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UNIVERSAL BASIC INCOME GUARANTEE FACTSHEET SERIES

# JOBS VERSUS GRANTS

## Are employment and basic income a policy trade off?

### Introduction

There is a common belief in South Africa that social grants come at the expense of jobs. It is thought that grants create a disincentive to work—or cause people to stop working or looking for work, and lock recipients into ‘dependency’ on the state.

For example, the Minister of Finance Enoch Godongwana has said that grants trap young people in a “cycle of dependency”.<sup>1</sup> In addition some people argue that grants slow economic growth and lead to fewer jobs being created.

This is not supported by the evidence, which shows that people have a range of motivations to engage in work, beyond financial insecurity. In reality, income support increases people’s agency and motivation to pursue work that is meaningful to them.

Unconditional cash transfers (or grants with no strings attached) in countries similar to South Africa have had the effect of growing local economies, increasing people’s participation in the labour market, and increased rates of self-employment.

It’s time to stop pitting jobs against grants. They play different, but connected and complementary functions. We need both.



### THE FOUR ELEMENTS OF A UBIG

- ✓ **UNIVERSAL** – applies to all adults.
- ✓ **BASIC** – covers basic necessities.
- ✓ **INCOME** – a regular cash benefit.
- ✓ **GUARANTEE** – provided as a right.

# | Key problems with the “jobs versus grants” narrative

Alleviating hunger now and creating jobs for the future are not a trade-off—they are mutually dependent. The argument that jobs should be prioritised over grants overlooks the fact that we are in an immediate humanitarian crisis of hunger. There is a desperate need for a long-term job creation strategy, but these jobs will realistically take a long time to be produced, and even if job creation succeeds, we will still have significant levels of unemployment, probably for decades. In the meantime a basic income will actually support job growth at the same time as alleviating hunger.

Being poor is not a moral failing. The assumption that grant recipients are inclined towards laziness or dependency is rooted in ideologies which suggest that anyone can find a job and become wealthy if they are willing to work hard enough. This idea leads to people viewing grants as a “handout” and grant recipients as undeserving. However, in most places including South Africa, not everybody can get ahead by working hard. Factors like privilege and background can contribute significantly to economic success, and many people face poverty despite working extremely hard. More than half of people in South Africa live in poverty, not because they are not willing to work, but because our economy is structured in a way that produces poverty. Everyone deserves a basic standard of dignity, regardless of whether they have been successful at finding a job.

Not all valuable work is paid. Our society and our economy would stop functioning without unpaid work disproportionately performed by women—like caring for children, elderly, sick or disabled relatives, domestic work like cooking and cleaning, and volunteering. But this kind of work is not considered a “job”, and it is not paid. As a result, women are especially vulnerable to poverty. Trying to solve our crisis of poverty through jobs alone thus disadvantages women and makes it harder for people to care for their families and communities. We need a universal basic income grant as well as jobs, to support our carers and fight gender injustice.



## | The facts

### 1. Do grants reduce labour market participation?

Cash transfers do not result in labour market withdrawal (“dependency syndrome”)—they do not cause people to stop working or to stop looking for work.

Evidence shows that people are motivated to work for many reasons beyond simple survival. For instance, research has found that grant recipients in South Africa are highly motivated to work.<sup>2</sup> Intrinsic motivations to work include personal fulfilment, skills development, and contributing to one’s community. Income support can make it more possible for people to fulfil these needs.<sup>3</sup>

There is also evidence that cash transfers can increase labour market participation—or help more people enter into paid work. In dozens of evaluations of conditional and unconditional cash transfers in low- and middle-income countries (LMIC), recipients did not reduce their overall work hours, and in some cases they increased work hours.<sup>4</sup> In Namibia, a basic income pilot saw the unemployment rate fall from 60% to 45% in the target area.<sup>5</sup> In Iran, a monthly cash transfer introduced in 2011 did not result in reduced labour market participation, and increased women’s labour market participation.<sup>6</sup>

In South Africa, the biggest barriers to labour market participation are (1) income poverty, and (2) a lack of available jobs. In 2019 the average monthly cost of searching for a job in South Africa was R938—well above the food poverty line.<sup>7</sup> By reducing income poverty, income support enables people to search and apply for jobs. This is supported by evidence from other grants in South Africa, showing that the SRD grant increased job search probability by 25 percentage points,<sup>8</sup> and that 27% of young jobseekers use grant money to supplement their job search.<sup>9</sup>



## 2. Do grants slow economic growth and lead to fewer jobs in the economy?

Overwhelming evidence shows cash transfers are spent in productive ways which contribute to human capital development, self-employment and economic growth. This economic growth is especially concentrated in local communities, which supports people’s livelihoods and leads to job creation.

According to evidence from South Africa and other African countries, cash transfers support children to enter and stay in schooling, and improve students’ educational achievement. This improves their long-term economic and livelihood prospects.<sup>10</sup>

Cash transfers in similar contexts to South Africa have led to an increase in people starting businesses or investing in their small businesses. For example, in Zambia there was an increase in the total area of land worked, investment in hired labour, and non-farm enterprises—an overall increase in production value of 50%;<sup>11</sup> in Lesotho there was an 8% increase in the use of agricultural inputs and expenditure;<sup>12</sup> and in Kenya, ownership of productive assets increased 51 percentage points.<sup>13</sup>

Cash transfers have been shown to have an income multiplier effect. That means that people who receive cash transfers, and their communities, see their incomes grow over and above the value of the cash transfers, which in turn drives increased consumption, enterprise formation and employment in local economies. In Zambia there was an increase in consumption of 25% over the value of the grant—indicating a multiplier effect.<sup>14</sup> An income multiplier was also observed in Ghana, with spillover effects on non-beneficiaries—where even those who didn’t receive a grant saw their income grow because of additional local demand/spending.<sup>15</sup> And in Mexico, raised incomes showed a rate of return of cash transfers of 17.55%.<sup>16</sup>

## 3. Are grants spent “wastefully” on things like alcohol?

Some people claim that grant recipients will spend their grants on “temptation goods” like alcohol and tobacco, and this is an argument against giving social grants. However, research into this claim, by (amongst others) UNICEF in Africa,<sup>17</sup> and a World Bank review of 30 case studies,<sup>18</sup> consistently finds that people do not increase their consumption of alcohol and tobacco when they receive grants. In 2021, a study found that 93.3% of recipients of the SRD R350 grant in South Africa spent much of their grant on food, with the next highest reported spending being on electricity (31.8%).<sup>19</sup>

## 4. How do grants impact wages and working conditions?

Work is often considered the pathway out of poverty, but there is a very high prevalence of working poverty in South Africa. An estimated one quarter of those with work fall under the Upper Bound Poverty Line, with informal sector, black, and women workers more likely to be working poor.<sup>20</sup>

Universal basic income support provides workers with an “exit option” – or a safety net which allows them to decline or exit exploitative work and to seek better quality work. This improves the bargaining power of workers, which in turn lifts wages and working conditions over time.<sup>21</sup>

However, this effect of basic income support is only possible if it is set at a value that doesn’t institute a poverty trap by keeping beneficiaries living below the poverty line, and supported by strong labour protections including collective bargaining and minimum wages.<sup>22</sup> If these conditions are not in place, basic income support can function as a subsidy to exploitative employers, enabling them to suppress wages as workers have another source of income to ensure their basic survival.

# Endnotes

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Read more in the IEJ’s Policy Brief [‘Jobs versus Grants’: Are Employment and Basic Income a Policy Trade-Off?](#), and the IEJ’s [Working Paper: Can a Universal Basic Income Contribute to Breaking Structural Poverty in South Africa?](#), and accompanying [Annotated Bibliography](#).

This factsheet is part of our series on the universal basic income guarantee (UBIG) in South Africa.

Factsheets in this series are:

1. Why does South Africa need a Universal Basic Income Guarantee?
2. No one left behind: Why universal basic income makes more sense than targeted grants
3. Jobs versus Grants: Are employment and basic income a policy trade off?
4. How a UBIG can support healthier kids, happier adults, and lifelong learning
5. How a UBIG can advance gender justice and social cohesion
6. Not just a handout: How a UBIG gives people the power to prosper
7. “But how will we pay for it?” Financing a UBIG

Forthcoming factsheets in this series will focus on:

- Modelling pathways to a UBIG
- UBIG and the rising cost of living
- UBIG and the just transition

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