

## A closer look at the income grant

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Minister of Welfare and Development Zola Skweyiya recently announced his department's intention to pursue the feasibility of setting up a national income grant scheme.

There can be no doubt that such a grant system requires serious consideration, to buttress the current suite of social assistance programmes directed at the country's most indigent. One of the primary reasons for examining the option of a national grant is that the current system omits significant segments of the populace, most notably the unemployed.

It is known for example, that over a third of the unemployed are individuals who, given their skills, levels of literacy and location, are in fact unemployable, rather than unemployed. It is in trying to target this prototype individual that the notion of the welfare grant is at its most powerful.

However, it has to be recognised that such a grant system contains numerous difficulties that could result in its premature failure. This is particularly true given that the current suggestion conceives of a national, universally applicable grant. The difficulties arising from a national scheme have led many policymakers to have deep reservations about the efficacy and workability of the scheme.

The first obstacle to a national welfare grant is that of the additional costs imposed on the scheme by the required operational expenditures. It is not clear whether Skweyiya's estimate of R7- billion, in fact, included these costs. If not, then the operational expenditure in setting up and maintaining such a scheme would significantly increase the estimate provided by the minister.

Indeed, because such a fiscal transfer scheme does not exist at present, it would entail a massive initial set-up cost, combined with concurrent annual expenditures on maintenance. It is possible, however, that the department's new Welfare Payment and Information Service (WPIS) could reduce these set-up costs. An additional problem with the price tag of R7-billion is that it does not build in the continued cost of the scheme from one year to the next, and fails to account for fluctuations in the scheme's grant payments. Hence, higher unemployment or poverty levels in society, brought on, for example, by poor labour absorption rates, may see a rapid expansion in the scheme that could make it unaffordable very quickly.

A third very serious drawback of the scheme is that does not take employment incentives into account. Simply put, the offer of an income grant to employed or unemployed individuals may induce many to stop working or looking for work and live solely on the grant.

Studies of employment patterns in the economy, though, have indicated that, in many cases, individuals at the low end of the labour market are not going to be in great demand and indeed, large sections of the unemployed are highly unlikely to be employed anyway. In this environment, an income grant could offer much-needed respite from indigence in an economy with very low job prospects.

A further drawback of a national welfare scheme is that it assumes perfect targeting. In other words, it is assumed that every rand spent in the grant will go to the correct recipient. There would be no individuals or households getting the grant who are not eligible, and vice versa. Clearly this is an unlikely outcome in reality.

Hence, the spill-out effects of such a scheme are serious, and could mean that the scheme does not effectively reduce poverty to the levels initially aimed at.

For policymakers, the above are serious considerations that require intensive investigation before any agreement can be reached on implementing such a scheme.

Thus it is firstly vital that the potential capital and operational expenditure estimates of the grant scheme be calculated and incorporated into the above estimates.

The old age pension scheme may be used as a guide to these associated costs. In addition though, the potential for expenditure in the scheme to grow, as more recipients gain access to the grant, is particularly worrying. Indeed, the incentive effects alluded to above could be a significant factor in expanding the commitment of the scheme to levels well beyond what the state can afford.

Even if the state were to consider redistribution within the budget to make finance available for such a scheme, the potential for it to expand as a result of a spurt in qualified recipients is a risk the fiscally constrained state cannot be expected to take. Taking into consideration that a more generalised scheme may, furthermore, not be perfectly targeted, the government's reluctance to consider such a grant scheme is wholly understandable.

If one adds to this the fact that disbursements in the scheme would have to be undertaken at the provincial level, and the known difficulties with this, it is clear that a very strong, persuasive argument would need to be made to the Department of Finance concerning the feasibility of the scheme.

However, the evidence in other countries and in other studies, points unequivocally to the fact that transfer schemes are an effective and efficient manner in which to alleviate poverty in a society. Given this, is there any way in which to conceive of a grant scheme that would prove more amenable to the concerns of policymakers?

There would seem to be two immediate alternatives in this regard. Firstly, it may be useful to think of a grant scheme in more narrow terms, rather than the general far-reaching schemes suggested above. In this regard, one can conceive of a grant only targeted at a specific section of the population -for example, unemployed individuals in rural areas who are over the age of 40. If the grant is focused in this manner, it may have more appeal to policymakers, given the economy's almost complete inability to absorb these type of individuals into long-term formal employment.

The scheme could be further narrowed down to include, for example, only those unemployed individuals who lost their jobs through structural decline in the economy - which would in essence mean targeting those who lost their jobs in the primary sectors. Such a scheme would dovetail well with the current social plan in the mining industry.

Secondly, it is possible to think of the poverty effects of an already existing income grant scheme that is up and running, that is well targeted and does not have to concern itself with incentive effects. One can think of the old age pension scheme here.

A key issue is the impact on poverty at the household level of increasing the value of the pension. Indeed in most poor households, the only regular form of income is the old age pension.

A more detailed analysis of the possible poverty effects of raising its value would be an ideal avenue for initiating policy discussion with the relevant fiscal authorities.

While the budgetary constraints are recognised, it is well known that the current, most effective mechanism for household poverty alleviation goals is the old age pension system. In this way, redistributing within the budget toward this grant scheme could be achieved, particularly in the context of alleviating poverty in a cost-effective and efficient manner.

Ultimately, it is clear that the Department of Welfare and Development is rightfully concerned with expanding the current welfare net to include those who are particularly disadvantaged in the society. However, these proposals, it would seem, need to be significantly buttressed to take into account all the understandable and serious concerns, that inevitably arise when considering a national income grant scheme.

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