2010:2) asserted that governments favoured public works programmes for their potential ability to achieve two economically beneficial

objectives: employment generation and skills development. Most low income developing countries do not have formal comprehensive unemployment insurance programmes due to a variety of reasons including fiscal limitations and underdeveloped financial markets. In the event of major shocks such as a natural disaster or macroeconomic crisis or seasonal shortfalls in income and employment (i.e. drought season in low income agrarian economies), public works programmes can help smooth consumption in poor households through income transfer in the form of wages (Del Ninno *et al*, 2009:1 and World Bank 2012). After the macroeconomic crisis in East Asia in 1997 several workfare programs were launched to counter its effects (Betcherman and Islam, 2001:332). Similar action was taken across Latin America in 2002 and in several Asian countries after the 2005 tsunami (Doocy *et al*, 2005 and Del Ninno *et al*, 2009:4).

Apart from poverty reduction and employment creation, the programmes can have other complementary positive outcomes. Depending on the need of the countries and the level of income and availability of public services and infrastructure, public works programmes can produce various goods and services. In Malawi and Zimbabwe the programmes were used in the form of Home Based Care (HBC) and Early Childhood Care and Development (ECCD) to respond to the challenge of HIV/AIDS (McCord, 2005b:21; and Devereux and Macauslan, 2006). According to McCord (2005b:15), the Working for Water Early Childhood Development programme in South Africa was used to achieve a similar result by caring for orphaned and vulnerable children affected by the disease.

Fragile states coming out of years of conflict and political instability have also employed the use of public works to rebuild their countries. After the conflict ended in Sierra Leone, the country was faced with severe development challenges such as weak institutional capacity, political instability, poor governance and frequent ongoing violence (Smith-Höhn, 2010:82). In response, a public workfare programme was launched with the aim of helping to rebuild the infrastructure damaged during the conflict, and additionally provide immediate short term employment opportunities to poor and vulnerable households who were severely affected by the conflict, and also to ex-combatants (Del Ninno *et al*, 2009:11 and Rosas and Sabarwal, 2014). Other conflict recovering countries such as Sudan, Liberia, Yemen and Nepal have implemented similar strategies (Del Ninno *et al*, 2009:11).

Del Ninno *et al* (2009:11) asserted that public works programmes could potentially mitigate the effects of climate change through generating environmentally sound public goods. The

Stern Review (2006), labelled climate change as a unique challenge for economics and was a great and wide-ranging market failure. According to Tyler *et al* (2009:1), climate change threatened natural systems, exposed endemic species to extinction and increased the incidence and spread of vector-borne diseases like malaria. In essence, climate change could potentially undermine sustainable development in developing countries (including South Africa) where the priorities were focused on poverty alleviation and job creation the phenomenon may decrease the efficiency of the anti-poverty efforts.

Some of the projects under the Ethiopian Productive Safety Nets Program (PSNP) focused on water and soil conservation activities led to environmental transformation in the form of improved water conservation and increased agricultural productivity (World Bank, 2012). Grosh *et al* (2008) added that the PSNP also resulted in enhanced income generation for communities and improved access to markets, health and education facilities.

Training and skills acquisition typically formed an integral part of public works programmes. Additionally, in some countries such as Bangladesh, the programmes required participants to save some of their wage earnings (Del Ninno *et al*, 2009:8 and Subbarao *et al*, 2010:2). If applied to South Africa, the savings component could be economically beneficial. The relationship between savings and economic growth will be further discussed in chapter 5.

According to SA Cities Network (2014:13), South African EPWP's target of creating 1 million work opportunities during the first phase was achieved a year ahead of schedule. Nevertheless, critics such as McCord (2005b:8) and September (2007:10) had reservations about the long-term successes and the sustainability of the programmes. Ashton (2012) alleged that one of the biggest challenges of the EPWP's in South Africa was that only a small fraction of the money going into the programme reached the intended beneficiaries. The liberal and neo-liberal economic codes assert that it is not the role of the state to provide or create employment and insist that the market forces will result in wealth trickling down appropriately to reach the needy. Consequently, active labour market policies such as EPWP's were frequently theoretically associated with deadweight losses and substitution and displacement effects (Meth, 2011).

Another concern regarding EPWP's was that the programmes could generate dependency among recipients (Hough, 2010:91). However, Meth (2004:28) contested the argument that there was a difference between 'dependent' populations, and the concept of 'dependency' and further argued that a population may be dependent on external support due to various

reasons such as market failure may, but may not necessarily exhibit 'dependency' as classified by critics. Dependency as a deterrent to increased social protection efforts is discussed in chapter 6.

According to McCord (2005b:49), the wage rate can have a significant bearing on the social protection effect of any public works programme. If wage rates vary among different departments, participants would flock to the departments which offer higher wages. McCord (2005b:49) used Malawi as an example of wage variation in the public works sector, with wages ranging from R43 in the Malawi Social Action Fund (MASAF) public works programme to R200 in the Transport programme (in 2005 prices). McCord (2005b:49) also noted in cases where alternative employment opportunities were not available, wages would be too low to successfully combat poverty. In the South African context, Ashton (2012) noted that in some cases less than 10 per cent of programme costs reached the workers as wages, with some workers receiving less than R50 per day. However (McCord, 2005b:47) posited that a higher wage rate would imply fewer beneficiaries and thus exclude some vulnerable individuals. SA Cities Network (2014:62) noted an increased number of EPWP participating departments, which led to an increased number of work opportunities created in the Ethekwini municipality as a result of lowered wage rates. Del Ninno *et al* (2009:23) suggested that the wage rate should be set at a level low enough to induce self-targeting but not too low as to disincentivise labour participation.

According to McCord (2007), a majority of the work opportunities created by EPWPs are temporary in nature and consequently, the sustainability of the projects formed part of some of the concerns. The EPWPs often have a maximum duration of two years and additionally, participants frequently find it challenging to find employment elsewhere upon the completion of the projects (McCord, 2007). Overall, EPWP's work best when they form part of a broader poverty reduction strategy and not when used in isolation.

3.4.4. Land Reform as a poverty alleviating strategy.

The Natives' Land Act of 1913 prohibited the establishment of new farming operations, sharecropping or cash rentals by Blacks outside of the native reserves and allocated only about 7 per cent of arable land to Blacks and left the rest of the relatively fertile land for Whites (Todd, 2001:260). Lahiff (2007:1) posited that the land dispossession of the native population by European settlers was greater than any other African country and persisted for a relatively longer period. Thomson (1995:109) added that by the end of the twentieth

century, the African majority were confined to 13 per cent of the land and at the end of apartheid, 86 per cent of total agricultural land (or 68 per cent of the total surface area) was in the hands of the White minority who made up 10.9 per cent of the population. The native reserves were characterised by high rates of infant mortality, illiteracy and malnutrition and low per capita incomes relative to the rest of the country (Hall, 2014:2). Consequently, in 1994, at the advent of the South African democracy, the newly-elected government adopted land reform processes in an effort to address the inequalities of the past (Lahiff, 2007:3). The ANC-led government set a goal of redistributing 30 per cent of White-controlled agricultural land to the majority Black population within 5 years (ANC, 1994:22).

As discussed in Chapter 2, poverty in South Africa was strongly correlated with location, race and gender. The Land Reform Process focused on three aspects: restitution, redistribution and land tenure reform (Jacobs *et al*, 2003:2). The restitution aspect focused on monetarily compensating individuals who had been forcefully removed from their land during apartheid (Sosibo, 2014). The land tenure reform feature of the programme sought to recognise people's right to own land and therefore, control of the land. Redistribution, regarded as the most important component of the country's land reform program, was concerned with maintaining public confidence in the land market and thus employed a willing buyer and seller strategy (Lahiff, 2007:20).

Several arguments undergird the employment of land reform programmes as means of addressing poverty. At a general level, the arguments can be said to be driven by a focus on either equity or efficiency, and sometimes both. Efficiency-based arguments are typically concerned with economic transformation and Lahiff (2007:9) argued that adherents of the efficiency arguments typically have their sights on broader objectives, for example, extracting food and value for the urban-industrial economy or enhancing the power of the state. In support of the efficiency argument, Banerjee (1999:1) noted that small farms in developing countries tended to be more productive than larger farms. Banerjee (1999:1) observed that in Southern Asia, productivity on the largest farms (as measured by value added per unit of land) was up to 40 per cent less than that on the second smallest size group. Banerjee's (1999:1) observation seemed to go against the economic concept of increasing returns to scale. Accordingly, Lahiff (2007:9) argued that proponents of efficiency-arguments were rarely concerned with equity within the agrarian economy.

Equity arguments are concerned with social transformation and the emancipation or upliftment of disadvantaged groups. Proponents of the equity argument, focus mainly on the transfer of power and wealth from one class to another rather than economic growth. In support of the equity argument for land reform, De Soto (2000:205) posited that the poor in mainly developing countries were often unable to secure formal property rights, such as land titles, to the land on which they lived or farmed because of corruption, poor governance and/or overly complex bureaucracies. In the absence land titles or other formal documentation of land assets, the poor were less able to access formal credit which could help alleviate their destitution (De Soto, 2000:206). Therefore, De Soto (2000:206); Delinger (2003:38); and the World Bank (2005:33) argued for political and legal reforms within countries in order to include the poor in formal economic and legal systems, reduce poverty, increase their ability to access credit and contribute to economic growth. Boyce *et al* (2005:6) added that the expansion of the land rights of the poor reduced poverty, first, by increasing the poor's share in the agricultural income pie; and second, by increasing the total size of the pie.

The World Resources Institute (2005) also commented that equitable land distribution could have positive environment effects as greater security of land ownership could influence the poor to become better stewards of the land. In essence, proponents of land reforms argued that the process reduced both the economic and 'non-economic' dimensions of poverty. The non-economic of poverty were strongly tied to justice and capacity building.

Land redistribution and reform was not a South African invention and has been implemented elsewhere in the world, particularly in developing countries. After World War II, East Asian countries such as China, South Korea, Japan and Taiwan adopted and implemented highly egalitarian land reforms despite wide differences in the countries' economic policies and political regimes. According to Boyce *et al* (2005:5), the East Asian land reform helped unleash agricultural growth, reduce rural poverty and helped to lay the social foundation for rapid industrialisation. In Taiwan, the government sought to redistribute land by imposing rent ceilings and encouraging landlords to relinquish excess land (defined, in the case of medium-quality land, as anything above roughly 0.04 square kilometres) (Yueh, 2009 and Kuo, 2015:4). The relinquished land was then sold to the tenants and the government compensated the land owners with government bonds and shares in public enterprises that had been expropriated from the Japanese (Boyce *et al*, 2005:4). According to Campos and Root (1996:52), the process resulted in the share of agricultural income accruing to farmers

increased from 67 per cent to 82 per cent, the share received by the government rose from 8 per cent to 12 per cent, and the share going to landlords and moneylenders fell from 25 per cent to 6 per cent.

Like South Africa, Brazil had long been characterised by unequal patterns of land distribution. Beginning in the mid-1980s the country embarked on a land reform movement in an effort to redistribute land from the rich to the poor so as to lay the basis for more inclusive economic growth (Font, 2003:94). Unlike in East Asia, the land reform movement was not driven by the state but by an independent organisation called *Movimento dos Trabalhadores Rurais Sem Terra* (MST in short) which translated to Landless Workers' Movement in English (Boyce *et al*, 2005:5). According to Wright and Wolford (2003:23), in Brazilian property law, land ownership is governed by the 'principle of effective use.' Under the law, landowners who do not use their land productively – thereby failing to fulfil the 'social function' of property – are subject to expropriation (Boyce *et al*, 2005:5). MST was formed by rural workers and activists as a mass social movement with the aim of facilitating land reforms and greater social equality in rural areas in Brazil (Font, 2003:94). The MST operated by identifying farms or land deemed as commercially unproductive and recruited 200 to 2500 landless families to carry out an occupation (Boyce *et al*, 2005:6). The occupation was not always smooth and landowners typically responded with lawsuits, and sometimes with violence. Between 1985 and 2004, the MST assisted about 300,000 Brazilian families and more than 1 million people win legal recognition for more than eight million acres of land reform settlements (Boyce *et al*, 2005:6).

The results from South Africa's land reform strategy has been minimal and according to Jacobs *et al* (2004:24), several challenges remained which prevented the government from succeeding in fully implementing the reforms. Aliber (2013:4) noted that the willing seller-willing buyer approach was one of the largest stumbling blocks. Under the approach, the government purchases the identified land from the current owner at the agreed market price and then disburses it to an individual or group of people it deems as its rightful owners. Jacobs *et al* (2004:24) argued that the willing seller willing buyer process frequently took too long especially the process of negotiating prices with the current land owner. Lahiff (2008:3) added that government officials negotiated the land prices and the state sometimes purchased land without first identifying its intended owners and consequently, beneficiaries often did not actually see the land they were purchasing. Lahiff (2007:36) posited that the approach

effectively granted landowners absolute discretion over participation in the land reform programme and thus slowed the reform process as land owners often unwilling to sell.

Aliber (2013:4) criticised the use of the 'market' as a determinant of land value and argued that it will not unravel years of colonial and apartheid dispossession and that the process was paradoxical because the beneficiaries of land reform were once, directly or indirectly, the victims of the very market forces that will now be determining their future through the land reform programme. In light of the inadequacy of the willing seller willing buyer approach, the government scrapped it (Quintal, 2015).

According to Jacobs *et al* (2004:25), the process to mediating and resolving claim disputes was long, coupled with the lengthy beneficiary selection was riddled with institutional incapacities and marred by inadequate monitoring and budget shortages. As a result by 2012, only 8 per cent of the targeted land had been transferred (MoneyWeb, 2014).

In essence, provided that the land is used well subsequently, transferring land to the poor and vulnerable could potentially alleviate poverty by economically empowering the beneficiaries and giving the autonomy over their circumstances. However, the process of land reform and redistribution has not been without challenges and to date, no significant progress has been made in transferring land from its current owners to the previously disadvantaged.

3.4.5. Achievements and criticisms the SA social grant system.

In the last decade there has been a steady decline in poverty rates in South Africa (Finn *et al*, 2011). A report by UNICEF (2010:9) linked the trend to the increased uptake and coverage of the CSG. According to Phakathi (2012), the grant reduces beneficiaries' probability of being stuck in an intergenerational cycle of poverty. The system has also resulted in increased production of food, education and health services (Phakathi, 2013 and Dodds, 2013a). The OAP in particular is associated with greater household spending on food and employment seeking efforts (Hall, 2007:21 and Lekezwa, 2011:103). The Economic Policy Research Institute (EPRI) (2004:3) discovered that on average, social grant recipients spent less on health care. The EPRI (2004:3) theorised that other positive outcomes associated with the social grants in the country led to a reduced need for healthcare services.

Teenagers on the CSG were found to be less likely to engage in risky sexual behaviour (Phakathi, 2012). Additionally, there was evidence of a negative relationship between the

grant and other risky behaviours such as: alcohol abuse, drug use, teenage pregnancy and criminal activity (Mashabane, 2012; and Phakathi, 2012).

In 2012, spending on assistance in the country amounted to R113 billion, which was exclusively funded by taxation (Kahn, 2013). There were approximately 6 million registered tax payers which was less than half of the 16 million grant recipients (IRIN News, 2011). Consequently the system is criticised for exhausting the small tax base and being unsustainable in the long run (Dodds, 2013b). Additionally, it is criticised for cultivating a culture of dependency and reducing the opportunity cost of not working (IRIN News, 2011). Findings by Bertrand *et al* (2003:35) and EPRI (2004:3) corroborated the hypothesis and illustrated that receipt of the OAP by a female member of the household reduced the working hours of other household members of working age.

Approximately 2 million (roughly 11 per cent) eligible children do not receive social grants and lack of documentation was cited as the cause. Consequently, the system is frequently criticised for lack of efficiency (Dodds, 2013a and Phakathi, 2012). The system also had negative leakages and Govender's (2011:249) calculations showed that only 40.8 per cent of children who are eligible for the CSG actually received the grant whilst 14.6 per cent of the grant's recipients did not qualify for it. The CSG transfer is commonly shared among all household members, thus the R320 monthly amount is criticised for being insufficient to provide adequate welfare for the beneficiaries (Kahn, 2013). The system is also bedevilled by corruption and Phakathi (2012) reported that fraudulent claims by ineligible beneficiaries amounted to R40 billion between 2009 and 2011.

3.5. SUMMARY AND CONCLUSIONS.

The objective of the chapter was to examine the evolution and historical path of social security in South Africa. The first section (3.1) analysed the informal and formal arrangements which preceded the apartheid era and their significance in reducing poverty. The first formal social security programmes were established to protect Whites against unforeseen human disasters such as poverty, drought, etc. during the period; social policy was influenced by the economic and political climate prevailing at the time. As a result, social security was racially characterised.

The second section (3.2) assessed the apartheid era social protection system. During the period, racial segregation was officially adopted and implemental as an economic strategy.

As a result, the wage and welfare gap between Whites and other racial groups widened. However, toward the end of apartheid, the social assistance gap began to narrow as the system was expanded to include other racial groups. As a result Blacks (especially Africans) made up the majority of recipients. Therefore, when the ANC-led government took power in 1994, most of the racial disparities in social security provision had been eliminated.

Section 3.3 examined the post-apartheid macroeconomic policy arrangements. RDP and GEAR are the two major microeconomic strategies adopted during the period. Each sought to reduce poverty and accelerate economic growth. The RDP advocated for a growth through redistribution approach whilst GEAR advocated for redistribution through growth. Both achieved some results but ultimately failed to live up to expectations.

Section 3.4 examined the current social security arrangements. There are seven main grants administered under the social assistance prong and several voluntary and non-voluntary schemes under the social insurance branch. The social assistance programmes mainly cater for economically vulnerable individuals and groups (e.g. the aged, disabled and children). With over 11 million (55 per cent of children) beneficiaries, the Child Support Grant (CSG) accounts for 70 per cent of social welfare claimants (Nordic Africa Institute, 2013). The Old Age Pension (OAP) grant is the second largest in actual distribution. Although the OAP covers about 18 per cent of total claimants, it accounts for the largest proportion of grant expenditure (Arde, 2013 and Kahn, 2013).

For a developing middle income nation, South Africa's social welfare programme is relatively well-established and wide in coverage. The system costs over 3.5 per cent of GDP and covers over 16 million individuals. Over half of the country's households are dependent on income transfers from the government. Although the grant system has reduced poverty, the levels are still high. Furthermore, grants are only a short-term solution. The system caters to the economically vulnerable; however, the youth and unemployed are excluded. Unemployment in the country is relatively high and particularly concentrated among the youth.

Before and during apartheid social security was racially characterised and defined. Toward the end of apartheid, attitudes toward the political system had become largely negative. Therefore, attempts were made to reduce the racial disparities in welfare provision and by 1993, the differentiation was eradicated. The democratic government built on the goal of its predecessor and sought to construct a comprehensive social security plan which would

successfully reduce the level of poverty. Therefore, several macroeconomic policy strategies have been adopted since 1994 in an attempt to reduce poverty in the country. Most of the strategies have had limited success and poverty remains one of the country's leading economic hurdles. Failure by the government to construct and stick to a clear, solid and detailed macro-economic strategy has meant that poverty levels remain high.

Having examined the social security in South Africa, the next chapter gives a global overview. Strategies implemented in different countries (both developed and developing) will be analysed.

CHAPTER 4: SOCIAL SECURITY- AN INTERNATIONAL PERSPECTIVE.

Since the 1990s, there has been a rapid expansion in social protection schemes (especially in the form of cash transfers) around the world (Pai, 2012). According to Sridharan (2012), the shift can be partly attributed to Latin America's introduction of its conditional cash transfer (CCT) schemes in the 1990's. Policymakers viewed the countries' CCT programmes as major successes and began seeing cash transfers as sensible instruments for addressing poverty (Dolberg, 2012:2 and Sridharan, 2012). As a result, social cash transfer systems in developing countries, - which had long been a central element of the welfare systems in many developed countries-, began to emerge (OECD, 2011 and Dolberg, 2012:2). Cash transfer systems therefore became widely accepted as feasible mechanisms of addressing poverty in both developed and developing countries and to date, more than 40 developing nations administer cash transfer programmes on a large scale (Coren, 2012 and Handa *et al*, 2012:1). Although the developing world is steadily catching up, Dolberg (2012:4) asserted that high-income nations are still considered "big spenders" when it comes to their formal domestic welfare.

The chapter examines welfare and cash transfer systems from around the world and analyses their characteristics and impact on poverty levels. Particular focus will be given to three of the most researched social security systems worldwide: the Brazilian and Mexican CCT strategy; the Nordic welfare system; and the U.S. model.

4.1. SOCIAL SECURITY IN DEVELOPING COUNTRIES.

Conditions which expose individuals to vulnerability such as poverty, unemployment and disability are universal and afflict populations from both developing and developed countries. Therefore, the need for social welfare programmes is universal. Whilst there may be social security needs which are common to most countries, there are needs unique to developing nations. Developing countries are frequently characterised by fragile insurance and capital markets, large budget restrictions and limited capacities to collect taxes and correct market failures (Justino, 2007:368). Additional characteristics of developing of economies include large levels of poverty and traditional labour structures, relatively high unemployment rates and unregulated informal sectors prevail (Maloney, 1997:1 and Justino, 2007:369). The

challenges make the introduction and maintenance of social security programmes in developing countries a challenging task.

Many developing economies (e.g. Mexico, Ghana, Kenya and Pakistan) are subject to the World Bank and IMF's structural adjustment programmes (SAPs) (Gera, 2007:41 and Govender, 2011:39). As per the SAPs stipulations, signatory countries are expected to restrain government expenditure (Konadu-Agyemang, 2000:473). Restricted government expenditure usually affects social spending on education and health programmes the most (Konadu-Agyemang, 2000:473 and Govender, 2011:39). In the absence of health and education services, poor individuals face increased exposure to poverty and vulnerability. Shah (2013) characterised SAPs as ideologically neoliberal strategies imposed by the Washington Consensus institutions to ensure debt repayment and economic restructuring. Under the SAPs, the World Bank and IMF provide financial assistance to needy countries and the countries are expected to adhere to certain conditions stipulated by the institutions. Signatory countries are required to prioritise economic growth as a way of addressing poverty (Konadu-Agyemang, 2000:473 and Shah, 2013).

Social assistance has increasingly become a prominent tool of addressing poverty and related socioeconomic ills in the developing world (Rawlings, 2004:2). The Latin American region in particular is lauded for its innovative social assistance scheme (Rawlings, 2004:1 and Barrientos and Santibanez, 2009:2). The region administers a conditional cash transfer (CCT) system where beneficiaries are awarded cash benefits on condition that they meet certain requirements (Cecchini and Madariaga, 2011:13). CCTs originated in the Latin American region and came to international attention when Mexico launched its PROGRESA scheme in 1997 (Rawlings, 2004:1). The next section discusses social welfare in Latin America with particular attention to the Brazilian and Mexican systems.

4.1.1. Social security in Latin America.

Prior to the economic crisis of the 1980s, social insurance was the dominant mode of social protection in Latin America (Barrientos and Hinojosa-Valencia, 2009:2). The 1980s economic crisis coupled with the liberalisation of the labour markets in the region led to growth in the informal sector and increased levels of poverty and inequality (Vertmeyer *et al*, 1997:112 and Barrientos and Hinojosa-Valencia, 2009:2). By the end of the 1980s decade, countries in Latin America (e.g. Mexico and Bolivia) had adopted SAPs engineered by the IMF and World Bank (Vertmeyer *et al*, 1997:57). The programmes emphasised liberalisation

and thus a reduced size of the government (Shah, 2013). The SAPs and the incoherent social security system prevailing at the time made countries in the region ill-equipped to address the economic crisis (Agarwal and Sengupta, 1999:3129 and Miranda and Molina, 2010). Countries were therefore prompted to restructure their economic and social policies to make them more robust and resilient to economic shocks (Agarwal and Sengupta, 1999:3129).

Latin America has one of the highest poverty levels in the world and according to Barrientos and Hinojosa-Valencia (2009:2), over a quarter of the region's population lives in absolute poverty. Furthermore, the region has the highest income equality in the world (Hoffmann, 2012 and Watts, 2012). Latin American CCT schemes were designed with the multidimensional nature of poverty in mind, recognising social risk management and capabilities approaches as significant aspects of a successful poverty alleviation system (Barrientos and Santibanez, 2009:11 and Hoffmann, 2012).

Prior to the crisis, social insurance, mostly targeted at the working class, was the main form of social security. However, following the economic crisis, the comprehension of poverty, vulnerability and social programs began to evolve, resulting in a shift in social policy. New programmes which emerged were designed to successfully focus on locating and targeting the very poor (Hoffmann, 2012). It was in such an environment that CCTs were conceived.

Although the CCTs administered in the Latin American region differed in character from one country to the next, similarities are noted, including the clear explanation of the conditions attached to CCTs, specific targeting of poor households, the emphasis on the household being the focal point and the multidimensional characterisation of poverty.

Brazil and Mexico have the largest CCT programmes worldwide, benefiting a significant portion of the countries' poor. The success of the programmes has inspired similar endeavours and initiatives in the region and worldwide including Ghana, India, Malawi and the United States (Jacob, 2011 and Nino-Zarazua, 2011:2). The Brazilian and Mexican programmes are discussed next.

i. Brazil

With a population of approximately 200 million, Brazil is the fifth most populous country (World Population Review, 2013). The country had a GDP of about US\$ 2.5 trillion and ranked seventh worldwide in terms of income (Statistica, 2014). Once considered the most unequal nation, the country ranked sixth in 2012 with a Gini-coefficient of 0.52 and a human

development index (HDI) of 0.718 (Australian, 2012 and Studart, 2013). Following the SAP period, inequality, along with high levels of poverty, were considered among the country's leading socioeconomic hurdles. However, in the last decade, Brazil has been able to meet the Millennium Development Goal of halving the levels of extreme poverty. Between 2003 and 2009, absolute poverty fell from over 61 million poor people to under 40 million (Higgings, 2012:2). The period coincided with significant economic growth, increases in the demand for unskilled labour, minimum wage increases and improved access to education and health. However, most poverty reduction success was attributed to the introduction of various social protection schemes, most notably the Bolsa Familia (Gasparini and Lustig, 2011:439 and Higgings, 2012:5). OECD (2013:27) attributed about half of the poverty reduction to economic growth and the rest to redistributive social policies, including cash grants.

The *Bolsa Familia* (Family Grant) was created in 2003 as a product of a conglomeration of various pre-existing social protection schemes (Silva, 2008:1). The programme covers 26 per cent of the Brazilian population AND provides poor households with children younger than 17 years of age and/or pregnant women with a monthly cash transfer (Higgings, 2012:2). Brazil does not have an official poverty line, nonetheless, the threshold for CCT eligibility is set at US\$ 33 per capita (in 2006 prices) for extremely poor households and at US\$ 66 per capita for poor households (Soares *et al*, 2007:3). A basic benefit of US\$ 32 (in 2006 prices) per month is transferred to extremely poor households and eligible pregnant women receive a monthly benefit of US\$ 10 for up to a maximum of three children (Soares *et al*, 2007:3). Therefore, depending on the level of vulnerability, eligible households can receive up to US\$ 62 per month (Soares *et al*, 2007:3 and Silva, 2008:5).

The programme covers a maximum of three children per household and for a family to qualify for the *Bolsa Familia*, each child younger than fifteen should be in school and maintain an 85 per cent level of school attendance. Additionally, children under the age of six must have regular health check-ups and have their immunisation status confirmed (Soares *et al*, 2007:5). Moreover, frequent pre-natal and postnatal check-ups are mandatory for pregnant women who wish to become beneficiaries of the programme (Silva, 2008:4). The cash transfer is preferentially given to the female head of a household as they are considered more likely to spend the money on necessities (Videro and Santos, 2010:28). Apart from cash transfers, the programme offers the adults from beneficiary households other services such as support to subsistence farmers and basic education to the illiterate (Silva, 2008:5). The objective is to improve living standards for poor adults by creating opportunities toward

economic and social independence (Silva, 2008:4). The main objectives of the *Bolsa Familia* programme were to mitigate poverty-related problems in the short term and to invest in human capital and therefore disrupt the intergenerational cycle of poverty in the long term (Videro and Santos, 2010:31).

The *Bolsa Familia* is often applauded for its success in increasing human capital in Brazil. As a result of its exclusive focus on the poor, the programme has reduced inequality in the country by about 20 per cent since its implementation (Mourau and de Jesus 2012). Since the inception of the programme, school attendance has significantly increased, the number of children involved in child labour has declined and pregnancy related deaths and infant mortality rates have decreased (Soares *et al*, 2008:6). Yet, critics such as Almeida (2007) and De Janvry *et al* (2006:350) alleged that the programme created a system of dependence; encouraged beneficiaries to remain in the same conditions and negatively impacted labour force participation. However, research by Soares *et al* (2008:8) indicated that the labour market participation rate of beneficiary adults was 2.6 percentage points higher than that of non-beneficiary adults. The impact displayed a gendered trend: the participation rate of women treated by the *Bolsa Familia* was 4.4 percentage points higher (Soares, *et al*, 2008:9). Another criticism of the *Bolsa Familia* asserted that the programme disregarded the multidimensionality of poverty by selecting beneficiaries solely on the families' per capita income (Higgings, 2012:6). The biggest criticism to the *Bolsa Familia*, as an anti-poverty strategy is that it is not permanent in nature and does not benefit citizens whose poverty is non-monetary in nature.

ii. Mexico.

With a GDP of about US\$1.2 trillion, Mexico is the second richest country in Latin America, after Brazil (Martin, 2013 and World Bank, 2014). The GDP also ranks the country as 12th among the richest economies in the world. With approximately half of the country's 117 million people living in poverty, Mexico has the second highest number of poor individuals in Latin American (El Spectador, 2009 and World Population Statistics, 2013). Similar to South Africa, poverty mainly affects rural dwellers of indigenous ethnicity (Gligorevic, 2013). Causes of poverty in Mexico are variable and complex. However, there is a consensus that a combination of uneven distribution of resources and wealth, along with political and economic agendas which mainly favour the rich and powerful heavily contribute to the persistent poverty which plagues the country (Deininger and Minten, 1999:318 and World Bank 2004:160).

Oportunidades (previously known as *Progresa*), was launched in Mexico in 1997 with the aim of enhancing the human capital of individuals living in extreme poverty (Levy, 2006:1). *Oportunidades* was the first CCT programme of its kind. At the time, the programme was a novel concept as it sought to give beneficiaries complete freedom in their spending decisions by substituting food subsidies for income transfers. Furthermore, *Oportunidades* was innovative for delivering benefits directly to beneficiaries (thus avoiding intermediaries and minimising costs) (Levy, 2006:1). By adopting a life-cycle approach, the initiative sought to avoid long-term welfare dependence. Prior to its implementation, extreme poverty affected almost 30 per cent of the country's population (Levy, 2006:4). Programmes preceding *Oportunidades* were costly to manage, ran independently of each other, excluded some of the poor and were therefore essentially ineffective in addressing poverty and inequality (Levy, 2006:4 and UNDP, 2011).

In December 1994, Mexico experienced a major macroeconomic crisis (Gantner, 2007:2). The crisis developed rapidly and over the course of 1995, the GDP plummeted by approximately six per cent (World Bank, 2001 and Levy, 2006:13). The GDP drop was noted as the largest reduction in economic activity experienced in more than five decades (Levy, 2006:13). Policymakers naturally grew concerned about the negative implications a crisis of such magnitude would have on the country's poor. Although severity of the crisis was recognised, there was no consensus on the appropriate response. To some, strengthening the existing programs appeared to be the best course of action. However, others argued that the programmes which existed at the time were financially exhaustive and inadequate to protect the poor during the crisis and beyond (Levy, 2006:14). The crisis coupled with the beginning of a new administration under President Ernesto Zedillo, naturally created a political climate that provided an immediate motivation and facilitated change (Gantner, 2007:3). In light of the crisis, it became apparent that the solution had to be effective in both the short and long run. Therefore, at its core *Progresa-Oportunidades* was not only a poverty alleviation strategy, but formed part of a broad redesign of poverty policy and was formulated with other measures to form an integrated strategy to combat poverty. Negotiations took two years and in August 1997, the programme was finally launched with a budget of US\$ 58.8 million and an initial coverage of 300,000 families (Gantner, 2007:3 and UNDP, 2011).

The *Progresa-Oportunidades* strategy consisted of a three-pronged approach which included programmes to enhance the poor's human capital; to increase the poor's income-earning opportunities through credit and rural development programmes and temporary employment;

and to improve the physical infrastructure in poor regions through road-building, housing, water management projects and electrification (Levy, 2006:19). The success of the strategy depends on the success of other socioeconomic components. Therefore, upon its inception particular emphasis was given to the subsidisation of health, education and other public services (Levy, 2006:19 and UNDP, 2011). By 2011, the programme reached over 20 per cent (approximately 5.8 million households) of the country's population (UNDP, 2011). In the years since the programme's inception, absolute poverty levels have fallen from 53.1 per cent to 45.5 per cent (El Spectador, 2009 and Cohen 2013).

Oportunidades is similar to *Bolsa Familia* in its objectives and thus consists of three complementary and closely associated components: health, nutrition and education. The benefits received depend on household composition and the fulfilment of a set of conditions for each component. According to Levy (2006:22), the nutrition element consists of a mix of cash and in-kind benefits. Therefore, in addition to a monthly cash stipend, nursing and pregnant mothers, malnourished children (between 3 and 5 years) and infants (between 4 months and 2 years of age) received an in-kind nutritional supplement which provided 20 per cent of the kilocalories and 100 per cent of the micronutrients required (Levy, 2006:22). The cash transfers and nutritional supplements were dispensed to households which regularly visited health clinic facilities. Furthermore, the cash transfers were indexed to the consumer price index (CPI) to protect beneficiaries' purchasing power (Gantner, 2007:5). The transfers were dispensed to the mother or, in her absence, to the children's guardian. The health and education components of *Oportunidades* were similar to those of *Bolsa Familia*, however, the monthly cash stipend increased with each school year (Levy, 2006:23). Because high school drop-out rates are higher for Mexican girls than boys, cash transfers for girls were higher at that stage (Levy, 2006:23). Additionally, all students who complete high school receive an additional one-time cash transfer (Levy, 2006:23). Although the amount of cash transferred depends on household size (larger households receive higher amounts), there was, an upper bound on total cash transfers of approximately US\$ 160 per month regardless of household size (Levy, 2006:32 and Behrman and Parker, 2011:6). The upper bound was set to avoid generating incentives and to discourage permanent dependence. The programme also handed out scholarships to needy teenagers wishing to pursue further studies.

Part of the appeal of the Latin American social security model was due to its perceived antipoverty success. The model was one of the most evaluated around the world and results indicate that poverty levels in the region have decreased since their inception in the 1990s

(Mertoranoa and Sanfilippob, 2012:1). In Mexico, secondary school attendance increased by more than 10 per cent for boys and 20 per cent for girls in beneficiary households since inception (Gantner, 2007:2). Compared to non-Progressa children, children in *Progressa* households had a 12 per cent lower incidence of illness (Gantner, 2007:2 and UNDP, 2011). By 2001, the depth of poverty had declined by 30 per cent and the number of individuals with income levels below the poverty level had fallen by approximately 10 per cent (International Food Policy Research Institute (IFPRI), 2002) Additionally, *Progressa* households had 13 per cent higher food expenditure (Gantner, 2007:2 and UNDP, 2011).

Positive attributes of the Latin American model are discussed next followed by challenges and criticisms.

4.1.2. Positive Attributes of the Latin American model.

Part of the appeal of the Latin American model is due to its perceived antipoverty success. The CCTs cover millions (e.g. 11 million in Brazil and 20 million in Mexico) of people throughout the region and in countries such as Brazil and Mexico where the programmes are universal, reaching up to a quarter of the population (Azevedo and Robles, 2011:2 and Higgings, 2012). The model remains one of the most evaluated around the world and results indicate that poverty levels in the region have decreased since their inception in the 1990s (Mertoranoa and Sanfilippob, 2012:1).

Research by Duryea and Morrison (2004:15) and Economist (2010) indicated that since the CCTs' introduction, there have been positive improvements in household food consumption patterns and child poverty, increased school attendance, a decline in child labour and greater use of health care facilities. In Columbia, the programme was found to be responsible for a 15 per cent increase in families' basic consumption (Evidence and Lessons from Latin America (ELLA), 2012). Findings by Cortes *et al* (2011:24) reported a greater use of contraceptives and fewer teenage pregnancies. Additionally, fewer child birth-related complications and deaths have been reported (Cortes *et al*, 2011:24 and IRIN News, 2012).

Assessments have displayed a spike in social policy impact evaluations (even external to the CCT realm) in the region and around the world since the launch of the Latin American model (Johannsen *et al*, 2009:12). The programmes have therefore contributed significantly to the body of work, helped rationalise and cement previously fragmented social policy and

innovate targeting tools which have been adopted since by other social protection programmes worldwide (Silva, 2008:1).

Poverty mainly affects women, children and single-headed households (Winchester, 1990:72 and Hartmann, 2005:14). Women are the programme's main targeted clientele as they are viewed as better equipped to care for children and ensure that they meet the CCTs expected conditions (Transparency International, 2012).

Although critics repeatedly warned that CCTs encourage welfare dependency, the programmes have had no major negative impact on labour participation in the relevant countries implemented (Holmes *et al*, 2010:3). Additionally, the programme has reduced inequality, narrowed the poverty gap and lessened its severity in the region (Alzúa *et al*, 2009:20 and Holmes *et al*, 2010:4).

4.1.3. Challenges and criticisms of the Latin American model.

Although the Latin American social welfare model has yielded some positive and promising results, there are some challenges and criticisms which remain. Due to the model's female-oriented nature, critics such as Herzog (2011:4) and Stachowski (2011:28) argued that it may bolster traditional gender roles and categorise women as just mothers and caregivers. Further criticism posits that, women's wellbeing could be adversely affected as they take on the burden of ensuring their families meet the CCTs criteria (Molyneux, 2010). The delegated task may also result in a sharp decline in women's leisure time and thus potentially lower their level of happiness and life satisfaction (Herzog, 2011:5). In essence, the programme was criticised for delegating social protection responsibilities from the state to families, and in particular, to the women within the families (Lomeli, 2008:490; and Molyneux, 2010).

The success and popularity of the Latin American programmes have also highlighted the need for political stability and sustainability. In Brazil, the strategy has been accused of promoting a short-term outlook amongst policymakers and politicians and coaxing them to politically manipulate the system and use it as a vote-capturing tool (Stachowski, 2011:34). CCTs are relatively cheap to administrate and they do not only stimulate the supply side of the market but encourage the state to step-up complementary supply-side interventions (Johannsen *et al*, 2009:8). Consequently, they (CCTs) are repeatedly accused of diverting

resources from social service provision and crowding out investments in the enhancement of basic services such as education, health and sanitation (Stachowski, 2011:38). The system's political vulnerability has served to alienate the middle class in some countries and therefore questions concerning its sustainability have been raised (Moore, 2009:35). In Nicaragua, a CCT-type system was discontinued as a result of the lack of social cohesion and trust between the state and citizens (Moore, 2009:35 and Stachowski, 2011: 32). Additionally Soares *et al* (2007:4) noted that the Brazilian and Mexican programmes, in particular experienced under-coverage and leakages. The ratio of non-beneficiary poor to the total poor was 59 per cent in Brazil and in Mexico, the ratio of the beneficiary poor to the total poor was 30 per cent (Soares *et al*, 2007:4).

Conditionality may be accompanied by relatively high administration costs. The costs vary across programmes and calculations by Johannsen *et al* (2009:147) showed that they averaged 8.2 per cent (as a per cent of total programme costs). Lomeli (2008:482) argued that despite the positive impact on education, child nutrition and health outcomes the CCT programmes have had a limited impact on anaemia rates. Furthermore, there appears to have been little or no improvement in the amount learned in school, school performance and/or cognitive development among recipient children (ELLA, 2012 and Schady, 2012).

CCTs have been around for less than two decades and Lomeli (2008:491) advised that it was too early to discern their ultimate effects and to distinguish their effect on long-term socioeconomic development either at the national or individual level. Time, further research and multiple evaluations are therefore necessary in order to fully encapsulate the programmes' effect in both the short and long-run.

4.2. WELFARE PROGRAMMES IN DEVELOPED COUNTRIES.

Poverty is a complex and multidimensional concept and the debate on cash transfers reignited the classic economic discussion on whether state intervention in economic affairs is ideal. Cash transfers are a form of government intervention in the market and thus are a popular and dominant feature of welfare states (Barr, 1992:744). In a welfare state the government typically interferes in the citizens' affairs and assumes primary responsibility of providing for basic needs (Pedersen *et al*, 2012:3). The concept is rooted in the principles of equal opportunity and wealth distribution and public provision of basic necessities, particularly for those unable to provide for themselves (i.e. the poor) (Brady, 2009:3).

There currently exists no distinct cohesive school of welfare economics (Fotopoulos, 1999; Swank, 2005:184 and Daily Mail, 2013). Furthermore, the elements which identify and constitute a welfare state are not well defined (Brady, 2009:8). However, the consensus is that the welfare state concept has elements which are distinctively democratic, socialistic and capitalistic in character (Fotopoulos, 1999 and Brady, 2009:8). Therefore, a welfare state is commonly classified as a form of “mixed economy” and is funded through the redistribution of taxes (Field, 2011). Regarding the concept, Kemp (1971:381) suggested that all economics should be classified as welfare economics since it is primarily concerned with human satisfaction.

The welfare state system originated in Europe under the leadership of Chancellor Bismarck in the 1880s and Germany is considered as the first nation to implement the system (Ebeling, 2007). In the United Kingdom, the welfare state began to emerge around 1910 and included the introduction of old age pensions and free school meals (Field, 2011). During the 1940s, France emerged as a welfare state and began to imitate practices implemented in Germany and the UK (Smith, 2003:3).

The welfare state remained a popular feature of industrialised European governments throughout the late 19th century and early 20th century. However, the strategy remained largely unpopular in the United States (Welfare Information, 2013). The unpopularity was because Americans preferred laissez-faire economic principles and regarded free markets as more economically efficient and ideal (Ebeling, 2007 and Furstenberg, 2011). The US apathy toward the welfare state continued until the early 1930s when the Great Depression began (Katz, 2008 and Welfare Information, 2013). By the time the Depression started, the US was about the only industrialised nation without a comprehensive social insurance system in place (Constitutional Rights Foundation, 1998). As a result, the effects of the Great Depression were more severe in the US. In response, President Roosevelt introduced the first social insurance policies which sought to ensure fair labour practices (Welfare Information, 2013).

Over the decades the welfare state has evolved and has been implemented in several more countries, including developing countries (Rudra, 2002:412). Despite the rise in popularity of welfare intervention in developing nations, developed countries remain the top spenders on welfare (Dolberg, 2012:4). The Nordic countries (i.e. Sweden, Denmark, Finland, Norway

and Iceland) are prime examples of the modern welfare state. The next section analyses the Nordic welfare model and investigates its effect on poverty in pertinent countries.

4.2.1. The Nordic Welfare Model.

In recent years, the Nordic countries (Sweden, Denmark, Finland, Iceland and Norway) have become increasingly recognised as economically desirable and model nations (Kaminski, 2013). This is because these countries routinely and continually top world lists on happiness, international competitiveness, level of innovation and economic prosperity (Hudson, 2009; Amundsen, 2011; and Kaminski, 2013). The countries are also known for being egalitarian as well as having relatively low poverty and inequality levels and high income and employment rates (Andersen, 2004:744; Becker, 2007:42; Fritzell *et al*, 2011:2; and Kangas and Kvist, 2012:2). Additionally, the Nordic nations have consecutively ranked in the top 20 of Legatum Prosperity Index in the last five years (Daily Mail, 2012). The Index is a yearly global ranking of 142 countries' prosperity levels (Berlinger, 2012). The ranking is based on an assortment of factors such as wealth, quality of life, well-being and economic growth (Bate, 2009).

Although the Nordic countries are economically and socially distinct in character, they have some similar traits (Alestalo *et al*, 2009:4). These common characteristics earn the Nordics states the umbrella term: the Nordic/Scandinavian welfare model (Alestalo *et al*, 2009:2). Apart from sharing a geographical location, the countries also commonly have small and open economies and a relatively even distribution of income (Andersen, 2007:2 and Fritzell *et al*, 2011:2). The most dominant unifying factor between the countries' welfare systems is their egalitarian approach to welfare (Kuhnle, 1998 and Andersen, 2007:2). As a result, welfare provision is universalistic and relatively generous (Kuhnle, 1998). The system is financed through taxation and as a result the tax burdens (as a percentage of GDP) are among the highest in the world (Andersen, 2004: 745). Although universalistic in character, welfare benefits are not entirely unconditional (Andersen, 2007:3).

i. Characteristics of the Nordic welfare model.

The Nordic welfare state model is characterised by a relatively active and extensive state involvement (Kuhnle, 1998). Consequently, the government guarantees basic pensions and free or heavily subsidised basic services (such as education and health) for all citizens (Kangas and Kvist, 2012:4). The heavy state involvement dilutes the influence of intermediary assemblies (e.g. NGOs, voluntary organisations, church, etc.) (Alestalo *et al*, 2009:2).

Another distinguishing feature of the Nordic welfare model is the relatively high labour participation (over thirty per cent) in the social, educational and health sectors (Kuhnle, 1998 and Becker, 2007:42). Approximately 90 per cent of all personnel in the above sectors are employed in the public sector and as a result, there is a relatively heavy reliance on the public sector for the provision of health, educational and social services (Kuhnle, 1998 and Andersen, 2010:4).

Full employment is strongly emphasised as an economic principle and as a result women are strongly encouraged to participate in the labour force (Alestalo *et al*, 2009:27). Therefore, there are advanced gender equity levels (Kuivalainen and Nelson, 2010:5). Nordic labour markets are characterised by high rates of female participation, low levels of income disparity between men and women in similar occupations and a well-developed support system for working mothers (Kuhnle, 1998; Kuivalainen and Nelson, 2010:5 and Kangas and Kvist, 2012:12).

The general egalitarian spirit ensures that social issues such as children's well-being, old age care, employees' rights and public health and education are highly prioritised (Andersen, 2007:2). Compared to other European societies, Nordic nations are more "state-friendly" and there are relatively elevated levels of trust between residents and the state (Kuhnle, 1998).

Although direct income transfers form a part of the Nordic welfare model, greater emphasis is placed on service provision (Kuhnle, 1998). The services include old-age homes, an extensive system of child-care centres for working mothers and in-home aid for the severely disabled and ill (Stephens, 1995:3; Kuhnle, 1998 and Göransson, 2013:54).

ii. Positive attributes of the Nordic Welfare Model.

The Nordic welfare model is regularly compared to a bumble bee. Bumble bees have heavy bodies and skinny wings and according to the laws of aerodynamics they should not be able to fly, however, they do (Rabinowitz, 2011). Likewise, the Nordic model perseveres despite the high taxes, high wages, large public sector, high employment levels, strong trade unions and being relatively generous and universal in comparison to other European models (Rabinowitz, 2011 and Göransson, 2013:3). It is this resilient nature that has allowed the model to achieve positive results at a higher degree and rate compared to other welfare states (Göransson, 2013:3). The Nordics have also managed to maintain a stable and sustainable macroeconomic growth climate and were not as severely affected by the last global financial crisis as other developed countries (Alestalo *et al*, 2009:5 and Gylfason *et al*, 2010).

Apart from scoring at the top of several global economic rankings, Nordic nations are also world leaders in transparency, economic openness and social equity (Kuivalainen and Nelson, 2010: 5 and Göransson, 2013:54). There is also an enviably low level of crime (Jannetto, 2009). Nordic countries also provide housing and allowances (at a flat rate) for families with children based on need (Stephens, 1995:3 and Normann *et al*, 2009:7). Consequently, vulnerability and child poverty levels are relatively low (Kangas and Kvist, 2012: 7). There are low barriers to trade and as a result, the Nordic economies are relatively competitive and productivity levels are high (Andersen *et al*, 2007:14). Public pension schemes, free education and universal healthcare form part of an intricate social safety net which helps keep poverty levels across generations and genders low (Economist, 2013b). Corruption is low, thus business is relatively easy to conduct in Nordic countries (Economist, 2013a and Economist, 2013b). The constructive business climate is in part due to the countries' strong contract and property rights enforcement (Mitchell, 2007:2).

iii. Criticism of the Nordic welfare model.

Although the Nordic model is often applauded as an economic success, it has not been without its challenges and weaknesses. The most prominent criticism against the model is the high tax incidence (Sanandaji, 2012). Norway and Sweden in particular, have the highest tax burden globally (Economist, 2012a and The Local, 2012). Consequently, both countries each have a total tax burden of over 48 per cent (of GDP) (Economifakta, 2013). This value is nearly twice that of the USA and four times more than that of Hong Kong (Nation Master,

2013a). Additionally, Norway has a general VAT rate of 25 per cent and applies a direct wealth tax on eligible citizens (Meridian Global Services, 2013).

The Nordic nations have a progressive taxation system and therefore personal income tax can be as high as 60 per cent and corporate profit taxes have been recorded as high as 78 per cent (Sammy, 2012 and Sanandaji, 2012). Consequently, Sweden and Denmark have the second and third highest personal income tax rates globally (Jannetto, 2009 and Sammy, 2012). Sanandaji (2012) argued that the high taxes were damaging, hindered economic growth and drove entrepreneurs to relocate their businesses. Sanandaji (2012) also theorised that reducing taxes by as little as one Krona could potentially stimulate economic growth. Furthermore, Jannetto (2009) argued that high taxation limited individual freedom and hampered the opportunity to become wealthy.

Research however, has indicated that the high tax rates have had an insignificant impact on the labour participation rate as employment in the four Nordic states (excluding Iceland) borders on 80 per cent (Economist, 1999 and Olofsson and Wadensjo, 2012). The high employment rate also serves as an object of major criticism. This is because a significant number of the Nordic labour is employed by the public sector and the result is high public spending and cost (Economist, 2013a). The high public expenditure is frequently linked to inefficiency and Becker (2007:46), hypothesised that the Danish and Swedish public sectors were only half as efficient as that of the US.

In keeping with the spirit of egalitarianism, Nordic employees are entitled to paid sick leave (Hansen, 2010). As a result Scandinavia experiences high levels of paid sick leave claims (Jannetto, 2009 and Economist, 2013b). According to Becker (2007:47) Sweden, Norway, Finland and Denmark lose an annual average of 26, 21, 15 and 10 days to sick leave per employee respectively.

In the last two decades the Nordic nations have experienced a change in demographics (particularly an ageing population and declining birth rates) (Halvorsen, 2013). For example, five per cent of the Swedish population is over the age of 80 (Hoydal, 2013). The change in demographics serves as a cause for concern as it can potentially shift the burden on public expenditure (e.g. pensions, child allowances etc.) (Andersen, 2004:750).

Immigration is also cited as a potential threat to the sustainability of the model (Kvist and Grene, 2011:147). Nordic countries currently have a population of 24.9 million citizens and critics warn that as a result of increasing immigration to the region, the population could reach 28 million by 2050 (Hoydal, 2013). In 2013, thirteen per cent of the Swedish population comprised of immigrants whilst the estimations in Norway and Denmark hovered around 8 per cent (Schwartz, 2013 and Hoydal, 2013). The immigrant populations in Iceland and Finland are ten and four per cent immigrant respectively (Schwartz, 2013).

The Nordic region has a relatively low population and as a result there is a general belief among critics that the welfare model is not replicable and sustainable in larger countries (Sanandaji, 2012). Despite the various criticisms, the Nordic welfare model continues to prosper and although the countries still face some common socioeconomic problems, the degree is almost always less severe than in other countries with similar economic profiles.

4.2.2. Welfare Programmes in the United States.

Social welfare programmes in the United States were virtually non-existent until 1935 when President Franklin D. Roosevelt initiated the system to provide assistance to the economically vulnerable (Nadasen *et al*, 2009:17). Since then, the programmes have become a significant feature of American life by 2012, a reported 49 per cent of the population lived in a household where at least one member received some type of government benefit (Spalding, 2012). Estimates of the poverty rate in the US range between 14 and 20 per cent, with children and minorities being the most affected (National Poverty Center, 2011; Portero, 2013 and Randall, 2013). Accordingly, the government administers a range of welfare programmes to provide people with health care, child care, food stamps, housing assistance, unemployment benefits and cash aid (Carl, 2011:13 and Moran, 2012). The programmes are provided by various organizations at the state, federal, local and private level (Moran, 2012). Eligibility varies across states and depends on factors such as: income, unemployment, family size, medical conditions and other circumstances like homelessness and pregnancy (Spalding, 2012 and Welfare Information, 2012).

Unlike in Europe, social democratic and Christian democratic theories have played a much smaller role in influencing welfare policy in the U.S (Brooks and Manza, 2006:824). Historically, Americans have advocated for free-market economics and a diminished size of

government (Brooks and Manza, 2006:824). Consequently, opinions and approaches among Democrats and Republicans are divided (Brooks, 2012 and Ponnuru, 2012). Over the years the number of welfare claimants has gradually increased, resulting in a growing concern over the fiscal sustainability of the programme (Welfare Information, 2012). Consequently, President Bill Clinton passed the Welfare Reform Act of 1996 in an effort to make the system more effective in reducing poverty levels and welfare dependency (Welfare Information, 2012). Prior to the reform, social assistance was largely unconditional and targeting options were lenient (Hu, 1999:72 and Goldstein, 2008). According to Hu (1999:72) the pre-reform system was not only fiscally-intensive, but disincentivised work efforts and encouraged a 'culture' of welfare addiction. After the reform, several programmes were scrapped and the system was transformed "into a finite program built to provide short-term cash assistance and steer people quickly into jobs" (Goldstein, 2008). Therefore, the current lifetime limit of welfare benefit is 60 months and beyond the period, individuals are indiscriminately cut off regardless of circumstances (Grogger, 2001:1).

Although, social welfare expenditure-to-GDP in the US is less than the OECD average, it accounts for the largest federal expense (Spalding, 2012). The total cost surpassed US\$ 1 trillion in 2011 (Moran, 2012 and Spalding, 2012). However, cuts have been made on the nation's largest programme; the Temporary Assistance for Needy Families (TANF), in an attempt to reduce total expenditure (Spalding, 2012).

The country's official poverty threshold is set at US\$ 22,000 a year for a family of four (Alcorn, 2011 and Kendall, 2011:229). Families living below the line are eligible for social assistance contingent on certain factors (Alcorn, 2011). The two largest social assistance programmes in the US are the Supplemental Security Income (SSI) and the TANF.

The SSI programme provides monthly cash assistance economically vulnerable individuals such as the elderly (65 or older) and the disabled (King, 2008:27). The TANF on the other hand is mainly targeted at children and provides stipends to destitute families with dependent children (Ellwood, 2000:189). The TANF was the first US programme of its kind to link cash assistance to employment activity and marriage (Parrott and Sherman, 2006:1). Unemployed parents on the programme have to present clear evidence that they are actively searching for work (Schott, 2012 and Kaufmann, 2013). Employed single-parents have to work a minimum of 30 hours per week whilst two-parent household have to put in 35 to 55 hours of labour (Schott, 2012). The programmes' four goals are: 1. 'to provide assistance to needy families so

that children may be cared for in their own homes or in the homes of relatives; 2. to end the dependency of needy parents on government benefits by promoting job preparation, work and marriage; 3. to prevent and reduce the incidence of out of wedlock pregnancies and; 4. to establish annual numerical goals for preventing and reducing the incidence of out of wedlock pregnancies and establish annual numerical goals for preventing and reducing the incidence of these pregnancies and to encourage the formation and maintenance of two- parent families' (Schott, 2012). Therefore, various States (e.g. Utah and Oklahoma) have marriage incentive programmes designed to encourage parents (especially biological) to marry each other (Falk, 2007:8). For example, the state of West Virginia offered US\$ 100 per month to married couples on welfare (Solomon, 2006:152). The cash value of both the TANF and SSI varies across different states. The average maximum value for a family of three the state of Oregon was US\$ 506 while the amount was US\$ 338 and US\$ 342 in Delaware and Washington respectively (Floyd and Schott, 2011 and Oregon Department of Human Services, 2013).

i. Impact of the TANF

Five years after the reform, poverty levels had dropped below 10 per cent and the number of welfare claimants had significantly dropped (Research for Social and Economic Development, 2012). As a result, the system (particularly the TANF) was lauded as an anti-poverty success (Research for Social and Economic Development, 2012 and Kaufmann, 2013). However, critics such as DeParle (2009) and Kaufmann (2013) attributed the decline in poverty rates to a period of economic prosperity which prevailed in the decade before the 2008 global financial crisis. The crisis coincided with significant cuts in social security expenditure and this raised the poverty levels to over 20 per cent (Research for Social and Economic Development, 2012). Additionally, the stringent contingencies imposed on beneficiaries were attributed to a general drop in the case load (Floyd and Schott, 2011). The TANF is also accused of holding on to obsolete notions of family structure and of discriminating against single mothers by requiring them to work many hours thus leaving the less time to spend time with their children (Jackson, 2004:154 and Taylor and Vogel-Ferguson, 2011:228). The marriage incentives are criticised for encouraging low-income beneficiary women to remain in abusive relationships (LeRoy, 2001). Additionally, the poverty guideline of US\$ 22,000 a year for a family is criticised for being too low and degrading to the poor's standard of living (Orr, 2009 and Judeh, 2012).

Due to its block-grant structure, the TANF is frequently criticised of being economically vulnerable and unable to respond timely and effectively to economic changes. A block-grant is a consolidated grant of federal funds granted by the national government to a regional government to spend at its (regional government) discretion on specific programmes (Zimmerman, 2009:124). Therefore, funding for the programme does not increase during hard economic times when caseloads rise (Pavetti and Schott, 2011:1).

4.3. SUMMARY AND CONCLUSIONS.

The chapter evaluated social protection systems around the world. Distinctions were made between developing and developed countries. Countries in the Latin America and Caribbean region have what is considered an innovative social assistance scheme. Two countries in particular, Brazil and Mexico have the largest CCT programmes worldwide. The focal point of the examples was the conditional cash transfers administered and the prerequisite conditions (i.e. health and education attainment). Since the programmes' introduction, poverty decreased, child nutrition improved and school and healthcare facility visits increased. Therefore, the model has been deemed as an anti-poverty success and as a result has been adopted by several countries worldwide such as Nicaragua and Ghana. However, other low income countries may have challenges achieving noticeable success as their infrastructure and budgets may be constrained.

In the developed world, Scandinavians have what many consider an effective social protection method. Although cash transfers are administered, an emphasis is placed on economic productivity. The aim is to make individuals more economically active. The region has relatively low poverty levels and is one of the happiest and prosperous globally. However, the social protection strategy comes with a high tax burden and as a result, developing nations may experience considerable challenges when modelling their systems on the Nordics'.

At approximately US\$ 1 trillion, social welfare expenditure accounts for the largest federal expense in the US. Poverty levels in the country are among the highest in the developed world. However, it is important to note that poverty in developed countries (e.g. the US) is frequently relative as opposed to absolute (as in developing countries). The US welfare system is conditional and thus similar to those of Brazil and Mexico. However, the prerequisite conditions are different. In Brazil and Mexico, education and health are key aspects, while the US Temporary Assistance for Needy Families (TANF) stresses the importance of

marriage and employment search and preparedness. The TANF, the largest social assistance programme in the country is mainly focused on destitute families with small children and provides cash assistance. Depending on the State, the programme also provides incentives for working and married parents.

Economic conditions in developing and developed countries differ significantly. Developed countries tend to have comprehensive infrastructure and generally spend more on social security. As a result of the disparities, social protection programmes employed effectively in developed nations may not be as efficient in developing countries and vice versa. The efficacy of anti-poverty strategies depends on the socioeconomic conditions prevailing in the host country.

The next two chapters analyse two prominent features of the welfare systems: Universalism and conditionality; and examines their applicability to the South African context.

CHAPTER 5: ANALYSING UNIVERSALISM

5.1. INTRODUCTION

In the last two decades, South Africa experienced significant progress as shown by several socioeconomic indicators. However, the progress varied across sectors. Access to education and healthcare improved although the services' quality remained a concern (Sidley, 2012 and Pinnock, 2013). Poverty, inequality and unemployment remain as the country's prominent economic hurdles. At the forefront of the country's anti-poverty strategies is social protection in the form of cash transfers.

This chapter builds on the previous one, taking a closer look at universalism, a strategy implemented in the Nordic states and assessing its applicability to the South African context. In essence, the chapter analyses the lessons and policy implications for South Africa, if it is to follow in the Nordics' footsteps and successfully reduce poverty levels.

5.2. THE BASIC UNIVERSAL GRANT

Due to the high poverty rate that characterises the South African socioeconomic context, the previous and current South African administrations have been forced to place significant emphasis on the social security system. Given that South Africa is a developing country with a complicated history of racial discrimination and oppression, it may seem like an unlikely candidate for implementing a universal grant. However, in 2000 the Department of Social Development commissioned the Taylor Committee to investigate the merits and shortcomings of the country's social security system (Seekings and Natrass, 2002:1). One of the chief conclusions of the Commission was that "the existing social security programmes do not adequately address the problem of poverty" (Thurlow, 2002:2). To repair the system and make existing grants more efficient, the Taylor Committee recommended comprehensive reform and the introduction of a universal grant called the 'basic income grant' (BIG). The recommendation was welcomed by various trade unions, NGOs, churches and political parties such as the Democratic Alliance (DA), the official opposition, and the South African Communist Party (SACP), but rejected by the governing ANC party (Seekings and Natrass, 2002:1; and Standing and Samson, 2003:ix).

In contrast to conventional means tested social assistance, the proposed basic income would be dispensed to every individual regardless of income. However, the introduction of BIG does not necessarily equate to the rich becoming richer because of the varying contributions

to the sources of funding. According to Makino (2004:3), the rich would pay more if the system is financed through taxation.

The Taylor Committee proposed that the BIG amount be set at R100 (in year 2000 prices) per month paid to all individuals over and above existing government transfers and adjusted for inflation with time (Seekings and Natrass, 2002:1). Samson *et al* (2002) hypothesised that by removing the means test, the BIG could close the poverty gap by up to 74 per cent. According to Van der Berg (2002:1), the Basic Income Grant had the potential, more than any other possible social protection intervention, to reduce poverty and promote human development and sustainable livelihoods.

Samson *et al* (2002) argued that the overall economic impact of the BIG could be transmitted through various mechanisms. Firstly, increased income is likely to improve education, health and social stability, thus leading to an increase in factor productivity. Secondly, labour supply is likely to increase as people would be able to spend more time in search of employment and able to finance their own entrepreneurial activities. Additionally, the increase in productivity could increase labour demand and enhance economic growth through an increase in aggregate demand, as household income and spending improve. The ability of the BIG to generate the positive impacts on the economy is critical since it is assumed that the predicted long-term economic growth will lessen the net fiscal impact of the grant (Samson *et al*, 2002).

Having briefly presented the BIG proposal, the next section examines the feasibility of such a system within the South African context.

5.3. THE FEASIBILITY OF UNIVERSALISM IN SOUTH AFRICA

There is an increasing widening belief among policymakers that economic growth and conventional development policy measures alone are insufficient to combat poverty and inequality as far as the status quo is maintained and unjust economic structures remain in place (Akram *et al*, 2011:44; Global Research, 2013 and Perkio, 2014). Proponents of universalism argue that selectivity and targeting stigmatises the poor and is costly to administer (Danson *et al*, 2012:3). Commenting on the socially divisive nature of targeting, Townsend (1976:126) argued that the method “fosters hierarchical relationships of superiority and inferiority in society, diminishes rather than enhances the status of the poor, and has the effect of widening rather than reducing social inequalities. It lumps together the

unemployed, sick, widowed, aged and others into one undifferentiated and inevitably stigmatised category". Supporters of universalism frequently echo Townsend's (1976:126) sentiments and assert that although universal cash transfers are relatively costly, their potential benefits outweigh those of targeting (Danson *et al*, 2012:2).

The next section analyses the socioeconomic benefits of universal cash grants and looks at the impact that the system could have in South Africa, given the high poverty levels.

5.3.1. The Potential Economic Impact.

Nordic countries are characterised by relatively high labour participation and low poverty and vulnerability rates. The countries also score at the top of several economic rankings (e.g. HDI, Gini, etc.) and are world leaders in transparency, economic openness and social equity (Kuivalainen and Nelson, 2010:5 and Göransson, 2013:54). Part of the nations' prosperity is attributed to the welfare system administered and vice versa (Anttonen, 2002:72). Although each Nordic country's system has some unique traits, the dominant characteristic uniting them is that they are universalistic in nature (Kautto *et al*, 1999:13 and Standing, 2005:318).

According to Samson *et al* (2002:17), universal cash grants such as the BIG can be economically beneficial and therefore, this section examines the potential impact of a basic universal cash grant. Specific focus will be given to three transmission mechanisms through which the effects could be realised. First, the connection between such a grant and the accumulation of social capital will be investigated. Second, an assessment of the potential impact of the grant on the labour market will be made. Third, the section analyses the macro-economic consequences of the grant, examining the nature and level of aggregate demand (Samson *et al*, 2002:17).

a. Social Capital.

The potential economic impact of a universal cash grant on the accumulation of social capital may be realised through various transmission mechanisms, namely: health and nutrition, education and social stability (Samson *et al*, 2002:17). Both education and nutrition positively contribute to health which in turn increases school enrolment rates and raises the total return to education through prolonging individuals' lifespan (Rogot *et al*, 1992:458; and Groot and Van den Brink, 2006:356). The government's human resource policy recognises that poverty and inequality limit the ability and capacity of the government, households and individuals to finance the augmentation of skills, education and training that are critical

prerequisites for improved participation in the labour market, and therefore, improved income (Human Resource Development South Africa (HRDSA), 2009:6). In such a situation, poverty reinforces the conditions which keep living standards low and growth prospects stagnant (Samson *et al*, 2002:17).

i. Nutrition and Health.

According to Adato and Bassett (2009:61), accessible social security is vital for the successful maintenance of proper nutrition. Social security enables poor households to escape starvation by providing adequate income to purchase food. According to the Human Sciences Research Council, (HSRC, 2013:144), less than half (45.6 per cent) of the South African population was food secure. In addition, over 15 per cent of children suffered from stunting and underdevelopment as a direct consequence of malnutrition (HSRC, 2013:207). Adequate early childhood nutrition is critical and its absence can have long-term negative effects. Early malnutrition is associated with higher risks of heart disease, hypertension, strokes and diabetes and reduces the capacity of the immune system to protect health, leading to a reduction in life expectancy (Food and Agriculture Organization, 2002:6; and García-Martínez and Serrano-Torregrosa, 2011:106). Therefore, conditions resulting from childhood deprivation can lead to long term strains on the nation's education and health systems, draining resources which could otherwise efficiently target other social priorities (Samson *et al*, 2002:17). Underprivileged households tend to devote a larger portion of their income to food, a trend which is evident in South Africa where STATSSA (2014:52) estimated that poor households (with the poverty line set at R620 per capita per month) spent 33.5 per cent of their total income on food compared to a tenth (10.2 per cent) by non-poor households. The provision of a basic grant could therefore enable individuals and households to spend more on other necessities such as health and education. A Chilean study by Selowski and Taylor (1973:29) tracked children over several years and discovered that preventing childhood malnutrition, yielded productivity returns (e.g. less absenteeism and incidence of infectious diseases, etc.) up to eight times the cost of the social investment. In essence, childhood malnutrition is socioeconomically costly and social security has the potential to address the phenomenon successfully.

ii. Education

Social security can be directly linked to education attainment according to Samson *et al* (2002:19), who argued that theoretically, income grants can impact recipients' school enrolment in two ways. First, a grant can potentially reduce the opportunity cost of school

attendance (Samson *et al*, 2002:19). In most developing countries, children from underprivileged households often have to skip school and seek employment in order to contribute to the households' needs. The International Labour Organization (2010:2) estimated that a quarter of individuals under 18 in Africa were involved in the labour market. South Africa has over 800 000 child labourers, translating to approximately 5 per cent of the country's child (i.e. under 15 years) population (Sunday Times, 2013). The additional income (from a grant) could make school attendance less costly and therefore increase enrolment rates. Second, the grant offers an improvement in disposable income which could minimise the financial barriers to school attendance (e.g. tuition fees, school uniforms, transport, etc.) (Samson *et al*, 2002:19).

In poor households, the impact of a grant in terms of promoting school attendance tends to be relatively stronger (Samson *et al*, 2002:19). An evaluation of cash transfers on school enrolment by Schady and Araujo (2006:24) revealed that children from households which participated in the Ecuadorian means-tested *Bono de Desarrollo Humano* (BDH) programme were up to 4 percentage points more likely to be enrolled in school than children in non-participant households.

The impact of social assistance is frequently greater for girls than for boys. For example, the Bangladeshi Female Secondary School Assistance Program [FSSAP] increased female student enrolment by over 2 percentage points above the prevailing rate of increase and between 1991 and 2005, female enrolment in secondary school increased by approximately 3 million (Fuwa, 2006:1 and Schurmann, 2009:506). In Turkey, cash grants were shown to increase secondary enrolment by 10.7 percentage points (starting from a low base of 56 per cent) for girls aged between 14 and 17 (Adato, 2007 and Govender, 2011:262). In South Africa, Samson *et al* (2002:18) estimated that a R500 per month increase in income transfers to a poor household of five would increase the probability of attending school by between 2 and 5 percentage points for a school-age boy and girl, respectively.

Apart from adding to human capital and thus improving future productivity and economic growth prospects, increasing school attendance amongst underprivileged children can have a vital long-term effect on preventing the spread of HIV/AIDS. The disease affects a tenth of the South African population and serves as the leading cause of death in the country (STATSSA, 2013:3). Indeed, improving the level of education, particularly for women is

considered as one of the most effective ways to combat the prevalence of the pandemic (UNICEF, 2003).

The positive relationship between improved household incomes and enhanced educational attainment by children is well-documented globally (Masters, 1969; Brooks-Gunn and Duncan, 1995; Dahl and Lochner, 2012 and Copper and Stewart, 2013). Ranis and Stewart (2000:53); and Samson *et al* (2002:20) particularly noted that improved female education, especially via the consequent improvements in infant survival and child nutrition, served as the most dependable forecaster of successful human development. In essence, education enhances economic growth via improvements in labour productivity and capital productivity. An educated labour force is likely to be more innovative, further amplifying capital productivity.

iii. Poverty, Inequality and Social Instability: Growth Implications.

Extending social assistance to the whole population instead of a select group can help to dissolve the stigmatization often associated with claiming benefits. In addition to providing a cushion against vulnerability for the economically politically marginalised, a universal cash grant can promote social cohesion and investor confidence. In order to survive, the poor may turn to crime (The Independent, 1993). Louw and Shaw (1997:7) conducted a study of townships in and around Durban and discovered a link between violence and poverty. Denying the poor access to educational and economic opportunities may accentuate inequality, further slowing economic growth. Numerous studies globally document the negative effect of inequality on economic growth (Kuznets, 1955; Aghion *et al*, 1999; Bernstein, 2013; and Ostry *et al*, 2014).

Universal cash grants can help foster social cohesion which can in turn serve as an ingredient for enhancing economic development (Jacobs *et al*, 2010:10). Nordic countries have some of the most cohesive societies and their universalistic approach to welfare is frequently attributed as part of the reason (Anttonen, 2002:72). Furthermore, the level of trust is relatively high and the countries rank high on the European Values Survey (Andersen *et al*, 2007:39). The European Values Survey, which measures trust by the share of people, concluded that Nordic citizens agree that their fellow countrymen can be trusted (Andersen *et al*, 2007:39). Social cohesion can enhance growth through reducing transaction costs. According to Foa (2001), societies which have low norms of trust or cooperation between differing identity groups (e.g. ethnic, religious, etc.) incur greater costs of economic

cooperation, thereby inhibiting economic activity. Fukuyama (1995:27) emphasised the importance of a cohesive society and argued that ‘where people who have to work together in an enterprise trust one another because they are all operating according to a common set of ethical norms, doing business costs less. According to Foa (2011), another benefit of social cohesion is the facilitation of collective action as it can engender positive externalities in the form of providing, monitoring, and enforcing the provision of necessary public goods such as infrastructure, health or education. Foa (2011) further indicated that in fractionalised societies with heterogeneous identities, lower levels of public goods provision and participation in voluntary contribution mechanisms prevail, even in the presence of potential positive-sum gains.

In the absence of social cohesion, economic growth can be hindered through capital dis-accumulation. Oosterbaan *et al* (2000:238) defined long-term economic growth as sustained capital accumulation which is as a result of magnification and intensification of goods, services and factors of production. Intergroup clashes can be economically costly as they frequently lead to the destruction of physical infrastructure and the loss of human capital (‘brain drain’) (Ramanan, 1998:17 and Foa, 2011). In the last two decades, South Africa has recorded increasing levels of emigration on an annual basis. Diseko (2011) indicated that over 80 per cent of the individuals emigrating were skilled and qualified professionals and that during the year 2000 over 6 000 professional, economically active people emigrated. Luyt (2008:3) lamented that the ‘haemorrhage’ of the country’s skills and human capital retards economic growth and therefore impedes poverty alleviation and economic development. In essence, social cohesion is an important economic component and its absence inhibits economic growth and thus undermines anti-poverty efforts. Moreover, universal grants can help reduce inequality and foster some level of social stability.

b. Effects on the Labour Market.

Ample literature exists detailing the potential positive impact a basic income grant could have on the labour market (Archer, 2007; Samson, 2009; Jacobs *et al*, 2010 and Hagen-Zanker *et al*, 2011). The grant could impact both the demand and supply of labour.

i. Labour Supply.

Conventional economic understanding maintains that income transfers to the poor and unemployed will be likely to undermine their eagerness to supply labour, as the extra income diminishes the opportunity cost of unemployment (Samson, 2009:46). However, numerous

empirical studies contested the presumption and illustrated that improved living standards could be linked with higher levels of employment seeking (Esping-Andersen, 2002; and Carlier *et al*, 2013). Samson *et al* (2002:21) asserted that in the absence of income transfers, the alternative to working may be unacceptable living standards. Essentially, income transfers improve the living standards which are in turn linked with increased job searching.

ii. Labour Demand.

Income transfers act as a wage subsidy increasing the amount of cash the working poor have at their disposal. The increased income offers the employees a chance to devote some of their earnings to consumption which enhances output and investment and improves human capital, thus increasing the firm's competitiveness. The improvement will lead to increased efficiency and thus an increased level of labour demand (Mukherjee, 2002:267). In addition, grants can reduce the amount of remittances which employees transfer, thus increasing their net disposable wages. Samson *et al* (2002:23) argued that higher wages increase productivity in several ways: (1) higher wages enhance equity, narrow inequality, thus increasing social cohesion; (2) higher earnings strengthen improvements in education and health, thereby contributing to higher labour productivity and innovation; and (3) the improved distributional effects of higher wages increase anticipated returns to capital by reducing political risk.

The BIG could potentially raise labour demand through its direct and indirect effects on productivity. Directly, the grant reinforces the accumulation of human capital by employees and supports consumption (by employees) which bolsters productivity (Samson *et al*, 2002:24 and Attanasio and Mesnard, 2005:12). An improved access to essentials, such as nutrition, health care, housing and transportation, reinforces the worker's productivity. Indirectly, an income transfer supports higher worker efficiency by reducing the informal "tax" on workers that stems from the combination of severe poverty and a remittance-oriented social safety net (Samson *et al*, 2002:24). Essentially, in the presence of an income grant, more of the employees' income goes to consumption which intensifies labour productivity, raising the firm's profits and potentially increasing labour demand.

c. Macro-Economic Effects.

An income grant can stimulate economic growth through two transmission mechanisms. First, the grant will augment the total aggregate demand in the economy. Second, it can

potentially redirect spending towards labour-absorbing sectors of the economy (Samson *et al*, 2002:25).

i. The level of aggregate demand.

By channelling resources from savings toward consumption, a basic income grant can boost the overall economic activity. Samson *et al* (2002:25) argued that the high levels of unemployment and excess capacity in the South African economy make the effects of the grant likely to be significant.

Cash transfers to the poor promote aggregate spending, resulting in amplified economic activity which stimulates economic growth. Samson *et al* (2002:25) contended that an examination of South Africa's productive capacity contradicted the view that transfers to the underprivileged might be unsustainable or inflationary. According to Samson *et al* (2002:25), the use of productive capacity in the manufacturing sector has fallen by approximately 5 per cent since 1995. The significant increase in economic activity engineered by income transfers will improve capacity utilisation, most likely with non-durable manufacturing than with durable goods (Samson *et al*, 2002:25). The spending will stimulate the demand-side, thus increasing labour demand and promoting increased employment.

ii. The composition of aggregate demand.

Relatively well-off consumers spend relatively more on goods which are import-intensive and capital-intensive, thus, creating a bias against labour-intensive production in the country (Samson *et al*, 2002:25). Conversely, lower income groups tend to devote their spending on labour-absorbing sectors of the economy (Economic Policy Research Institute, 2002). Income grants raise the consumption of the poor, which is relatively labour-intensive in composition and therefore, dispensing cash transfers to the underprivileged channels aggregate demand towards labour-intensive employment-creating sectors. According to Paton (2014) and Steyn (2014), the majority of South Africa's 25.5 per cent unemployment rate is structural in nature. Therefore, labour-intensive consumption patterns may significantly reduce poverty and inequality.

In summary, a basic income grant may stimulate economic growth and employment-creation and thus reduce poverty through the major transmission mechanisms. First, the grant may enhance both labour demand and supply, reducing the unemployment rate and improving economic growth. Second, it might support the accumulation of social capital, raising labour productivity and fuelling economic growth and job creation in the process. Lastly, the grant

intensifies the level of aggregate demand at the macroeconomic level and shifts the composition of demand in a manner that potentially improves employment and growth.

5.3.2. The Potential Social Impact.

The South African social security system caters for children, pensioners and the disabled but does not make provision for the millions of able-bodied working-age unemployed individuals who are vulnerable to impoverishment. This section examines the potential of a basic income grant to address the severe poverty which characterises much of the population of the country.

With full-implementation of the basic grant, the number of poor citizens excluded from the social protection system is reduced to zero. According to Samson *et al* (2002:15), the grant would enable the social security system to reduce the poverty gap by roughly 74 per cent. The extent of poverty-reduction would be dependent on the composition and size of the household. Households composed of only working age adults will have the least reduction of poverty, closing the gap by roughly 57 per cent (Maki, 2009:123). In child headed households, the poverty gap is closed by an estimated 66 per cent and for households with both children and pensioners the reduction in poverty is even more significant (Samson *et al*, 2002:15). In three generation households, the poverty gap is closed by 85 per cent (Democratic Alliance, 2002 and Maki, 2009:123). A significant proportion of South Africa's poor live in rural areas where, in fact, over half of social security benefits are distributed (Maki, 2009:123 and SASSA, 2012). The Democratic Alliance asserted that the basic income grant had the capacity to reduce poverty successfully by approximately 75 per cent (Maki, 2009:123). Furthermore, the incidence of extreme poverty would be almost completely eliminated. Samson *et al* (2002:16) postulated that, using the headcount method, approximately 6.3 million would be moved out of poverty using the poverty line as a measurement and the number of destitute individuals would fall by 10.2 million people.

A study in India yielded positive results in favour of universal cash grants. The study was conducted over an 18 month period (between 2010 and 2011) and eight villages, constituting approximately 4000 people. Participating households received a basic income of about US\$ 3.75 per month per adult and US\$ 1.9 per child paid to the mother (Fernandez, 2013 and Howard, 2013:5). Increases in consumption of healthy food and a decrease in child malnutrition were observed (Howard, 2013:5). Additionally, time spent in school and personal savings nearly tripled and start-up entrepreneurial ventures doubled (Fernandez,

2013). Other positive outcomes included an increased purchase of common basic medication and home and infrastructure improvements by recipients, a 62 per cent increase in girls' school attendance and increased spending on education (Howard, 2013:5).

Another study in Namibia conducted in a village with roughly one thousand inhabitants yielded similar positive results. The study was conducted over a period of 24 months (January 2008 to December 2009). Child malnutrition significantly decreased and school attendance increased (Krahe, 2009). The amount paid out per individual was set at around US\$ 12 per month and resulted in increased levels of economic activity, contradicting critics' claims that a universal basic income could potentially lead to dependency and laziness (Haarmann and Haarmann, 2012). Additionally, overall crime rates fell by 42 per cent, and specifically stock theft fell by 43 per cent, other theft by nearly 20 per cent and unemployment fell by 12 percentage points (Kaufmann, 2010:38 and Haarmann and Haarmann, 2012). Fiscal constraints and concerns about administrative capacity in both countries prevented the universal grant from being rolled out on a larger scale (Littmarck, 2010:27, and Weir, 2014). In essence, the basic income grant has the potential to reduce income poverty and provide a cushion against unexpected socioeconomic disasters such as unemployment.

Despite the benefits found in both the Indian and Namibian pilot studies, universal cash grants have not been adopted in either country. This raises the question of affordability and given the potential socioeconomic benefits of the grant discussed, the next section evaluates the fiscal feasibility and financing options for full implementation of the grant.

5.4. THE AFFORDABILITY OF A BASIC INCOME GRANT.

The Taylor Committee recommended that the grant be set at R100 (in year 2000 prices) and be inflation-indexed to ensure that the purchasing power remains constant over time (Natrass and Seekings, 2002:3). Therefore, using the 2013 average South African inflation rate of approximately 6 per cent per annum, the nominal amount of the grant would be roughly R220 in 2013 prices (Global Rates, 2014). Given a population of approximately 52 million people, the BIG could amount to an annual transfer of more than R60 billion per annum in 2000 prices (about R 120 billion in 2013 prices) (Thurlow, 2002:4; Pronk, 2004:186 and Statistics South Africa, 2014). The figure reflects the gross costs of the grant, coupled with an estimated administrative fee based roughly on the high cost of delivering the other grants (Natrass and Seekings, 2002:15 and Samson *et al*, 2002). Moreover, the value represents a

significant portion of the country's GDP and almost doubles the government's current transfer spending. As it stands, the spending on social security in the country represents 3.5 per cent of GDP. The magnitude of the additional spending that would be required to finance BIG has raised concerns regarding its affordability and efficiency (Thurlow, 2002:4). Concerns have also been raised over the grant's potential to create a 'dependency syndrome' (Samson *et al*, 2002). As a result of the high costs associated with the grant, the South African government has officially rejected the BIG proposal.

There appears to be general consensus among BIG supporters that the grant should be set at a conservative level – about R220 (in 2013 prices) a month. However, there is less agreement on how to finance the grant and proposals range from increasing VAT (thus making it regressive), increasing top income-earners' taxes, to more radical propositions such as financing the grant through the issue of an alternative currency (Nattrass and Seekings, 2002:3). The Taylor Committee proposed that the BIG be financed primarily through the tax system (Nattrass and Seekings, 2002:3 and Samson *et al*, 2002:2).

This section evaluates the affordability of the basic income grant within the South African context. Five of the frequently suggested options will be discussed along with their potential implications.

5.4.1. Deficit financing.

In 2013, the government deficit was approximately four per cent of GDP and the debt-to-GDP ratio stood at around 39 per cent (Chauke, 2013; and McGroarty, 2014). By adopting the deficit funding option, the government would have to raise its deficit in order to cover the costs associated with the BIG, which could amount to more than R120 billion (in 2013 prices).

The intended primary effect of the BIG is to elevate household earnings and thereby enhance private consumption. Proponents of the deficit financing option theorise that the resultant increase in GDP given increased consumption will significantly offset the effects of raising the government deficit (Thurlow, 2002:11). As hypothesised by Samson *et al* (2002:25), the increase in consumption demand among low-income households initiates a deviation from import-intensive demand towards commodities which are produced by more export-intensive sectors. Thurlow (2002:11) argued that the shift would put an extra burden on the current account balance, causing a slight appreciation in the real exchange rate so as to limit the overall increase in exports and stimulate imports. Consequently, the increase in demand

raises real GDP. However, Thurlow (2002:11) contended that the increase does not exceed 1 per cent. The cause of the apparent negligible change lies in the impact of the financing option, as opposed to the intensification in consumption demand which results from the transfer. The additional cash transfers (in the form the BIG) would increase government expenditure and elevate the budget deficit by up to nine per cent of GDP (Thurlow, 2002:11 and Lings, 2014). Considering the decline in government savings, further savings would be required from the private sector to sustain the private investment levels in the economy (Maki, 2009:113).

Compared to other middle income countries, South Africa has a relatively poor savings culture (Momentum, 2013). Figure 5.1 shows gross national savings for selected middle income countries.

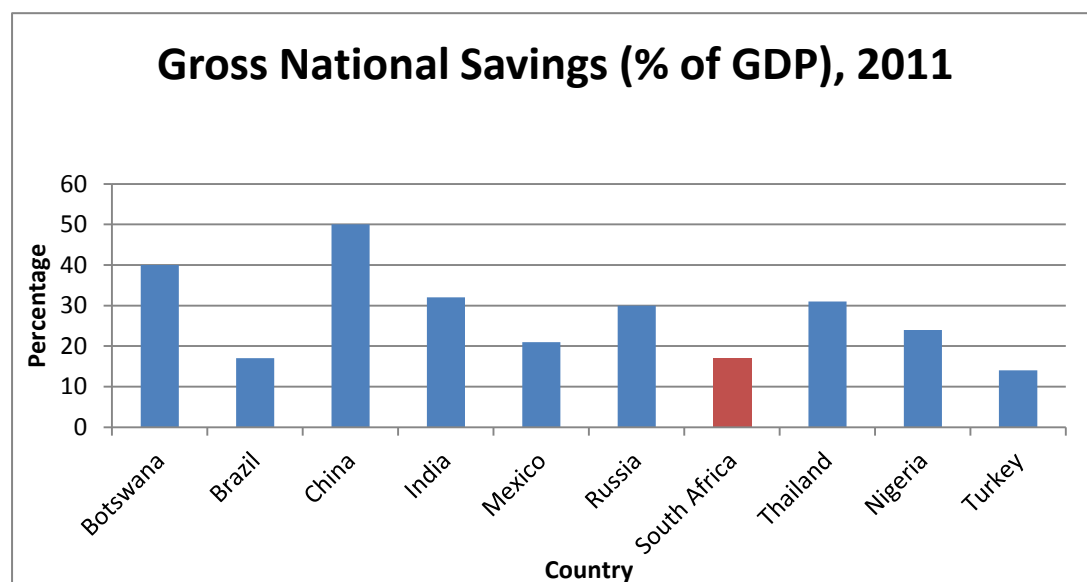


Figure 5.1: Gross national income (as a percentage of GDP) by country. Source: World Bank, 2014a.

Adequate saving rates are important for economic growth and stability. Low and declining saving rates force a nation to become increasingly reliant on foreign capital inflows and thus, more economically vulnerable (Aron and Muellbauer, 2000:509). Such has been the case in South Africa which has run a current account deficit for several years, and thus increased the importance of foreign capital inflows to stabilise the balance of payments (National Treasury, 2013:17).

Table 5.1 below shows the domestic saving trends by sector in 2011. Historically, the country has had low household saving rates ranging between negative and 2 per cent (South African

Institute of Chartered Accountants, 2013; and Fin24, 2013). On the other hand, government savings have been negative since the early 1980s whilst corporate saving rates have been consistently positive (Aron and Muellbauer, 2000:510 and National Treasury, 2012:6).

Table 5.1: Composition of South African savings (percentage of GDP), 2011.

Sector	Percentage
Net Households	-0.05
Net Corporates	6.81
Net Government	-3.06
Consumption of Fixed Capital	12.7
Net National	3.7
Gross National	16.4

Source: National Treasury, 2012

As shown in Table 5.1, both household and government saving rates were negative whilst corporate savings were positive. Consumption of fixed capital refers to the depreciation of fixed assets and thus represents the replacement value of capital used in the production process. Since the household saving levels are low, dispensing the BIG may increase the marginal propensity to save, thereby reducing the level of post-tax disposable earnings spent on private consumption. Accordingly, the increase in household savings may partially offset the positive impact of the basic income grant on private consumption, resulting in only a marginal improvement. Conventional macroeconomic theory holds that increased government borrowing reduces ('crowds out') investment spending (Kingma, 1989:1198 and Arnold, 2011:241). The crowding out effect, coupled with the increased savings and the resultant decrease in private consumption expenditure led to an insignificant change in the final real GDP (Thurlow, 2002:13).

The marginal propensity to save is directly proportional to income (Dyanan *et al*, 2004:398). Therefore, as household income increases so do savings. Consequently, most of the required additional savings needed to finance the deficit option would have to be generated among the higher income households (where savings rates are relatively high). As a result, the effect of the BIG is progressive in terms of its influence on household consumption. Thurlow (2002:13) and Maki (2009:113) posited that for poorer households with low consumption levels, the BIG translates into an increase in consumption whilst for high-income households,

the grant induces an increase in the level of savings and thus a decline in their actual level of consumption.

In summation, employing the deficit financing option means that the government would have to increase the budget deficit significantly. Moreover, under the option, the BIG does not necessarily translate into real economic growth. However, if higher income earners could be induced to enhance their propensity to save, the grant's impact could be more positive on growth and significantly effective in its redistribution of real household consumption.

5.4.2. Increasing indirect commodity taxes.

Samson *et al* (2002:27) and the BIG Financing Reference Group (2004:43) suggested an adjustment to the tax system to finance the BIG, thus making deficit financing unnecessary. Indirect taxes include sales taxes, value added tax (VAT) and excise duties (Knödel, 2008:2 and KPMG, 2014). The South African indirect tax system (especially the VAT) is regressive and therefore, individuals in the lower income categories tend to pay proportionately more consumption taxes compared to their high income counterparts (Go *et al*, 2005:1). The BIG Financing Reference Group (2004:44) estimated that an increase in VAT of about 7 percentage points coupled with about a 50 per cent increase in fuel and excise taxes would be required to finance the grant. On the other hand Van der Berg (2002:4) calculated that an increase of 10 percentage points in VAT, from the current 14 to 24 per cent, would be required to fund the grant. Every individual pays VAT and therefore, an increase of such magnitude would disadvantage the poor and destitute, since relatively few food items are exempt.

Although the grant would initially enhance household income and consumption, the higher sales taxes would place upward pressure on relative consumer prices and therefore lead to an eventual decline in real private consumption levels. Raising other indirect taxes besides the VAT would place a burden on those with high expenditures as they would be paying far more than they would receive from the grant. The decline in real income and consumption levels would lessen the demand for domestic commodities thereby offsetting the initial increase. Assuming that the level of foreign borrowing is fixed, the exchange rate would depreciate and the level of imports would decrease, thus maintaining the current account balance. Therefore, employing the indirect taxes financing option could lead to a decline in real factor returns and employment and consequently a fall in real GDP. Thurlow (2002:15) estimated that the financing option may lead to a decrease in real GDP of up to 0.7 per cent. Despite the

fall in real GDP, the grant may have progressive redistribution effects on household consumption. Thurlow (2002:15) theorised that the increase in real consumption among poorer households and the reduction in consumption among higher income households would be marginally less pronounced than it would be if deficit financing was used. The reason given was that the additional savings burden required for deficit financing falls more heavily on higher income households compared to the regressive additional sales tax burden in the indirect tax financing scenario (Thurlow, 2002:15).

Without any increases in productivity resulting from the basic income grant, the indirect commodity taxes financing option appears to have a marginal negative impact on real GDP. Therefore, encouraging worker productivity and increasing human capital may make the option more viable. Additionally, an increased VAT rate could be introduced on extreme luxury goods. In this manner, the tax would not alienate the middle and high income earners and encourage emigration, thereby harming economic development.

COSATU, the country's largest trade union, is adamantly against an increase in sales taxes to fund the BIG due to its regressive nature (COSATU, 2000 and de Lange, 2002). The organisation instead suggested the introduction of a 'solidarity tax' on individuals earning higher incomes as an alternate means of financing the grant. Compared to sales taxes, the country's current direct tax system is progressive in nature. Accordingly, low income households face substantially lower income tax rates relative to higher income households.

The next section evaluates the impact of the BIG if it were to be financed solely through a rise in direct tax rates on both enterprises and households.

5.4.3. Financing through Increased Personal and Corporate Tax Rates.

Compared to countries with similar economic profiles, South Africa's government revenue (relative to national income) is relatively high as depicted in figure 5.2 which shows the tax revenue for selected middle income countries.

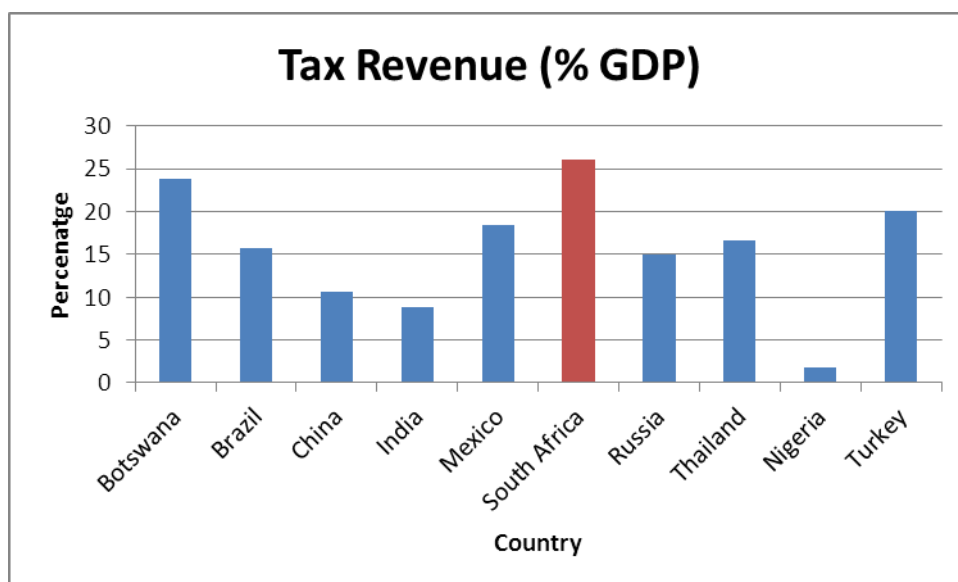


Figure 5.2: Gross tax revenue (as a percentage of GDP) by country. Source: World Bank, 2014b

As a result of the relatively higher tax revenue, increasing taxation rates may not be economically and politically feasible. However, Samson *et al* (2002:30) argued that the country had the capacity to intensify personal and corporate tax rates without significantly harming the economy and inducing emigration. Unlike VAT, the country's direct taxes are progressive in nature and as a result, low income households and enterprises face significantly lower income tax rates compared to their higher income counterparts.

Increasing personal and corporate tax rates would support COSATU's (2000) proposition of subjecting higher income earners to intensified tax rates. The impact of financing the grant through direct taxes is comparable to that under the deficit financing option (Thurlow, 2002:16; and Maki, 2009:116). This is because 'compulsory' savings from taxes now effectively substitute the 'voluntary' savings from the latter. However, in this situation, the government keeps away from raising the budget deficit since the BIG is financed through a rise in corporate and income taxes. Thurlow (2002:17) suggested that in order to maintain the progressive nature of direct taxes, the grant would require that higher income households be subject to a considerable increase in income tax rates. Essentially, a small portion of the additional tax burden would be borne by low-income households while high-income

households would pay considerably more income tax. Moreover, higher corporate taxes (i.e. tax on capital income), which would also be required to finance the grant through the direct taxation option, could negatively impact higher income households. This is because the households greatly benefit (although indirectly) from returns to capital (Maki, 2009:116 and Thompson, 2012:1). Thurlow (2002:17) estimated that a 4.4 percentage point increase in the overall average direct tax rate would be required in order to finance the grant through the option. On the other hand, Van der Berg (2002:4) estimated that a 26 per cent increase in personal income tax would be required to fund the BIG (Van der Berg, 2002:4)

It is apparent that financing through increased personal and corporate tax rates would be more progressive than the indirect taxation alternative, given that poorer households largely evade the burden of higher direct tax rates. Moreover, higher corporate tax rates decrease the direct burden on higher income households. Consequently, poorer households' real consumption rises, resulting in diminished import-intensive demand and thus higher domestic production. In order to mitigate the pressure on the current account balance, the exchange rate is forced to increase marginally. Thurlow (2002:17) argued that under the direct tax financing option, the impact of the BIG would be growth-neutral and real GDP would rise by 0.2 per cent.

Although financing the BIG through direct taxes instead of indirect taxes appears to be more feasible, the former option is in direct contrast to the prevailing trend within national policy, of reducing income taxes (Gordhan, 2014:16). Therefore, increasing direct taxes to finance the grant would necessitate a significant shift in the National Treasury's approach and policy. Additionally, further consideration would have to be given to the effect of raised income taxes on financial and human capital flight, along with the incidence of tax avoidance (Thurlow, 2002:17). Commenting on the human capital flight concerns, Samson *et al* (2002:28) argued that South Africa's average ratio of revenue to national income was much lower than that of most OECD countries, to which the majority of South Africans emigrate. Samson *et al* (2002:28) essentially reasoned that the country's tax structure was not unduly burdensome and thus could afford to expand. However, the country's high unemployment rate means that only a select few (approximately 6 million) pay income taxes (IRIN News, 2011). In their argument, Samson *et al* (2002:28) failed to mention that although the tax rates are higher in OECD countries, living standards, service delivery and employment rates are significantly higher than in South Africa. Therefore, depending on the rate, increasing income taxes may alienate higher income earners and encourage emigration, thereby harming economic development.

5.4.4. Financing through Decreased Government Consumption Spending.

Another financing option includes a deviation in government spending from consumption expenditure on goods and services towards increased transfers to households. Government consumption spending was 22 per cent of GDP in 2012, which was approximately six times greater than the expenditure on transfer spending (World Bank, 2013). According to Thurlow (2002:18), the scenario sustains the original budget deficit level as consumption expenditure would replace additional transfers.

As stated in previous sections, the initial impact of the grant would be to amplify private consumption demand. Under the decreased government consumption spending financing option, the rise in private demand is not offset by a decline in private consumption through either taxation or increased savings. Instead, the government reduces its level of consumption expenditure in order to finance the grant. Thurlow (2002:18) estimated that the government would have to reduce its level of consumption expenditure by 20 per cent, leading to a 6 per cent increase in real private consumption and ultimately a rise in domestic production and exports. Such a constraint would force the real exchange rate to appreciate so as to maintain a balanced new equilibrium.

Compared to the other financing options, the adverse effect of the grant on real consumption levels of high income households would be smaller because in this case, the government, not the households, carries the burden of financing the BIG. On the other hand, the financing option diminishes the redistribution effect on the real consumption levels of lower income households (Thurlow, 2002:19). This is because government consumption spending (which would now be lower), serves as one of the country's largest employers of semi-skilled and unskilled labour (STATSSA, 2013b:20).

Thurlow (2002:19) asserted that under the financing option, the hefty decline in government consumption spending would eventually offset the increase in private consumption demand (as a result of its lower import-intensity), thus leading to a 1.3 percentage point decline in real GDP. Thurlow (2002:19) further argued that although the option impacted real GDP in a negative manner, it also encompassed progressive effects on total real household consumption.

Although an across-the-board reduction in government spending would be implausible, there is no consensus among BIG proponents on which specific components of government

expenditure need to be cut in order to finance the grant (Maki, 2009:118). The implausibility stems from government's pledge of dedication to higher and stable spending on social services such as education, health and social security (Gordhan, 2014:10). Therefore, targeting specific commodities such as alcohol and cigarettes may be more feasible and realistic if the government were to employ the financing option.

5.4.5. A 'Balanced' Financing Package.

The four financing options discussed seem to indicate that, if employed in isolation, each would place a notable strain on various establishments within the economy. With deficit financing, households would have to finance the BIG through significantly elevated savings rates, whilst the two tax-financed options would translate to significantly higher sales or income tax rates. Lastly, a compositional change in government expenditure towards the grant would require a considerable decrease in spending on current government consumption. Considering that none of the individual financing options seem politically and economically feasible, combining them may be more realistic. In this manner, the grant's impact would be spread evenly over the budget deficit, income and sales taxes, and government consumption spending.

By eliminating the reliance on raised sales taxes, private consumption demand would not have to be reduced by an escalation in consumer prices. Additionally, the surge in income tax rates would lessen the 'forced' increase in the marginal propensities to save of households. Thurlow (2002:20) argued that although combining the financing options might not distribute the burden, it would lessen the distributional impact on real household consumption for higher income households since the grant would be partially financed through a reduction in government consumption spending. Furthermore, the negative impact on real GDP caused by a shift towards more import-intensive spending (as a result of a reduction in government consumption spending) would be partially relieved by deficit and direct tax financing (Thurlow, 2002:20).

Combining the financing options into one 'balanced' package seems more politically and economically feasible. Thurlow (2002:20) posited that despite the differing macroeconomic impacts of the various financing options, the redistributive impact of the grant remained consistently progressive across all of the options. Therefore, the move could be more socio-economically favourable and further reduce the contention between the grant's proponents, leading to a shift to more relevant areas in the debate (e.g. amount and design).

As an alternative to the listed financing options, de Lange (2000) suggested formation and use of a local ‘parallel currency’ to finance the BIG and argued that the move would stimulate growth and job creation at the local level. However, Seekings and Natrass (2002:15) noted that such radical ideas of monetary reform were only supported by a few fringe economists and had gathered no support from academic economists, ANC-aligned intellectuals or the trade union movement. Furthermore, the option would lead to higher administration costs, inflation and increasing concerns about the ‘exchange-rate’ between the official and parallel currencies. The disadvantages associated with the parallel currency suggestion have kept the idea off the political agenda of BIG supporters (Seekings and Natrass, 2002:15).

5.5. COMMON OBJECTIONS AGAINST THE BASIC INCOME GRANT.

Van de Walle (1995:1) proposed that “Public spending should promote efficiency (by correcting for various market failures) and equity (by improving the distribution of economic welfare)”. However, equity and efficiency are two distinct concepts and Archer (2007:2), noted that concepts and policies (and actions) scoring high on equity may nonetheless be grossly inefficient, which is often the case with universal grants. Therefore, this section examines the common objections against the BIG.

The magnitude of the additional spending which would be required to finance BIG has raised concerns regarding its affordability and efficiency. Most of the proposed financing options suggested have been discarded for being infeasible (Thurlow, 2002:4). Other objections include that the grant has high opportunity costs and could dis-incentivise employment seeking among recipients (BIG Financing Reference Group, 2004). Additionally, the R100 (in 2000 prices) monthly transfer amount has been criticised for being too low to efficiently address poverty (Meth, 2010:31). However, the grant amount would depend on the household size and according to Lanjouw and Ravallion (1995:1415), poor individuals tend to have larger families. Therefore, large impoverished households stand to receive more of the grant. Additionally, the grant is also considered too low to create a culture of dependency (Meth, 2010:31).

The expansion of social security provision to all individuals will have implications for service delivery. Accordingly, universalism will imply that more applications be processed. However, the government is frequently criticised for lacking sufficient implementation capacity to administer the grant on a large scale. Service delivery is a major concern in the

country and has resulted in numerous protests, contributing to decreasing levels of social cohesion (Pienaar, 2013). The National Planning Commission (NPC) (2011:4) asserted that access to public services was still determined by the overlapping categories of geographic location, race and wealth and the failure to deliver was not only about a lack of money, but also concerned the quality of service provision. Therefore, before the grant is administered, supply side implications have to be taken into consideration. To reduce the number of applications which have to be processed, the government could encourage some form of self-selection process where every citizen is eligible, but only individuals who claim the benefit receive the grant. In this manner, higher income earners may choose to refrain from claiming the benefit because the grant's amount is low and would not impact their welfare in any way.

Although not unanimous, the general idea was that the BIG would be paid via an electronic transfer into bank accounts (Seekings and Natrass, 2002:15). In 2012, 67 per cent of South African adults had bank accounts, an increase from 46 per cent in 2004 (Consultative Group to Assist the Poor (CGAP), 2011:3; and BusinessTech, 2012). Furthermore, 75 per cent of social grant recipients were banked. The increase was partly attributed to the roll-out of the South African Social Security Agency (SASSA) MasterCard (BusinessTech, 2012). Although, the improved access would significantly improve the efficiency of the BIG, providing the grant through the medium may exclude needy individuals who do not have such access. Additionally, proponents such as Samson *et al* (2002) and the Big Referencing Group (2004) failed to take into consideration administration costs associated with the grant and Seekings and Natrass (2002:15) estimated that the costs of delivering social grants amounted to between 2.5 per cent in the Western Cape and 13 per cent of the grant in provinces with high proportions of beneficiaries living in remote, underdeveloped areas. The administration costs coupled with the bank charges that recipients may have to incur could make the grant economically infeasible and less efficient in addressing poverty and vulnerability.

Another issue often overlooked in the BIG discussion is the impact the grant may have on inflation. Conventional economic theory holds that increasing money supply will have inflationary consequences (Croushore, 2006:325). Therefore, it should be expected that the grant would lead to higher prices which would undermine anti-poverty efforts. In 2000, the South African Reserve Bank (SARB) instituted a flexible inflation targeting framework with the target set between 3 and 6 per cent (Jonsson, 2001:243). Therefore, inflationary consequences emanating from the grant may conflict with the SARB policy. Criticising the

inflation targeting policy, the BIG Financing Reference Group (2004:24) argued that the poor were not the primary beneficiaries of lower inflation because some of the key expenditure priorities for underprivileged households (such as food prices, medical care costs and transportation costs) were less responsive to declines in general inflation rates. Lower inflation rates also mean that lower income earners, who are unable to access credit through banks, are subject to high interest rates. Therefore, although the BIG may have inflationary consequences, this might not be entirely negative for poor households.

The relationship between income transfers and inflation has been extensively studied in South Africa. However, Devereux (2006:4) argued that inflationary effects of cash transfers are more prevalent in developing countries where markets are not flexible and responsive to increased demand. If markets are unresponsive, cash transfers can fuel inflation, as a result of more money chasing limited food items. On the other hand, grants can stimulate markets, in such a way that the price increase is an intermediate effect that in itself will entice traders and facilitate market integration (Devereux, 2006:5).

When implementing universalistic welfare systems, population size has to be taken into consideration as it has a direct impact on the costs involved. It is important to note that the Nordic countries are sparsely populated and have a combined population of approximately 26 million (Nordic Council of Ministers, 2013). Part of the region's success in welfare provision has been attributed to the small size (Economist, 2013c). Therefore, adopting a universalistic approach to welfare in South Africa may be challenging given the relatively large population.

Sabates-Wheeler and Devereux (2010:277) studied the relationship between food prices and cash transfers in rural Ethiopia and observed that the transfers had an immediate inflationary effect. On the other hand, interventions in Malawi and Zambia had no inflationary impacts on food markets and overall prices (Devereux, 2006:18). The studies show that the relationship between cash transfers and inflation is complex and depends partly on the elasticity of supply. Therefore, more research is needed on the subject.

5.6. SUMMARY AND CONCLUSIONS.

This chapter analysed the viability of a universal approach to the South African grant system. Particular attention was given to the Basic Income Grant (BIG) proposed by the Taylor Committee. Universalism in the Nordic countries has been associated with positive socioeconomic results. Accordingly, the positive benefits for South Africa could include: amplified levels of consumption, higher health and education attainment; increased labour demand and supply; and a more cohesive society.

In the South African context, fiscal restraints have prevented the strategy from being implemented. Although several options have been suggested, no consensus exists on how best to finance the BIG. Financing the grant through taxation would require a significant increase in tax rates, which may alienate higher income earners and even induce emigration whereas increases in VAT may expose the poor to increased vulnerability. Since the country has a relatively poor savings culture, the deficit financing option would be infeasible as it would require significantly higher saving levels. Financing through a compositional change in government expenditure would require a considerable decrease in spending on current government consumption, which may disadvantage mostly the poor. As a result, combining the positive aspects of the various financing options may be more economically and politically feasible as it would spread the fiscal burden and effects evenly.

Although the grant enjoys high-profile support from trade unions, churches and the main opposition party, it has been criticised for being grossly expensive and inefficient in addressing poverty. If the grant is successful in stimulating consumption, inflation levels (particularly food prices) could intensify, further exacerbating food insecurity among the poor. In essence, for the grant to reduce poverty levels effectively, the supply side and its fiscal implications have to be taken seriously into consideration.

CHAPTER 6: ATTACHING CONDITIONS TO CASH TRANSFERS IN SOUTH AFRICA.

Conditional cash transfers (CCTs) have the potential to be effective in both the short and long-term. Part of their popularity with governments arises from the view that the strategy can target one socioeconomic indicator to achieve multiple outcomes (Govender, 2011:204). Although often isolated, CCTs should be viewed as part of a broader anti-poverty and human capital investment scheme. Since the introduction of CCTs in Brazil and Mexico, poverty and inequality levels have decreased. In the last decade, absolute poverty incidence in Brazil decreased from 23 per cent in 2000 to approximately 7 per cent in 2011 (Higgings, 2012:2). Although the period coincided with significant economic growth, increases in the demand for unskilled labour, minimum wage increases and improved access to education, commentators such as Barros *et al*, 2010:120; Gasparini and Lustig, 2011:439 and Higgings, 2012:5 attributed most of the poverty reduction success to the introduction of various social protection schemes, most notably the *Bolsa Familia*.

Although, the six cash transfers dispensed in South Africa share some common features, each has specific elements and goals. As a result, some grants may not be suitable for conditionality. Therefore, before implementing a CCT programme, policymakers should consider the country's unique history, its current political climate and design, as well as the present anti-poverty strategy.

The chapter examines the possibility and rationale for attaching conditions to cash transfers in South Africa. The CCTs administered in Brazil and Mexico and the US Temporary Assistance for Needy Families (TANF) will be analysed to assess their applicability to the South African context.

6.1. EXAMINING THE CASE FOR CONDITIONALITY.

A general consensus exists that the government should assist the poor and vulnerable (irrespective of the definition used), however, there is little agreement on the form the assistance should take. Supporters of CCTs such as Baird *et al* (2001:2) and Schady (2006:3) asserted that the method is relatively more efficient than other transfers in reducing consumption poverty, promoting the accumulation of human capital and helping to break the cycle of intergenerational destitution. Govender (2001:47) further posited that CCTs are more redistributive and equitable, especially in the presence of asymmetric information.

Governments have limited resources and thus cash transfers frequently have to compete with other government priorities. In countries with a low tax base, policymakers often have to make a trade-off between investing in growth stimulating projects and spending on social services such as grants. In 1996, the South African government abandoned the Reconstruction and Development Programme (RDP) in favour of the Growth, Employment and Redistribution (GEAR) programme in an effort to generate more growth which would translate into more revenue, resulting in more funds available for social expenditure (Visser 2004:8). However, Van der Berg (2002a:1) argued that whilst improving the living standards of the poor required economic growth and investment in human capital, a social safety net was required for those who had not benefited and to protect against contingencies such as disability, unemployment and illness. Therefore, following the argument, a need exists for some form of protection for the most vulnerable in society. However, a question arises as to whether attaching conditions to the cash is more sensible and efficient.

Neoclassical orthodoxy assumes that individuals are informed rational agents and markets function efficiently. Therefore prescribing to the assumption would mean that cash transfers should not exist or should at the very least, be unconditional (Fiszbein *et al*, 2011:49). Furthermore, choice sets are larger for an unconditional cash transfer than CCTs and as a result, the latter acts as a type of subsidy. There are three main arguments for attaching conditions to cash transfers. Firstly, individuals do not always behave like rational agents. Furthermore, they are infrequently in possession of perfect information. In addition, conflicts of interest within the household may arise, either between the parents and their children or between the parents themselves, resulting in a type of principal-agent problem. The conflicts may result in incomplete altruism which occurs when parental decisions which are inconsistent with what the child would have chosen, if fully rational (Schüring, 2010:12). The asymmetric information coupled with incomplete altruism may cause a family to select a sub-optimal level of investment in human capital. If the low level of investment in human capital results in pervasive distortions, then the argument that the government “knows better” may have some merit. In such situations, CCTs may be efficient in fostering the sufficient level of human capital investment. There is limited conclusive empirical evidence on the intra-household principal-agent problem. However, the presence of gender differences in child human capital could serve as an example. In most developing countries, there is frequently an underinvestment in girls’ schooling, leading to significant disparities in education (Murphy *et al*, 2009:3). Fiszbein *et al* (2009:58) noted that such differentials may be rational from the

viewpoint of parents who are thinking of their own welfare (because girls are more costly in terms of dowries or boys are more likely to take care of their parents than are girls who move to their husbands' homes upon marrying), but they are most likely socially inefficient. A Bangladeshi study by Amin and Chandrasekhar (2009:5) found that 68.7 per cent of women in the age group 20–24 were married by age 18. Moreover, very few girls were able to continue their education upon marriage, further contributing to the gender differentials in education investment. Therefore, attaching conditions to cash transfers could help drive the actual household choices toward optimal poverty reducing levels.

The second argument for conditioning cash transfers posits that most governments do not typically prescribe to benevolent dictatorship and policy decisions are generally politically motivated. As discussed in chapter 5, cash transfers may alienate higher income earners who are subject to more taxation. Fiszbein *et al* (2009:60) asserted that it was conceivable that some taxpayers who objected to unconditional “hand-outs” would be less averse to “rewards” to “deserving” poor people investing in the education or health of their children. As such CCTs would be viewed as a form of social contract between beneficiaries and the state where the responsibility of reducing poverty is shared rather than lying solely with the state, consequently fostering dependency. In essence, the argument theorises that attaching conditions would be more efficient as it would make cash transfers more politically palatable and further reduce dependency.

A third justification for attaching conditions to cash transfers follows that, in the presence of market failures (particularly externalities), privately optimal investments in human capital may not be socially optimal. Fiszbein *et al* (2009:64) argued that if, when making decisions, parents failed to take into account the positive externalities generated by investments in human capital, then the resultant market equilibrium level (of human capital) in society would be inefficiently low. Such situations bolster the arguments for attaching conditions to cash transfers. Empirically, the external benefits of health and education investments are well documented. For example, immunisation has important external benefits and according to Szucs (2005:2096) the intervention is inherently cost-effective as it produces both a health benefit and cost savings. In the case of education, studies by Knight and Sabot (1987) and Desai and Alva (1998) suggested that increasing the variable may lead to positive externalities such as increased labour productivity, reduced maternal and infant mortality. The economic benefits of health and education are explored later in the chapter.

Having explored the arguments for attaching conditions the following section examines the applicability and feasibility of attaching health and education conditions in South Africa.

6.2. ATTACHING CONDITIONS TO SOUTH AFRICA'S SOCIAL TRANSFER SYSTEM.

The link between the level of education and poverty is direct, yet multidimensional. According to Akoojee and McGrath (2005:13), the level of education has a direct influence on employment which in turn plays a vital role in poverty reduction. The relationship between the two variables can operate in two directions: the poor are often unable to access to a good level of education and without which people are often restricted to a life of poverty (Van der Berg, 2008:1).

Higher levels of education increase the probability of finding employment and higher earnings (Blanden *et al*, 2002:2). A Chilean study by Ferreira and Litchfield (1998:32) revealed that between a quarter and one third of household income differences in the country could be explained by the household heads' level of education.

Education can also contribute positively toward economic growth. However, Van der Berg (2008:1) noted that the link between the variables strongly depended on quality rather quantity of education. Furthermore, Londoño (1996:30) stated that that inadequate education was the most significant factor restricting economic growth in Latin America, thereby sustaining high levels of poverty and inequality. Gemmel (1996:9) found that primary education was most vital for economic growth in low income developing countries whilst secondary education was important for middle income developing countries, and tertiary education for rich countries. The pattern could indicate that returns to education may vary with factors such as the supply of educated workers and the level of development. Furthermore, the patterns illustrate that an intricate and mutually dependant relationship exists between education and economic growth. Accordingly, universal primary education is one of the Millennium Development Goals (Wagstaff, 2004:40). Attaching the education condition in this regard would be following the assumption that economic growth would trickle down and aid in poverty reduction.

The direct link between the level of education and poverty through the labour market and economic growth strengthens the motive for attaching education attainment to cash transfers. The feasibility of attaching the health and education condition to South African grants is explored next.

6.2.1. Attaching health and education conditions to social transfers benefiting adults.

As mentioned in Chapter 3, South Africa administers six non-universal and targeted social cash grants. The Old Age Pension (OAP) and War Veterans Grant (WVG) are targeted at the elderly. The Disability Grant (DG) targets eligible disabled adults between 18 and 60 years old. After the age of sixty, the DG is replaced by the OAP. The Care Dependency Grant (CDG), the Foster Care Grant (FCG) and the Child Support Grant (CSG) are specifically targeted at benefitting eligible children. Despite the high unemployment rate, there is no grant targeting the unemployed. The narrow and broad unemployment rates are estimated at 24.1 and 36 per cent respectively (Berkowitz, 2013; and Vollgraaff and Mbatha, 2014). Unemployment in the country is mainly structural in nature and as a result, many unskilled and unemployed adults live in poverty with no formal social assistance (Bendix, 2010:534).

CCTs aim to address inter-generational poverty. Grants (even those targeted at children) are dispensed to adults. As a result, adults play a role in ensuring the strategy is effective in reducing vulnerability.

i. Disability Grant (DG).

Disability is a complex umbrella term covering impairments, participation restrictions and activity limitations (World Health Organisation, 2013). Therefore, disability is more than just a health problem and can be permanent or temporary. There are various definitions of the term. As a result, statistics on disability tend to be limited and unreliable. However, Statistics South Africa (2005:12) calculated that five per cent of South African females lived with disabilities while disability among males was recorded at 5.1 per cent. Watermeyer (2013) estimated the proportion of South Africans living with some form of disability to be between 10 to 15 per cent. Although females constitute 51.3 per cent of the adult population, they make up 63.1 per cent of Disability Grant (DG) recipients (Govender, 2011:224 and Times Live, 2012). One of the reasons which could be attributed to the disproportionate female recipients is unemployment, which is higher among females. According to Lehohla (2013), female unemployment was 2.9 per cent higher than the national average. As a result of the grant's means tested nature, females are more likely to claim benefits (because of the higher unemployment rate within the group). According to Van Staden (2011:156), disabled people make up less than one per cent of the total South African workforce.

The health and education conditions associated with social assistance programmes in Mexico and Brazil would not be feasible to implement and monitor if attached to the DG. Firstly, the

health condition is to ensure and monitor the development of the recipient. In the case of individuals with disabilities, the conditionality may be burdensome and ineffective depending on the type and degree of disability. Moreover, the regular check-up condition is already a feature of the DG. The education and vocational training conditions could discriminate against individuals who may not be able to participate in the conditional activities. CCT's in Brazil and Mexico are generally not directed at disabled individuals. In essence, attaching the conditions to the DG would have a minimal effect in addressing poverty and may in turn exacerbate the condition.

ii. Old Age Pension (OAP).

According to Statistics South Africa (2013), there were approximately 4.14 million individuals aged 60 and above. The age group constituted 7.8 per cent of the country's population and as expected, the population decreased with increasing age. According to Leuvenink (2014), over 65 per cent of pensioners receive the OAP grant. Females constitute 61.4 per cent of the pensioner population but constituted a larger proportion (72.8 per cent) of OAP recipients (Govender, 2011:228). There are relatively more economically inactive females in their non-pension years and thus have no means to save for pensions and therefore relying on the OAP in their later years.

As with the DG, the disparity can be explained by the means tested nature of the OAP. Applying health and education conditions to the OAP would have a minimal impact and contribute little to the country's human capital accumulation. Moreover, the age of the recipients will exclude them from fulfilling vocational training and education conditions.

Woolard (2003) concluded that in the absence of the OAP almost 60 per cent of the elderly would live in absolute poverty. The grant also contributed significantly to the overall poverty reduction in needy households. Furthermore, supply constraints (especially healthcare centres) in more disadvantaged areas could lead to non-compliance and thus, disqualification. Therefore, conditionality may burden recipients and punish not only the elderly but also the dependent household members (especially children). Attaching health and education conditions may undermine the current positive impact of the grant on poverty.

It has been proposed that the means test on the OAP be removed starting in 2016 (Leuvenink, 2014). The phasing out of the means test is meant to prevent the exclusion of vulnerable individuals, simplify the administration of old age grants and to eliminate the disincentive to save for retirement among low-income earners (Arde, 2013). The move is

likely to benefit lower-income earners more, but leave their wealthier counterparts in a neutral position. The extension of the OAP to all pensioners will stretch the R118 billion that the government already spends on social grants and spending on social grants is projected to rise to R145 billion by 2016/2017 to cover additional costs (Leuvennink, 2014). The government aims to ease the budget implications by implementing personal income and retirement tax reforms, the nature of which have not yet been made clear. The adjustments to personal income tax rebates would partially offset the costs of the reform, and ensure that the overall incidence of tax and income support arrangements remains distributive (Arde, 2013).

Compared to countries with similar economic profiles, South Africa's life expectancy of 59.6 years is relatively low (Erasmus, 2013 and Youde, 2013:7). The prevalence of HIV/AIDS is a prominent factor contributing to the low life expectancy. Approximately 10 per cent of the population is infected and about 200 000 individuals die from the disease annually (Statistics South Africa 2013). Assuming that the status quo is sustained and life expectancy levels remain low, removing the means test on the OAP may not stretch the social security budget significantly.

iii. War Veteran Grants (WVG)

The War Veteran Grants (WVG) has the smallest share of recipients of all grants. The grant is awarded to war veterans who took part in World War I, World War II or the Korean War (Midgley and Piachaud, 2013:211). Only individuals who participated in the three wars are eligible for the grant and other veterans who participated in the 'civil' war prior to 1994 or are presently engaged in the South African armed forces do not qualify. Attaching conditions would be redundant as the beneficiaries are already too old to fulfil and benefit from them. The grant's recipients have been decreasing in number over the years and thus the grant will cease to exist in the future (assuming there are no further wars). Therefore, no benefits are evident from the WVG being subject to conditionality.

In conclusion, the DG, the WVG and the OAP are not suitable for health, education and vocational training conditionalities. In essence CCTs targeted at adult grant holders are ineffective as is evident in the South African case and are primarily targeted at children, which is analysed in the next section.

6.2.2. Attaching conditions to children’s social transfers.

Globally, CCTs are targeted at children (Lomborg, 2013:294). Grants for children may be more suitable for conditionality since the aim is to improve education and health outcomes and to address long-term and intergenerational poverty.

Table 6.1: Proportion of children under 18 receiving child grants.

Grant	Number	Percentage
CDG	118 895	1.1
FCG	566 877	5.1
CSG	10 420 931	93.8

Source: South Africa Social Security Agency (SASSA), 2013.

From table 6.1, it is evident that the CSG is the most claimed child grant. It should be noted that for grant purposes, a child is classified as any individual under the age of 18. Therefore, the number of claimants decreases when using the under 15 definition. However, the proportions remain approximately the same (Govender, 2011:231).

i. Foster Care Grant (FCG).

The objective of the Foster Care Grant (FCG) is to reimburse legal guardians for the cost of raising foster children who have been removed from the biological parents and placed in their care (Robila, 2013:68). Many South African children are orphaned due to HIV/AIDS. In 2011, there were 3.37 million orphans, approximately 21 per cent of all children in the country (Avert, 2014). According to Van Gelder (2012), 63 per cent of maternal orphanhood cases were due to the disease. As a result of the epidemic, the number of beneficiaries has been increasing over the years. Between 1997 and 2009, grant claimants grew more than tenfold from 42 999 to 474 759 (SASSA, 2009:18). The grant’s annual growth rate between 2010 and 2012 was recorded at 4.65 per cent (SASSA, 2012:19). One of the factors which could also account for the increase in FCG claims is the relatively higher monthly value of R830, which may create an incentive to foster, whereas the CSG is valued at R320 (South Africa Government Services, 2014).

Attaching conditions to the FCG may ensure that the foster parent takes care of the child and adequately fulfils their health and educational requirements. However, conditionality may also deter guardians from fostering children. In such cases, the state would have to care for

the children, which may be relatively inefficient and more costly than the grant. Approximately 98 per cent of children between the ages of 7 and 15 have access to and attend school (Gustafsson, 2012:3). Moreover, school attendance among FCG recipients was not statistically different to non-recipients (Govender, 2011:313). Therefore, attaching the school attendance condition may not be necessary. Furthermore, for older foster children who have missed the first and most important years of schooling, the condition may be less effective and even burdensome.

ii. Care Dependency Grant (CDG).

The Care Dependency Grant (CDG) reimburses parents or primary care-givers for the cost of taking care of children with severe disabilities who are in need of full-time and special care (Saunders, 2013). The grant covers disabled children from birth until they turn 18. Depending on the type and severity of the disability, the opportunity cost of caring for a disabled special needs child may be significantly higher compared to a normal child. The vocational work condition may be restrictive and discriminate against a parent/guardian who may not be able to work as he/she has to look after the child. Furthermore, the health and education conditions may be inefficient and even burdensome to disabled children who are mentally incapacitated or bed-ridden. As a result, it would not be feasible to implement the CDG with any additional conditions.

iii. Child Support Grant (CSG).

Covering more than 10 million recipients, the Child Support Grant (CSG) is the largest cash transfer in the country in terms of uptake. Despite the grant's value of R320 per month, it has the fastest growth rate. In its first decade of existence, the number of recipients grew at an annual average rate of 147.53 per cent (SASSA, 2009:18).

Education is the largest item on the government's budget and a projected R232.5 billion (approximately 20 per cent of the total government expenditure) was allocated to education during the 2013/14 financial year (National Treasury, 2013:x). Nevertheless, the consistently high education expenditure has not resulted in optimal expected outcomes envisaged by policymakers and South African educational outcomes were poor compared to other countries. Grade repetition and high school dropout rates are relatively high. In 2009, on average 9 per cent of learners enrolled in schools were repeating grades from the previous year (Department of Basic Education, 2011:4). At 7 per cent (in 2007), South Africa's average level of repetition in primary schools was 2 percentage points higher than the average for developing countries (Department of Basic Education, 2011:4).

Although school enrolment in the country is relatively high (over 90 per cent), it does not necessarily translate into high regular attendance. This is because enrolment generally occurs at the beginning of the school year and may not be followed by regular attendance throughout the year. Furthermore, high school enrolment does not necessarily translate into improved education outcomes. There is limited data on school attendance in South Africa and therefore, the variable is challenging to measure. Furthermore, the attendance rate would not necessarily capture pupils' progress through school.

Research by Govender (2011:261) concluded that there was no statistically significant difference in school enrolment between CSG recipients and non-recipients. However, in Latin American (e.g. Mexico, Nicaragua, etc.), where CCTs were implemented, the programme was found to increase school attendance significantly among recipients (Fiszbein and Schady, 2009:129). The apparent low impact of the CSG may be as a result of the already high enrolment rates. The Bangladeshi Female Secondary School Assistance Program [FSSAP] increased female student enrolment by over 2 percentage points above the prevailing rate of increase and between 1991 and 2005 female enrolment in secondary school increased by approximately 3 million (Fuwa, 2006:1 and Schurmann, 2009:506). In Turkey, CCTs were found to have a minimal impact on primary school enrolment rates which were already high (over 93 per cent) (Adato, 2007 and Govender, 2011:262).

The CSG provides additional income for households. The income allows primary caregivers to pay school fees, purchase school uniforms and food which allow recipients to attend school, further eliminating the differences in school enrolment that may exist between recipients and non-recipients. In essence, the introduction of the education conditionality on the CSG will have a minimal, if any, effect on school enrolment.

Moreover, the poor education outcomes in South Africa may not emanate from lack of demand, but due to supply constraints. Poor education outcomes (retention, literacy and numeracy) could be due to inefficient and poorly trained teachers and the lack of resources (e.g. books and stationery) and not because children are not attending school. Therefore, if conditionality is to be attached to education attainment, the issues need to be taken into consideration.

The first years are the most important in the development of a child and infant mortality data indicate that the majority of the fatalities occur in the first five years of life. When an infant is born in South Africa, the mother is given a clinic card which records immunisations and the

child's growth rate (Dorrington, 2005:10). The purpose of the card is to monitor the development of the child until he/she is five years old. Using the possession of a clinic card as a proxy, Govender (2011:276) concluded that there is no statistically significant difference between CSG beneficiaries who possess a clinic card and those who do not. Therefore attaching the health conditionality to child grants may not yield statistically significant results. Additionally, the state of the health system in South Africa would make conditionality challenging to monitor and implement. The conditionality may also be burdensome and discriminate against beneficiaries who do not have healthcare facilities close by.

6.3. HEALTH IN SOUTH AFRICA.

Poverty is multifaceted and can be strongly correlated with a range of variables, including health, influencing the degree of vulnerability to which an individual is exposed. Health is a common condition attached to CCTs. Moreover, the variable can be directly linked to education attainment and thus, poverty reduction. For example, Jalan and Ravallion (2003:154) observed that piped water in India only improved health status of household members when mothers were educated. Research by de Walque (2003:26) investigated some HIV/AIDS preventative measures in Uganda and concluded that such campaigns were most effective among educated households. Along similar lines, Miguel and Kremer (2004:208) outlined the positive externalities associated with health attainment and stated that health investments, such as deworming, reduced overall Kenyan school absenteeism by at least 25 per cent.

Food poverty can lead to poor health which can in turn reduce the ability to learn in school, further exposing individuals to increased vulnerability. Van der Berg (2008:11) showed that stunted children were less likely to enrol in schools, and if they did enrol, were more likely to drop out. UNESCO (2006:127) further stated that more than a quarter of sub-Saharan children under five years of age were underweight as a result of poor diet and malnutrition and therefore were more vulnerable to disease and less able to concentrate at school. The link between healthy nutrition and learning capabilities provided strong support for school feeding schemes in poor countries and communities, and further provided the rationale for conditioning social cash transfers on health attainment (Van der Berg, 2008:12).

Compared to countries with similar economic profiles (e.g. Brazil and Mexico), South Africa has a relatively inefficient health system. Between 2001 and 2010, life expectancy decreased

by approximately 4.5 percentage points, making it one of only six countries where the indicator declined (IRIN News, 2009 and National Planning Commission, 2010:36). With 10 per cent of the population living with HIV/AIDS, the disease serves as the leading cause of death in the country and an estimated 350 000 citizens died from the disease in 2007 (Klein, 2012). In the same year, 76,761 people died from tuberculosis, 49,722 from pneumonia and 37,398 deaths were attributed to intestinal infections (Jennings, 2012). The diseases are relatively easy to treat and prevent (Floyd *et al*, 2007: 161 and Krucik, 2012).

South Africa is considered to be one of the most unequal societies worldwide. Likewise, quality health care in the country is skewed towards the well-resourced private sector (Klein, 2012). Health expenditure constituted 8.3 per cent of GDP, which is considerably higher than the 5 per cent recommended by the World Health Organisation (Andrew, 2012 and National Treasury, 2012:9). The private sector accounts for 49 per cent of the national health expenditure, which includes benefits paid by medical schemes, medical insurance, out-of-pocket expenditure and employer private contributions (Preker *et al*, 2010:61; National Treasury, 2012:9; and Econex, 2013:2). Only 16 per cent of the population use private sector healthcare services and more than 80 per cent of South Africans cannot afford private medical insurance and rely exclusively on publicly funded hospitals, which charge a small fee for treatment and are often overstretched (BBC News, 2011). The discrepancy in the distribution of funding has created a tiered and polarised healthcare system (Goldberg, 2012). South Africa reportedly has 5.2 physicians per 1 000 people, which is regarded low by international standards and similar economies like Mexico and Brazil, which have more than five times this number (WHO, 2010a).

Given the state of the country's healthcare sector, it could very well be that the poor health outcomes (e.g. infant mortality, TB, etc.) are not necessarily due to lack of demand for the services, but because of supply constraints. Similarly, the poor health outcomes in the form of high infant mortality may be due to the overstretched public health services and the lack of doctors and qualified nurses and, not due to children not visiting healthcare facilities. Health problems can be directly linked to poor nutrition, lack of food and inadequate or unavailable health services (Davidson *et al*, 2005:190). The lack of water and proper sanitation also impacts negatively on health outcomes. In essence, desired health outcomes are dependent on the availability and the provision of necessary services. Therefore, before attaching conditions on the provision of social security, the supply side has to be strengthened and public service provision has to be improved.

CCTs assume that health services and schools exist and cash is the main constraint keeping people from utilising the services. Therefore, cash is viewed as the appropriate incentive to encourage healthcare visits and school attendance.

Lund *et al* (2009:78) asserted that the majority of South African children were born into the health services, then terminated contact with public institutions until they attended school and as a result the CSG aimed to address vulnerability during the period, in the form of a cash transfer for young children. No school-related conditionalities legally exist in SA mainly because the CSG was originally designed specifically for pre-school children and according to Lund *et al* (2009:83), had the grant been intended for older children from inception, the conditionalities would still have been redundant given the high rates of primary school enrolment of both boys and girls in South Africa. Regarding the CSG, Lund *et al* (2009:82) argued that some of the administrative requirements of the grant, such as the possession of certain documents like clinic cards, affidavits and birth and marriage certificates may create barriers to access for needy individuals who for one reason or another cannot produce the documents. Lund *et al* (2009:87) along with Goldblatt *et al* (2006) further suggested that the means-testing attached to the grant was largely unnecessary and ineffective and suggested the measure be abandoned altogether.

In summary, the evidence in South Africa shows that with regards to education, quality is more pertinent than quantity. Therefore, attaching the education condition may be redundant as enrolment rates are already high. Given the state of the country's healthcare sector, attaching the health attainment condition may disadvantage those without access to facilities due to limited finances, distance or lack of resources.

The next section examines the feasibility of modelling the South African system on that of the U.S. and incentivising marriage as a condition to accessing social grants.

6.4. MARRIAGE AS A CUSHION AGAINST POVERTY.

Within a decade of implementing the Temporary Assistance for Needy Families (TANF), the main welfare strategy in the U.S., poverty levels dropped significantly. Although the period coincided with rapid economic expansion, commentators such as Blank (2000:6) and Kaufmann (2013) attributed some of the poverty reduction success to the programme. The programme requires single parents to participate in work activities for at least 30 hours a week. On the other hand, two-parent families participate in work activities for between 35 to

55 hours per week, depending upon circumstances. Therefore, the TANF incentivises marriage among beneficiaries. In drawing parallels between the South African and U.S. models it is important to note that poverty is defined and measured differently in the two nations. In the U.S., policymakers are more concerned with relative poverty whilst absolute poverty is more pertinent to the South African context. The section examines the feasibility and suitability of the U.S-type welfare model in the South African context.

One of the stated objectives of mid-1990s US welfare reforms was "to end dependence by promoting marriage" (Schott, 2012:1). American policymakers viewed marriage as an effective buffer against poverty, particularly childhood poverty (Lowrey, 2014). Research by Renwick and Bergmann (1993:18) and Yarber and Sharp (2010:27) indicated that living in lone parent households increased children's risk and exposure to poverty. Although the child support grant (CSG) has helped reduce absolute childhood poverty rates in South Africa, relative levels remain high. The U.S. approach raises the question as to whether there could be a case for a social security strategy which incentivises matrimony.

Marriage has several potential economic advantages which could help mitigate the negative effects of poverty. Assuming that both parents are employed, children living with married parents will generally fare better in terms of family income. Since marriage involves a long-term commitment in which the division of resources and labour is assumed, the institution could enable each spouse to specialise in specific duties and skills, further increasing potential income (Grinstein-Weiss and Sherraden, 2006:194). Additionally, Holborn and Eddy (2011:5) and Wardle (2011:90) posited that youth from two-parent households were less likely to engage in criminal activities. Furthermore, the theory of economies of scale suggests that married couples may achieve the same consumption utility with minimal expenditure compared to their single counterparts. Grinstein-Weiss and Sherraden (2006:194) further argued that as a result of expectations placed on them, married individuals are more encouraged to save for children's education, and invest in property and other assets. There exists a general positive relationship between men's earnings and marital status; Bruckner (2004: 84) found that married male workers in Germany earned 4 to 8 per cent more than their single counterparts. Cohen and Harberfeld (1991:29) hypothesised that although married men earn higher wages, the causality may be reverse in that high wage men were more likely to get married than low income men.

A study by Lupton and Smith (2003) found that married households had significantly higher savings than other households regardless of their income levels. Through marriage, individuals may have increased access to expanded social networks and social support and Lerman (2001) argued that married couples were more easily able to draw on relatives for help during difficult economic periods.

Moffitt and Rendall (1995:422) noted that approximately half of all females worldwide experienced single motherhood at some point in their lifetime and accordingly, a significant number of children lived in a female-headed household at some point. In South Africa, 43 per cent of children live in single parent households, with female-headed households making up a significant majority (Holborn and Eddy, 2011:2). Govender (2011:245) showed that less than 30 per cent of South African children lived with married parents and comprised approximately 3 per cent of CSG recipients.

Given the statistics and empirical support, marriage may appear to be a viable poverty reduction instrument. However, Booth *et al* (1995:661) asserted that marriage is generally culturally and/or religiously defined and as a result, its economic effects may differ across societies. Anyanwu (2013:6) studied Nigerian patterns and showed that poverty was higher among married polygamous households (77.4 per cent) compared to cohabitating couples (54.7 per cent).

Conditioning social grants on marriage may not work for various reasons. Fremstad (2012:2) noted that although marriage had the potential to minimise poverty, non-marriage was often a result of economic insecurity and poverty rather than the other way around. Economic insecurity may contribute to the low rate of marriage in South Africa. Lobola (a monetary gift from the groom to the bride's family) is a common practice among Black South Africans and Yamauchi (2007:3) asserts that the practice may be a contributing factor to the relatively low marriage rates among the population group. Posel and Rudwick (2013:170) showed that marriage was lower among the Black population (41 per cent) compared to Whites (81 per cent). Lobola is a direct cost for men who wish to marry and as a result conditioning the South African social assistance system on marriage may exclude economically vulnerable individuals who cannot afford marriage. Additionally, the South African Constitution protects the right to cultural freedom and expression, thus restricting the government from enforcing marriage as a social assistance condition.

Conger *et al* (1990:645) asserted that in anti-poverty efforts, the stability and quality of marriages matters more than the act itself. Bradley *et al* (1988:853) noted a positive correlation between children's early home environment and their cognitive and language competence, and thus children's school performance through age 5. However, McCall (1981:10) argued that the link between early environmental status and later developmental status may simply reflect the generally high correlation between the early and later environments. Essentially, prodding couples into matrimony without ensuring the proper foundations are laid may leave them worse off.

Two-parent households are not automatically immune from the economic stresses which expose children to vulnerability. In Nigeria, 69.8 per cent of married monogamous households were found to live in poverty (Anyanwu, 2013:6). Finally, single parenthood does not necessarily equate to poverty. Inequality Watch (2011) and Brady and Burroway (2012:728) noted that although single parenthood was on the rise in Scandinavian countries, the households were not significantly poorer.

The positive economic attributes associated with marriage seem biased toward higher income households. Marriage is culturally defined and therefore, conditioning social grants on matrimony may not be a viable option as it may infringe on individuals' rights who do not believe in the institution. Furthermore, the condition may exclude economically vulnerable individuals who cannot afford to get married. The next section examines the effect of governments' efforts to control citizens' behaviour.

6.5. PATERNALISM AND ANTI-POVERTY EFFORTS.

Paternalism is a broad concept and substantial debate exists concerning its precise definition. However, the term has both a general and specific meaning. The general definition views the government as a 'benign parent' and in charge of providing citizens with a set of "basic needs" aimed at bettering their circumstances (Dee, 2013:276). The services may vary and in some instances are provided without consulting the citizens on what their needs actually are (Thomas and Buckmaster, 2011). The specific meaning describes paternalism as the idea that governments could constrain and monitor the choices of individual citizens for their own good (Thomas and Buckmaster, 2011). Paternalism usually involves the free or subsidised provision of health care, education or housing, etc., along with a set of mandates or restrictions on the shape that assistance takes. New (2000:125) justified paternalistic acts and

asserted that governments act to correct market failure brought forth by imperfect information. However, Thomas and Buckmaster (2011) argued that in most cases the state intervenes to correct a failure of reasoning on the part of the individual rather than a failure of complete information.

Paternalism appears to be in direct conflict with personal freedom and seems to violate a fundamental tenet of liberal societies, namely, that the individual is best placed to maximise his or her level of utility. As a result, economists tend to view paternalistic state actions with scepticism (Glaeser, 2006:33 and Schüring, 2010:8). CCT's are paternalistic in that they presume that what people really want and need is more education, health, etc., and that the recipients would not spend money on the services if given the freedom to make choices for themselves. As a result, Fiszbein *et al* (2009:59) and Ellao (2010) viewed such transfers with scepticism as they constrain the behaviour of the recipients.

One justification for the paternalistic nature of CCTs is based on the idea that governments cannot accurately identify the needy poor individuals and therefore have to employ conditionality for efficiency reasons (Currie and Gahvari, 2008:341). In this manner, the government relies heavily on individuals to identify themselves and indicate if they are economically needy. If instead, cash was offered unconditionally, all individuals would have an incentive to claim benefits, therefore making this mode of transfer an ineffective tool. However, if conditions were added as a redistributive tool, they could serve as a separation technique between the poor and the rich (Stachowski, 2012:170). This public property provision method is referred to as “self-targeting” that was briefly discussed in Chapter 2. Ito (2011:3) suggested that paternalistic actions may be justified in cases where refraining from or participating in a particular act benefits not only the individual but the society as well. An example may be the introduction of legislation criminalising excessive air pollution or preventing an individual from smoking in public areas. Fiszbein *et al* (2009:51) suggested the paternalistic nature of CCTs may be justified because the entire society derives utility from individuals being educated and in good health.

A particular criticism against paternalistic behaviour cautions that the publicly-provided good may become “over-provided” (Currie and Gahvari, 2008:337). The overprovision may arise when the society prefers to have the beneficiaries to consume more of the conditional good than they voluntarily would if they were given a cash transfer of equivalent value (Currie and Gahvari, 2008:337). Standing (2008:7) used food aid as an example and explained that, as with all subsidies, the provided good would be less appreciated than if the actual monetary

value was paid and thus would tend to result in waste, due to undervaluation, and/or excessive consumption just because it is 'free'. Evidence thereof was present in the European Union where Elinder (2005:1334) argued that increased agricultural subsidies led to increased overconsumption of food and consequent obesity.

Klein (1994) and New (2000:69) questioned the moral correctness of paternalism and CCTs and criticised paternalistic governments for labelling social protection as a basic human right and then conditioning the same "right" on certain behaviour, thus depriving some of the needy who cannot meet the conditions. Furthermore, Thomas and Buckmaster (2011) argued that paternalistic interventions offer no guarantee that they will actually improve beneficiaries' welfare and may worsen their situations. New (2000:99) added that governments may employ a particular paternalist social protection policy (e.g. CCTs) not primarily as a means of genuinely improving citizens' welfare, but rather as a means to advance their budgetary goals.

Paternalistic state actions can have unintentional consequences and could even engender moral hazard. In insurance, moral hazard arises when an individual fully insures their possessions and fails to take proper care of them because they can claim from the insurer in cases of damage. In the case of state paternalism, social protection interventions may lead beneficiaries to believe that they are safe from vulnerability and as a result engage in riskier behaviour (Berg, 2010).

In essence, conditional cash transfers are paternalistic in nature as they are designed on the assumption that the government knows the beneficiaries' interests better than the beneficiaries themselves. Furthermore, the transfers may infringe on the rights of citizens who are vulnerable but cannot or do not wish to participate in the conditional services. In some cases paternalistic actions such as CCTs may have negative unintentional results and do more economic harm than good. Therefore, in designing CCTs, policymakers need to find a balance between reducing vulnerability and upholding individual freedoms.

6.6. SUMMARY AND CONCLUSIONS.

The chapter analysed the feasibility of attaching conditions to the South African social assistance system. Particular attention was given to CCTs which have been associated with positive socioeconomic results in Brazil and Mexico. Although market driven economic growth has been the widely adopted anti-poverty tool in most countries, markets cannot do it

alone and sometimes fail. Public social policy can play a role in correcting market failures and protecting vulnerable citizens against such occurrences. Conditional cash transfers (CCTs) serve as one way that the government can address poverty brought on by market failure in South Africa.

Attaching constraints to the poor's behaviour seems economically and socially unorthodox as the idea is based on the assumption that "the government knows best". Arguments for CCTs assert that individuals do not always act rationally and therefore, the state has to intervene and assist them in attaining maximum utility levels. Another argument asserts that information is not always freely accessible and as a result individuals may unintentionally behave in a utility sub-optimal manner. Arguments against CCTs insist that such paternalistic interventions may infringe on the citizens' rights who do not wish to participate in the conditional action. Additionally, the programmes may have negative consequences and end up doing more economic harm than good.

Evidence suggests that two parent households are less vulnerable to poverty and thus marriage promotion is central to the U.S. TANF welfare programme. Modelling the South African programme on the system may not work as it would infringe on the rights of the citizens. Additionally, getting married is relatively expensive and therefore, conditioning cash transfers on matrimony may exclude the needy who cannot afford to marry.

There is little empirical evidence to suggest that private investment in education in South Africa is low and thus requires state intervention. Consequently, attaching education conditions to cash transfers would have limited poverty reduction effects. Since the school enrolment rate is already high, several commentators argued that educational quality rather than quantity was more important in effectively addressing poverty in South Africa. Along with education, the health system in South Africa was inefficient compared to other middle income countries and therefore attaching the condition to income transfers may disadvantage poor citizens without access to such facilities. Therefore, supply-side issues have to be addressed before conditions towards addressing poverty are attached to social grants.

The next chapter provides a summary of previous chapters and makes recommendations to address the problem of poverty in South Africa and strengthen the efficiency of social cash transfers in minimising vulnerability.

CHAPTER 7: CONCLUSIONS AND RECOMMENDATIONS.

As noted previously, post-apartheid poverty reduction attempts, including social grants which reach approximately 16 million beneficiaries and function as the main poverty reduction instrument in South Africa, have had limited success. For this reason, the thesis sought to determine the strategies which policymakers could adopt to strengthen the poverty reduction capacity of the country's current system. To achieve the goal, the thesis examined social protection strategies which have been implemented in other countries and evaluated whether they would be suitable for South Africa.

After the introductory remarks in the first chapter, the thesis was further divided into six more chapters. Chapter 2 provided a literature review of social security and examined its necessity and its various conceptualisations. In chapter 3, social security in South Africa was described along with its evolution into the current state. Chapter 4 explored the three most researched social protection strategies worldwide: the Latin American model, the Nordic system and the U.S. welfare model. Chapter 5 presented an overview of universalism and assessed its feasibility by examining the proposed basic income grant (BIG). In chapter 6 the case for conditionality was examined and further analysis was conducted to ascertain whether attaching conditions to the current system in South Africa would have significant poverty reduction effects. This chapter will focus on the major findings and conclusions of the previous chapters and render recommendations.

In terms of the countries and welfare models examined, the thesis found that two of the popular approaches to social protection policies were universalism and conditionality. Each option presented its own potential benefits and challenges. Consequently, the bulk of the thesis was concerned with the potential socioeconomic effects each option would present in the South African context.

As mentioned in chapter 1, there was a consensus among scholars (including Woolard and Leibbrandt, 1999; Brady, 2003; Adato *et al*, 2006; and Mbuli, 2008) that poverty is a multidimensional concept with somewhat conflicting meanings and definitions. Furthermore, conditions which expose individuals to vulnerability and lead to poverty vary and may include: the lack of basic services, health, education and unemployment. Consequently, the conceptualisation of poverty by South African policymakers needs to take on a multidisciplinary approach in order to reduce the phenomenon effectively. The cash grants administered by the government are means tested and thus indicate the income threshold

which the government uses to identify vulnerable individuals. However, it was noted that studies by various researchers (including Streak *et al*, 2008; Armstrong *et al*, 2009; and Africa Scope, 2010) formulated their own poverty lines. Without an official poverty line, there can be no consensus regarding the extent and level of poverty between the relevant stakeholders. Therefore, South Africa needs to adopt an official definition and set a poverty line. In the absence of an appropriate multidimensional measure of poverty, using income as a measure of poverty can be enhanced by setting an official poverty line to ensure consensus amongst stakeholders and therefore make the formulation of antipoverty policies easier (Woolard and Leibbrandt, 2006:18). A standardised poverty line would also make comparisons of the depths of poverty over time periods easier.

The architecture of social security was discussed in chapter 2 and found to be divided into two prongs: social insurance and social assistance. The latter is more prominent in terms of scope and budget allocation in South Africa and thus formed the major focus of the thesis. Discussed in the same chapter were motivations for social security apart from the primary objective of alleviating poverty. For example, the strategy was considered as a basic human right and as a result most countries were legally bound by international agreements (e.g. International Bill of Human Rights) to provide citizens with social services that ensure a satisfactory standard of living. In addition, certain population groups were more economically vulnerable and thus more susceptible to deprivation. These included rural citizens, women, disabled, children and certain racial groups (Black Africans in South Africa's case). Although providing social assistance to the groups reduced their vulnerability, it did not address the underlying causes and may consequently have buttressed the status quo. Therefore, relevant government departments have to address the underlying causes which make the population groups more prone to deprivation. Several measures have been taken which attempt to address the disparities such as Black Economic Empowerment (BEE), child grants and other equitable employment legislation, however, the population group (i.e. Blacks) remains relatively vulnerable. Therefore, more needs to be done to reverse the impact of apartheid legislation and correct the underlying issues and causes.

It was shown in chapters 3 and 6 that old age grants dispensed to females tended to increase the labour search activities of the adults in the household. Furthermore, an increase in female education was shown to result in significant improvements in infant survival and child nutrition. In Brazil, CCTs to female household heads were shown to be relatively efficient in achieving the intended objectives. UNICEF (2003) identified the improvement of female

education levels as one of the most effective ways to combat the prevalence of HIV/AIDS. Therefore, in order to strengthen the poverty reduction capacity of cash transfers, South African social protection policy could adopt a female empowerment outlook.

Chapter 3 discussed in detail South Africa's relatively extensive social security system, which had its roots in the early colonial era. The strategy, which was accessible to approximately half of all households, was shown to have had a significant reduction impact on the poverty levels in the country. However, poverty levels, both absolute and relative, have remained high and furthermore, a significant portion of the poor, including roughly 11 per cent of children, did not have access to social assistance. As such, the system did not appear sufficiently far reaching and accessible to address poverty efficiently in the country. Therefore, a recommendation would be an adjustment to the current system in order to increase coverage. Other departments, such as Home Affairs, would have to be actively involved in order to make applications and access to the necessary documentation more easily attainable.

Unquestionably, one of the best ways out of poverty is to find employment. This ensures that individuals become productive members of the economy and positively contribute to its development. However, South Africa has relatively high unemployment rates. Although the social security system covers most of the vulnerable groups, it excludes a significant portion of the population: able bodied working age unemployed individuals. The problem of unemployment has plagued South Africa for decades and solutions have failed to address the underlying causes of the condition. Consequently, commentators such as Samson *et al* (2002) suggested the introduction of the universal basic income grant (BIG). As extensively discussed in chapter 5, the BIG would be accessible to all citizens regardless of income levels, thereby minimising corruption and effects emanating from exclusion. Additionally, the grant would reduce the stigma frequently associated with means tested transfers. In the Nordic countries universalistic approaches have had a positive economic impact. Accordingly, the BIG could have a positive socioeconomic influence in South Africa. Furthermore, the monthly value would not be high enough to encourage a culture of dependence.

Thurlow (2002) noted that whilst the BIG would have desirable effects of reducing exposure to vulnerability, its feasibility and sustainability were questionable. No consensus yet exists on how the grant would be funded and thus identifying the viable means of funding remained

a challenging task. Further research is needed in order to ascertain whether a universal grant would be more effective in addressing poverty issues compared to the current system. A cost-benefit analysis could be undertaken to establish the poverty reduction capacity of the grant. Further research should also be conducted to determine whether the government could truly afford a universal grant. A small scale implementation of the BIG, in a selected geographic location, could be undertaken to test the grant's efficiency in cost minimisation, its potential to positively contribute to the country's economic growth and its ability to reduce the administrative burden which would accompany its implementation.

The uncertainty regarding the feasibility and sustainability of the universal basic income grant made way for more discussions about alternative poverty reduction strategies, especially conditional cash transfers (CCTs). As mentioned in chapters 2 and 6, in the free and perfect markets imagined in neoclassical economic theory Unconditional Cash Transfers (UCTs) may be ideal. However, markets are never perfect and in such situations, CCTs became relevant. Furthermore, in the absence of perfect markets, CCTs could minimise the negative effects associated with asymmetric information and moral hazard in social protection programmes.

In chapters 4 and 6, conditionality was shown to have reduced poverty and contributed positively to the economy, particularly in Brazil and Mexico. In the two countries, CCTs worked to increase school attendance and enrolment, improve nutrition, reduce infant mortality and child labour and increase adult labour participation. The school enrolment impact was shown to be larger on female children and also when the initial attendance and enrolment levels were low. Enforcing conditionality in South Africa would require more intensified and capable administrative efforts which would in turn increase costs. Therefore, the country's policymakers need to be aware of the administrative costs and challenges of implementing conditionality.

To ascertain the feasibility of attaching conditions to the country's social grant system, six of the seven main grants were examined in chapter 6. The disability grant (DG), Old Age Pension (OAP), Care Dependency Grant (CDG), Foster Care Grant (FCG) and War Veteran Grant (WVG) were shown to be unsuitable for health and education attainment conditions as the move would disadvantage the recipients, further exposing them to vulnerability. Attaching an education condition would not be practical for the adult grants (i.e. WVG, OAP, and DG) as the beneficiaries were past the development phase when education and its

consequent impact were most vital. Therefore, attaching conditions to adult grants would be inefficient as the recipients would be too old to benefit from the conditional activities. Furthermore, the conditionality could disadvantage recipients who for one reason or another could not access the conditional services. Accordingly, CCTs worldwide are primarily directed at children.

The Care Dependency Grant (CDG) was meant for disabled children. As discussed in the chapter, depending on the degree of disability, conditionality could be impractical and even burdensome on the caregiver. Therefore, satisfying conditionality could be more costly than beneficial. It was further shown that attaching conditions to the FCG could discourage families from adopting children. Moreover, school enrolment among FCG and CSG recipients was already high and thus the imposition of conditionality would be inefficient.

It was further shown that given the already high school enrolment in South Africa, attaching the education attainment conditionality would not significantly stimulate demand. Similarly, the health system in South Africa was strained and because of limited resources, demand exceeded supply. Poor individuals had limited access to proper healthcare and the public health sector was under resourced. Therefore, in terms of education in the country, quality was more pertinent than quantity. In terms of health, both quality and quantity were equally relevant. The accessibility and availability of healthcare centres needs to be improved before the health conditionality can be considered. In essence, attaching health and education conditions would not be suitable in South Africa and therefore, social policy prescriptions should be focused on improving the supply constraints which would improve health and education outcomes and further decrease poverty and vulnerability.

In the U.S., social protection aimed at reducing childhood and intergenerational favoured marriage and viewed the institution as an effective buffer against poverty. As mentioned in chapter 6, marriage in South Africa is expensive and not as highly valued. Furthermore, conditioning cash transfers on the practice would violate beneficiaries' constitutional rights. Conclusively, the move would not be feasible in the South African context.

Compared to other countries in a similar income bracket, South Africa had low overall savings. Corporate savings were positive whilst both household and government savings were negative as they borrowed more than saved. Savings are an important component for economic growth and may further reduce exposure to vulnerability in tough times. The link between savings and economic development was discussed in Chapter 5. Developing a strong

savings culture could aid in reducing the impact and severity of poverty in South Africa. Recipients could be encouraged and educated on the importance of saving a portion of their social grants in order to address poverty in the country.

Ultimately, the poverty reduction success of a social protection policy depends on time, space and context. Strategies which work in one country may not be as efficient in another. For example, universal unconditional grants may work in lowly populated countries with high employment rates but exhaust the budget of more populous countries. Therefore, when designing social grant systems South Africa should be aware of its socioeconomic context.

In most cases (including South Africa), social protection initiatives along with cash transfers failed to address inequalities and inefficiencies. On the contrary, the strategies may even reinforce and widen the divide between the poor and the non-poor. Therefore, economic growth remains a more viable alternative to cash transfers in addressing poverty. However, in order to address poverty efficiently, economic growth must be inclusive and improve the poor's livelihoods. Although the South African economy has been growing steadily in the last few years, the growth has not been entirely inclusive and inequality levels remain high. Therefore, policymakers and relevant government departments are faced with the challenging task of developing, targeting and implementing social protection policies which effectively reduce poverty, inequality and dependency and respond positively to economic growth.

In essence, social cash grants, whether conditional or universal, are not a panacea, are temporary in nature and should not be used as the main poverty reduction instrument but as part of a broader social protection strategy aimed at limiting dependence and improving human capital in order to reduce persistent poverty effectively.

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