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Research Submission on

# The Socio-economic Impact of "Workfare": Welfare Reform Lessons from the United States and other International Experiences

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## EXECUTIVE SUMMARY

Workfare has been cited as a possible welfare reform in order to promote self-targeting of benefits and sustainable job creation, and to restrain cost pressures. Lessons of international experience, particularly from the United States, however, indicate that workfare yields little in the way of sustainable social or economic benefits.

On the contrary, it displaces existing workers, undermines wages, creates poor working conditions and fails to create sustainable employment opportunities for beneficiaries. Workfare has not been able to adequately implement support services, such as education, job training and childcare. It is a particularly burdensome programme to very poor and vulnerable sectors of society - contributing to a bias against women, children, the very poor and the disabled.

The problems of workfare are likely to be compounded for a developing country like South Africa. The programme would impose considerable pressure on the fiscus – costing relatively more than similar programmes in countries like the United States and would be more expensive than alternative social security programmes like the *Basic Income Grant*. In addition, it would have a very poor social impact. As a result, workfare could contribute to an intensification of poverty and undermine economic growth.

## 1. INTRODUCTION

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"Workfare" is a type of welfare reform aimed at the linking of eligibility for welfare benefits to a willingness, ability and opportunity to carry out employment assigned by the administering welfare agency. Workfare aims to promote self-targeting of benefits, to restrain cost pressures and to promote sustainable job creation. A chief assumption underlying the implementation of welfare reforms centred on workfare is that those on welfare are able to find jobs and work, but choose not to.

The aim of this paper is to examine the experience of workfare programmes in the United States and other international countries and to evaluate the social and economic impact. The first main two sections highlight the key welfare reform lessons from workfare programme experience in the United States (Section 2) and North America and Europe (Section 3). Using a household-level micro-simulation model<sup>1</sup>, Section 4 discusses the likely social impact of workfare programmes in South Africa. Section 5 provides a conclusion.

## 2. LESSONS FROM THE UNITED STATES

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One of the key assumptions of workfare is that those on welfare could find jobs if they wanted to. Hence, for a workfare programme to be effective, one would need economic conditions such that the public and private sectors are looking to hire many more workers at the current wage rate. However, this is simply not the case, even in the United States. "The fact is that there are not enough appropriate private-sector jobs in appropriate locations even now, when unemployment is about as low as it ever gets in

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<sup>1</sup> Details of the technical modelling are available in EPRI Research paper no. 19, see Samson *et al* (2001a).

[the United States].”<sup>2</sup> For example, “The NYS Department of Labour predicts that New York City will have 91,170 new job openings a year until 2002—less than one job for every eight job seekers.”<sup>3</sup>

## 2.1 JOB DISPLACEMENT

One of the ways in which welfare recipients are able to find jobs in the absence of employment opportunities is through job displacement. *Workfare Watch*, a group which studies the Canadian workfare system, gives examples of normally paying jobs in Muskoka, Canada that are now being offered with no pay to those on workfare so that they can receive workfare benefits.<sup>4</sup> “While few workfare placements have actually been created, the work that is being performed would normally be considered in the not-so-distant past to be paid public sector work. In Algoma, for example, 147 social assistance recipients are painting municipal offices, performing clerical work, and installing wheelchair entrances.”<sup>5</sup>

In the United States, “the city of Baltimore has replaced an estimated 1000 regular workers with workfare ‘trainees’ who earn less than the minimum wage. The Baltimore public school system alone has 208 ‘custodial trainees’ who earn the equivalent of \$1.50 an hour. Johns Hopkins University only reversed its plan to replace union workers with workfare participants after protests that drew crowds of more than 1000 people.”<sup>6</sup> Baltimore's experience is typical of that of other programmes. “New York City promised not to replace laid-off unionised workers with workfare participants.

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<sup>2</sup> Edelman (1997).

<sup>3</sup> Abramovitz (1997).

<sup>4</sup> Mayson and Morrison (June 1997).

<sup>5</sup> Mayson and Morrison (March 1997).

<sup>6</sup> Goforth (1997).

Instead some 20,000 full-time city jobs were eliminated and replaced with 37,000 half-time workfare slots.”<sup>7</sup>

When workfare workers replace regular workers, then “those workers who currently hold low-wage jobs but are not on welfare may find themselves replaced by workfare participants and forced on welfare themselves.” (The article gives the example of Hadie Hartgrove of Nassau County, NY, who “was laid off from her job and had to go on welfare. Her Workfare assignment turned out to be her old job.”)<sup>8</sup>

## 2.2 POOR WORKING CONDITIONS

In the United States, individual states are free to implement a workfare programme of their own design. “Some states have paid workforce participants the minimum wage while others have not. Some states have recognised the right of workfare participants to join unions while others have denied this right. Even if workfare participants can form and join unions, it is still unclear just what bargaining rights those unions hold.”<sup>9</sup> In many cases, workfare participants are treated as essentially free labour with no bargaining power. So, not only has workfare replaced already existing, reasonably-paying jobs with sub-minimum wage-paying jobs, but these new workers can be denied the high level of working conditions which former, unionised workers were guaranteed.

Regarding workfare participants in New York City, “legal services offices and advocacy groups have found many people suffering greatly. Participants are exposed to industrial, biological, and medical wastes, including asbestos, animal carcasses, human faeces, and discarded syringes without protective gear. Students in high school or other

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<sup>7</sup> Abramovitz (1997).

<sup>8</sup> Goforth (1997).

<sup>9</sup> Goforth (1997).

approved education programmes who were willing to carry both school and workfare and are told that their workfare hours were in conflict with school; many drop out of school and others lose all welfare benefits. Participants are denied access to toilet facilities, and made to work in the bitter cold weather without warm clothing. Skilled workers are told that they have to work off their check at the minimum wage, and lose and are even denied opportunities to seek paid employment.”<sup>10</sup> Workfare creates a labour pool of cheap labour with little bargaining power sometimes combined with no ability to legally unionise (which was the case in New York State), and, hence, creates a very poor working climate for workfare participants.

### 2.3 DOWNWARD WAGE PRESSURES

The cheap and abundant new labour pool creates the additional problem of lower wages. One economic study regarding workfare in the United States notes that “the bottom line [is that] workfare placements can result in job displacement, wage decreases, or a combination of the two.” It claims that “the estimated effect of the 30,000 current workfare placements of home relief recipients is to displace 20,000 other workers, to reduce wages for the bottom third of the workforce by 9%, or some combination between the two extremes.”<sup>11</sup>

The study provides a clear economic explanation as to why workfare must lead to job displacement and/or wage decreases. “The reasoning behind these estimates is quite straightforward. Like any other market, the labour market is subject to the law of supply and demand. If labour supply expands—all else equal—either wages must fall or unemployment must increase. Employers do not hire workers simply because the workers want to work. The wage must be right from the employer’s perspective. At any

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<sup>10</sup> *Welfare News* (1997).

given skill level, the lower the going wage, the more workers employers will want to hire. Turning that around, when workers are added to the workforce, all else equal, employers will only be willing to hire the larger number of workers if the going wage is reduced.”<sup>12</sup> So, not only are workfare participants being forced into low-paying jobs (sub-minimum wage in some cases), but to accommodate the new labour pool the already working poor will see their wages fall or they will lose their employment altogether.

## 2.4 POOR IMPLEMENTATION OF SUPPORT AND TRAINING SERVICES

The lack of sufficient employment opportunities has been coupled with a lack of support and training services in the implementation of workfare. Workfare has forced many Americans out of their current education programmes. For example, in New York City “workfare has caused many residents to drop out of GED, literacy, and English as a Second Language (ESL) programmes. It has also forced some 9000 recipients attending City University of New York (CUNY) out of college.”<sup>13</sup> Although “welfare recipients in New York City who were ordered to drop out of education and training programmes to perform workfare recently took the City to court and won,”<sup>14</sup> the fact that for some time people were forced out of their education and training programmes points to the difficulties in the implementation of workfare.

Although workfare had the intention of providing training for jobs, it seems that it has come short in the implementation. “Although the WEP [Work Experience Programme, New York City’s workfare programme] law requires that participants be assessed for skills and placed in jobs that provide training that will lead to real work, it

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<sup>11</sup> Tilly (1996).

<sup>12</sup> Tilly (1996).

<sup>13</sup> Abramovitz (1997).

<sup>14</sup> Mayson and Morrison (June 1997).



rarely happens. The law also gives people the option of education over work, but the provision, too, is routinely violated.”<sup>15</sup>

The lack of childcare services is another key problem with the ability to have a functioning workfare programme. “[As of 1997] in Metro Toronto the waiting list for subsidised daycare stands at 18,000 children including the 8,500 children of social assistance recipients. Metro Toronto Community Services has estimated that as many as 42,500 children could require childcare once families are compelled to participate in the Ontario Works programme [implemented in 1998].”<sup>16</sup> If adequate childcare cannot be found, individuals must still find work. “The lack of proper childcare is not grounds for exemption from mandatory employment requirements.”<sup>17</sup> Workfare in the United States and Canada has not been able to successfully implement the necessary support services, such as job training and childcare, and, hence, workfare has become a large burden to its participants.

## **2.5 BIAS AGAINST WOMEN, CHILDREN, THE VERY POOR AND THE DISABLED**

Workfare is especially biased against women, children, the very poor and the disabled. A report in 2000 on the American 1996 Welfare-Reform Act notes that “only about 50 to 60 percent of the mothers who have left welfare (and stayed off) seem to be working regularly.”<sup>18</sup> This means that of the decrease in the 2.430 million welfare caseloads between March 1994 and March 1997 (of which almost all include a single

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<sup>15</sup> Fuentes (1996).

<sup>16</sup> McCuaig (December 1997).

<sup>17</sup> McCuaig (December 1997).

<sup>18</sup> Besharov (2000).

mother), 40 to 50 percent of women are not working and not getting support from the government.<sup>19</sup>

A study on the initial impact of workfare in the United States has indicated that “between 1995 and 1997... the poorest single-mother families experienced a significant *decline* in their average disposable incomes, largely due to sizeable decreases in assistance from means-tested programmes... Among the poorest 20 percent of persons in single-mother families—a group with incomes below 75 percent of the poverty line—average disposable income fell \$580 per family between 1995 and 1997, a decline of 6.7 percent. About \$460 of this income loss—or about 80 percent of it—was due to declines in means-tested assistance... Only the two million single-mother families with the highest incomes—that is, the top fifth of single mother families—experienced income gains between 1995 and 1997.”<sup>20</sup> It appears that workfare has been harming the poorest single-mothers the most.

It is clear that “[some] women on welfare cannot work due to... illness, disability, and emotional problems... or the presence of old, young, or sick relatives at home who require their care.”<sup>21</sup> However, workfare is still forcing these women to get a job or lose their benefits. For example, “Valerie Watson, a Memphis mother who says she has recurring back problems, was cut off welfare last fall [1997] for missing training classes and showing up late for an appointment with her caseworker. She gradually sold her belongings as she grew more desperate for money.”<sup>22</sup> The sanctions that are put in place to make sure those on workfare work can have a devastating impact on those who, due to disability or other restraints, cannot meet all the administrative requirements. “Bill Biggs, a former welfare administrator from Utah, wrote in a recent publication that

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<sup>19</sup> Besharov (2000).

<sup>20</sup> Primus *et al.* (1999).

<sup>21</sup> Abramovitz (1997).

under a pilot programme in his state, half of the sanctions ordered were done in error, often when a caseworker didn't detect that a recipient suffered from a mental illness or some other problem."<sup>23</sup>

Studies have shown that those on workfare have many obstacles to obtaining work. "More than 4 out of 10 recipients reported at least two significant obstacles to work, such as low education, no recent work experience, or mental or physical health problems."<sup>24</sup> Another report indicated that "between 10.1 to 11.0 of recipients report they are unable to work because of a disability or serious medical condition."<sup>25</sup> For many individuals being shifted from welfare to workfare, finding and keeping a job is simply not an easy option.

The welfare of children is also undermined by welfare reform centred on workfare. A recent newspaper article discussing an analysis of three welfare reform programmes noted that "in Florida, children of parents enrolled in welfare-to-work programmes were arrested more often than children of parents who continued to receive welfare payments under the traditional system. Minnesota youths did more poorly in school. Adolescents with parents in the Canadian welfare-to-work programme smoked and drank more often; they were more likely to be involved in delinquent activity and their grades dropped. Significantly, there were no measures on which the adolescents with parents in the three welfare-to-work programmes performed better than the comparison group."<sup>26</sup> In addition to the social problems children in workfare families are having, workfare has been hurting the children financially. "Census data show that if means-tested benefits had been as effective in reducing child poverty in 1997 [after the

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<sup>22</sup> Vobejda (1998).

<sup>23</sup> Vobejda (1998).

<sup>24</sup> Zedlewski (1999).

<sup>25</sup> Olson and Pavettie (1996).

<sup>26</sup> Step (2000).

implementation of workfare] as in 1995 [before the implementation of workfare], some 700,000 fewer children would have been poor in 1997.”<sup>27</sup>

Not only does workfare exert a financial bias against women, children and the disabled, it can also contribute to a situation conducive to increased domestic violence. In America, “researchers have recently learned that between 30% and 75% of women in welfare-to-work programmes are being physically or emotionally abused by partners and that forcing women to work may precipitate male violence.”<sup>28</sup> In Canada, “shelters throughout Ontario reported that women were remaining with or returning to abusive partners as a direct result of the decrease in financial assistance.”<sup>29</sup> Abusive partners can disrupt a woman’s ability to work, threatening her ability to stay on workfare, and, hence, forces her into financial dependence on the abuser.

It appears that the poorest and most handicapped, those most unable to find and hold jobs, and their children are the most hurt by workfare. “State officials and welfare experts say they believe that those who do get cut from the rolls represent two extremes of the welfare population. At the one end are people able to find jobs, or have other income, and simply choose not to comply. Officials say they are unlikely to be in desperate straits. At the other end are those unable to meet requirements because they are the most troubled families—plagued by mental illness, substance abuse, domestic violence, or such low reading levels that they have difficulty understanding the new regulations, much less finding work.”<sup>30</sup>

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<sup>27</sup> Primus *et al.* (1999).

<sup>28</sup> Abramovitz (1997).

<sup>29</sup> Allan (1997).

<sup>30</sup> Vobejda (1998).

## 2.6 HIGH COSTS

At first glance it would appear that “workfare requires a lot of expensive and time-consuming bureaucracy.”<sup>31</sup> Indeed, in the United States “the Congressional Budget Office, (CBO) estimated that it would take \$6300 a year beyond the cost of the welfare grant to cover a recipient’s work-related and childcare expenses as well as the supervisory and administrative costs of a workfare slot.”<sup>32</sup> Canada has also implemented expensive programmes. “NB Works was relatively expensive. For the full three-year programme, NB works cost \$59,000 per person”<sup>33</sup> (although some Canadian programmes were more successful at cutting costs). For those participating in the *Social-Sufficiency Project* in New Brunswick and British Columbia “monthly income assistance payments were lower by \$135.”<sup>34</sup>

The United States is cutting costs by using sanctions to reduce the number of people on the welfare rolls who need welfare assistance. “In some states, sanctions have become a significant part of declining caseloads. More than half of the 14,248 cases closed in Indiana in a three-month period last year, for example, were a result not of people finding work but of sanctions, according to federal records. In Florida, state officials report that 27 percent of the 148,000 cases they closed in the second half of 1997 were because of sanctions. In the first year of Tennessee’s new programme, 40 percent of the families leaving welfare—nearly 14,000—lost benefits because they did not comply with regulations, compared with 29 percent who left for employment, according to a University of Memphis Study.”<sup>35</sup>

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<sup>31</sup> Mayson and Morrison (June 1997).

<sup>32</sup> Abramovitz (1997).

<sup>33</sup> Mayson and Morrison (December 1997).

<sup>34</sup> Mayson and Morrison (December 1997).

<sup>35</sup> Vobejda (1998).

In addition, states can use inexpensive workfare workers to replace former expensive public sector workers. "For Giuliani [the Mayor of New York City], the math of WEP workers in city jobs is irresistible. According to Ken Peres, research director for District 1 of CWA, the average clerical worker's salary (not including benefits) costs the city \$12.32 per hour. A WEP worker, meanwhile, costs the city just \$1.80 per hour for a 20-hour workweek. (That's based on a \$577 monthly welfare benefit, one quarter of which is paid by the city, one quarter by the state, and half by the federal government.) With cuts in welfare benefits proposed by Gov. George Pataki and the jump to a 30-hour workfare week, the cost to the city will be 53 cents per hour for a WEP worker."<sup>36</sup>

It costs money for workfare to truly benefit the poor by providing adequate job training and support services to help those on welfare find decent jobs and not see their standards of living decline. However, in many cases workfare removes welfare benefits without providing jobs. Or even if jobs are provided, they are often accompanied by extremely low wages and inadequate support services.

### 3. LESSONS FROM NORTH AMERICA AND EUROPE

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This research supports the finding that "workfare requires a lot of expensive and time-consuming bureaucracy."<sup>37</sup> Even in the United States, with its vast resources and substantial expenditure on the development of administrative capabilities, it has been extremely difficult to implement a successful workfare programme. Workfare is based on the assumption that uplifting jobs exist for those on welfare--an assumption not supported by the evidence, even in a country with very low rates of unemployment like

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<sup>36</sup> Fuentes (1996).

<sup>37</sup> McCuaig (December 1997).

the United States. An examination of other international cases documents little in the way of success.

The United Kingdom has implemented a workfare programme called “The New Deal” which is quite similar to the workfare programmes in the United States and Canada. “Modelled along the lines of US workfare programmes, the New Deal was initially targeted at the young unemployed aged 18 to 24 years and the long-term jobless [and is now starting to be implemented for those aged 25 and above]. These individuals are required to choose training, job placement, or work in the voluntary or environmental sector rather than remain on benefits... The NIESR [National Institute of Economic and Social Research] found that the cost of the New Deal had been much lower than expected... It had barely succeeded in creating new jobs, however... What the government has achieved through the New Deal is to deprive many thousands of their welfare entitlements.”<sup>38</sup>

Several other European countries have begun to implement workfare-like programmes, for example:

- Activation in Denmark.
- RMI based Insertion in France.
- Help Towards Work in Germany.
- The Jobseeker’s Employment Act (JEA) for Young People in the Netherlands.
- Local authority schemes resulting from the 1991 Norwegian Social Assistance Act in Norway.<sup>39</sup>

A 1997 article on the progress of European workfare programmes was quite optimistic. “In the Scandinavian countries the ‘work test’ for the unemployed has been expanded to include activities that are most likely to enhance employment prospects

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<sup>38</sup> Hyland (2000).

such as training, community work and even trial employment. But unlike Ontario Work, most of these programmes do not simply focus on getting people off welfare and into whatever job is available as quickly as possible. Jointly run by government, business and labour, they emphasise longer-term skills development and real training needs... The thrust of the reform in the European Union is away from income support programmes and in the direction of measures which actively improve the social and labour market circumstances of marginalised people, particularly the young. However, unlike the North American experience, this new trend acknowledges that caring for others, including children, the elderly or people with disabilities, constitutes 'active' participation in society, i.e. work that should be supported in its own right. This realisation has protected categorical benefits for the elderly and children to a much larger extent than social assistance provisions. Cash benefits for families caring for children, for example, continue to be widely supported in most of the 12 countries that make up the European Union."<sup>40</sup>

Thus, Europe has taken a different approach to welfare than the United States, Canada, or the United Kingdom, through the understanding that society is not necessarily better off with everyone leaving welfare for low-paying jobs. However, a more recent (1999) article on Europe's welfare-to-work companies has indicated that these programmes are not very successful, noting that "those who find employment after a welfare-to-work scheme (less than half the total) often move into insecure jobs with low wages and poor prospects."<sup>41</sup>

Canada's *Social-Sufficiency Project* provided large subsidies to those who found jobs. "One of the main hypotheses of the programme—that the [wage] supplement

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<sup>39</sup> Loedemel and Trickey (2001).

<sup>40</sup> Kitchen (1997).

<sup>41</sup> Jeantet and Wilson (1999).



would allow people to get over the problem of starting at low starting wages to move up the wage ladder—does not appear to have occurred.”<sup>42</sup>

Workfare links access to the social safety net to a willingness and ability to pursue employment. Argentina's workfare programme, the *Trabajar Programme*, exhibits high rates of gender disparity in the allocation of social welfare benefits. A study of the *Trabajar Programme* identified a female participation rate of only fifteen percent.<sup>43</sup>

Furthermore, evidence from the United States and other countries indicates that major obstacles exist for those on welfare in their search for employment, such as disabilities, poor education, and having young children.

Europe has experienced similar problems to the United States with regard to the impact of workfare programmes. Jobs simply do not exist for the majority of those who are placed onto workfare. Many full-time, unionised workers have been displaced from their jobs in the public sector so that welfare recipients can be hired—but without union protection, on a part-time basis, and at lower pay and with fewer benefits. These workers are generally given little training and often put into poor working environments. Workfare has also often failed to provide adequate complementary support, such as childcare, and leaves little room for growth in the jobs provided. Workfare exerts a bias against women, children, the disabled and the very poor the most. Workfare has forced women to stay in abusive relationships. Those who are disabled or otherwise unable to consistently look for work or meet with their case-workers can easily be sanctioned and have their benefits terminated.

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<sup>42</sup> Mayson and Morrison (December 1997).

<sup>43</sup> Jalan and Ravallion(2000).

## 4. THE SOUTH AFRICAN CONTEXT

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The previous sections have shown that workfare programmes implemented in the United States and other countries have not produced any significant social or economic benefits and have, in fact, harmed many poor and vulnerable groups of people.

In the South African context, workfare is even less likely to be beneficial. Whether or not workfare is a useful programme for dealing with unemployment shocks is a contentious issue. Its usefulness in the context of widespread structural unemployment and disproportionately rural female poverty, however, is unambiguously limited. Argentina's example of workfare--with a fifteen percent participation rate by women--shows how limited workfare is in terms of attacking deeply rooted poverty. For South Africa, such a gender disparity in the allocation of social welfare benefits would substantially undermine the fight against poverty.

### 4.1 FISCAL BURDEN

The cost of workfare in South Africa, given the high rates of structural unemployment and underemployment and the incidence of "discouraged workers", is likely to impose a substantial fiscal burden. According to the 1999 *October Household Survey* (OHS99), there were 3.2 million "officially" unemployed individuals in 1999, as well as approximately 3 million "discouraged workers". In addition, 1.8 million workers earned less than R400 per month. Assuming a workfare monthly wage of R400 and administrative and support costs equal to the wage costs, the annual fiscal burden of workfare would amount to R76 billion--equivalent to about one-third of total public

expenditure. This expenditure would not begin to target the needs of the many very poor households with members who are unable to work.

In order to arrive at a conservative estimate, this calculation is based on a monthly workfare wage of R400. This wage is considered to be lower than the lowest feasible wage that could be offered in a public workfare programme. A wage of R400 per month leaves a single worker household in poverty and a worker with dependants even further below the poverty line. Using the "Working for Water" wage scale (R26-R33 per day) as a measure of an indicative rate for unskilled labour, the R400 per month wage (approximately R20 per day) is less than 80% of this indicative rate, below the norms set for developing countries. The R400 is substantially less than the average wage for rural seasonal (R486), casual (R499) or temporary (R645) workers--the lowest paid workers according to the OHS99. The choice of a higher wage for the public workfare programme would lead to a commensurately higher fiscal burden.

The estimate of administrative and support costs equal to the cost of wage payments is a conservative estimate based on international experience. This places the total cost of a workfare job, given an indicative monthly wage of R400, at R9600 per year. Other workfare and public works programme proposals estimate the total cost per job as R15 000 per year or more. In the United States and Canada, the total cost of a workfare job was generally a hundred percent more than the cost of the wages. This ratio is likely to be higher in South Africa, because the ratio of an average government employee's wages to the workfare wage is much higher than in an industrialised country.

The cost of a South African workfare programme amounts to several times the cost of a *Basic Income Grant*, yet fails to distribute benefits to those most in need of social assistance. A workfare-based social safety net fails to protect child-headed households, "skip generation" households (pensioner households with children), and households with members who are unable to work.

## 4.2 POOR SOCIAL IMPACT

A micro-simulation of a workfare programme for South Africa calibrated to the same cost as a *Basic Income Grant* demonstrates that the workfare programme would have a very poor social impact. The tables that follow classify households according to seven household types:

- Only infants, children, and youth (hereafter referred to as “children”).
- Children and working age adults.
- Children and adults in pensionable age (skip generation household).
- Children, working age adults and adults in pensionable age (three-generation household).
- Only working age adults.
- Working age adults and adults in pensionable age.
- Only adults in pensionable age.

Table 1 presents key social statistics associated with a monthly workfare wage of R400 to 17.09% of people aged 18 to 59, who have an income below R800 per month. This workfare intervention incurs the same total fiscal cost as the *Basic Income Grant* simulation documented by EPRI.<sup>44</sup> Simulations from previous research show that with full take-up of existing programmes, the current social security system has the potential to close 36.6% of the poverty gap; and the introduction of a *Basic Income Grant* of R100 to all South Africans has the potential to close 73.7% of the poverty gap. Although workfare could close 48.1% of the poverty gap, the average improvement in terms of reducing the poverty gap is only 11.5%, compared to an average improvement of 37.1% with the *Basic Income Grant*. The *Basic Income Grant* is therefore three times more efficient in reducing poverty.

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<sup>44</sup> See Samson *et al* (2001b).

**Table 1: Workfare R400 to 17.09% of people age 18-59, who have an income below R800 per month**

	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 in	only adults in pen. age	Total
<b>SOCIAL ASSISTANCE – POVERTY</b>								
<b>Total No. of people living in the bottom two quintiles:</b>								
	35,696	14,982,029	444,791	7,039,617	894,528	382,381	61,430	23,840,471
<b>% of people living in the bottom two quintiles:</b>								
	0.1%	62.8%	1.9%	29.5%	3.8%	1.6%	0.3%	100.0%
<b>Total No. of people living in HH receiving no social assistance (bottom two quintiles):</b>								
	11,496	2,814,372	1,961	13,268	544,018	0	0	3,385,116
<b>% of people living in HH receiving no social assistance (bottom two quintiles):</b>								
	32.2%	18.8%	0.4%	0.2%	60.8%	0.0%	0.0%	14.2%
<b>Average No. of people living in the HH (bottom two quintiles):</b>								
	4.2	7.4	4.7	9.3	2.7	3.7	1.4	7.6
<b>Average No. of people employed in the HH (bottom two quintiles):</b>								
	0.0	1.0	0.0	0.8	1.0	0.6	0.0	0.9
<b>Average No. of people receiving social assistance (bottom two quintiles):</b>								
	1.1	2.0	2.3	3.5	0.5	1.8	1.4	2.4
<b>Average % closed of the poverty gap by social assistance (bottom two quintiles):</b>								
	23.2%	35.9%	80.3%	68.3%	30.6%	86.5%	100.0%	48.1%
<b>Average per capita social assistance transfer (bottom two quintiles):</b>								
	R 26	R 53	R 201	R 133	R 81	R 263	R 568	R 85
<b>Average per capita social assistance transfer through old SoSe payments (bottom two quintiles):</b>								
	R 0	R 0	R 0	R 0	R 0	R 0	R 0	R 0
<b>Average per capita social assistance transfer through SOAP (bottom two quintiles):</b>								
	R 0	R 0	R 180	R 84	R 0	R 209	R 568	R 33
<b>Average per capita social assistance transfer through CSG (bottom two quintiles):</b>								
	R 25	R 21	R 20	R 20	R 0	R 0	R 0	R 19
<b>Average per capita social assistance transfer through DG (bottom two quintiles):</b>								
	R 0	R 9	R 1	R 9	R 21	R 8	R 0	R 9
<b>Average per capita social assistance transfer through BIG (bottom two quintiles):</b>								
	R 0	R 23	R 0	R 21	R 58	R 47	R 0	R 24

The households that benefit the most from workfare programmes are those containing working age adults and pensioners (86.5% of the poverty gap is closed). The household type with the least reduction in the poverty gap is the household with only

children – the poverty gap is closed by only 23.2% (compared to 65.8% with the *Basic Income Grant*). Workfare is therefore least effective in the poorest households.

The finding indicating that child-headed households and other households that include children benefit the least from workfare is of particular concern in light of the prevalence of AIDS among poor households in South Africa. Parents who are infected with AIDS would not be able to participate in workfare programmes when they become very ill. In addition, the number of orphans from parents who have AIDS is likely to increase, resulting in more child-headed households that cannot benefit from workfare programmes.

With workfare, the percentage of poor households excluded from receiving social assistance is 14.2%. In contrast, the *Basic Income Grant* does not exclude any poor households from receiving social assistance.

Under the existing system (assuming full take-up), households benefit from an average *per capita* transfer of R62. Although workfare increases the average *per capita* transfer received by households to R85, the transfer could be almost doubled to R137 with the *Basic Income Grant*. With workfare, a poor child living in a household without any adults receives a transfer as low as R26, approximately half the transfer received by children living in households with working age adults (R53) and just over one tenth the transfer received by children with pensioners in the households (R201). With the *Basic Income Grant*, poor households with just children receive *per capita* transfers averaging R102, while households with children and working age adults receive R109 and households with children and pensioners receive R250.

Table 2 documents the impact of workfare on the number of beneficiaries and the costs of transfers. Workfare only reaches 2,5 million poor people, whereas the *Basic Income Grant* reaches all poor people. In addition, the proportion of the total cost

distributed to the recipients is particularly low with workfare because of the high administrative costs.

Households that are not reached by workfare include child-headed households, children who live in households with pensioners, and households that have only pensioners. The *Basic Income Grant* reaches all these poor households.

**Table 2: Beneficiary and transfer statistics, workfare R400 to 17,09% of people age 18-59, who have an income below R800 per month**

	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
<b>SOCIAL ASSISTANCE – ECONOMY</b>								
<b>Total number of people reached by social assistance programmes:</b>								
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	391,786	2,917	161,838	97,729	8,339	0	662,609
Workfare	0	1,519,807	0	484,987	441,138	73,363	0	2,519,296
<b>Total</b>	<b>12,203</b>	<b>5,726,580</b>	<b>302,062</b>	<b>3,644,550</b>	<b>538,867</b>	<b>404,182</b>	<b>251,315</b>	<b>10,879,760</b>
<b>Total annual transfers by social assistance programmes (in millions):</b>								
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 2,446	R 20	R 1,088	R 606	R 57	R 0	R 4,217
Workfare	R 0	R 7,295	R 0	R 2,328	R 2,117	R 352	R 0	R 12,093
<b>Total</b>	<b>R 16</b>	<b>R 14,776</b>	<b>R 1,467</b>	<b>R 15,234</b>	<b>R 2,723</b>	<b>R 2,515</b>	<b>R 1,554</b>	<b>R 38,287</b>
<b>Total annual transfer to quintiles (in millions):</b>								
1. Qu.	2.7	5,251.5	574.8	6,628.9	342.5	582.6	139.6	13,531.7
2. Qu.	8.1	4,215.0	493.8	4,651.0	505.3	622.4	278.6	10,814.9
3. Qu.	4.1	2,933.9	296.4	2,869.0	651.1	484.5	339.8	7,691.9
4. Qu.	1.4	1,618.3	89.5	847.7	652.8	441.9	341.6	3,993.3
5. Qu.	0.0	770.4	6.9	282.7	568.6	384.3	465.9	2,477.2
<b>Total annual transfer rural / urban. (in millions):</b>								
Rural	16.4	8,539.9	1,165.8	10,149.6	912.6	1,205.2	631.5	22,674.1
Urban	0.0	6,224.0	292.9	5,094.8	1,814.9	1,301.3	943.8	15,689.7
<b>Total annual transfer by race (in millions):</b>								
"african"	16.3	12,611.3	1,379.3	13,879.4	1,897.4	1,670.2	837.8	32,596.4
"coloured"	0.0	1,290.4	73.9	1,043.3	258.1	253.0	51.4	2,991.3
"indian"	0.0	259.0	6.7	148.4	84.4	163.8	6.7	649.4
"white"	0.0	729.4	3.7	215.8	509.7	431.9	667.8	2,527.9



## 5. CONCLUSION

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Workfare has been cited as a possible welfare reform in order to promote self-targeting of benefits and sustainable job creation, and to restrain cost pressures. Lessons of international experience, particularly from the United States, however, indicate that workfare yields little in the way of sustainable social or economic benefits.

On the contrary, it displaces existing workers, undermines wages, creates poor working conditions and fails to create sustainable employment opportunities for beneficiaries. Workfare has not been able to adequately implement support services, such as education, job training and childcare. It is a particularly burdensome programme to very poor and vulnerable sectors of society - contributing to a bias against women, children, the very poor and the disabled.

The problems of workfare are likely to be compounded for a developing country like South Africa. The programme would impose considerable pressure on the fiscus – costing relatively more than similar programmes in countries like the United States and would be more expensive than alternative social security programmes like the *Basic Income Grant*. In addition, it would have a very poor social impact. As a result, workfare could contribute to an intensification of poverty and could undermine economic growth.



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