

7 Reasons why a Universal Income makes Sense in Middle-Income Countries

by Hein Marais

Is job creation really the best way to seek wellbeing for all in countries with chronic, high unemployment? No – especially not in a wealthy middle-income country like South Africa, where very high unemployment combines with high poverty rates. Here are 7 reasons why a universal income grant makes more sense.

1. EARNING A DECENT SECURE WAGE IS NOT A PROSPECT FOR MILLIONS OF SOUTH AFRICANS

While the rewards of South Africa's modest economic growth are cornered in small sections of society, close to half the population lives in poverty, and income inequality is wider than ever before.

Job creation improved modestly as economic growth accelerated in the early 2000s. About 3 million 'employment opportunities' were created in 2002-08. The semantics are important. Very many of those 'opportunities' did not merit being called 'jobs'. They divided roughly equally between the formal and informal sectors, and occurred mainly via public works programmes, business services, and the wholesale and retail trade sectors. A lot of them were crummy, insecure and poorly paid.

The average unemployment rate for middle-income countries is in the 5-10% range; in South Africa, it is about 25%. Add workers who have given up looking for jobs, and the actual rate sits around the 35% mark. Since late 2008, the private sector has been shedding jobs, and the public sector's been trying to add new ones. It's an endless game of catch-up.

2. HAVING A JOB DOES NOT AUTOMATICALLY SHIELD AGAINST POVERTY

Having waged work is the single-most important factor deciding whether or not a household will be poor. But earning a wage does not guarantee that you won't be poor.

Vast numbers of workers earn wages so low and on such poor terms that their jobs don't shield them against poverty. Increasingly that applies also to formal sector jobs. Almost one fifth (some 1.4 million) of formal sector workers earned less than R 1 000 (USD 125) a month in the mid-2000s, according to Statistics SA data.

Two factors drive these trends: the shift towards the use of casual and outsourced labour, and the related decline in real wages for low-skilled workers.

The average real wage is being propped up by the improved fortunes of comparatively small numbers of high-skilled, high-wage workers. Workers without tertiary qualifications *lost* about 20% of their average real wage. And women in the formal sector earned less in real *and* relative terms in 2005, compared with 1995.

From the late-1970s into the 1990s, South African companies tried to compete and maintain profit levels by upgrading machinery and introducing new technologies to achieve higher productivity and reduce reliance on militant, organised workers.

Eventually the dividends dwindled, and currency crashes since the mid-1990s inflated the cost of imported technology.

The hunt for profit required another squeeze, and it was applied to the wages and terms of employment of workers who are not shielded sufficiently by labour laws and shopfloor organising.

Company profits as a share of national income rose from 26% in 1993 to 31% in 2004, while workers' wages fell from 57% to 52%.

Companies now rely on a shrinking core of skilled, full-time workers and a larger stock of less-skilled and badly paid casual or out-sourced labour. By 2008, according to the Labour Ministry, about half the workforce was in casual and temporary jobs.

Job creation is vital. But it's not a match-winner anymore – not in the kind of economy and labour market that defines South Africa. The quest for more – and better jobs – has to occur as part of the wider realization of social rights.

3. SOCIAL GRANTS SEPARATE MILLIONS FROM DESTITUTION BUT IT IS ILL-SUITED TO TODAY'S REALITIES

The impact of the social grant system is beyond dispute. According to Statistics SA, the increase in incomes among the poorest 30% of South Africans after 2001 was mainly due to social grants (especially the child support grant). They're the best poverty-alleviating tool South Africa has at the moment.

Beneficiaries rose radically since 2000. The 2.6 million recipients of pensions and social grants increased to about 14 million in 2010. About 43% of households in 2007 received at least one social grant; in half of them, pensions or grants were the main sources of income.

A large proportion of low-income households would probably be unviable without these grants.

The current social protection system hinges on the fiction that every worker, sooner or later, will find a decent job. Thus the grants were designed to assist people who, due to age or disability, cannot reasonably be expected to fend for themselves by selling their labour. Meanwhile, the employed have access to employer- and worker-subsidised protection (all tied to employment status).

But large numbers of vulnerable workers are not eligible for these state grants, and do not benefit from employment-based provisions.

4. TARGETED AND MEANS-TESTED SOCIAL PROTECTION IS BURDENSOME, COSTLY AND HUMILIATING ADMINISTRATION

Most states prefer to ration cash grants by targeting them and tying them to certain conditions. South Africa is no different (though only the child support grant is nominally conditional at this point).

This is administratively expensive, and it tends to be difficult, especially when it is tough to determine an individual's income, and when that income is likely to fluctuate significantly.

It runs the risk of creating arbitrary divides between those who benefit from social grants and those who do not. Which is why critics regard the approach as expensive, inefficient and 'offensive to basic egalitarian principles', as Guy Standing puts it.

Most means-tested social grants involve burdensome and humiliating interactions with the state that basically involve 'proving' to a stranger that you're poor and unable to fend for yourself and your family. This is why huge stigma and shame tend to attach to them.

A universal income grant would be available to all adult citizens, and would be neither conditional, nor targeted or means-tested. The tax system would be used to retrieve (and help finance) the grants from individuals who don't need them because their incomes are high enough. The grants would form a cornerstone of a broader social protection system.

5. A UNIVERSAL INCOME IS DEVELOPMENTAL AND WOULD BOOST WELLBEING

Cash transfers bring powerful anti-poverty, developmental and economic benefits. The observed effects include reduced stunting in children and better nutrition levels, and higher school enrolment of young children.

In a localized, universal income pilot project in Namibia, child malnutrition declined and school attendance increased significantly within 6 months. Recipients also became more active in income-generating activities.

Financial simulations have shown that a universal grant as small as R 100 per month could close South Africa's poverty gap by 74%,¹ and lift about six million people above a poverty line of R 400 (USD 50) per month.

Cash grants can also help drive more inclusive patterns of growth. Brazil's expansion of social transfers (especially via the *bolsa família*, a conditional grant) along with the extension of the minimum wage has boosted internal demand for local products and services, and aided the growth of formal jobs, as Janine Berg shows in a recent paper.²

6. A UNIVERSAL INCOME CAN BE A POWERFUL EMANCIPATORY TOOL, ESPECIALLY FOR WORKERS

Cash grants contain a radical, emancipating potential. The key is to uncouple them from the labour market, which a universal income grant can achieve.

This is a potentially radical and subversive turn that confronts the 'double separation' that is typically imposed on workers – separation from the means of production and from the means of subsistence.

The impact potentially reaches much farther than gains in social justice.

A universal income has the potential to improve the wages and terms of employment for low-skilled workers. If the bare necessities of life can be secured elsewhere, demeaning and hyper-exploitative wage labour is no longer the 'only option'.

Its most subversive effect is to equip people with the freedom *not* to sell their labour and to withdraw, at least sporadically, from the 'race to the bottom' between low-skilled workers in high unemployment settings.

Thus a universal income can endow the weakest with bargaining power. Linked with other efforts to strengthen wellbeing and expand the content of citizenship, it can contribute toward significant redistribution of power, time and liberty. It also challenges one of the anchoring principles of Anglo-capitalism, which binds employment and citizenship together.

7. A UNIVERSAL INCOME TREATS WOMEN AS CITIZENS, NOT MERELY AS CAREGIVERS AND BEARERS OF CHILDREN

Millions of women in SA have entered the labour market since 1980s, despite their exceptionally poor job and wage prospects. Three quarters (75%) of African women younger than 30 years are unemployed. Most who do find employment tend to work part-time, for low wages and in highly exploitative conditions.

Yet women also bear the bulk of responsibility for social reproduction, and they head more than 40% of households, the majority of them single-parent, impoverished households.

Overall, the sexual division of labour in both the domestic sphere and labour market remains structured in ways that enable men to monopolise full-time and better-paying jobs, while women perform most of the household labour. Men, whether employed or not, continue to 'free ride' on women's work – paid or not.

A guaranteed universal income challenges these arrangements, by helping provide currently inaccessible economic independence, and by strengthening the negotiating position of women who do enter the labour market.

CONCLUSION

More jobs are vital and feasible. However, the quest for more jobs has to occur *as part* of a wider realization of social rights. A universal income grant would be a powerful intervention for radically reducing the depth and scale of impoverishment, and for enhancing liberty.

¹ The poverty gap refers to the total income shortfall of households living below the poverty line. A narrower poverty gap means more households would edge closer to, or above the poverty line.

² Changes in labour market and social policies boosted consumption and economic growth in rural and poor areas, and created a steady demand for small retailers and service providers. That boost in demand also affected other parts of the value chain, including formal manufacturing and distribution (Berg, 2010). See Berg, J. (2010). "Laws or luck? Understanding rising formality in Brazil in the 2000s". Working Paper no. 5. ILO Office in Brazil. ILO.

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