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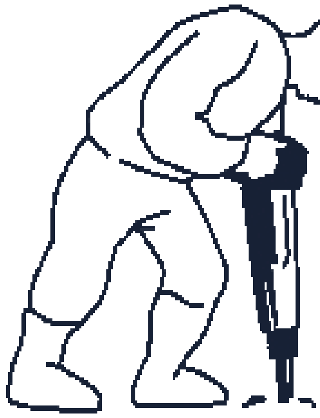

The influence of social transfers on labour supply: A South African and international review

by

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The influence of social transfers on labour supply: A South African and international review

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Abstract

This paper surveys the South African and international literature surrounding the impact of cash transfers on labour supply. We find that although social transfers are condemned for creating state-dependency, the reality is that their effect on labour force participation is both ambiguous and dependent on a number of factors. At the most basic level, transfers either decrease participation by transferring time from work towards leisure activities, or increase participation by covering the fixed costs and credit constraints associated with working, particularly for women, those with low levels of education and other vulnerable groups. Child-support grants may cover childcare or education costs, thus allowing mother's to enter the labour force. Grants can also have an effect on the labour supply of non-recipient household members, particularly when the recipient is a female, as women tend to allocate funds more freely throughout the household. The State Old Age Pension has been seen to induce both in and out-migration of household members. Programme design may also play a role, as means-testing can induce potential beneficiaries to reduce labour participation in order to become eligible for benefits. The education and health-care conditions attached to many transfers can also increase human capital formation and therefore create a long-term positive impact on labour market participation.

1. Introduction

Cash transfers are direct payments of money to eligible individuals, usually provided by the state. The use of cash transfers serves two purposes: to provide short-term relief of the financial burden on the poor and to incentivize long-term desirable behaviour in the population. It is these long-term impacts on the conduct and lifestyle of the recipients that are frequently ignored by critics of the cash benefit policy.

Social grants are considered controversial. They are often condemned for encouraging dependency on the state for regular hand-outs and for providing only a short-term reprieve from extreme poverty. However, cash transfers do have the potential to break the long-term intergenerational transfer of poverty if utilised for either investment in human capital or accessing the labour market. Human capital investment is achieved through using grant money to enroll children in school, pay for high quality child day care and improve productivity by promoting good health through regular medical check-ups. Since higher education is correlated with higher earning potential, this eliminates dependence on a lifetime of grant receipt and breaks the cycle of intergenerational poverty transfer. Grants can also be used to gain access to the labour market by covering work-related fixed costs or facilitating labour migration. A positive employment trajectory will provide a stable labour-income that can enable escape from the poverty trap. This paper is specifically interested in these processes through which social grants influence participation in the labour market.

Public benefit programmes can be broadly divided into unconditional and conditional transfers. Unconditional cash transfers can be further divided into needs-based, means-tested, family allowance and non-contributory old age pension programmes. Needs-based grants provide cash transfers for the disadvantaged, such as the unemployed or disabled. Means testing provides supplemental income for those individuals earning below a specified threshold in order to accurately target the needy. Family assistance programmes provide allowances to households which include children below a certain age. Finally, old-age pension schemes are targeted at the elderly poor and are unrelated to past labour force participation. Conditional cash transfer programmes have recently gained in popularity, particularly in Latin America. Receipt of these transfers is most often conditional on compliance with educational or health-care requirements, such as school attendance for children or visits to local clinics for all household members.

A large body of literature provides evidence of the economic and social benefits for the recipients of public welfare, such as poverty alleviation, higher school attendance and improved health. These transfers have also been documented to produce adverse effects on the household such as a larger allocation of household budget to alcohol and other “bads” (Leroy *et al*, 2013; Fernald *et al*, 2008; Oxfam, 2006).

Cash transfers can also be used as a tool to directly influence labour supply. Unconditional cash transfers, such as unemployment benefits, offer financial support to retrenched workers and aim to facilitate the job search process. Conditional cash transfers may require beneficiaries to register at career agencies or participate in skills training in order to gain access to welfare.

Moreover, non-labour targeted transfer programmes may produce indirect effects on the labour supply. For example, cash transfers to the household have been known to cause a reduction in child labour due to increased school enrolment and a corresponding increase in mother's working hours. In order to create effective policy, it is essential to identify the mechanisms through which these effects feed through decision-making in the household and into the labour market behaviour of the household members.

We collate and review the results of over 50 cash transfer papers. We maintain focus on recent literature concerning the labour supply behaviour of adults in both developed and developing countries. It is important to note that cash transfers specifically targeting labour market outcomes are excluded from this review, in an attempt to isolate only transfers producing an *indirect* impact on labour supply.

This paper is structured as follows: Section 2 discusses the theoretical influence of transfer programmes on labour supply incentives. The remainder of the paper reviews the literature on the relationship between the labour market and social grants, categorised according to the type of grant receipt. Section 3 covers childcare grants, section 4 reviews pension schemes, section 5 explores disability grants, section 6 discusses basic income grants, section 7 explores various conditional cash transfers, section 8 discusses in-kind transfers and section 9 concludes.

2. Theoretical Background

Cash transfers can function as an effective tool for poverty alleviation. In the short-run, they loosen credit constraints and provide supplementary income to finance the household's immediate needs. However, in order to achieve long-term goals such as self-sufficiency and reduced dependence on the state, these transfers are required to promote successful integration into the labour market. It is only through facilitating entry into employment and the creation of a progressive employment path that the social grant system will produce second-round impacts and enable escape from poverty. Thus social grants can play a critical role in the interaction of young adults with the labour market.

Social grants can successfully alleviate poverty for both recipients and their household members, depending on the intra-household income sharing dynamics. Although grants may be directed toward a specific individual in the household, resources are likely to be transferred and used between family members. As a result, these grants may induce changes in household composition and the labour-supply of non-grant recipients living in the household. Social grants may reduce financial constraints to the extent that they facilitate employment and enable individuals to migrate from the rural household in search of work. Alternatively, social grants may disincentivise job search by reducing the need for labour-income and/or encouraging in-migration of needy relatives.

On the assumption that the household does share its income, it is possible to analyse the interaction between a potential worker and the rest of the household. When the worker is unemployed, their income is provided by other household members, either in the form of labour-income earned or grant receipt. When the worker is employed, a portion of their income is transferred to other household members. This transfer can be thought of as a "family tax" on the worker's earnings. Focusing on the unemployed potential worker, their unemployment income (provided by the household) acts as unemployment insurance. As such, higher household support can reduce the need to embark on job search and prolong dependency. However, the unemployed individual may use this financial insurance to cover job search costs in their attempt to find a job. Therefore, the predicted impact of family support on job search is ambiguous.

In theory, cash transfers influence labour supply through the standard static model of choice between work and leisure. An unconditional cash injection generates a direct income effect, increasing a family's scope for consumption of all normal goods. As long as the intra-household income allocation process is such that some of this cash injection flows to a potential labour force participant, this will increase consumption of leisure for that person, under the assumption that leisure is a normal good. If this individual allocates time only between work and leisure, this must result in a decrease in hours worked - an unambiguously negative effect on labour supply, termed the negative income effect. This theory supports the welfare dependency argument that social grants discourage employment and promote lazy behaviour, preventing recipients from escaping poverty and placing a large burden on the state. In general, however, there are additional fixed costs attached to working such as transportation and child daycare costs. Thus a cash injection may allow for an *increase* in labour force participation by generating enough income to subsidise these expenses (Bastagli, 2010).

The cash transfer programme *design* can also cause differing effects on labour supply. Those programmes providing universal benefits may not negatively influence labour market participation since receipt is unrelated to both employment status and income earned. In contrast, inactivity tests or means-tested income eligibility may create incentive to under-supply labour related activities in order to gain access to the transfer. Through this mechanism, it is marginally richer, non-beneficiaries who are induced by the presence of cash transfers to become dependent on the state.

Conditional transfers can produce interesting effects on work effort. Targeting conditional cash transfers (CCTs) at family units and not at individuals means that work and leisure time allocation is interchangeable between family members (Foguel and Barros, 2010). Transfers conditional on school attendance for children may cause a significant reduction in labour participation of children in the household, which may be compensated for by increases in the labour supply of other household members. Thus transfers often induce a reallocation of labour within beneficiary households producing a *net* positive, negative or negligible labour supply effect. However, CCTs come with the disadvantage that meeting the many conditions required for qualification of receipt requires reallocating time away from leisure or work toward provision of household chores.

Therefore in summary, the theory predicts that cash transfers will have an ambiguous effect on the labour supply. These effects are dependent on many factors pertaining to the individual's preferences as well as their household circumstances. Consequently, we move forward by reviewing part of the extensive empirical evidence relating to cash grants in order to search for any consistent results. Whenever the specifics of a particular programme augments this theory, further theoretical background is provided.

3. Child Support Grant (CSG)

Child support grants are an important form of income support to ease the strain of childcare on low-income families. This burden is particularly severe for single mothers and female-headed households, since women are assumed to be the primary care-givers. The purpose of childcare subsidies is two-fold: to improve the quality of childcare provision, and to subsidise the costs of child-raising in order for family income to cater for the needs of the rest of the household. It is argued that childcare subsidies are desirable if they promote future self-sufficiency through the development of human capital and work ethic, thus saving the government money in the long-run.

CSG programmes may have an indirect impact on the labour supply decisions of single and married mothers, through both their participation in the labour market and hours worked. Participation may increase if childcare grants subsidise work-related fixed costs (for example daycare payments) and allow for remaining income to fund job search. Participation may also decrease if childcare provided by relatives was previously cost-free, causing the unearned cash injection to raise the recipient's reservation wage (Blau, 2003). This nevertheless may be beneficial in the long-run since individuals may exhibit higher productivity in preferred jobs (Berger and Black, 1992). With respect to hours worked, there may be an increase if the CSG allows for children to be placed in daycare. Alternatively, hours worked may remain unchanged since many jobs do not allow for flexibility and many daycares operate within fixed hours. Finally, hours worked may also decrease if the mother prefers to use her own personalised childcare and uses the CSG to substitute some of her labour-income.

In South Africa, the CSG pays a lump-sum per month per child. The age eligibility of children has steadily increased with time and the grant is currently available to parents with children under the age of 18. Eyal and Woolard (2011) examine the labour supply behaviour of black women in South Africa aged 20 to 45 whose youngest child is within two years of the age eligibility cut off. They find that mothers in their 20s who receive the CSG have significantly higher labour force participation and employment probabilities. They explain this outcome by showing that grant receipt is used for funding day care and the costs of sending a child to school. Young women display the most drastic change in working behaviour, implying a previous lack of funds to cover the fixed costs associated with working. The grant also causes a decrease in unemployment for women in the top 50 percentile of household income distribution, indicating the benefit of the CSG to women already making progress in covering some of the high fixed costs of working.

Williams (2007) also finds a positive effect of South African CSG receipt on mother's broad labour market participation, specifically for mothers living in informal dwellings or with low levels of education. This suggests that the CSG has its biggest impact on poor households facing liquidity constraints. Interestingly, school attendance increases as a result of the CSG, indicating that the CSG is actually spent on the child despite no monitoring process. Since Williams uses this as evidence that the CSG is not pooled with other household income, she claims that the CSG induces the positive labour market effects discussed by subsidising childcare costs and allowing mothers to enter the workplace.

It is interesting to discuss the impact of the CSG on single mothers, for whom the burden of child-raising is significantly large. Hu (1998) explores the impact of the U.S. child support programme, the Aid to Families with Dependent Children, on divorced mothers. He shows that the largest increase in labour supply arises from increasing child support payments to mothers who previously received none, indicating that larger child support awards are an effective way of substituting absent father payments.
Michalopoulos *et al* (1992) show that working single mothers who receive childcare subsidies respond via an increase in childcare quality rather than a change in hours worked. Eissa and Liebman (1996) find an expansion of the Earned Income Tax Credit (EITC), a programme used to transfer income to needy families with children, increases labour force participation of all single women with children, particularly those with low levels of education.

The labour supply decisions of married mothers have also been observed. Married mothers may behave differently from single mothers if family labour supply decisions are made sequentially, where fathers first choose their labour status and mothers respond to that decision. A married mother is also generally able to treat earnings of her spouse as her own non-labour income (Michalopoulos *et al*, 1992). Tamm (2009) explores the labour supply effects of a large increase in *Kindergeld,* child benefit payments in Germany offering lump-sum payments per month per child enrolled in school. The author finds that the theoretical negative income effect of the increased transfer amount holds, namely that hours worked decreases for married mothers as their number of children increases, relative to married mothers with no children. No significant difference is found in terms of employment rates. Ribar (1995) supports this finding by arguing that changes in childcare costs have very little impact on married mothers' employment in the U.S. since mothers tend to react to changes in care cost by switching care arrangements as opposed to leaving the labour force. Kimmel (1998) however finds that high childcare prices impede labour supply of married mothers much more than single mothers. This can be explained by the fact that married mothers may have more flexibility in their participation decisions since they are not the sole earners in the household. Eissa and Hoynes (1999) support this explanation by showing that the EITC effectively subsidises married mothers to stay at home. This could be avoided by basing the EITC on individual earnings as opposed to family earnings.

Berger and Black (1992) discuss the impact of subsidies paid per child directly to formal daycare centres. They propose that forced formal day care enrolment may act in two opposing directions on hours worked. Those who perceive formal care to be superior and of high quality may leave their children at day care and work for longer hours. However, those who prefer a more personalised informal care, usually provided by relatives or friends, may compensate for the forced formal care by choosing to work fewer hours to increase the time spent with their child. Lefebvre and Merrigan (2008) find that a similar childcare programme subsidising formal daycare in Canada had a significant positive large effect on the participation rate and hours worked of mothers with preschool children. In attempt to explain the large magnitude of the programme impact, it is suggested that the subsidised price of formal day care may have induced lower prices of competing alternative care, amplifying the policy effects.

Although findings show that financial incentives can move mothers into the work place, early maternal employment may negatively affect child outcomes. This behaviour was disincentivised in Norway, where a home care allowance reform was introduced to encourage parents of pre-schoolers to provide childcare at home through the issuing of cash transfers to non-daycare users. The findings of Kornstad and Thoresen (2007) as well as Naz (2004) and Schone (2004) agree that the home care allowance resulted in a reduction in female labour supply. Although unsurprising, this result is not perfectly predictable since mothers might already be utilising informal care, thus benefitting from the transfer but leaving labour supply unchanged. Naz (2004) shows that husbands do not increase their hours work to compensate for their wives reduction in labour supply. The author also finds that the labour force participation of highly educated mothers fell by more than those mothers with a lower level of education. This is explained by the notion that more educated mothers are likely to utilise state daycare, while less educated mothers may have access to informal care through relatives. Thus, the subsidy had a smaller effect on less educated mothers since their children were already receiving a more personalised care. Schone (2004) warns of the long-term negative implications of such a policy in which a long period of absence from work may cause human capital depreciation and lack of skill development, preventing the mother’s future labour market participation.

A number of synchronicities can be drawn from the above sources. Firstly, the impact of CSGs on mothers is highly dependent on a variety of factors, such as: mother’s level of education, mother’s marital status, mother’s perception of childcare quality, mother’s access to in/formal childcare, mother’s age, child’s age and household income. Studies agree that childcare grants induce positive results on labour supply for mothers with liquidity constraints, however mothers may be required to have a high enough level of income to already be making progress in covering working fixed costs. While no certain outcome can be drawn according to marital status, it appears that married mothers are more easily influenced to reduce labour market participation. Finally, it cannot be assumed that formal daycare is always utilised or even preferred by mothers, especially taking into consideration the child's age.

4. Non-contributory State Old Age Pension (SOAP)

Social pensions represent an important source of income for the elderly who are too old to work and whose health-care expenditures are often burdensome. In poorer households accommodating multi-generations, this pension resource can support many children and prime-aged adults, in addition to the age-eligible pensioner (Ardington *et al*, 2009).

The pension can therefore have both the negative and positive labour market effects already discussed. In addition, pension receipt may induce individuals to depart from or arrive at the household (Sienaert, 2008). Labour migration may occur among prime-aged individuals who utilise the pension as financial job search support (Ardington *et al*, 2009). Alternatively, migrants may feel less pressure to work and instead return to the household to live off the pension resource. What emerges is a complex picture of household allocation of resources, household composition and labour participation behaviour (Sienaert, 2008).

Reciprocally, a loss of pension due to death or migration of a pensioner can also impact on the labour supply. In theory pension loss could cause household members to increase their hours worked or force the unemployed to search for jobs. However, if the role of the pensioner was to provide childcare, an adult may have to leave the labour force to assist with the children. Regarding household composition, migrants may respond to a loss of pension income in direct contrast of the way in which they respond to its receipt. Therefore, it is unclear the direction in which household labour supply will respond to loss of pension.

Much of the work surrounding the relationship between pension receipt and labour supply of working-age adult household members is focused on the South African SOAP. This means-tested SOAP is available to men and women over the age of sixty and provides a relatively generous cash transfer to its recipients of more than twice median per capita African income (Ardington *et al*, 2009). Bertrand *et al* (2003) find a sharp drop in the working hours and labour force participation of prime-age individuals (aged 16-50) in South Africa when elderly household members become SOAP age-eligible. Since this programme is designed for a group outside of the labour force and impacted the labour supply of working-age household members, this provides evidence of intra-household income redistribution. Bertrand *et al* (2003), Sienaert (2008) and Souza (2010) agree that the discontinuity in working hours is even larger if the pensioner is female. Thus the evidence suggests that women tend to share their income with the household more than men. Pension receipt reduces the labour supply of prime-age men more than prime-age women, implying that women benefit less from the pension than men (Bertrand *et al*, 2003; Souza, 2010). This can be interpreted as men having more power over females in the household to dominate resources. It is found that the oldest prime-age man reduces his labour supply by the largest amount, supporting the theory that eldest sons capture more household resources. Those prime-aged individuals who are least skilled react strongest to pension receipt, most likely since they face more difficult labour market conditions.

Eyal and Keswell (2007) find that while South African SOAP eligibility is associated with reduced hours worked and employment probability, this should not be interpreted as a pure negative income effect since hours worked decreases in the household even before the elderly reach age eligibility. Therefore hours worked is influenced partially by the burden of living with the elderly, irrespective of pension receipt.

Bertrand *et al* (2003) have been criticised for their exclusion of non-household members from their study, for reasons pertaining to the migrant labour effects of the SOAP discussed earlier. In this regard, Sienaert (2008) shows that while labour migration probability is positively affected by a pensioner (a positive job search effect), the presence of migrants in the pension-receiving household reduces the probability of participation by other household members (a negative labour market effect). This is likely to occur due to the fact that migrants are the most capable of working and feed income back to the household, reducing the need for others to participate.

Posel *et al* (2006) find that once South African household migrants have been accounted for, the negative association between eligibility and participation is greatly reduced. African women are significantly more likely to become migrant labourers upon pension receipt in the household, and it is female pensioners that drive this result. This is indicative of women pensioners sharing their income and taking over the role of caring for the young to make it easier for female adults to leave the household in search of work.

Ardington *et al* (2009) study the impact of pension receipt on labour in Kwazulu-Natal, South Africa. When excluding non-resident household members, they find that living with a resident pensioner significantly lowers the probability of employment for prime-aged males. With the inclusion of non-residents, there is small, significant, positive association between pension receipt and probability of employment. They show that those individuals in households containing an age-eligible pensioner are more likely to remain or become migrant labourers, consistent with the findings of both Posel *et al* (2006) and Sienaert (2008).

While the pension seems to encourage out-migration, a number of studies undertake to search for evidence of pension-induced in-migration. Ardington *et al* (2009) find that pension eligible households are significantly more likely to attract non-working resident members. Prime-aged individuals who join pension-eligible households have less education, are more likely to report being sick and have lower employment probability compared to those who join non-pension-eligible households. These findings are supported by Klasen and Woolard (2000), who show that household size increases upon pension receipt due to an influx of the unemployed. They explain that the unemployed select into households sustained by pensions, draw on household resources and prolong their unemployment duration. Thus pension receipt undesirably influences the unemployed to place their location decision on the availability of support as opposed to availability of work. Since many South African pension-receiving households are located in rural areas, this may contribute to the high level of unemployment in these areas and may be easily confused for poor rural labour market outcomes

Sienaert (2008) provides an alternative explanation to Ardington *et al* (2009) and Klasen and Woolard (2000). His evidence attributes the large size of pension recipient households compared to non-recipient households to a difference in age-profiles, namely that females between the age of 25 and 50 have migrated out of pension eligible households, leading to small numbers of labour market participants in such households. Once migration is taken into account, the number of labour market participants in eligible and non-eligible households is roughly similar. Furthermore, the number of employed individuals is only slightly less in pension eligible households. This contradicts the theory that individuals with poor labour market outcomes select into pension receiving households.

Finally, the impact of a loss of pension receipt on the household is discussed. Ranchhod (2009) explores the household labour supply response to a cessation of pension transfers due to death or out-migration of a pensioner. He finds an increase in employment rates for middle-aged and older individuals who maintain household residency. He also records an in-migration of middle-aged females and older adults of both genders. This may reflect the discontinuing of household finances to support migrant labourers, forcing them to return home. Similarly, Ardington *et al* (2009) show that prime-age adults belonging to households who lose a pensioner are significantly less likely to become or remain migrant labourers.

In conclusion, studies of the South African SOAP yield similar results. Receipt of pension has, in general, a negative impact on the labour supply of resident household members. This behaviour is more noticeable when the pension recipient is female, because females tend to pool their income in the household more than males. Since males are able to dominate household resources more than females, we observe higher male labour participation reduction. Although this behaviour may indicate the presence of a negative household income effect, there are alternative explanations. Firstly, it is suggested that the burden of having to care for the elderly induces adults to reduce their labour supply, even prior to pension receipt. Secondly, when studies begin to include non-resident data, they find that the negative effect of the pension on labour supply is greatly reduced and sometimes even becomes positive. Finally, a loss of pension has the opposite effect to a gain, forcing an increase in household labour supply and the return of labour migrants to the household.

5. Disability Grant (DG)

DGs are targeted at working-age individuals who, owing to their physical or mental disability, are deemed unfit to obtain employment and are therefore unable to provide for their own maintenance. Disabled individuals are disadvantaged in that they are unable to work and earn an income and also incur far higher health, care and transport costs than a healthy individual. In a study by Klavus (1999) it was found that households containing a chronically ill individual needed 40% more income than a healthy reference household. Additionally, environmental and social circumstances tend to cause significant poverty for individuals with disabilities. Thus, the DG is an appropriate tool for poverty alleviation under the assumption that poverty and disability are associated. The disability-poverty relationship is described in the literature as a "vicious circle" (Mitra, 200ed?5): poverty causes disability, for example through malnutrition, poor living conditions and health endangering employment, while poverty is the consequence of disability through loss of employment or earnings. While not all people with disabilities are poor, the argument is that the disabled are more likely to be poor than not.

The design of an accurate screening process required to determine DG eligibility is an on-going challenge for developing countries. Determining DG-eligibility is made difficult by the vague definition of disability. Additionally, the disability screening process is confounded by cases of invisible impairments such as lower back pain and episodic mental illnesses (Mitra, 2010). In developed countries, disability screens assess activity limitations (eg. inability to work) while in developing countries, disability screens assess impairment (eg. inability to see or hear) (Mitra, 2005). This contributes to higher reported rates of disability in developed countries than in developing countries. Clearly, qualification for eligibility is a lengthy process that is prone to classification errors causing incorrect grant exclusion and inclusion. The administrative weight of conducting these eligibility tests increases the chance of errors made in developing countries. Additionally, moral hazard costs associated with DG-receipt include a significant financial gain to misreporting one's ability to work. It is therefore believed that receipt of disability grants may influence labour participation of prime-age recipients.

While DG programmes have been growing in middle income countries such as South Africa and Brazil, little is known about their impact on the labour supply (Mitra, 2010). There are three possible outcomes of the DG on labour participation. Firstly, the DG should theoretically have no effect on the labour supply of recipients if screening processes accurately select only those unable to work (Gooding and Marriot, 2009). Secondly, the DG may increase the labour supply of recipients (or household members) if it acts to cover health care costs and other lack of funds posing barriers to work. Mitra (2005) argues that provision of the DG would increase the welfare of both the disabled and their care-givers. Since care-givers are predominantly women, these cash transfers are generally shared with the household and create potential for human capital development and job search for all household members. Additionally, DG recipients may have a new-found sense of autonomy, greater bargaining power within the household and a desire to embark on job search. Finally, the DG may decrease labour market participation through the negative income effects discussed.

We begin by studying the characteristics of DG-beneficiaries. Mitra (2010) finds that the DG reaches households that are poor, have high unemployment rates, have a low level of education and tend to be detached from the labour force for a long time. Mutasa (2012) notes that individuals with post-primary education are less likely to receive the DG than those with no formal education. Autor and Duggan (2003) explore the change in characteristics of DG recipients following liberalised screening processes that induced a substantial exiting of low-skilled workers from the labour market in the U.S. between 1984 and 1998. They find a great increase in the number of younger recipients, a large share of whom are high-school dropouts. Growth in DG recipients is proportionately larger for females than for males. Finally, there is a growth in the fraction of young DG recipients suffering from low-mortality impairments (such as back pain or mental disorders) over this time, a fall in annual mortality rates of DG recipients and a decrease in the exit rates of DG recipients into retirement.

Benitez-Silva *et al* (2010) make the distinction between work disability and health disability. Work disability is influenced by economic conditions, the business cycle and even the attitude of the individual to employment. Health disability is related to the evolution of medical technology and demographics. Work disability is a temporary state, while health disability is generally long-term. Therefore, cyclical variations in DG claimants are driven by work disability. Benitez-Silva *et al* propose that DGs are even used to cushion recessions and assist transition into economic inactivity. This distinction between health and work disability is important when examining the relationship between DGs and labour supply. If unemployment rates are high in the economy, work disability increases and this induces growth in the stock of disability benefit claimants. On the other hand, an increase in the supply of DGs due to an expansion in the definition of health disability may induce workers to exit the labour force. Often it is particularly difficult to distinguish between these two mechanisms, both of which result in higher DG rollout and lower participation. In fact, it is thought that health and work disability may be correlated, for example certain types of stress and depression may be related to household unemployment or an impending loss of jobs. In line with this, Bound and Burkhauser (1999) explain that the decision to apply for the DG is a function of both health and economic prospects, thus demand and supply of DGs is related to disability programme characteristics as well as labour market factors.

In relation to this, Autor and Duggan (2003) find that *declines* in disability rolls pre-1984 are accompanied by an *increase* in labour force participation for male high-school drop outs in the U.S. In the 10 years to follow, a more liberal roll-out of the DG sees a *decrease* in labour force participation of high-school drop outs, identical in magnitude to the previous period. Regarding adults with higher education, although DG uptake increases for this group post-1984, this growth is not accompanied by labour-force exit. Autor and Duggan explain that the DG is more attractive to the unemployed since they face low opportunity costs of leaving the labour force to seek benefits. Thus increasing the supply of benefits is likely to induce exiting of low-skilled workers facing barriers to employment. This theory is consistent with that proposed by Bound and Burkhauser (1999) above.

Mutasa (2012) notes a large growth in South African DG beneficiaries between 2001 and 2004, attributed to a combination of classification errors, liberalisation in the screening process and growth in the benefit size. Confirming the findings of Autor and Duggan (2003), all Mutasa's results suggest that receipt of the DG has adverse effects on labour market behaviour. He shows that DG-recipients would have significantly increased labour participation had they not been receiving benefits. This contributes to evidence that the DG creates increased state dependency.

Mitra's (2008, 2009, 2010) stance on the DG-dependency theory changes considerably over time. Mitra (2008) finds that in South Africa over the period of 1998 to 2002, DG-recipients appear to increasingly drop out of the labour force, particularly disabled females. Preliminary evidence suggests that the growth of the DG programme over this time contributed to this decline in participation. Mitra (2009) finds that in South Africa post-2002, reduced stringency in DG screening produces differing results for labour supply by gender. Initial results suggest that females do not alter their behaviour, while male workers respond to the grant by reducing their labour participation in the broad labour force. This decrease in participation is attributed to discouraged males dropping out of the labour force, since there is no significant change noted in the narrow labour force. Mitra (2010) then explores the impact of the same liberalised DG screening process for provinces across South Africa. Results suggest that more lenient screening in Gauteng does not lead to a change in labour participation relative to the Northern Cape where no reform to the screening process was made. As a result, Mitra claims that in South Africa, an expansion of the DG programme seems to absorb those who are already out of the broad labour force. This provides evidence against the DG dependency theory. Thus the DG programme may function effectively as an anti-poverty agenda unaccompanied by distortionary effects on the labour force.

Samson *et al* (2004) find that receipt of the DG is associated with significantly higher narrow and broad labour force participation rates in South Africa. Receipt of the DG also has a significant positive impact on household employment rates. This is explained by the fact that the DG provides members of the household with the resources and security required to embark on job search, similarly to receipt of the SOAP. Breaking down the population into its subgroups, the DG has a positive impact on labour participation rates for rural females only. Additionally, employment rates are positively associated with DG receipt for rural female and male workers only. Samson *et al* (2004) also explore the impact of the DG on labour demand. They explain that grants have a positive impact on worker productivity by subsidising better nutrition, health-care, housing and transportation. This higher productivity causes a change in the effective labour supply of the worker. As a result, employers may be willing to increase their demand for labour. Overall, Samson *et al* (2004) find that DG receipt increases both demand and supply of labour. Note that Samson *et al* (2004) conduct research at the household level, thus the findings do not necessarily indicate an employment response of DG-recipients alone.

In conclusion, the evidence surrounding the impact of the DG on labour supply of recipients is highly inconclusive. Further research with access to more informative data is required to enhance understanding on the matter. However, it is clear that DG-recipients have lower levels of education on average than non-recipients. The groups most responsive to DG reform are females, youth, the unskilled, the discouraged and those facing barriers to employment. Thus the DG is more attractive to those struggling to enter the labour market since they face low opportunity costs of replacing labour-income with disability benefits. This supports the theory that demand and supply of DGs is heavily influence by labour market conditions (Benitez-Silva *et al*, 2010; Bound and Burkhauser, 1999). Finally, Mitra (2005) proposes an interesting alternative disability transfer in the form of a subsidy to be spent directly on assistive devices. This programme is advantageous since it eliminates the problem of dependency, while potentially removing barriers to participate in society and encouraging employment of the disabled.

6. Basic and Minimum Income Grant (BIG / MIG)

Over time it was established that not only children, pensioners and the disabled required social protection. Rather, all individuals vulnerable to or suffering from impoverishment should also be protected by the state. This type of social assistance is generally provided irrespective of job status or former contributions. Many countries offer an income grant to their population either universally, known as a Basic Income Grant (BIG) or through the conduction of a means-test, known as a Minimum Income Grant (MIG).

The means-test ensures that grants reach individuals who comply with particular eligibility criteria, such as earning below a cut-off income level. It is useful in defining conditions which measure a minimally acceptable level of well-being and ensuring all individuals reach this level in society (Galasso, 2006). One of the problems associated with means-testing is that many individuals who in reality are eligible for the MIG fail to qualify due to arbitrary discretion and corruption (Samson *et al*, 2002). Adding to this, the poorest segments of the population who are most in need of social assistance are often unaware of eligibility requirements and the process of accessing these grants (Galasso, 2006). Additionally, administrative expenses rise with take-up rates. Thus, effectively targeting the poor can become an expensive endeavour.

A universal grant (BIG) is provided irrespective of income or employment levels and serves as a social entitlement to all civilians. The BIG is said to have many advantages over the MIG. It is argued that a universal grant reaches the poor population with greater ease and at a lower cost to the government and beneficiaries than via the means-test (Samson *et al*, 2002). Universal grants also avoid the incidence of moral hazard created by the means-test, where individuals marginally richer than the cut-off income level may react by decreasing hours worked in order to become eligible. Additionally, the BIG has the advantage of not being solely offered to the poor, thus avoiding the psychological side-effects or social stigma often suffered by grant recipients.

Income grants can have positive effects on both demand and supply of labour. On the supply-side, the grant induces higher living standards that enable household members to cover the fixed costs associated with working. Samson *et al* (2002) demonstrate that higher living standards are associated with higher job finding rates in South Africa in 1997.

Additionally, the grant provides income security that can free up resources for entrepreneurship or other employment. On the demand-side, grants can be used to accumulate human capital and increase productivity so that workers are more desirable to potential employers.

Income grants can also induce negative labour participation behaviour, especially when eligibility is conducted through a means-test. Franz *et al* (2009) explain that income grants are prone to inducing negative labour supply incentives when the gap between potential labour earnings and the cut-off income level for grant eligibility ("the wage-assistance differential") is too small. This small differential frequently occurs since the skill level of those eligible is generally low, reducing their prospective earnings. In this vein, Limodio (2011) creates a theoretical model to study the transmission mechanism through which pro-vulnerable income transfers may affect the labour supply behaviour of *non-recipients*. In this model, for a given income grant provided to the poor according to a means-test, individuals marginally richer than the target group may react by dropping hours worked in order to gain programme eligibility. Since the pro-vulnerable transfers increase the beneficiary group's income, they also increase the relative reservation utility level of the non-beneficiaries according to the neoclassical labour-leisure model. This affects non-beneficiary utility maximization and lowers their labour supply, thus inducing dependency. The paper concludes that pro-vulnerable transfers may result in increased dependency by those originally non-eligible, causing the marginally richer individuals to contribute to the adverse impact of income transfer programmes on labour supply.

Income grants are also an effective tool for reducing the dependence of the poor on remittances from one another. Research from national household surveys in Namibia shows that people living in formerly disadvantaged communities continue to carry the burden of caring for other poor people (Haarman and Haarman, 2007). While the richest households spend 8% of their income on supporting others, poor households spend 23% of their income supporting other poor people. This essentially prevents the escape from poverty and directs money away from facilitating entrepreneurship and entering into employment (Haarman and Haarman, 2007). Thus an income grant will ensure the burden of caring for the poor is distributed more justly across society.

Lemieux and Milligan (2004) explore the effects of a social transfer policy in Quebec, Canada in 1989. Under this policy, childless individuals under the age of 30 are paid much lower social assistance benefits (approximately 60% less) than those aged 30 and above. This study focuses on 25 to 39 year old childless males, including only those without high school diplomas in order to limit the study to those most likely to receive social assistance. Results show that both employment rates and hours worked drop significantly after the age of 30 in 1989. More surprisingly, the employment rate of *all* men, without age and education exclusions, drops after age 30.

Dabalen *et al* (2008) estimate labour market effects of the Albanian *Ndihma Ekonomike*, an anti-poverty programme targeted at poor households, introduced in 1993. This programme is means tested at the household level and benefits are paid according to estimates of each household's needs. They find that while a negative relationship exists between benefit receipt and both hours worked and labour force participation, this is driven largely by females and urban individuals. This is explained by the fact that in rural Albania unemployment is low, farming is risky and insurance markets are incomplete. Therefore these cash transfers act as insurance rather than income replacement and as a result do not induce a change in rural labour supply behaviour. Since women historically have had high unemployment and discouragement rates, females are more susceptible to the labour supply disincentive effects of the transfers.

Both Terracol (2009) and Bargain and Doorley (2011) evaluate the impact of the 1988 French guaranteed minimum income programme (RMI) on labour supply. This programme is means tested at the household level and provides eligible households with a monthly guaranteed minimum income equal to the difference between household income and the eligibility threshold. The RMI imposes high implicit taxation on earnings, severely limiting the incentive to move from welfare to labour-income. Although receipt is not conditioned on any work requirements, over time more of the unemployed have become programme beneficiaries, causing the RMI to be described as another component of the unemployment benefit system in France. As a result there is great concern regarding its impact on the labour force. It is thought that because the RMI involves no job search commitment, its effects on the labour supply are likely to be larger than traditional unemployment benefits that usually have job search requirements attached to them. Terracol (2009) finds that participation in the RMI adds between four and 9 months to the unemployment duration of its recipients. Exit to employment significantly declines with age and increases with education. This initial sharp decrease in labour supply for the first 6 months is explained by the stable income that the RMI offers its beneficiaries for an unlimited duration. Bargain and Doorley (2011) use a regression discontinuity approach in their estimation of RMI impact by exploiting the fact that individuals under the age of 25 are not eligible for this benefit transfer. Their sample consists of 20 to 35 year old, uneducated, single, childless men. They find that there is significant evidence that RMI participation reduces weekly working hours at age 25, when individuals become eligible for the RMI benefit. No decrease in labour supply is seen when the same analysis is performed on more educated males. They attribute the differences found between educated and uneducated men to the idea that young uneducated men have weak attachment to the job market due to higher job search costs and lower earnings prospects, consistent with findings across different types of social transfers discussed above.

Cavalcanti and Correa (2010) study the impact of government benefits provided to poor persons with an income below a specified threshold in Rio de Janeiro. Individuals receive cash transfers independently of whether they are classified as working, unemployed or out of the labour force. They show that the *size* of the transfer has a negative effect on the employment and participation rate, and causes the extended unemployment rate (which includes marginally attached employed workers) to increase. Interestingly, when the size of the transfer is held constant but the coverage of the transfer is increased by loosening eligibility requirements, employment and participation increases.

Taking an alternative approach, Greenberg (1983) studies the *second-round* labour market effects of the universal negative income tax (NIT) in the US. The NIT involves both the provision of a base level of income support to households, as well as a benefit reduction rate which determines the rate at which benefits decline with labour-income earned. Second-round labour market effects occur in response to the reduction in labour supply induced by cash transfers, whereby either employers increase worker's wages or unemployed non-recipients fill the vacant job-posts. The results of the simulations indicate that employers have little scope to respond to decreased labour supply through wage-adjustment, while the unemployed have considerable potential to mitigate these adverse effects through job take-up. However, in order for this to occur, unemployment must be high, the unemployed must be willing and able to fill job vacancies, and the skills of the unemployed must be substitutable for the recipients. These findings suggest that under certain circumstances, the adverse labour supply effects of a cash transfer can be significantly ameliorated by the response of the unemployed.

In conclusion, the literature above exposes the general trend of income grants creating adverse labour supply incentives. The negative labour supply effect induced by income grants is particularly large due to the lack of conditionality attached to the programmes. This behaviour is exacerbated when the wage-assistance differential is particularly small, frequently encountered in groups such as females, low-skilled individuals and the uneducated. More educated beneficiaries are shown to exhibit no response in their labour supply since this differential is much larger. Additionally, the size of the benefit is illustrated to have particularly important influence in the labour supply decision of beneficiaries. The adverse behaviour exhibited by MIG recipients is largely attributed to the means-test which induces non-beneficiaries to reduce their labour supply in order to qualify for eligibility. As a result, the MIG does not reach the poorest, uninformed segments of the population who are most in need. This has furthered the call for a universal income grant in countries such as South Africa and Namibia.

7. Conditional Cash Transfer (CCT)

Conditional cash transfers (CCTs) rose in popularity in the 1990s, particularly in Latin America. CCTs often combine a variety of interventions into one programme, in order to sufficiently tackle the multidimensional nature of poverty. Poverty is recognized as more complex than just the absence of money and includes additional dimensions such as lack of education, poor nutrition, and poor healthcare and sanitation. As a result, it was recognized that in order for transfer programmes to facilitate escape from the poverty trap, multiple interventions would be necessary to target poverty's multi-dimensions. Thus, CCTs combine benefit receipt with a number of verifiable conditions, such as school attendance, vaccination and health clinic visits (Alzua *et al*, 2010). While the cash transfer is a short-term income injection intended to increase immediate household consumption, the conditions attached to the transfer aim to promote human capital accumulation and eventual employment to assist in long-term poverty eradication. In addition, many conditions are targeted specifically at the youth, with the aim of breaking the intergenerational transfer of poverty.

Conditionalities bring a variety of trade-offs and benefits. Often conditionality is associated with high administration costs imposed through regular collection of beneficiary data and verification of compliance. However, conditioning certain types of behaviour allows for concentrated provision of resources to vulnerable groups disproportionally affected by risks that are not catered for by universal public spending (Bastagli, 2010). Conditionality also manages to address intra-household bargaining processes by bringing power to individuals with weak positions in the household. For example, child labour brings income into the household at the expense of the education of the child. CCTs manage to bring the preferences of the child and the parents in line.

We are interested in the Latin American CCTs that do not incorporate safeguards for the potential impact on the labour supply. These are the CCTs that do not include any restrictions on work, do not reduce benefit levels of earned labour-income and do not contain a job search requirement. As with all other cash transfers, receipt of non-labour income may induce positive or negative labour market effects. However, their conditionality on health and education may induce additional changes in labour participation of household members. If the CCT encourages children's school attendance, this might free adults from time spent on childcare and allow for an increase in their hours worked. School enrolment might also cause a fall in household income due to a reduction in child labour. Therefore, the relative price of labour inside the household will rise, leading to an increase in the labour supply of household adults. (Foguel and de Barros, 2010). If no change in adult behaviour occurs in response to a reduction of child labour, the cash transfer may produce an overall negative effect on household labour supply. Finally, the many conditionals attached to these cash transfers may require additional time from household members, particularly mothers involved in caregiving and nurturing, and as a result may shorten time available for work or leisure (MDS, 2007). Empirical evidence of changes in labour supply behaviour is explored by country below for Latin American CCTs only.

Brazil

Brazil's *Bolsa Familia* CCT was implemented in 2004 as a means to strengthen and combine a number of operationally weak CCT programmes that came before it. The programme includes conditions imposed on school attendance for children, child immunization and pre and post natal care. The *Bolsa Familia* is available to those families living below the extreme poverty line, as well as households living in poverty that contain pregnant women and adolescents up to 15 years of age. There is also a youth supplement available to families containing children aged 16 and 17 years old.

MDS (2007) compares the behaviour of three groups: *Bolsa Familia* recipients, households receiving other types of allowances and households not receiving any transfers. They find that *Bolsa Familia* receipt is associated with lower work participation in woman compared with other types of grant receipt. This indicates either a lower incentive to work instilled by the *Bolsa Familia*, or an increase in the allocation of women's time to domestic chores associated with Bolsa Familia conditions. *Bolsa Familia* receipt strongly increases the proportion of people in the household who claim to be searching for a job. There is therefore a short-term increase in the supply of labour, arguing against the negative income effect.

Ferro and Nicollela (2007) evaluate the impact of Brazilian CCTs on the participation and weekly hours worked of males and females in both rural and urban areas. They find no effect on male or female labour force participation in either rural or urban areas and mixed results for the effect on weekly hours worked. They find a positive effect of CCT participation on hours worked for those women living in urban areas, but an almost equally negative effect for women in rural areas. This negative effect on hours worked may be evidence of the negative income effect at play. An alternative explanation for this is that women are required to increase their time spent on childcare to qualify for the benefit by transporting their child to and from school. In rural areas, schools are likely to be situated at further distances from home than in urban areas and transport infrastructure may be poor. The negative effect may also be attributed to the fact women have to assume additional household chores when children cease to contribute around the home, and they are therefore able to work less. Indeed, results show that beneficiary female children are less involved in household chores in rural areas. In urban areas, girls are shown to contribute largely to home chores, enabling beneficiary mothers to work longer hours, explaining the positive effect on hours worked for urban women. An additional explanation for this positive effect is that since the transfers take place once a month, mothers may decide to buy enough groceries for the whole month up front, freeing up additional time for work.

Foguel and de Barros (2010) study the impact of CCT receipt in Brazil between 2001 and 2005. During this period there were a number of different Brazilian CCTs in effect. They find an insignificant effect of CCT receipt on labour force participation of females. CCT receipt has a positive but small impact on labour force participation for males. Results show a small negative impact on female weekly hours worked and an insignificant impact on males' hours worked. They conclude that the Brazilian CCT programme does not affect the labour market statistically or in terms of magnitude for the participation and hours worked indicators.

Teixeira (2010) finds that *Bolsa Familia* receipt has no effect on the probability of working on average and induces only a marginal reduction in the hours worked of both males and females. Again, it is found that female housework activity increases upon programme receipt. Male reduction in hours worked translates directly into an increase in leisure time since they indicate no change in time dedicated to housework. This decrease is largest for unpaid and informal male workers. The lack of formal work response is explained by the fact that most formal work entails fixed working hours. Interestingly, self-employed male workers show no response to *Bolsa Familia* receipt, unlike informal male workers. This may be explained by the fact that part of the transfer is invested in self-run businesses to strengthen production. This increase in production therefore does not allow for a decrease in labour participation.

Uruguay

The Uruguayan *Ingreso Ciudadano* programme of 2005 provides a monetary benefit per household and acts as a temporary poverty reduction programme. Its target population is the lowest income quintile below the poverty line. Transfer receipt is conditional on regular school enrolment and health care status control of household children (Borraz and Gonzalez, 2009).

Borraz and González (2009) study the impact of this programme on child labour and labour supply in urban areas. Although they do not find a positive impact of the programme on school attendance, they find a reduction in the proportion of working female children in the capital city, Montevideo. Other than this, no impact on child labour is found. Borraz and Gonzalez propose that the programme may affect labour market outcomes through hours worked, the decision to participate and the number of informal workers. They predict that those individuals who wish to become eligible for the transfers may arrange with their employers to work “off the books”, lending the CCT to encourage an increase in informal employment. They find no effect of transfer receipt on overall labour market participation or informal sector participation. Regarding weekly hours worked, they find that receipt is associated with a significant decrease for both men and women, in areas outside of the capital city.

Chile

Chile implemented the *Chile Solidario* programme in 2002, targeted at those individuals living in extreme poverty, particularly women. It consists of three interventions: psychosocial support to families to assist programme accessibility, preferential access to social services offered by the state such as public health services and training programmes, and guaranteed access to subsidies offered by the state such as water subsidies and child support grants. Included in the CCT is a small cash grant provided directly to all beneficiaries (De la Guardia *et al*, 2011). Conditionality in the *Chile Solidario* relates to the contracts signed by households during the initial phase of the programme: households are expected to show signs of working on structural issues recognized by the family as problematic. The transfer is terminated if households cease their efforts in this regard (Galasso, 2006). This CCT is particularly interesting since the conditionality is self-defined by each participating household.

Galasso (2006) finds that while programme participation increases the likelihood of enrollment in programmes promoting employment, training and labour re-insertion, this does not translate into any positive labour supply gains.

De la Guardia *et al* (2011) find consistent positive labour market effects of the *Chile Solidario* CCT. In response to CCT receipt, the percentage and number of workers in the family increases significantly. Additionally, there is a clear pattern of employment of the head of the household, an important result for family wellbeing. They also find that receipt leads to consistent and large positive effects on the number of people in the household. A possible explanation includes in-migration of relatives who wish to gain from programme benefits, similarly to the effects of the South African SOAP.

Mexico

PROGRESA/*Oportunidades* is one of the earliest and largest CCT programmes in existence, providing a transfer equivalent to 40 per cent of the income of half the treatment households at its implementation in 1997 (Alzua *et al*, 2010). PROGRESA provides grants in the form of nutritional subsidies and scholarships for children attending school in order to improve education and health outcomes. The grants, paid only to females, are conditional on family clinic visits, women's participation in workshops on nutrition and health issues, as well as proof of sufficient school attendance for children in the household. Scholarship grant amounts are equivalent to two-thirds of the wage a child would earn if engaged in full-time employment (Angelucci and De Giorgi, 2009).

Skoufias and Di Maro (2008) and Parker and Skoufias (2000) find a very clear decrease in child labour as a result of PROGRESA participation. In the first subsequent survey round, there is an increase in the probability of adult participation in salaried employment and a decrease in the probability of non-salaried work. Thus families may initially use part of their grants to seek work in paid employment and reduce participation in less profitable enterprises. However, results show no long-term effect of treatment on the probability of labour market participation, irrespective of gender or age. This is likely due to the programme design, whereby benefits are received for three years regardless of whether recipients attempt to look for work. Parker and Skoufias claim there is some evidence that women in PROGRESA have higher demands on their time since they are more likely to report spending time engaging in community activities and taking household members to the clinic and school.

Alzua *et al* (2010) find no employment effect of PROGRESA or significant impact on hours worked. Additionally, the programme had no effect on labour allocation to agricultural or other sectors. While the average benefits are largest under PROGRESA, the lack of impact of the programme suggests that subsidy levels are not the main factor at work.

Behrman *et al* (2005) analyse the impact of PROGRESA on the labour supply of Mexican youth aged 15 to 21. In theory, the programme should decrease youth labour in the short-run if it persuades children to spend more time in school. However in the long-run, if programme participation assists study completion, youth may complete their schooling years early and progress into the labour force. Overall, they find negative long-run results of the CCT on labour market participation for boys (particularly for those having completed grade 7) and no effect for girls. More specifically, boys are less likely to participate in agricultural work upon PROGRESA receipt. This is explained by the theory that schooling produces higher returns in non-agricultural than in agricultural work.

Angelucci and De Giorigi (2009) evaluate the impact of PROGRESA on *non-eligible* household labour supply. They believe it is important to evaluate the spill-over effects of an intervention in communities where lack of formal markets and institutions create strong interactions between groups of households. In theory, they explain that PROGRESA may induce both the decrease in child labour and negative income effect discussed, which may result in an increase in the labour supply and earnings of non-poor *ineligible* households. However, they find no evidence of an increase in labour income by ineligibles, attributed to the fact that child labour is only a small fraction of household labour supply. Additionally, the programme income effect is small given the extreme poverty of the recipients and the limited duration of receipt guarantee. Thus the total reduction in beneficiaries' labour supply is not enough to induce behavioural changes in their neighbours.

Honduras

Honduras implemented the second-phase of the *Programa de Asignación Familiar* (PRAF II) in 2000, based on the Mexico's PROGRESA. The programme objective is to encourage the poor to invest in human capital through education and health, using a CCT. PRAF II provides two cash transfers to households: an education transfer conditional on child enrolment in school, and a health transfer conditional on young children and pregnant mothers regularly attending health care centres.

Alzua *et al* (2010) evaluate the effect of participation in this programme on employment and weekly hours worked. They find little evidence of any significant positive or negative labour market effect of the programme on the individual or household level. This is potentially attributed to the low levels of the PRAF monetary transfer.

Paraguay

Paraguay executed the CCT *Tekopora,* offering cash transfers to poor households with children, conditional on school attendance, clinic visits and immunization receipt. The transfer also includes a family support programme in order to enhance the productive potential of the household.

Soares *et al* (2008) investigate the impact of *Tekopora* participation on child labour and adult labour supply. They find the programme makes significant progress in keeping children in school, but is not particularly effective in keeping children out of work-related activities. They also find a negative impact of receipt on the labour supply of men who are working or looking for a job at the time of the survey. This is particularly pronounced for males in moderately poor and rural areas. However, no impact is found on the labour supply of the population at large or for females. Additionally, no impact on males is found when temporary workers who are seasonally unoccupied at the time of the survey are added into the sample of males. The explanation given is that temporary workers who work only seasonally might cease looking for casual work during their off-season due to transfer receipt.

Nicaragua

Half of Nicaragua's poorest areas were randomly assigned the *Red de Proteccion Social* (RPS) CCT programme in 2000. It includes a bimonthly food security transfer, conditional on attendance of bimonthly health educational workshops and scheduled health care appointments for young children. There is also a bimonthly transfer attached to school enrolment requirements on children under the age of 13 (Maluccio, 2007).

Maluccio and Flores (2005) estimate the impact of the RPS on the labour supply of adults (aged 15 and over) in the household. They find no labour force participation effect and no change in the probability of working. RPS receipt decreases hours worked for adult men, either due to increased leisure time or due to the new responsibilities associated with programme participation.

Alzua *et al* (2010) use the same years of data to estimate both individual and household level effects of RPS participation on employment and weekly hours worked. The individual results show insignificant effects on the relevant labour market indicators. At the household level, however, there is a consistent and highly significant negative effect of participation on weekly hours worked, driven by the fall in hours worked by adults in female headed households. The overall results indicate that programme effects tend to operate through hours worked as opposed to changes in participation.

Maluccio (2007) finds CCT receipt has a negative effect on home business activities such as producing and selling non-agricultural goods. He explains that the programme provides a disincentive to work in these areas, probably because they are marginal activities with low returns. He also finds a negative impact of programme participation on hours worked, driven predominantly by a decrease in participation in agricultural work by males. This may be attributed to the increase in food security supplied by RPS's 'food security transfer'. This is in direct contradiction to Alzua *et al* (2010) who find no reallocation between agriculture and other sectors.

In conclusion, CCT receipt acts in multiple directions on labour supply and no single result can be predicted. Most frequently, labour participation is unchanged in response to CCT receipt due to the fact that these programmes create no incentive to take-up employment. Changes in hours worked are more likely to be noted than changes in probability of participation. In general, hours worked change more significantly for females than males, since females are often burdened with meeting the programme conditions. Beneficiary workers are also less likely to participate in agricultural work due to reduced need to engage in activities catered toward food security. Recipients also prefer to use part of their grants to move from unpaid into paid employment and have been found to either decrease or leave unchanged informal work participation upon receipt. Self-employed individuals display no change in their labour supply since grants are likely used to invest further in the self-made business. Finally, although there is often a change in child labour in response to CCT receipt, this contributes such a small fraction to household labour supply that it is often not enough to induce a change in behavior of other household members or neighbouring ineligible households.

8. In-Kind Transfer

In-kind transfers are cash benefits conditional on the purchase and consumption of a specified commodity and are conceptually identical to CCTs. CCTs are cash benefits also conditional on consumption of a commodity (eg. vaccination or schooling), although the cash does not necessarily need to be spent directly on this commodity. In fact, many CCTs include the provision of in-kind transfers in the form of vouchers or subsidies, in addition to pure cash transfers. Thus the economics of in-kind transfers and CCTs are similar.

In-kind transfers provide specific quantities of goods and services, thereby restricting the expenditure patterns of welfare recipients. The transfer might be the provision of a service (eg. healthcare), or an allowance of a good (eg. food stamps). Neither the right to the transfer nor the transfer itself is allowed to be resold by the recipient.

Consumer subsidies can have significant impact on the labour supply. Under the assumption of household utility maximization between labour and leisure, a change in the relative price of commodities due to a voucher or subsidy will affect labour allocation and commodity purchase choice (Sahn and Alderman, 1996).

There is no clear answer as to whether in-kind transfers are preferable to cash transfers. In-kind transfers, such as food subsidies or educational vouchers, are a more politically palatable form of re-distributing public spending toward the poor. Additionally, these transfers promote spending on commodities believed to have long-term investment properties (Skoufias *et al*, 2008). In-kind transfers are advantageous due to their horizontally effective self-selection property: the poor will opt-in for these transfers while the wealthy will not (Standing, 2008). Cash transfers also run the risk of being directed toward consumption of less desirable goods such as alcohol and tobacco. However, in-kind transfers are not without their disadvantages. For example in times of famine, cash may be preferable to in-kind food-aid since the distribution of cash allows the market to deliver food effectively to the needy in response to price , while in-kind transfers may create distortions in the market (Case and Deaton, 1998). Cash transfers are also said to be administered more effectively than their in-kind counterparts. Finally, it is paternalistic to assume that the poor are unable to make sound purchasing choices given the freedom to choose for themselves (Standing, 2008).

Sahn and Alderman (1996) study how food-related income transfers affect the labour supply in Sri Lanka. More specifically, they discuss the impact of access to a subsidized rice ration on the labour market behaviour of men and women in rural and urban areas. The objective of the programme is to provide access of this food subsidy to low-income households categorised by a means-test. The rice subsidy leads to a statistically significant decrease in the labour participation of women (although very small in magnitude) but has no effect for men.

Borjas (2003) studies the impact of a 1996 reform in the welfare provided to immigrants living in the U.S. The reform denied immigrants much state-provided social assistance, such as free health insurance coverage under the Medicaid programme. Since the reform reduces immigrant participation in US welfare programmes, it seems reasonable to assume an increase in the size of the *uninsured* immigrant population. However, this expected increase does not occur since immigrants respond to the reform by increasing their labour supply to raise the probability of coverage from employer-sponsored health insurance. This response is large enough to completely eliminate the impact of the Medicaid cutbacks.

Skoufias *et al* (2008) evaluate the impact of the Mexican Food Support Program (PAL) on those poor and rural communities not covered by PROGRESA. In particular, they compare the impact of in-kind versus cash transfers on labour supply. Treatment households received one of three transfers: an unconditional monthly food basket, a food basket with the condition of attendance at nutrition-related educational sessions, or the cash value of the food basket with this same condition attached. They find no impact on overall labour participation irrespective of transfer type. Regarding the allocation between agricultural and non-agricultural labour supply, they find that the transfers increase the likelihood of adult males working in non-agricultural labour market segments. This is consistent with the findings surrounding cash-based CCTs.

Gahvari (1994) shows that labour supply is higher under an in-kind transfer programme compared with a pure cash transfer of equal net cost if in-kind transfers and leisure are Hicks substitutes, leisure is a normal good, and in-kind transfers are over-provided. If the in-kind good is over-provided, it induces the individual to consume more of the good than the amount they would have chosen under a cash transfer (Skoufias *et al*, 2008). Since the over-provided good is less valuable to the beneficiary, they have less incentive to apply for the benefits than in the instance of a cash transfer and therefore increase their labour supply (Leonesio, 1988).

In conclusion, in-kind transfers invoke similar behaviour in recipients to CCTs. These transfers are again more likely to impact hours worked than labour participation. Labour participation is generally unresponsive to in-kind transfer receipt. In a comparison of in-kind and cash transfers, no difference in effect is found upon the provision of either good, unless the in-kind good is overprovided in which case labour supply increases. Additionally, individuals are induced to move from agricultural work to non-agricultural work when food in-kind transfers are provided.

9. Conclusion

Social assistance can be utilised as an effective tool for poverty alleviation. However, policy makers wish to reduce poverty without creating dependency of individuals on state benefits. The challenge of cash transfer provision is that when transfers cease, households easily return to poverty. Therefore, it is highly desirable that cash transfers stimulate job search and finance fixed costs to enable entry into the labour market. This transforms the cash transfer programme from a short-term support programme into a long-term transition into self-sufficiency, thus allowing individuals to break free from the transfer of intergenerational poverty (Ferro and Nicollela, 2007).

This paper serves to show that the one-dimensional assumption that cash transfers encourage dependency is inaccurate and short-sighted. In reality, cash transfers often exhibit a positive or negligible impact on the labour supply of recipients. Where negative effects are noted, the income effect is only one possible explanation. The most commonly found evidence of a negative labour supply effect is that workers sometimes attempt to gain eligibility for a means-tested grant by reducing their hours worked and wage income received. However, a number of other mechanisms are suggested by the literature. A working mother may wish to improve the quality of childcare provided by reducing her hours worked and spending more personal time with her child. Workers may be required to meet the needs of the elderly in the household, which increase with age. Poor labour market conditions can discourage individuals with low earning potential from participation. Finally, individuals in the household may find themselves with less time for work in attempting to meet all the conditions attached to CCTs.

There are a number of other key results to be drawn from papers reviewed above. Firstly, it is important to be cognisant of the main characteristics of grant recipients. Transfer beneficiaries are often members of large households, containing both children and grandparents simultaneously. Recipients are poor enough to pass a means-test, and as such are often working in low-income jobs or are unemployed. Consequently, recipients have a generally low level of education and a poor skill set, thus exhibiting low earning potential in the labour market. Other recipients with low earning potential include the disabled who face difficult labour market conditions, and the elderly who become increasingly less able to perform in their jobs. This does not mean that employment is not important but it does caution that the income support that this employment brings might not be sufficient to lift the household onto a more positive trajectory. There is a need for realism as to the magnitude of the second round effects that should be expected from grants. Also, while a large stark wage-assistance differential is virtuous in disincentivising means-test induced reductions in labour supply, with unskilled labour, the lack of such a differential is not necessarily a sign of grants being too high.

Grants are particularly useful to those individuals suffering from credit constraints. These include single mothers, women, the disabled, uneducated and unskilled individuals, as well as the youth. These grants contribute to covering the fixed costs associated with employment, allowing for an increase in labour supply. However, these are also the individuals who face difficult labour market conditions and are the most susceptible to discouragement, creating a potential decrease in labour market participation upon grant receipt. It appears that the size of the grant will play a significant role in this regard. If the grant is large enough, it may enable these discouraged individuals to migrate to an alternative labour market with better conditions. However, if the grant is too small to underwrite this migration then these individuals are forced to remain in the poor labour market with no obvious self-employment or formal employment options. At the same time, they may be joined in their households by other unemployed individuals who are also stuck in this poor market.

Although individuals may not respond to cash transfer receipt by changing their labour participation, these grants do induce individuals to make changes to their behaviour. For example, instead of altering their labour supply, mothers frequently respond to the CSG by improving childcare type and quality. This is explained by the fact that mothers generally use the CSG for the direct benefit of the child. In another example, workers are shown to respond to the CCT by moving from informal, unpaid, agricultural work to formal, paid, non-agricultural employment. This is because individuals no longer have to prioritise work, ensuring food security since food packages are often provided through the CCT.

There is evidence in the literature on social grants that households tend to pool their income into one common family resource. This occurs particularly when women are the grant recipients, as they tend to allocate these transfers to the most vulnerable and needy in the family, such as children. This behaviour is desirable since there is likely to be investment in human capital development and healthcare for the family. However, it is also noted that males are able to dominate household resources, and therefore much of the noted decrease in adult male labour supply upon grant receipt is attributable to the negative income effect.

Grants can have a particularly large impact on females in the household as they frequently assume the role of the caregiver and child raiser. Child support grants are directed at mothers to assist in higher quality childcare provision. Since these grants are not specified to be directly spent on the child, a mother may use this cash to cover household credit constraints, enabling her to enter the workforce. However, it is found that many mothers do use this transfer directly for the child’s benefit, by enrolling the child in daycare or school. This may also free up additional time for the mother to work. Upon pension receipt, adult women are often more likely to become migrant labourers than males. This is because the pension allows grandparents to assume the role of childcarer, freeing mothers to search for work elsewhere. Additionally, the many conditions associated with CCT receipt often induces a decrease in female labour supply. This is because it is predominantly females in the household that increase their time spent on domestic tasks to qualify for the CCT benefit, such as transporting children to and from school and the clinic. Finally, since women have historically high unemployment and discouragement rates, females are more susceptible to the disincentive effects that these transfers can produce on the labour supply.

Cash transfers can also have very particular impacts on rural labourers as opposed to urban workers. Cash transfers enable migration from rural areas, where labour market conditions may be poor, into urban areas in search of work. It is also claimed that since many pension-receiving households are rurally based, the in-migration of dependents into these household may cause rural unemployment rates to inflate. While this simply reflects the location decision of the unemployed, it may be misconstrued as a reflection of poor rural market labour conditions. Additionally, farming practises in rural areas are often risky and insurance markets can be incomplete. As a result, cash transfers tend to act as insurance for the future instead of providing present income replacement, therefore inducing no change in immediate labour supply. CCT receipt is shown to induce a larger decrease in rural female hours worked than for urban females, since rural females who concern themselves with childcare are often required to travel further with their children to school, using poorer transportation than in urban areas. Additionally, rural children are shown to contribute less to household chores than urban children, requiring a larger devotion of rural adult women’s time to domestic chores.

Household composition frequently changes in response to transfer receipt, through labour out-migration as well as household in-migration. The exclusion of non-household members in study samples therefore often either understates or overstates the impact of the grant on household labour supply. If cash receipt provides the finance to support labour migration, exclusion of these migrants from the study will result in an understatement of the change in labour supply. If cash receipt induces unemployed distant relatives to select into pension households to live off the pension, the negative impact on household labour supply will be overstated if new household members are not distinguished from original household members. These two forces of in-migration and out-migration may also act together to reflect a negligible change in household labour supply.

The second-round impacts of cash transfers on the labour supply have also been briefly discussed in this paper. Since transfer receipt often induces a change in the labour participation of recipients, it is interesting to explore how this change thereafter impacts on non-recipients. This is also referred to as the spill-over effects or externalities of grant provision. It is noted that when recipients decrease their labour supply, a new set of job vacancies becomes available to non-recipients. If non-recipients respond by filling these positions (assuming a substitutable skill-set), then the *net* change in labour supply as a result of grant provision is negligible. However, employers may also respond to a decrease in labour supply by raising the wage of the remaining employees, although no evidence of this has been sourced. Regarding means-tested cash transfers, non-recipients may decrease their labour supply in order to qualify for the grant. This occurs in the presence of a small wage-assistance differential, where wages are not high enough compared to potential state assistance to sustain labour market participation. It is also suspected that CCT receipt may induce a reduction in child labour from the recipient household, causing neighbouring non-recipients to increase their labour supply. However, since child labour is only a small fraction of household labour supply, no effect on non-recipient labour supply behaviour has been recorded.

Finally, some of the cash transfer income coming into households is utilised for investment in household human capital. With CCTs and in-kind transfers this is forced or directed but these positive effects are measured even in the case of South Africa's unconditional cash transfers. CCTs and in-kind transfers do dampen the possibility of switching out of these outcomes such as education and health based on short-term needs.

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southern africa labour and development research unit

The Southern Africa Labour and Development Research Unit (SALDRU) conducts research directed at improving the well-being of South Africa's poor. It was established in 1975. Over the next two decades the unit's research played a central role in documenting the human costs of apartheid. Key projects from this period included the Farm Labour Conference (1976), the Economics of Health Care Conference (1978), and the Second Carnegie Enquiry into Poverty and Development in South Africa (1983-86). At the urging of the African National Congress, from 1992-1994 SALDRU and the World Bank coordinated the Project for Statistics on Living Standards and Development (PSLSD). This project provide baseline data for the implementation of post-apartheid socio-economic policies through South Africa's first non-racial national sample survey.

In the post-apartheid period, SALDRU has continued to gather data and conduct research directed at informing and assessing anti-poverty policy. In line with its historical contribution, SALDRU's researchers continue to conduct research detailing changing patterns of well-being in South Africa and assessing the impact of government policy on the poor. Current research work falls into the following research themes: post-apartheid poverty; employment and migration dynamics; family support structures in an era of rapid social change; public works and public infrastructure programmes, financial strategies of the poor; common property resources and the poor. Key survey projects include the Langeberg Integrated Family Survey (1999), the Khayelitsha/Mitchell's Plain Survey (2000), the ongoing Cape Area Panel Study (2001-) and the Financial Diaries Project.

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