Economic Policy Research Institute
A SECTION 21 COMPANY · Reg. number 1998/09814/08
SANCLARE BUILDING 3rd FLOOR 21 DREYER STREET CLAREMONT 7700 CAPE
TEL: (+27 21) 671-3301 www.epri.org.za FAX: (+27 21) 671-

EPRI RESEARCH PAPER #20

Research Submission on

The Social Impact of Reform Options in South Africa: The Universal Child Support Grant and the Basic Income Grant

submitted to the
Committee of Inquiry for Comprehensive Social Security

produced by the
Economic Policy Research Institute (EPRI)

15 June 2001

Dr. Michael Samson (EPRI and Williams College Center for Development Economics)
Mr. Oliver Babson (Princeton University)
Dr. Claudia Haarmann (EPRI and Institute for Social Development, UWC)
Dr. Dirk Haarmann (EPRI and Institute for Social Development, UWC)
Mr. Gilbert Khathi (EPRI and UWC)
Mr. Kenneth Mac Quene (EPRI)
Ms. Ingrid van Niekerk (EPRI)

Economic Policy Research Institute

USAID

This research paper is sponsored by USAID and administered by the Joint Center for Political and Economic Studies Inc. under grant no. JCNAT98-954-01-00 from Nathan Associates Inc. The opinions expressed herein are those of the authors and do not necessarily reflect the views of the United States Agency for International Development.

TABLE OF CONTENTS

List of Figures

List of Tables

EXECUTIVE SUMMARY

The coverage gaps within South Africa's social security system combined with the structurally low rate of take-up of the *Child Support Grant* underscore the need for comprehensive reform. The nature of structural unemployment in the face of a changing global economy that marginalises unskilled workers expands the necessary scope of a social safety net. Not only do children, retirees and the disabled need social protection—millions of potential workers are vulnerable to unemployment and the resulting impoverishment.

The nature of an income transfer has important implications for its socio-economic benefits. A universal grant, provided as an entitlement and without a means test, will more readily reach the poorest population. Also, by removing the stigma that labels the recipient as "poor", the grant bolsters economic support without draining psychological resources. Analysis of the micro-simulation model provides strong evidence of the capacity of a *Basic Income Grant* to address some of the major shortcomings of the existing social security system. First, the universal nature of the grant addresses critical structural problems with social security take-up that undermine the effectiveness of the current system. Dispensing with the means test lowers the cost of accessing the grant to both the government and the beneficiaries. Providing the grant as a fundamental right reduces arbitrary discretion, minimising opportunities for corruption. Furthermore, the broad coverage that universal access provides fills the gaps of the existing system. The *Basic Income Grant* enables the social security system to reduce the poverty gap for all groups by at least fifty percent—compared to a reduction as little as eight percent for households with just working age adults (or children and working age adults) under the current social security system. No other social security reform can provide the effective breadth of coverage demonstrated by the *Basic Income Grant*.

1. INTRODUCTION

The coverage gaps within South Africa's social security system combined with the structurally low rate of take-up of the *Child Support Grant* (CSG) underscore the need for comprehensive reform. The nature of structural unemployment in the face of a changing global economy that marginalises unskilled workers expands the necessary scope of a social safety net. Not only do children, retirees and the disabled need social protection—millions of potential workers are vulnerable to unemployment and the resulting impoverishment.

Using a household-level micro-simulation model[1], this paper evaluates the social impact of reforming the social security system through the provision of universal grants. In light of the low take-up rates of the CSG, the paper begins by analysing the impact of the extension of the CSG with a universal grant. The second main part of the paper analyses the social impact of a *Basic Income Grant*.

2. CHARACTERISITCS OF THE BASIC INCOME GRANT

This social policy option can be defined as "a general social assistance grant for all South Africans." The following discussion identifies the concrete characteristics of this option.

In practice, the grant would be calculated on a per person basis and paid out to the primary caregiver in the household. For instance, a *Basic Income Grant* of R100 would mean that a single person living alone receives R100 per month. A household with 6 people (the average for the South African population)[2] receives R600 a month, which would be paid to the person primarily responsible for childcare. The working

1 The details of the technical modelling are available in EPRI Research Paper no. 19 (see Samson *et al*).

assumption in this modelling is that there is no overlap between different grants. T grant is meant for people currently not receiving social assistance already. A *Basic Income Grant* serves as a social entitlement for all South Africans. Such an entitlement supports the right to social security as entrenched in the South African constitution [27(1)(c);(2)] while furthering the vision of a comprehensive social security system as identified in the *White Paper for Social Welfare*.

The *Basic Income Grant* has no means test and therefore avoids many of the disincentives to work inherent in other social assistance systems. This stands in stark contrast to what is sometimes referred to as a 'dole system', which employs conventional means tests to target the unemployed, the unemployable or the very poor. Such 'dole systems' are often associated with significant negative incentives and stigma.

The targeting of the poor within the context of a *Basic Income Grant* depends on the tax system. The *South African Revenue Service* is one of the most capable arms of government, reflecting a transformation process that has supported consistent over-achievement of revenue targets over the past five years. Appropriate tax reform linked to the *Basic Income Grant* can achieve very effective redistribution. Several financing mechanisms have been proposed. The *Congress of South African Trade Unions* (COSATU) has proposed recuperating the amount of the grant from all low-income to middle-income earners while implementing a 'solidarity tax' for higher income earners, and other proposals have focused on the *Value Added Tax* as well as progressive taxation.[3]

One of the major advantages of a universal grant that uses the tax system instead of a means test is the reduced danger of corruption, as the payment is an entitlement and is not dependent on officials with the discretion to decide who receives

---

2 See Haarmann (2000).

3 COSATU (1998); Hazelhurst (2000); Samson, Babson, Mac Quene, van Niekerk (2000).

it. The implementation of a *Basic Income Grant* also develops administrative economies of scale that generate spill-over benefits for the payment of other social grants, the development of the financial system, and the collection of taxes.

The structure of the *Basic Income Grant* is important. Paying a fixed grant per household or calculating the benefit on a per person basis yields very different social impacts. A *Basic Income Grant*, which is calculated on a per person basis, favours larger households that on average are poorer than smaller ones. Pooling of income leads to economic efficiencies and a more equitable intra-household distribution of income, which contributes to the empowerment of women and younger people in the family.[4]

3. REFORM OF THE CHILD SUPPORT GRANT

One of the major shortcomings of the present social security system is the low take-up rates of the CSG (the estimated take-up rate for the CSG is approximately 20%). This section explores the possibility of extending the CSG with a universal grant.

This is a hypothetical extreme case designed to demonstrate, at the limit, the implications of promoting full take-up of social security programmes. In theory, eliminating the means test and guaranteeing a CSG as a universal right promotes take-up of the programme in several ways:

- It eliminates much of the bureaucratic delay associated with the complex application process.
- It reduces corruption by guaranteeing children the right to social security benefits, removing the official discretion that can potentially be abused.

4 Haarmann and Haarmann (1998).

- It reduces social stigma—the social security benefit does not label a child as "poor".

The potential of the universal grant is investigated through a comparison of two different simulations. The extension of the CSG up to age 18 was simulated under the following two different scenarios:

- With the current take-up rates of 20%, reflecting means tests, eligibility criteria, and other impediments to take-up, and
- A universal CSG with the assumption of 100% take-up.

This hypothetical comparison provides a quantification of various dimensions of the impact of social security take-up.

3.1 SCENARIO 1: EXTENSION OF THE CSG - CURRENT TAKE-UP RATES OF 20%

The simulation of the extension of the existing CSG up to age 18, with an assumed take-up equal to the existing rate of 20%, provides a starting point for the analysis. The tables employed follow a standard format used throughout this paper--breaking the statistics down by the following household types:

1. Only infants, children, and youth (hereafter referred to as "children").
2. Children and working age adults.
3. Children and adults in pensionable age (skip generation household).
4. Children, working age adults and adults in pensionable age (three-generation household).
5. Only working age adults.
6. Working age adults and adults in pensionable age.
7. Only adults in pensionable age.

The simulation shown in Table 1 indicates that 7.2 million poor individuals would still live in households with children that receive no social security. The average reduction in the poverty gap varies substantially across households—from only 13.8% for children living with working age adults to 72.5% for children living with adults in pensionable age ("skip generation" households). Half the poverty gap is closed in three-generation households.

Table 1: Extension of CSG up to Age 18 with 20% Take-up

	only child.	Child. + work. Age adults	Child. + adults in pen. age	Child. + work. age adults + adults in pen. age	Total (households with children)
Total No. of people living in the bottom two quintiles:	35,696	14,982,029	444,791	7,039,617	22,502,133
% of people living in the bottom two quintiles:	0.1%	62.8%	1.9%	29.5%	94.30%
Total No. of people living in HH receiving no social assistance (bottom two quintiles):	15,345	6,781,337	10,439	359,962	7,167,083
% of people living in HH receiving no social assistance (bottom two quintiles):	43.0%	45.3%	2.3%	5.1%	
Average No. of people living in the HH (bottom two quintiles):	4.2	7.4	4.7	9.3	
Average No. of people employed in the HH (bottom two quintiles):	0.0	1.0	0.0	0.8	
Average No. of people receiving social assistance (bottom two quintiles):	0.9	0.8	1.9	2.0	
Average % closed of the poverty gap by social assistance (bottom two quintiles):	15.6%	13.8%	72.5%	49.5%	
Avg. *per capita* social assistance transfer through CSG (bottom two quintiles):	R 22	R 11	R 17	R 10	

The total number of beneficiaries of the programme amount to 2,877,298 children, nearly all of them in households that include working age adults. The total annual value of grant payments equals R3.8 billion.

Table 2 documents the impact of the extension on the distribution of social security across quintiles, as well as the geographic and racial impact. The number of people below the poverty line is actually higher with the extension of the CSG to age 18. In the baseline scenario—with full take-up of all existing grants, the number of people

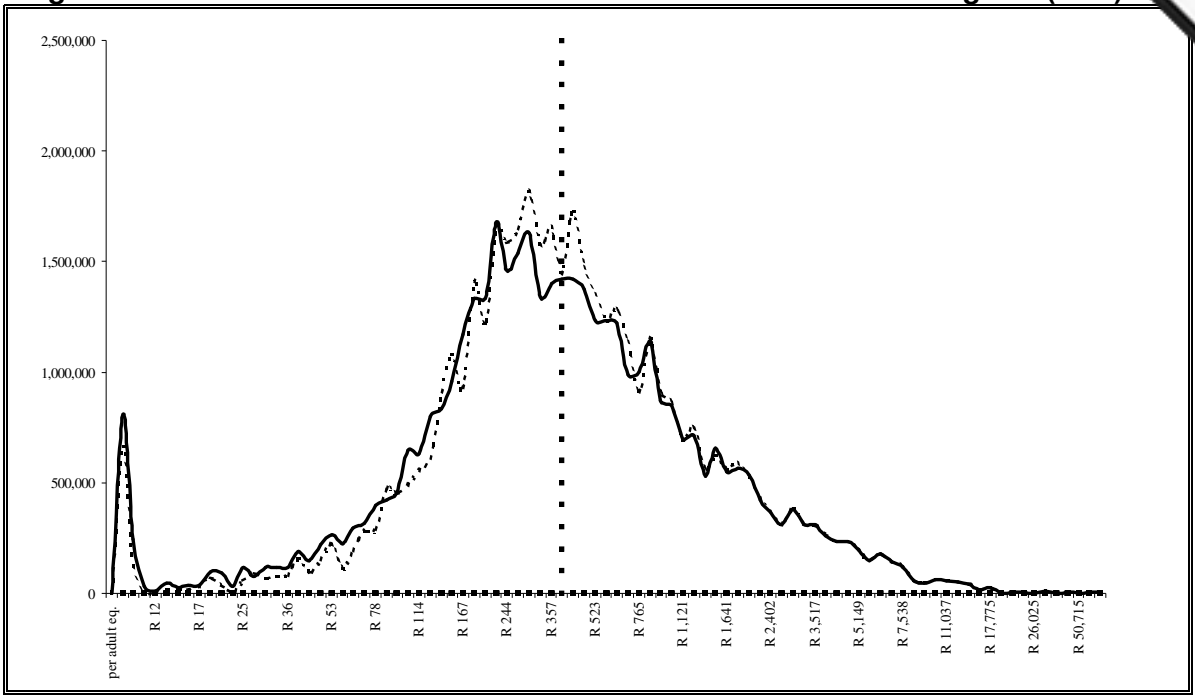
below the poverty line is 21,955,935. With the extension of the CSG at existing take-up rates, the projected number of people who fall below the poverty line is 22,797,777. The analysis of the poverty gap reduction corroborates this result. The average reduction in the poverty gap under the baseline scenario is 36.6%, while the average reduction is only 27.5% with the extension of the CSG to age 18 with existing take-up rates.

Table 2: Consumption quintile analysis and Demographic analysis for Extension of CSG up to Age 18 with 20% Take-Up

	only child.	child. + work. Age adults	Child. + adults in pen. age	Child. + work. age adults + adults in pen. age	Total (households with children)
Total number of people reached by social assistance programmes:					
CSG	11,300	2,015,114	84,708	766,176	**2,877,298**
Total annual transfers by social assistance programmes (in millions):					
CSG	R 15	R 2,660	R 112	R 1,011	**R 3,798**
Total annual transfer to quintiles (in millions):					
1. Qu.	1.3	1,911.7	516.5	4,559.1	**6,988.6**
2. Qu.	8.1	1,574.7	447.3	3,221.5	**5,251.6**
3. Qu.	4.1	1,108.5	257.7	2,058.3	**3,428.6**
4. Qu.	1.4	415.2	78.2	664.8	**1,159.6**
5 . Qu.	0.0	131.0	5.7	203.3	**340.0**
Total annual transfer rural / urban. (in millions):					
Rural	15.0	3,144.3	1,043.2	7,104.2	**11,306.7**
Urban	0.0	1,977.2	259.2	3,549.1	**5,785.5**
Total annual transfer by race (in millions):					
"african"	14.9	4,507.4	1,232.7	9,669.2	**15,424.2**
"coloured"	0.0	469.9	61.9	753.8	**1285.6**
"indian"	0.0	83.3	8.0	117.8	**209.1**
"white"	0.0	130.8	3.7	166.1	**300.6**

Figure 1 depicts the distribution of income with the extension of the CSG (the solid line), compared to the baseline scenario of full take-up of existing social security programmes (the dotted line). The graph demonstrates that extending the CSG to age 18 with current take-up rates does not yield an improvement over the baseline scenario. In the baseline scenario, the income distribution peaks around the poverty line. With the extension of the CSG at existing take-up rates, the distribution peaks at a level of income below the poverty line.

Figure 1: Distribution of income – means tested CSG extension to age 18 (20%)



3.2 SCENARIO 2: EXTENSION OF THE CSG – UNIVERSAL GRANT, 100% FULL TAKE-UP

The second simulation examines the implications of an extension of the CSG to age 18, but with a universal grant that succeeds in achieving full take-up. Table 3 summarises key statistics indicating the social impact.

Table 3: Key Statistics - Universal CSG Extended to Age 18

	Only child.	Child. + work. Age adults	Child. + adults in pen. Age	Child. + work. Age adults + adults in pen. age	Total (households with children)
Total No. of people living in the bottom two quintiles:	35,696	14,982,029	444,791	7,039,617	**22,502,133**
% of people living in the bottom two quintiles:	0.1%	62.8%	1.9%	29.5%	**94.3**
Average No. of people living in the HH (bottom two quintiles):	4.2	7.4	4.7	9.3	
Average No. of people employed in the HH (bottom two quintiles):	0.0	1.0	0.0	0.8	
Average No. of people receiving social assistance (bottom two quintiles):	4.2	4.2	4.6	5.9	
Average % closed of the poverty gap by social assistance (bottom two quintiles):	70.1%	48.6%	91.1%	70.5%	
Avg. *per capita* social assistance transfer through CSG (bottom two quintiles):	R 110	R 69	R 238	R 135	

By definition, the universal CSG ensures that no poor household with children fails to receive social security benefits. The average reduction in the poverty gap increases substantially for all households with children, reaching 91.1% for "skip generation" households (up from 72.5% in the means tested extension with 20% take-up scenario). The average poverty gap reduction for households with only children and working age adults rises to 48.6% from 13.8%, and for three-generation households to 70.5% from 49.5%. The average *per capita* transfer to households with children increases dramatically, up to R238 for "skip generation" households from R17. The average *per capita* transfer for households with only children and working age adults rises to R69 from R11, and for three-generation households to R135 from R10.

The total number of beneficiaries of the programme increases substantially, from 2.9 million (in the means tested 20% take-up scenario) to 19.9 million children. The total annual value of grant payments rises to R26.3 billion.

Table 4 documents the impact of the extension on the distribution of social security across quintiles, as well as the geographic and racial impact.

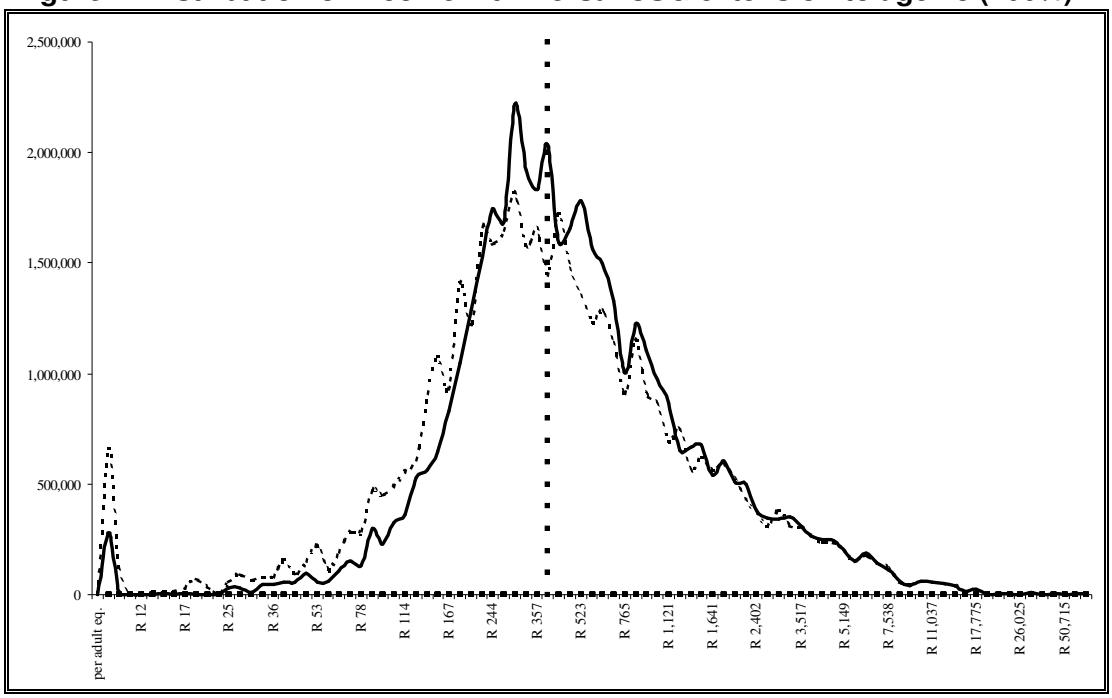
Table 4: Consumption Quintile Analysis and Demographic Analysis for Universal CSG Extended to Age 18

	only child.	child. + work. age adults	Child. + adults in pen. age	Child. + work. age adults + adults in pen. age	Total (households with children)
Total number of people reached by social assistance programmes:					
CSG	58,604	15,035,477	397,500	4,403,341	**19,894,9227**
Total annual transfers by social assistance programmes (in millions):					
CSG	R 77	R 19,847	R 525	R 5,812	**R 26,261**
Total annual transfer to quintiles (in millions):					
1. Qu.	10.8	6,716.5	695.6	6,755.1	**14,178**
2. Qu.	36.4	5,805.8	577.4	4,705.7	**11,125.3**
3. Qu.	21.7	4,720.9	332.7	2,860.9	**7,936.2**
4. Qu.	8.5	3,061.5	103.2	930.4	**4,103.6**
5. Qu.	0.0	2,114.2	10.5	279.4	**2,404.1**
Total annual transfer rural / urban. (in millions):					
Rural	72.5	12,039.2	1,386.4	10,364.8	**23,862.9**
Urban	4.9	10,292.0	329.7	5,098.7	**15,725.3**
Total annual transfer by race (in millions):					
"african"	77.4	17,655.7	1,630.9	14,116.4	**33,480.4**
"coloured"	0.0	2,275.7	75.2	1,022.4	**3,373.3**
"indian"	0.0	581.4	8.0	157.9	**747.3**
"white"	0.0	1,956.4	6.3	232.9	**2,195.6**

The number of people below the poverty line falls substantially with the universal CSG extension. In this scenario, the number of people below the poverty line is 19,755,874, compared to 21,955,935 people in the baseline scenario and 22,797,777 with the extension at existing take-up rates. Likewise, the poverty gap analysis shows a dramatic improvement. The average reduction in the poverty gap under this scenario is 55.8%, compared to 36.6% under the baseline scenario and 27.5% with the extension at existing take-up rates.

Figure 2 depicts the distribution of income associated with the universal CSG scenario (the solid line), again compared to the baseline scenario of full take-up of existing social security programmes (the dotted line).

Figure 2: Distribution of income – universal CSG extension to age 18 (100%)



The graph demonstrates that the universal extension significantly improves the distribution of income. At incomes above the poverty threshold, the solid line lies largely above the dotted line, indicating the greater number of people moved out of poverty by the universal CSG. At very low levels, the solid line lies below the dotted line, representing the number of people moved out of destitution.

4. THE IMPACT OF A BASIC INCOME GRANT

The policy scenario analysed in this section is the implementation of a *Basic Income Grant* of R100 per month for all South Africans. This section looks at the social impact of extending this grant, as well as the impact of the grant on coverage, cost of transfers and distribution of income.

4.1 SOCIAL IMPLICATIONS

Table 5 documents the outcomes of full take-up of this policy. With full take-up, the number of poor South Africans excluded from the social security system is reduced to zero.

Table 5: The Social Impact of a Basic Income Grant

	only child.	Child. + work. Age adults	Child. + adults in pen. age	Child. + work. age adults + adults in pen. age	only work. age adults	work. Age adults + adults in pen. age	only adults in pen. age	Total
Total No. of people living in the bottom two quintiles:	35,696	14,982,029	444,791	7,039,617	894,528	382,381	61,430	**23,840,471**
% of people living in the bottom two quintiles:	0.1%	62.8%	1.9%	29.5%	3.8%	1.6%	0.3%	**100.0%**
% of people living in HH receiving no social assistance (bottom two quintiles):	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	**0.0%**
Average No. of people living in the HH (bottom two quintiles):	4.2	7.4	4.7	9.3	2.7	3.7	1.4	**7.6**
Average No. of people employed in the HH (bottom two quintiles):	0.0	1.0	0.0	0.8	1.0	0.6	0.0	**0.9**
Average No. of people receiving social assistance (bottom two quintiles):	4.2	7.4	4.7	9.3	2.7	3.7	1.4	**7.6**
Average % closed of the poverty gap by social assistance (bottom two quintiles):	65.8%	67.4%	94.5%	84.9%	56.7%	90.1%	100.0%	**73.7%**
Average *per capita* social assistance transfer (bottom two quintiles):	R 102	R 109	R 250	R 178	R 121	R 277	R 568	**R 137**
Average *per capita* social assistance transfer through SOAP (bottom two quintiles):	R 0	R 0	R 180	R 84	R 0	R 209	R 568	**R 33**
Average *per capita* social assistance transfer through CSG (bottom two quintiles):	R 25	R 21	R 20	R 20	R 0	R 0	R 0	**R 19**
Average *per capita* social assistance transfer through DG (bottom two quintiles):	R 0	R 9	R 1	R 9	R 26	R 8	R 0	**R 10**
Average *per capita* social assistance transfer through BIG (bottom two quintiles):	R 77	R 79	R 50	R 66	R 95	R 61	R 0	**R 75**

The dispersion among household types in the closing of the poverty gap substantially reduced. The household type with the least reduction in the poverty gap is the household with only working age adults--the poverty gap is closed by 56.7%, compared to only 7.6% with the current system. For households with children but no pensioners, the poverty gap is closed by two-thirds, and for households with children and pensioners, the gap is closed even more successfully. For "skip generation" households, 95% of the poverty gap is closed, for "three-generation" households, 85% of the poverty gap is closed. The gap between the average *per capita* transfers for households with children and no pensioners versus households with children and pensioners falls substantially.

The variance in average *per capita* social security transfers across household types narrows significantly. Under the existing system, poor households with just children and working age adults receive *per capita* transfers averaging R14, while poor pensioner households receive an average of R523, a ratio of thirty-seven to one. With the *Basic Income Grant*, poor households with just children and working age adults receive *per capita* transfers averaging R109, while poor pensioner households receive an average of R568, a ratio of only five to one. Likewise, disparities among households with children also narrow. Under the existing system, a poor child fortunate enough to live with a pensioner grandparent benefits from an average *per capita* transfer as high as R154 ("skip generation" households), or R84 ("three generation" households). Children without pensioners in the household receive less than a tenth the transfer for "skip generation" households (R14). With a *Basic Income Grant*, the child living with a pensioner grandparent benefits from an average *per capita* transfer of R250 ("skip generation" households), or R178 ("three generation" households). Children without pensioners in the household receive a little less than half the *per capita* transfer for "skip generation" households (R109).

4.2 BREADTH OF COVERAGE AND COST OF TRANSFERS

The impact of the *Basic Income Grant* on the number of beneficiaries and the costs of the transfers is summarised in Table 6.

Table 6: Beneficiary and Transfer Statistics for a Basic Income Grant

	only child.	Child. + work. age adults	child. + adults in pen. age	Child. + work. Age adults + adults in pen. Age	only work. age adults	Work. age adults + adults in pen. age	Only adults in pen. age	Total
Total number of people reached by social assistance programmes:								
SOAP	0	0	195,027	1,468,375	0	322,480	251,315	**2,237,196**
CSG	12,203	3,814,987	104,119	1,529,350	0	0	0	**5,460,659**
DG	0	417,967	2,917	170,825	118,001	8,339	0	**718,050**
BIG	46,401	24,525,143	301,568	6,277,567	4,494,307	666,805	149,639	**36,461,431**
Total	**58,604**	**28,758,097**	**603,631**	**9,446,117**	**4,612,308**	**997,625**	**400,953**	**44,877,335**
Total annual transfers by social assistance programmes (in millions):								
SOAP	R 0	R 0	R 1,310	R 9,800	R 0	R 2,106	R 1,554	R 14,770
CSG	R 16	R 5,036	R 137	R 2,019	R 0	R 0	R 0	R 7,208
DG	R 0	R 2,603	R 20	R 1,143	R 724	R 57	R 0	R 4,546
BIG	R 56	R 29,430	R 362	R 7,533	R 5,393	R 800	R 180	R 43,754
Total	**R 72**	**R 37,069**	**R 1,829**	**R 20,494**	**R 6,117**	**R 2,963**	**R 1,734**	**R 70,278**
Total annual transfer to quintiles (in millions):								
1. Qu.	10.0	10,439.1	719.9	8,869.3	529.8	632.2	139.6	**21,350.8**
2. Qu.	33.8	9,185.2	615.7	6,223.2	773.3	643.7	278.6	**17,795.1**
3. Qu.	20.1	7,891.1	363.4	3,809.3	1,119.1	568.7	341.2	**14,211.7**
4. Qu.	7.9	5,497.4	112.2	1,216.6	1,710.7	571.4	365.6	**9,484.3**
5 . Qu.	0.0	4,043.2	12.3	401.0	1,999.4	547.7	618.4	**7,616.0**
Total annual transfer rural / urban. (in millions):								
Rural	67.4	18,600.9	1,463.5	13,447.8	1,851.8	1,302.8	637.7	**37,417.5**
Urban	4.4	18,463.6	358.0	7,050.8	4,280.2	1,654.6	1,113.2	**32,947.3**
Total annual transfer by race (in millions):								
"african"	71.8	28,303.1	1,724.4	18,607.8	3,986.2	1,846.6	843.0	**55,648.6**
"coloured"	0.0	3,932.2	84.4	1,388.0	463.5	305.6	52.7	**6,243.1**
"indian"	0.0	1,094.2	7.9	215.2	197.8	188.1	6.7	**1,695.1**
"white"	0.0	3,749.3	8.3	310.7	1,494.4	622.7	838.9	**6,995.4**

The number of people covered by the social security system increases more than five-fold, with the total rand value of transfers rising to seventy billion rand. The *Basic Income Grant* accounts for R44 billion of this amount, and R22 billion of this amount is paid to people in the top three quintiles. This underscores the need to revise the tax structure in order to ensure an overall progressive impact.

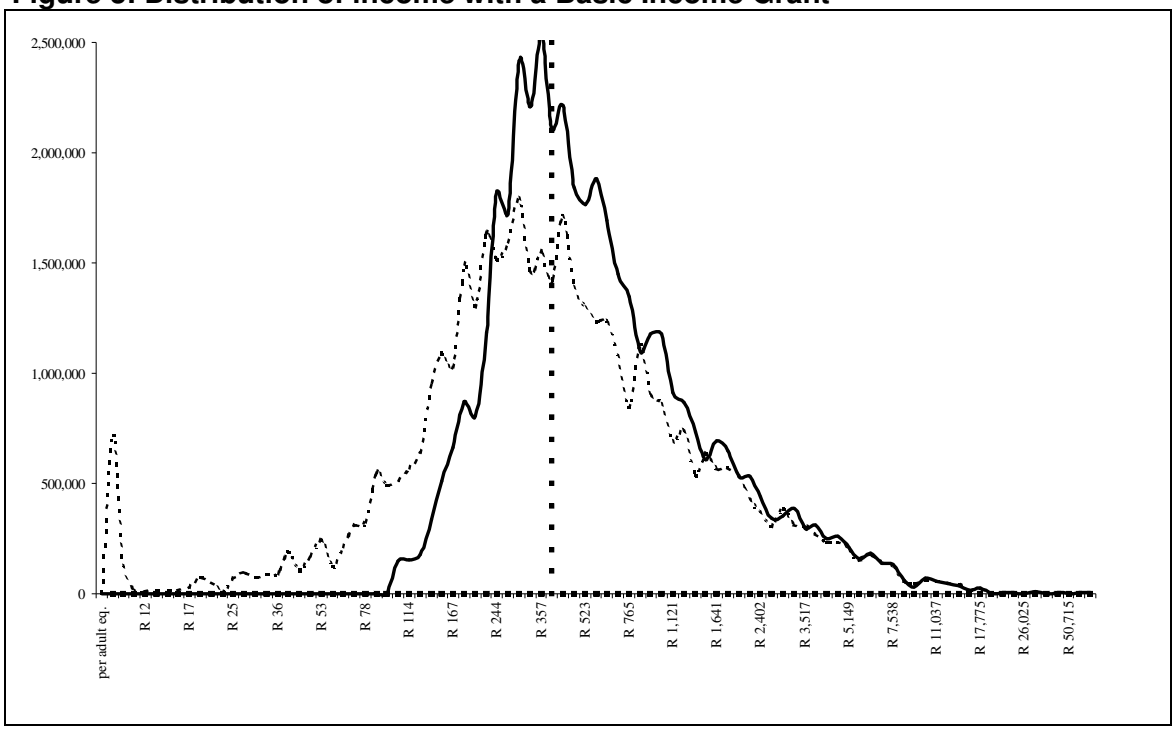
Most of the benefits (53%) are distributed to rural households, reflecting the spatial character of South African poverty. Two-thirds of the transfers to three-

generation and "skip generation" households are to rural recipients, reflecting t household structure's role in coping with rural poverty.

4.3 DISTRIBUTION OF INCOME

Figure 3 depicts the impact of the *Basic Income Grant* on the distribution of income. The graph is constructed with population on the vertical axis and relative income categories on the horizontal axis. That is, an increment along the horizontal axis represents a ten percent increase in income. The dotted vertical line represents the subsistence line of R401 per adult equivalent. The solid line represents the distribution of income with the *Basic Income Grant*.

Figure 3: Distribution of income with a Basic Income Grant



The graph documents important impacts. The incidence of extreme poverty is nearly completely eliminated. The closing of the poverty gap improves to 74%. On a headcount basis, approximately 6.3 million people are moved out of poverty. The number of destitute individuals (measured using half the poverty line) falls by 10.2 million people. Most of the remaining poor individuals are clustered fairly close to the poverty

line, so that broad-based growth would demonstrate substantial success in moving additional numbers of people out of poverty.

5. CONCLUSIONS

The simulation exercise of the extension of the CSG demonstrates the importance of take-up rates in determining the socio-economic impact of social security grants. Achieving full take-up of the existing programmes yields better results than a significant extension of the CSG at existing take-up rates. But achieving full-take up with the current means test is not necessarily feasible. Substantially improved take-up—the key to effective social security reform—may require the elimination of the means test.

The analysis of the micro-simulation model provides strong evidence of the capacity of a *Basic Income Grant* to address some of the major shortcomings of the existing social security system. The universal nature of the grant addresses critical structural problems with social security take-up that undermine the effectiveness of the current system. Dispensing with the means test lowers the cost of accessing the grant to both the government and the beneficiaries. Providing the grant as a fundamental right reduces arbitrary discretion, minimising opportunities for corruption. Furthermore, the broad coverage that universal access provides fills the gaps of the existing system. The *Basic Income Grant* enables the social security system to reduce the poverty gap for all groups by at least fifty percent—compared to a reduction as little as eight percent for households with just working age adults (or children and working age adults) under the current social security system. No other social security reform can provide the effective breadth of coverage demonstrated by the *Basic Income Grant*.

BIBLIOGRAPHY

Alderman, H. 1996. “Saving and Economic Shocks in Rural Pakistan”. *Journal of Development Economics*. Vol. 51. No. 2. pp. 346-65.

Ardington, Elisabeth and Lund, Frances. 1995. “Pensions and development: How the social security system can complement programmes of reconstruction and development”. Durban (Development Bank of Southern Africa). (Development Paper 61 Occasional paper.) p. 28.

Barker, D.J.P. 1996. “The Origins of coronary heart disease in early life”. In *Long-term Consequences of Early Environment*. Edited by C. Jeya K. Henry and Stanley J. Ulijaszek. Cambridge: Cambridge University Press. p. 155, 177.

Barker, Frans. 1999. *The South African Labour Market*. Pretoria: J.L. van Schaik Publishers. p.118.

Behrman, Jere and Wolfe, Barbara. 1987a. “How Does Mother’s Schooling Affect the Family’s Health, Nutrition, Medical Care Usage and Household?” *Journal of Econometrics*.

Behrman, Jere and Wolfe, Barbara. 1987b. "Investments in Schooling in Two Generations in Pre- Revolutionary Nicaragua." *Journal of Development Economics*. 27. pp. 395-419.

Berg, Servaas van der 1994. "Issues in South African Social Security". A background paper prepared for the World Bank. Stellenbosch. Printed for private circulation.

Berg, Servaas van der; Amde, Yesgedullish; Budlender, Debbie. 1997. “A proposed means-test for Child Support Grants. Report of the Sub-Committee of the Task Group on delivery systems. 17. November 1997.” n.p. Printed for private circulation. p. 4.

Bertrand, Marianne; Miller, Douglas; Mullainathan, Sendhil. 2000. “Public Policy and Extended Families: Evidence from South Africa”. NBER Working Paper Series. No. 7594.

Birdsall, Nancy. 1985. "Public Inputs and Child Schooling in Brazil". *Journal of Development Economics.* Vol. 18. pp. 67-86.

Bouis, H.E. and Haddad, L.J. 1992. “Are estimates of calorie-income elasticities too high? A recalibration of the plausible range.” *Journal of Development Economics*. Vol. 39.

Budlender, Debbie. 1993. “Women and household food security”. Cape Town. Printed for private circulation.

Cameron, N. 1996. “Antenatal growth and birth factors and their relationships to child growth”. In *Long-term Consequences of Early Environment*. Edited by C. Jeya K. Henry and Stanley J. Ulijaszek. Cambridge: Cambridge University Press.

Case, Ann and Deaton, Angus. 1996. "Large cash transfers to the elderly in South Africa". NBER Working Paper Series. No. W5572. pp. 7, 23-24.

Case, Ann and Deaton, Angus. 1998. "Large cash transfers to the elderly in South Africa". *The Economic Journal*. Vol. 108. No. 450. pp. 1330-1361.

Cashin, Paul. 1995. "Government Spending, Taxes and Economic Growth." *IMF Staff Papers*. Vol. 42, No.2. International Monetary Fund. p. 262.

Central Statistical Service. Census '96: Preliminary estimates of the size of the population of South Africa. 1997. http://www.css.gov.za.

Chandra, R.K. 1975. "Fetal Malnutrition and Postnatal Immunocompetence". *American Journal of Diseases of Childhood*. Vol. 129. pp. 450-454.

Congress of South African Trade Unions. 1996. COSATU Submission on Social Welfare White Paper - 4 November 1996. Cape Town. Printed for private circulation.

Congress of South African Trade Unions. 1997. COSATU oral submission to Portfolio Committee on Welfare regarding proposed changes to the system of Child Support Benefit arising from the Report of the Lund Committee on Child and Family Support. 21 April 1997. Cape Town. Printed for private circulation.

Congress of South African Trade Unions. 1998. COSATU Submission: Labour Audit for the Jobs Summit. August 1998. http://www.cosatu.org.za/docs/1998/labouraudit.htm (30.05.2000).

Cornia, G. A., and F. Stewart. 1995. "Two Errors of Targeting". In *Adjustment and Poverty: Options and Choices* edited by F. Stewart. London: Routledge.

Deolalikar, A.B. 1993. "Gender Differences in the Returns to Schooling and Schooling Enrollment Rates in Indonesia." *Journal of Human Resources*. Vol. 28 No.4. pp. 899-932.

Department of Finance. 1998. *Budget Review*. Cape Town: Government Printers. 6.61.

Department of Finance. 2000. *Budget Review*. Republic of South Africa. Pretoria: Government Printers.

Department of Social Welfare, SOCPEN system for March and April 2001.

Department of Welfare (White Paper). 1997. "White Paper for Social Welfare. Principles, guidelines, recommendations, proposed policies and programmes for developmental social welfare in South Africa." Pretoria: Government Printers. p. 49.

Department of Welfare. 1998. "Regulations regarding the phasing out of maintenance grants in terms of the social assistance act 1992 (Act No. 59 of 1992)". Pretoria: Government Printers. p. 5.

Department of Welfare. 25 June 1999. "Amendment: Regulations under the social assistance act, 1992". Pretoria: Government Printers.

Dorrington, Rob. 1999a. "Addendum to ASSA 600: An Aids model of the third kind?" Cape Town. Printed for private circulation.

Dorrington, Rob. 1999b. "ASSA 600: An AIDS model of the third kind?" Cape Town. Printed for private circulation.

Dorrington, Rob 1999c. "To count or to model that is not the question: Some possible deficiencies with the 1996 census results". Cape Town. Printed for private circulation.

Fraser-Moleketi, Geraldine. 9 February 1998. Statement by the Minister for welfare and population development, Ms Geraldine Fraser-Moleketi, at the parliamentary briefing week, Cape Town. Press briefing.
http://www.polity.org.za/govdocs/speeches/1998/sp0209a.html

Fraser-Moleketi, Geraldine. 18 February 1999. Statement by the Minister for welfare and population development, Ms Geraldine Fraser-Moleketi, at the parliamentary briefing week, Cape Town. Press briefing.
http://www.polity.org.za/govdocs/speeches/1998/sp0218.htm

Gruat, Jean-Victor. 1990. "Social security schemes in Africa. Current trends and problems". *International Labour Review*. Vol. 129. No. 4. pp. 405-421.

Gutierrez, Alvaro C. 1990. "Finanzierung der Sozialen Sicherheit und Makroökonomie: Betrachtungen zum Fall Lateinamerika". *Internationale Revue für Soziale Sicherheit*,.Vol. XLII. No. 3. pp. 300-315.

Haarmann, Dirk. 1998. "From state maintenance grants to a new child support system: Building a policy for poverty alleviation with special reference to the financial, social, and developmental impacts". University of the Western Cape, Institute for Social Development. Doctoral thesis. Printed for private circulation. pp. 57-58.

Haarmann, Claudia. 2000. “Social assistance in South Africa: Its potential impact on poverty”. University of the Western Cape, Institute for Social Development, Doctoral thesis. Printed for private circulation.

Haarmann, Dirk and Haarmann, Claudia. 1998. "Towards a comprehensive social security system in South Africa". Cape Town. Printed for private circulation.

Haddad, Lawrence; Hoddinott, John; Alderman, Harold. (ed.) 1997. *Intrahousehold resource allocation in developing countries. Models, methods and policy*. Baltimore, London (The International Food Policy Research Institute).

Harber, Richard. “South Africa’s Public Finances”. Pretoria: United States Agency for International Development. 1995.

Hazelhurst, Ethel. 2000. “Shadow Budget. DP wants dole for poor”. In *Financial Mail*. No. http://www.fm.co.za/00/0218/currents/dcuur.htm, 18.02.2000

Henry, C.J.K. and Ulijaszek, S.J. 1996. “Introduction: growth, development and the lifespan developmental prospective”. In *Long-term Consequences of Early Environment*. Edited by C. Jeya K. Henry and Stanley J. Ulijaszek. Cambridge: Cambridge University Press. p. 21.

Human Resource Development Strategy for South Africa. 2001. Republic of South Africa: Government Printers.

Income and Expenditure Survey. 1995. Statistics South Africa. Pretoria: RSA.

"Interim Report of the Commission of Inquiry into certain aspects of the Tax Structure of South Africa". 1994. (Chaired by M. M. Katz.) Pretoria: Republic of South Africa Government Printer.

Immink, M. and Viteri, F. 1981. “Energy intake and productivity of Guatemalan sugarcane cutters: An empirical test of the efficiency wage hypothesis”. *Journal of Development Economics*.

Jensen, Robert. 1996. "Public Transfers, Private Transfers, and the `Crowding Out' Hypothesis: Theory and Evidence from South Africa". Princeton University. draft.

King, E.M. and Lillard, L.A. 1987. “Education policy and schooling attainment in Malaysia and the Philippines”. *Economics of Education Review*.

Klasen, Stephan. 1996. "Poverty and inequality in South Africa". Centre for History and Economics King's College University of Cambridge. Forthcoming article in Social Indicator Research. Printed for private circulation.

Klasen, Stephan and Woolard, Ingrid. 1999. "Levels, trends and consistency of employment and unemployment figures in South Africa". Munich, Port Elizabeth. Printed for private circulation.

Kola, et al. 2000. “Social Security for Children: An Investigation into the Child Support Grant and the State Maintenance Grant”. DATADESK and CASE research for the Department of Welfare.

Le Roux, Pieter. 1995. "Parental care and family structure. Some interesting findings from the SA living standard survey". Bellville. Printed for private circulation.

Liebenberg, Sandy, 1997 “Child welfare reforms: Equity with a vengeance.” In *Poverty Profile*, No. p. 3.

Liebenberg, Sandy. 1999. "Specific rights. Social security rights". Cape Town. Printed for private circulation.

Lipton, Michael and Ravallion, Martin. 1995. “Poverty and Policy”. In *Handbook of Development Economics*. Vol. III, Edited by J. Behrman and T.N. Srinivasan. Amsterdam: North Holland.

Louw, Antoinette and Shaw, Mark. 1997. "Stolen Opportunities: the Impact of Crime on Africa’s Poor". Institute for Security Studies: Monograph No. 14. p.7.

Lucas, Robert E. Jr. 1988. “On the Mechanics of Economic Development”. *Journal of Monetary Economics* 22 3-42. North-Holland.

Luiz, JM. 1995. "Welfare policy and the transformation of social security in South Africa". *Development Southern Africa*. Vol. 12. No. 4. pp. 579-593.

Lumey, L.H. 1992. “Decrease Birthweights in Infants after Maternal In Utero Exposure to the Dutch Famine of 1944-45". *Paediatric and Perinatal Epidemiology*. Vol. 6. pp. 240-253.

Lund Committee on Child and Family Support 1996. “Report of the Lund committee on child and family support”. n.p. p. 18, 92, 139.

Maloney, William F. and Ribeiro, Eduardo P. 1999. “An Application of Quantile Analysis”. World Bank Working Paper 2131.

Manual, Trevor. 1997. “1997 Budget”. Budget Speech by Trevor Manuel 12 March 1997. Cape Town.

Manual, Trevor. 2001. “2001 Budget”. Budget Speech by Trevor Manuel 21 February 2001. Cape Town.

May, Julian (ed.) 1998. *Poverty and Inequality in South Africa*. http://www.gov.za/reports/1998/poverty/

Mesa-Lago, Carmelo. 1993. "Safety nets and social funds to alleviate poverty: Performance Problems and Policy Options". Prepared for UNCTAD standing committee on poverty alleviation, Geneva. n.p.

Mesa-Lago, Carmelo. 1997. "Social welfare reform in the context of economic-political liberalization: Latin American cases". *World Development*. Vol. 25. No. 4. pp. 497-517.

Mgijima, Cynthia. 1999. “International Consultative Conference on Food Security & Nutrition as Human Rights”. South African Human Rights Commission. pp. 60-64. http://www.nutrition.uio.no/iprfd/Encounterdocuments/DocsO3-G27.html

Micro Analysis of Transfers to Households. 01.05.1998. "What is Microsimulation?" http://www.mathematic-mpr.com/math-2.htm

Midgley, James. 1993. "Social security and third world poverty: The challenge to policymakers". *Policy Studies Review*. Vol. 12. No. 1/2. pp. 133-143.

Midgley, James. 1996. "Promoting a developmental perspective in social welfare: The contribution of South African Schools of Social Work". *Social Work*. Vol. 32. No. 1. pp. 1-7.

Miler, I. 1982. “Nutrition in Early Life and the Development of Resistance and Immunity”. *Bibliotheca Nutritio et Dietica*, Vol. 31. pp. 55-60.

Morduch, Jonathan. "Between the Market and State: Can Informal Insurance Patch the Safety Net?". World Bank. http://wbln0018.worldbank.org/Network/PREM/premdoclib.nsf/View+to+Link+WebPages/6B05014F09FC4EFA852567130004BCE8?OpenDocument

Moser, Caroline; Holland, Jeremy; Adam, Sarah. 1996. “The Implications of Urban Violence for the Design of Social Investment Funds”. The World Bank, Urban No. OU-10.

National Treasury 2001. *Budget Review 2001*. Department of Finance, Republic of South Africa. Pretoria: Government Printers.

Nattrass, Nicoli and Seekings, Jeremy. 1997 "Citizenship and welfare in South Africa: Deracialisation and inequality in a labour-surplus economy". *Canadian Journal of African Studies*. Vol. 31. No. 3. pp. 452-462.

Nattrass, Nicoli and Seekings, Jeremy. 2000. "The determinants of inequality in South Africa". Paper for the conference: 'Towards a sustainable and comprehensive social security system'. Cape Town. Printed for private circulation.

Nelissen, J. No. M. 1993. "Labour market, income formation and social security in the microsimulation model NDEYMAS". *Economic Modeling*, Vol. 10. No. 1. pp. 225-271.

October Household Survey. 1994. Statistics South Africa. Pretoria: RSA.

October Household Survey. 1995. Statistics South Africa. Pretoria: RSA.

October Household Survey. 1997. Statistics South Africa. Pretoria: RSA.

October Household Survey. 1999. Statistics South Africa. Pretoria: RSA.

Payment Extraction Report for Pay Period April 2001, SOCPEN system-Department of Social Development, 5 April 2001.

Perotti, Roberto. 1992. “Fiscal Policy, Income Distribution, and Growth”. Paper provided by Columbia—Department of Economics.

Perotti, Roberto. 1994. “Income Distribution and Investment”. *European Economic Review*. pp. 827-835.

Perotti, Roberto. 1996. “Democracy, income distribution and growth: What the data say”. Journal of Economic Growth. pp. 149-187.

Persson, Torsten and Tabellini, Guido. 1994. “Is Inequality Harmful for Growth?” *American Economic Review*. Vol. 84. No. 3.

Piazolo, M. and Wurth, M. 1995. “Productivity in the South African Manufacturing Industry: A Cointegration Approach.” *South African Journal of Economics*. Vol. 63. No. 2. pp. 173-196.

Philip, James. 2000. "Report of the Commission on the Nutrition Challenges of the 21st Century". New York: United Nations.

Portfolio Committee on Welfare and Population Development. Report on public hearings conducted on State Maintenance Grants. 1997. Cape Town.

Ranis, Gustav and Stewart, Frances. 2000. “Strategies for Success in Human Development”. Queen Elizabeth House Working Paper Series—QEHWPS32.

Sakellariou, Chris N. 1995. “Human Capital and Industry Wage Structure in Guatemala". World Bank Working Paper 1445.

Samson, Michael. 1996. “Re-evaluating South Africa’s Fiscal Constraints on Transformation.” A Report to NEDLAC Commissioned by the Economic Policy Research Institute. Cape Town: EPRI.

Samson, Michael; Macquene, Kenneth; Niekerk, Ingrid van; Ngqungwana, Thami. 1997. “South Africa’s Apartheid Debt.” A Public Policy Study for ESSET. Johannesburg: ESSET.

Samson, Michael; Babson, Oliver; MacQuene, Kenneth. 2000. “The macroeconomic implications of poverty reducing income transfers”. Presentation at the conference: ‘Towards a sustainable and comprehensive social security system’. Cape Town: EPRI. pp. 10-11.

Samson, Michael; Babson, Oliver; Haarmann, Claudia; Haarmann, Dirk; Khathi, Gilbert; Mac Quene, Kenneth; van Niekerk, Ingrid. 2001. “The impact of the social security system on poverty in South Africa”. *EPRI Research Paper #19*. Economic Policy Research Institute.

Saygili, Seref. 1998. “Is the Efficiency Wage Hypothesis Valid for Developing Countries? Evidence from the Turkish Cement Industry”. Unpublished working paper.

Selowsky, M. 1981. “Nutrition, health and education: the economic significance of complementarities at an early age.” *Journal of Development Economics*. Vol. 9.

Selowsky, M. and Taylor, L. 1973. "The economics of malnourished children: an example of disinvestment in human capital". *Economic Development and Cultural Change*. Vol. 22.

Schneider, Marguerite and Marshall, Susan. 1998. “Social security for people with disabilities”. Researched for the Department of Welfare. Johannesburg (Community Agency for Social Enquiry (CASE)). p.83.

Skweyiya, Zola. 2000. Statement by Dr. Zola Skweyiya, Minister for Welfare and Population and Development on the appointment of a ministerial committee of inquiry into social security.
http://www.welfare.gov.za/Ministry/Statements/2000/01/InqSocSec.doc.

Southern Africa Labour & Development Research Unit 1994. *South Africans rich and poor: Baseline household statistics*. Rondebosch (SALDRU).

Standing, G.; Sender, J.; Weeks, J. 1996. "Restructuring the Labour Market: the South African Challenge". Geneva: International Labour Office.

STATS 2001. Consumer Price Index. Statistics South Africa. http://www.statssa.gov.za/Time%20series%data/time_series_data.htm

Strauss, J. 1986. “Does better nutrition raise farm productivity?” *Journal of Political Economy*.

Strauss, J.; Thomas, D. 1995. “Human resources: empirical modeling of household and family decisions.” *Handbook of Development Economics*, Chapter 3 (ed. J.R.Behrman and T.N.Srinivasan). Amsterdam: North Holland.

Subbarao, K; Bonnerjee, Aniruddha; Braithwaite, Jeanine. 1997. "Safety Net Programs and Poverty Reduction: Lessons from Cross-Country Experience". Washington, D.C.: The World Bank. “Assistance to the poor has been found to also have positive long-term economic effects.” p. 2.

"Third Interim Report of the Commission of Inquiry into certain aspects of the Tax Structure of South Africa". 1995. (Chaired by M. M. Katz.) Pretoria: Republic of South Africa Government Printer. p. 50, 54.

Valenchik, A. 1997. “Government intervention, efficiency wages, and the employer size wage effect in Zimbabwe.” *Journal of Development Economics*. Vol. 53. Pages 305-338.

Wolgemuth, J.C.; Latham, M.C.; Hall, A.; Crompton, D. 1982. “Worker productivity and nutritional status of Kenyan road construction laborers”. *American Journal of Clinical Nutrition.*

World Bank 1995. *Key indicators of poverty in South Africa*. Pretoria.

Young, Mary E. 1996. “Early Child Development: Investing in the Future”. World Bank.

Ziehl, S.C. 1998. "Sociology of the family - obstacles and challenges towards a sociology of domestic groups". *ASSA-Paper*. pp. 1-29.