Social Cash Transfers and Employment
A note on empirical linkages in developing countries

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a. Empirical evidence from South Africa indicates that social cash transfers
1. provide critical resources funding job search, particularly for rural women who migrate to look for work;
2. enable the poorest households to better manage social risk and increase their labour market participation;
3. increase the resilience of agricultural smallholders in maintaining production;
4. promote human capital development, reinforcing long-run employment impacts.
b. While the measured direct effects on employment are modest, they are positive and statistically significant, refuting the notion that social cash transfers create disincentives for employment and economic growth.
c. Further research into linkages between social cash transfers and employment will more effectively support policy development.

Introduction

Social cash transfers and employment interlink in many important ways. For many households decent employment is the best path out of poverty and the most effective instrument of social protection. Social cash transfers can also promote employment - certainly in the long run by nurturing the human capital accumulation of poor households. A more contentious issue is the shorter run question of how social cash transfers interact with households’ labour market behaviour.

The employment impact of social cash transfers can be tested in terms of both labour supply and labour demand effects. Labour supply impacts can be negative - in terms of income and incentive effects - or positive - in terms of enabling poor workers to more effectively participate in the labour market. Demand effects potentially exert an impact on labour productivity, which would raise employers’ demand for these workers. In addition, social transfers may stimulate local economies and produce employment - or directly create jobs through their core operations.

* The opinions expressed and arguments employed in this paper are the sole responsibility of the authors, and do not necessarily reflect those of the OECD or the governments of its member countries.
Certain types of social transfer programmes—particularly public works schemes—explicitly aim to promote labour market participation and employment. Numerous studies document the direct impact of public works in terms of providing short-term jobs and reducing immediate unemployment—in India, Bangladesh, Malawi, South Africa and many other countries (Chirwa et al., 2004, Devereux et al., 2006, McCord 2004 and 2005). A more contentious question is the long-term impact—whether or not public works programmes enable workers to exit public works and engage in sustainable livelihoods and employment. Argentina’s Jefes y Jefas de Hogar public works programme, for example, provided effective social protection and increased the short-term propensity of workers to participate in the labour force and to find a job in the formal sector, particularly for women (Ronconi et al., 2006, Devereux and Solomon 2006).

Other programmes, however, yield different results. Slater and Farrington (2006) warn that households participating in Ethiopia’s Productive Safety Net Programme may find the work requirement reduces their ability to pursue successful alternative livelihood activities. McCord (2009) provides a critical review of the potentially counter-protective impacts of public works programmes, and a thorough analysis of the relationship between labour markets and social protection for public works programmes.

Another set of issues arises with social transfer programmes not directly linked to employment—such as social pensions, child support grants, disability benefits and other types of transfers. Tembo and Schüring et al. (2008) find that participants in Zambia’s cash pilot scheme use a significant proportion of the benefits to hire labour, for example in order to cultivate the land around their homes and consequently multiply the value of the social transfers while creating employment for local youth. Barrientos and Sabates-Wheeler (2006) find that Mexico’s Progresa (now Oportunidades) social transfer programme is associated with local economy impacts that improve consumption, asset accumulation and employment broadly within communities—for both programme participants and non-participants. Gertler et al. (2005) find that participants in Progresa invest a portion of their social transfers in productive assets and are more likely to engage in entrepreneurial activities, improving their potential for sustainable self-sufficiency. Harnett and Cromwell (2000) found that participants in one of Malawi’s social transfer programmes were empowered by the resources to invest in their own farms during the planting season rather than rely on dead-end casual employment for their immediate survival. In South Africa, a wide-ranging debate has explored many dimensions of the impact of social grants on employment and household labour market behaviour.

Evidence from South Africa

The first wave of debates over the linkages between social cash transfers and employment in South Africa focused narrowly on income and incentive effects associated with the system of social grants. Bertrand, Miller, and Mullainathan’s (2000) study of workers in three-generation households (which include children, older people and other adults) documented a drop in the labour force participation rates of the other adult men when an older person reached the age that qualifies for the social pension. They interpreted this partly as resulting from the negative income effect, based on the theoretical rationale that as household income rises, the additional benefit to the household from working for further income falls, and so work incentives are dampened. Case and Deaton (1998) document how social pensions are pooled with other household income, and thus potentially affect the labour market decisions of all workers within the
household. Bertrand et al. also conclude the effect results from labour income’s impact on intra-household allocation of grant resources, but point out that women’s labour force participation was unaffected.

Dinkelman (2004) found similar results with better panel data, but documents how an older women’s receipt of a social pension has a strong positive impact on other women’s labour force participation. Samson et al. (2000, 2001, 2002 and 2004) disputed Bertrand et al.’s results using more recent Labour Force Survey data (Statistics South Africa 2000 and 2001) and a methodology that differed from Bertrand et al.’s work in that it explicitly tested the labour market responses of the poorest households. For the workers in the lowest income households, social grants had a positive and significant impact on labour market participation and the probability of finding employment. All these econometric studies focused on income and incentive effects, and relied heavily on cross-sectional econometric analysis that suffered from potentially significant econometric biases, particularly those resulting from unobserved heterogeneity.

The second wave of debates explored the deeper realms of sociological behaviour, examining household formation dynamics and the poor’s response to risk and vulnerability. Klasen and Woolard (2005) argue that “the unemployed get stuck in rural households in order to get support from pensions and remittances and thereby reduce their search and unemployment prospects.” Keller (2004) finds similar results, but argues that the effect is primarily due to young workers delaying leaving grant-receiving households. Posel, Fairburn, and Lund (2006) explicitly addressed Bertrand et al.’s earlier analysis of the 1993 household living standards data, but employ a more rigorous methodology that incorporates migrant workers, an important factor in South Africa’s labour markets. They refute Bertrand et al.’s results, finding no work disincentives from social pensions but rather positive and significant impacts for female labour migrants. They conclude that social grants help finance women’s migration for job search and assist older people in caring for the workers’ children. These results corroborate earlier studies that interpreted positive labour market impacts as suggestive that social grants provide critical resources funding job search. (Samson et al., 2004 and Kingdon and Knight 2000). These results are consistent with Shoër and Leibbrandt’s (2006) findings that domestic duties constrain those wish to work from more active job search.

One of the most important ways in which social grants may affect employment decisions is through the improved management of social risk. Social grants reduce the downside risk and also relax liquidity constraints. (Ravallion, 2003, Devereux and Sabates-Wheeler, 2004, and Samson et al., 2002, 2004). Social grants enable workers to invest in more productive job search, providing the critical support to look for decent work and not attach themselves to the worst forms of labour out of desperation (Wittenberg 2002). Social cash transfers may reduce the impact of shocks on livelihoods and employment at a macro-economic level by stimulating overall economic activity, and they protect households by reducing the impact of shocks on productive assets. For example, economic shocks are less likely to force poor households to sell their livestock - often their only productive asset – if social cash transfers help them cope with the loss of income.

At the household-level transfers reduce risk by providing the security of a guaranteed minimum level of income. This better enables poor households to send children to school because they can afford for them not to be working, as well as afford fees, uniforms and other school expenses. The unemployed and lowest paid workers can take a chance on riskier ventures that are likely to result in a higher income, or acquire human capital such
as education in order to find higher wage employment. The time and travel costs of job search – with its unpredictable outcomes – can lock vulnerable workers into poverty traps. Social cash transfers provide a coping mechanism for the least fortunate, supporting a minimal level of subsistence and allowing them to invest time and money to improve their chances of getting better employment. Adamchak (1995) finds similar results in Namibia with the social pension.

Keswell (2004) uses panel data from one of South Africa’s poorest provinces to evaluate the risk management properties of social pensions, finding that it enables the poorest households to avoid less efficient insurance mechanisms and improves employment prospects by reducing the risk and cost of job search. Social transfers may also support other forms of livelihoods besides employment. Lund (2002), Ardington and Lund (1995) and Cross and Luckin (1993) document the role of social pensions in backing credit, renting capital equipment and buying the necessary inputs for agricultural activities. Social grants also directly support nutrition, access to transportation services, and other short run productivity-enhancing expenditures. Over the longer term, social grants have documented positive impacts on nutrition, health, education and training. Shoër and Leibbrandt’s study of labour markets in South Africa finds hunger negatively affected a quarter of job-seekers, while health problems had negative impacts on 13% of them.

The third wave of debates is currently in progress, relying on improving data sets and natural policy experiments to more explicitly test the direct impact of social transfers on worker’s labour force participation decisions and outcomes in terms of success in finding employment. Samson et al. (2004) linked Labour Force Surveys together to construct panel data to better explore the short run labour market impacts of social grants, finding generally positive impacts. More recent studies take advantage of the natural policy experiment resulting from South Africa’s rapid increase in the scope and take-up of the Child Support Grant from 2002 to 2005. These studies find a significant and positive impact of the Child Support Grant on labour force participation in grant-receiving households. (Samson et al., 2004 and 2008, Williams, 2007, Samson and Williams, 2007).

More recent data confirms the result that working age adults in poor households that receive a social pension are more likely to look for work and more likely to find employment than comparable adults in households that do not receive the social pension. Matching the September 2004 Labour Force Survey to the March 2005 survey and correcting for mismatched individuals provides a dynamic picture of how labour force participation changes for households receiving and not receiving the social pension.¹

The table below compares the change in labour market participation for out-of-the-labour-force working age adults (those older than 16 years) in households with no employed individuals in September 2004 but including at least one older person (defined in terms of age eligibility for South Africa’s older person’s pension). The first row of data shows the proportion of these adults who were employed in March 2005, broken down by status in terms of household receipt of the social pension. The second row shows the proportion of adults who were actively looking for work but not employed. (None of the adults in this sample were employed in September 2004 or looking for work.). The third row shows the proportion of adults with an unchanged status - those who were not participating in the labour force (out-of-the-labour-force).²

This methodology follows a standard approach employed to identify the probability that an individual will “transition” from one labour market state to another - for example,
to make the transition from unemployment to employment, or from non-participation in the labour market to active participation. The "probabilities" refer to the proportion of individuals in each category during September 2000 that made the transition to each respective category in February 2001. For example, of those out-of-the-labour force adults in households receiving a social pension in September 2004, 9% had found employment by March 2005 (see Table 6). This 9% figure is interpreted as the simple probability that an out-of-the-labour-force adult in September 2004 living in a household that receives a social pension would find a job and be employed in March 2005. The other entries in the table can be similarly interpreted. For example, of those out-of-the-labour force adults in households that did not receive a social pension in September 2004, only 7% had found employment by March 2005. This 7% probability is lower than that associated with a similar individual in a household receiving a social pension. In this sense, the probability that an out-of-the-labour-force adult finds employment over the time period is greater if the person lives in a household receiving a social pension. Likewise, the probability of beginning to actively look for work is greater if the person lives in a household receiving a social pension.

Table 6. Impact of the social pension on labour force participation

<table>
<thead>
<tr>
<th>Corrected data</th>
<th>Household receives social pension in 2004</th>
<th>Household does not receive social pension in 2004</th>
<th>Improvement associated with social pension</th>
</tr>
</thead>
<tbody>
<tr>
<td>Probability that a poor working age adult will:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Find employment in 2005</td>
<td>9%</td>
<td>7%</td>
<td>2%</td>
</tr>
<tr>
<td>Be actively looking for work in 2005</td>
<td>15%</td>
<td>13%</td>
<td>2%</td>
</tr>
<tr>
<td>Not participate in the labour force in 2005</td>
<td>76%</td>
<td>80%</td>
<td>4%</td>
</tr>
</tbody>
</table>

NOTE: Sample includes working age adults (older than 16) in households in the lowest income quintile with older people but with no working individuals in September 2004.

Source: Statistics South Africa Labour Force Surveys and EPRIS calculations

In households that received the social pension, 9% of adults were employed in March 2005 and another 15% were actively looking for work. In households that did not receive the pension, only 7% were employed and another 13% were actively looking for work. Receipt of the social pension was associated with a 2% higher probability of finding employment and a 2% higher probability of actively looking for work. Alternatively, receipt of the social pension was associated with a 4% lower probability of not participating in the labour force.

The child support grant demonstrates a similar effect. Working age adults that were not participating in the labour force - particularly women - in poor households that receive a child support grant are more likely to look for work and more likely to find employment than comparable adults in households that do not receive the child support grant. The matched Labour Force Survey similarly provides a dynamic picture of how labour force participation changes for households receiving and not receiving the child support grant.

The tables below compare the changes in labour market participation for working age adults and working age women in households with no employed individuals in September.
2004. The rows follow the format of the table above, with the first row showing the proportion of adults who were employed in March 2005, broken down by status in terms of household receipt of the child support grant. The second row shows the proportion of adults who were actively looking for work but not employed, while the third row shows the proportion of adults who were not participating in the labour force.

Table 7. Impact of the child support grant on labour force participation

<table>
<thead>
<tr>
<th>Corrected data</th>
<th>Household receives child support grant</th>
<th>Household does not receive child support grant</th>
<th>Improvement associated with child support grant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Probability that a poor working age adult will:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Find employment in 2005</td>
<td>15%</td>
<td>13%</td>
<td>2%</td>
</tr>
<tr>
<td>Be actively looking for work in 2005</td>
<td>20%</td>
<td>17%</td>
<td>3%</td>
</tr>
<tr>
<td>Not participate in the labour force in 2005</td>
<td>65%</td>
<td>70%</td>
<td>5%</td>
</tr>
</tbody>
</table>

NOTE: Sample includes working age adults (older than 16) in households in the lowest income quintile but with no working individuals in September 2004.

Source: Statistics South Africa Labour Force Surveys and EPRI calculations

In households that received the child support grant, 15% of adults were employed in March 2005 and another 20% were actively looking for work (see Table 7). In households that did not receive the child support grant, only 13% were employed and another 17% were actively looking for work. Receipt of the social pension was associated with a 2% higher probability of finding employment and a 3% higher probability of actively looking for work. Alternatively, receipt of the child support grant was associated with a 5% lower probability of not participating in the labour force.

The effects are even stronger for women, as documented in Table 8 below. In households that received the child support grant, 15% of adults were employed in March 2005 and another 20% were actively looking for work - the same proportions as for all adults. In households that did not receive the child support grant, only 12% were employed and another 14% were actively looking for work. Receipt of the social pension was associated with a 3% higher probability of finding employment and a 6% higher probability of actively looking for work. Alternatively, receipt of the child support grant was associated with a 9% lower probability of not participating in the labour force.

Table 8. Impact of the child support grant on female labour force participation

<table>
<thead>
<tr>
<th>Corrected data</th>
<th>Household receives social child support grant</th>
<th>Household does not receive child support grant</th>
<th>Improvement associated with child support grant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Probability that a poor working age woman will:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Find employment in 2005</td>
<td>15%</td>
<td>13%</td>
<td>2%</td>
</tr>
<tr>
<td>Be actively looking for work in 2005</td>
<td>20%</td>
<td>17%</td>
<td>3%</td>
</tr>
<tr>
<td>Not participate in the labour force in 2005</td>
<td>65%</td>
<td>70%</td>
<td>5%</td>
</tr>
</tbody>
</table>

NOTE: Sample includes working age women (older than 16) in households in the lowest income but with no working individuals in September 2004.

Source: Statistics South Africa Labour Force Surveys and EPRI calculations
While the magnitudes of these effects are relatively small, it is important to emphasise that social transfers are not intended as employment generating schemes. Their major impact is social protection - with support of labour market participation an ancillary outcome. Nevertheless, this evidence contradicts the misplaced notion that social grants create dependency. On the contrary, social grants support households to participate more actively and successfully in the labour market, assisting workers to break the poverty trap. A more detailed policy discussion and rigorous treatment of the methodology is provided in Samson et al. (2007), Samson and Williams (2007) and Williams (2007), including the econometric models that demonstrate the positive and significant impact of social grant receipt on labour force participation used pooled cross-sectional analysis.

Social cash transfers and agricultural resilience in South Africa

South Africa’s Child Support Grant (CSG) likewise is associated with improved resilience for agricultural smallholders. A non-experimental panel study evaluation of the CSG impact assessed the linkages between grant receipt and household agricultural activities (Samson et al., 2008). The study employed a propensity score matching approach which tested several alternative methodologies. Using a panel of data from 2002 to 2004 constructed from Statistics South Africa’s General Household Survey, the study found that grants improve household resilience in terms of maintaining agricultural cultivation.

From 2002 to 2004, the number of poor households in South Africa cultivating land fell. Yet, the proportion of households with children receiving the CSG that stopped farming activities was statistically significantly lower than the proportion of those not receiving the CSG, and this result was consistent across the matching techniques. In other words, households receiving the CSG are significantly more likely to continue farming activities. This evidence suggests that the Child Support Grant may have improved household resilience in maintaining agricultural production in the face of an overall downward trend.

This result is consistent with the risk management results found for cash transfers in the Social Cash Transfers Good Practice Note (EPRI, 2009). Agricultural shocks are increasing the overall riskiness of agriculture in South Africa, perhaps in part due to climate change. In the absence of social cash transfers, poor households may find it optimal to shift out of agriculture in the face of the increased risk - and into potentially lower return but less risky activities. Social cash transfers help to address the increased risk agricultural households face - and improve their resilience in maintaining production.

Employment and social cash transfers: A potential virtuous circle

The emerging evidence base on the linkages between employment and social cash transfers suggests the potential of a virtuous circle. Decent work provides one of the best paths out of poverty for many of the poorest and most vulnerable. Better employment options reduce poverty for those able to work while fostering economic growth, expanding the resource base for social policy. In turn, social cash transfers help the poor and vulnerable to manage risk, enabling them to better invest in high-risk high-return job search. In addition, the transfers can directly support engagement in labour markets - in
the short term by funding nutrition and transportation, and in the longer term by promoting investment in human capital.

Policy implications

Research into linkages between employment and social cash transfers does not suggest a competition across policy options but rather important complementarities. Decent work is a critical ingredient for pro-poor growth. Social cash transfers do not necessarily create work disincentives - but in some cases may actually promote engagement in labour markets. While the emerging evidence base suggests the short term effects may be relatively small - and certainly not a substitute for more pro-active employment policies - the longer term human capital impacts may prove a substantial complement.

Suggestions for further research

Most of the direct rigorous evidence on linkages between employment and social cash transfers is limited to a few middle-income countries, particularly South Africa. While anecdotal and indirect evidence exists for several other countries, additional credible evidence will more effectively support policy development. Three areas may prove fruitful:

- An extension of existing employment research approaches for South Africa to other countries, particularly Brazil and Mexico (where social transfers are likely to be large enough and implemented over a sufficiently extended time frame to have observed impacts measured in Labour Force Surveys) as well as further research for South Africa.

- More refined research that focuses on other aspects of livelihoods, other than formal employment. These would be particularly important in low-income countries where targeting mechanisms reach the very poorest - for whom a broader range of livelihoods strategies may be more important.

- Research into the linkages between social cash transfers and smallholder agriculture activity, particularly in the context of adaptation to climate change. In many developing countries, climate change is increasing the overall risk associated with smallholder production.
Notes

1. The results from the uncorrected data are not materially different. After September 2004 Statistics South Africa ceased to track social grant status in its Labour Force Survey.

2. The matching methodology utilised for the analysis in this paper corrects a commonly cited problem with South Africa’s Labour Force Survey, in which individual households are not properly linkable with the identifiers reported by Statistics South Africa. The results reported, however, are not sensitive to the specific approach taken to match the records. While there are small differences between these figures and those resulting from the uncorrected data, the magnitudes of the associated improvements are virtually the same with either approach.

3. For example, see Agüero, Carter and May (2006).

4. Baulch and McCulloch (1998) provide a clear explanation of the relationship between transition matrices and probabilities (in the context of poverty): “A poverty transition matrix shows the number of households in and out of poverty in a particular period, broken down by their poverty status in a previous period. Thus it is easy to see the number of households who have been poor or non-poor in both periods along with the number who have escaped poverty and those who have entered poverty. This approach has been used in a number of studies in both industrialised and developing countries. From any poverty transition matrix it is straightforward to calculate simple probabilities of entering and exiting poverty between the two periods. For example the simple probability of exiting poverty is simply the number of households exiting poverty divided by the number of households who were poor in the previous period.” Labour market transition matrices work exactly the same way - except that the states are non-participation in the labour market, unemployment and employment rather than “poor” and “non-poor”.
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