Putting children first? Tax and transfer policy and support for children in South Africa

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Abstract

This thesis considers the extent to which tax and transfer policies in South Africa support children between 2000 and 2008. The analyses are carried out using a four-dimensional analytical framework which separates the dimensions of welfare ideology, policy aims, policy instruments and welfare outcomes. This approach is adopted in recognition of the fact that the extent to which tax and transfer policies support children is seen to vary according to the dimension of analysis.

The analysis of welfare ideology, policy aims and policy instruments is undertaken by considering key legislative texts, including the Bill of Rights in the South African Constitution, budget speeches and policy documents. Welfare outcomes are analysed at the individual and household level using microsimulation modelling. A microsimulation model for South Africa, SAMOD, is developed specifically for these analyses.

The findings of this thesis add conceptual and empirical understanding to the impact of tax and transfer policies on children. Children are found to be supported by policy to some extent, and have been prioritised in reforms to social assistance. However, recent reforms to tax policy have not benefited children and the analyses indicate that child poverty rates in South Africa could be lower than they are at present had the government pursued alternative policy reforms.

The construction of the microsimulation model SAMOD is a valuable tool to facilitate future policy evaluation in South Africa. Further development of SAMOD is recommended to continue to progress and enhance debates on policy reforms. In addition,

this thesis highlights some key areas for future research including developing further understanding of the patterns of inter and intra-household income allocation and the impact that this may have on poverty measures for different groups.

Chapter 1 – Children and tax and transfer policy

1.1 Introduction

1.1.1 The links between children and tax and transfer policy

This research evaluates tax and transfer policies in South Africa and the extent to which these policies provide support to children. Tax and transfer policies have a direct impact on household incomes: in most countries in the world most households pay taxation in some form, either through consumption taxes or direct taxes on income. Similarly, in many countries additional support is provided to households in the form of cash benefits. The incidence and configuration of tax and transfer policies displays huge variations across the world but in all cases the policies that governments chose, or chose not, to adopt has an impact on the distribution of income and the resources available to individuals (Glennerster, 2006). As tax and transfer policy has an impact on the income available to households it must therefore also impact upon individuals, and this includes children.

Analysing the incidence of tax and transfer policy on households and individuals is a complex and daunting task which involves making decisions about which types of policies should be considered as well as how their incidence should be measured. Contained within this type of evaluation are additional considerations around the objectives of tax and transfer policy. For example, there is often an interest in considering the incidence of tax and transfer policy across the income distribution or for the elderly as

opposed to those of working age. Thus any evaluation must attempt to define both the scope of the analysis and the area of policy concern. This study focuses upon the extent to which tax and transfer policy supports children in South Africa. This study therefore covers policies which have a direct impact on household incomes and the focus is specifically on children. These two areas are of interest for a number of reasons which are summarised below and will be elaborated on in more detail in further sections of this chapter.

The focus on children derives from a growing level of support for the view that experiences in childhood, more so than at any other age, are influential in determining outcomes in adulthood (Esping-Andersen, 2002). Investment in children is considered to be a crucial factor in determining the well-being of future societies, or, as Bradbury *et al.* claim: "[C]hildren represent a country's future, an obvious reason for societal concern with child well-being" (Bradbury *et al.*, 2001:1). As well as concern for future outcomes, authors such as Lister (2006a) have also stressed the importance of improving child well-being in the present, rather than simply focussing on creating productive adults for the future.

If interventions in childhood are believed to be important in determining adult outcomes, what role then do taxes and transfers have to play? Lewis (2006) argues that the historic view of children is as a private resource that belongs to the family. However, the growing view that investment in children equates to investment in society as a whole suggests a role for governments to intervene within this private sphere. This investment in children can occur in many ways, for example, through investment in services such as health, education and the provision of childcare. However, one important factor is income.

Esping-Andersen argues that "adequate income maintenance is a first precondition for either preventative or remedial longer term strategies" (Esping-Andersen, 2002:66), suggesting that complementary interventions, such as investment in services, must be supported by appropriate income maintenance policies. Indeed the importance of such policies is, to some extent, evidenced by their widespread usage. In a review of the child benefit packages in 15 countries in 2004, Bradshaw (2006) finds that all industrialised countries have a package of policies including taxes, cash benefits and subsidies which assist parents with the costs of raising children. Thus, whilst it is not the intention to suggest that only tax and transfer policies are important in shaping child outcomes, they clearly have a key role to play.

Finally, it is important to justify the relevance of exploring the extent to which tax and transfer policies support children in South Africa in particular. Whilst the arguments setting out the logic behind an evaluation of tax and transfer policy and its impact on children are general in nature, it is also true that governments choosing to make extensive use of such instruments to support children and households containing children are more often found amongst the industrialised nations and less so in the developing world. South Africa is a middle-income country and although it has high rates of child poverty by international standards it does have some mechanisms in place to support households containing children. South Africa has also made explicit commitments to supporting children's rights within its constitution and this has direct implications for the provision of income protection through tax and transfer policy. Whilst the strength of these commitments to affect real change can be questioned (and indeed forms an extensive part of the discussion in this thesis), it has been argued that the government has already made progress in improving the situation of children (Dawes *et al.*, 2007) and the program of

support for children implemented in South Africa could be considered exemplary in relation to other countries with a similar level of development. However, the government has also been criticised for not living up to the commitments made to children and failing to prioritise children in policy reforms (Berry and Guthrie, 2003; Casseim and Streak, 2002; Goldblatt and Liebenberg, 2004; Guthrie, 2002; Leatt *et al.*, 2005; Liebenberg, 2001; Rosa and Mpokotho, 2004; Seekings, 2002; Sloth-Nielsen, 2001; Streak, 2000; Streak and Wehner, 2004; Triegaardt, 2005b; van Rensburg, 2005). Thus, South Africa provides a valuable case study given that child outcomes are, by international standards, an area of concern, but children are given prominence in policy debates. This research presents an opportunity to explore recent reforms to tax and transfer policy and the extent to which they have supported children in a context where children are high on the policy agenda. Focussing on a single country (as opposed to a comparative approach which has been used in many previous studies into children and tax and transfer policy, for example in Bradshaw (2006) and Corak *et al.* (2005) allows an in-depth exploration of the evolution of policies as well as a detailed evaluation of incidence and impact on household incomes. Thus, whilst the findings from this thesis are of particular relevance to policy debates in South Africa, they can also contribute to wider discussions around what is meant by support for children and how it can be measured in relation to taxes and transfers.

In summary, the rationale for focussing this research on the extent to which taxes and transfers support children in South Africa arises from a growing trend globally towards the view that governments should intervene in what was previously considered the private domain of family life to improve outcomes for children for the wider societal good. Taxes and transfers are acknowledged to be a key part of such an intervention. The focus on

South Africa in this research provides an interesting case study of a middle-income country where child poverty is high yet children are also high on the policy agenda. As a country that is in the process of developing a package of support for children, South Africa presents a valuable opportunity to study the development of tax and transfer policy and its impact on children.

1.1.2 Research questions and outline of the thesis

The main research question of the thesis is: to what extent do taxes and transfers in South Africa support children? In answering this question other related sub-questions must also be considered. These are as follows:

- how can the extent to which tax and transfer policy supports children be measured?
- how does support for children compare to the level of support provided to other age groups?
- how has the level of support for children changed over time? and,
- to what extent could the South African government do more to provide support to children?

This thesis has eight chapters within which these research questions are considered. The remainder of this chapter discusses the rationale behind the use of tax and transfer policy to support children and the various policy approaches that have been employed to do this. The chapter draws on literature from the developed and developing world – noting how these differ – and makes particular reference to the policy debates around support for children in South Africa. This chapter also presents information on the situation of children in South Africa, including child poverty rates and other child indicators, and how

these are changing over time. This background information is intended to contextualise the policy debates and policy approaches towards children in South Africa.

The second chapter of the thesis focuses on what is meant by 'support for children' in relation to tax and transfer policy. The chapter considers how support can be measured; for example, the chapter considers whether this relates to expenditure on children, or the types of policy instruments that are employed, or to the underlying policy ideology. The issue of attempting to measure support for children has close parallels with previous research carried out in relation to the methods and measures used to compare welfare states. This literature is used to consider various methodological approaches suitable for evaluating the extent to which children are supported by tax and transfer policies. The review of the literature highlights four distinct dimensions worthy of consideration including policy ideology, policy aims, policy instruments and the ultimate impact of policies on household income (policy outcomes). This finding suggests that an appropriate analytical framework for the thesis should consider each of these factors in turn in order to undertake a comprehensive analysis of the extent to which tax and transfer policy supports children and is used to structure the analyses in Chapters 3 to 6.

Chapter 3 looks at the more qualitative features of policy and analyses the extent to which these have acted to support children in South Africa in recent years. Guided by the analytical framework developed in Chapter 2, the chapter is structured into three sections which consider, in turn, policy ideology, policy aims and policy instruments. This chapter provides the policy context and ideological approach to the use of tax and transfer policy to support children in South Africa. Chapters 5 to 7 then build on this work to focus on the impact of policies on household incomes.

The methodology used to quantify the impact of tax and transfer policy on household incomes is described in Chapter 4. The method used to carry out the analyses described in Chapters 5 to 7 is microsimulation modelling. Microsimulation is a technique that takes data on micro-units, in this case individuals in households in South Africa, and employs a set of policy rules to calculate the incidence of taxes and transfers. Microsimulation is a powerful technique which is able to show the impact that each policy has on different age groups and across the income distribution, it is therefore well placed to examine the extent to which tax and transfer policy supports children compared to the support provided to other age groups and to assess how support for children varies according to other factors such as the type of household that a child lives in. Part of the work undertaken for this thesis involved the construction of a microsimulation model to carry out the analyses. Chapter 4 describes the construction of this microsimulation model and the preparation of a suitable dataset to carry out the quantitative analyses in the thesis.

The focus of Chapters 5 and 6 is on the impact of policies on household incomes. The first of the empirical chapters, Chapter 5, considers tax and transfer policies in South Africa in 2008 including the initial endowment of income amongst households and how the tax and transfer system acts to modify this initial endowment. In particular the chapter focuses on the incidence of taxes and transfers across different age groups and for children in different types of households.

Chapter 6 moves on to consider how the extent to which tax and transfer policy supports children has changed over time. The analytical framework developed in Chapter 2 highlights the importance of considering not only the current incidence of taxes and transfers but also how this has changed over time. It is necessary to understand if taxes

and transfers have become more or less supportive of children in recent years and to explore the direction of tax and transfer policy in relation to children. Chapter 6 compares tax and transfer policies from 2000, 2004 and 2008 to address this issue.

Chapters 5 and 6 look at real policy reforms occurring between 2000 and 2008. However, in determining the extent to which tax and transfer policy supports children it is also valuable to consider what the government could do (or could have done) as well as looking at actual policy trajectories. Microsimulation allows the incidence of actual and hypothetical policies to be tested and this is explored further in Chapter 7. Chapter 7 considers a number of different policy reforms proposed in South Africa and examines the potential of each to support children and the extent to which each reform is affordable.

Finally, Chapter 8 draws together the findings from the analysis of policy ideology, policy aims, policy instruments and the impact of policies on household incomes and discusses the findings in relation to addressing the research questions listed above. As discussed earlier, the conclusions from this thesis are clearly of particular relevance to policy debates in South Africa, but the methodological approach also has wider relevance to policy evaluation more generally, and within specific areas of research, for example in comparative welfare state research.

The research in this thesis builds upon existing analyses which focus on the impact of government policy (generally social assistance programmes) on poverty and the impact of specific policies on redistribution. For example, Samson *et al.* (2004) examined the reduction in the poverty headcount and poverty gap achieved by social transfers; Woolard *et al.* (2005) investigated the redistributive effects of direct and indirect taxation and, in a

separate analysis, the redistributive effects of social transfers (Woolard, 2003). Haarman (2000) focussed on the impact of social transfers on child poverty and the options available for extending the social security net through increased taxation. Consideration has also been given to the possible macroeconomic effects of social transfers. Adelzadeh (2007) uses a dynamic microsimulation model to examine policy choices for halving unemployment and poverty in South Africa in the next 10 years. Thurlow (2002), and Pauw and Mncube (2007) consider the affordability and sustainability of South Africa's social security system over the long term and Woolard (2003) and Samson *et al.* (2004) examine the potential positive and negative macro-economic effects resulting from social assistance grants.

None of these previous studies has focussed specifically on children and those which have considered children, for example by analysing the impact of social assistance on child poverty, have not also sought to compare the impact on children with that on other groups and across the income distribution. The present research is therefore unique in its comprehensive treatment of the impact of taxes and transfers on children in South Africa whilst also making comparisons with the position of other age groups and over time. The construction of a microsimulation model to measure the impact of taxes and transfers in South Africa is not new; however, the model constructed as part of the work undertaken for this thesis is the first South African microsimulation model that can be used to simulate both current and a vast range of hypothetical tax and transfer policy reforms. This model therefore also represents a significant contribution to policy evaluation in South Africa.

1.2 Supporting children through tax and transfer systems

Tax and transfer policy has an impact on household incomes and therefore also has an ability to impact on the resources available to individuals, including children. Thus, policy decisions made by governments are crucial in determining the income available to households containing children. However, income is not an end in itself. Although Esping-Andersen (2002) considers income to be a prerequisite to enable other types of support to be effective, the link between household income and child outcomes requires some further elaboration. In brief, it is worth considering the question – why should governments invest in children? Further, it is also valuable to ask: in what form should this investment take place?

1.2.1 Why should governments invest in children?

A number of different arguments have been put forward to lend support to the view that governments should support children. Firstly, it is suggested that it is more cost efficient to invest in improving child well-being rather than having to pay for the consequences of a less than adequate upbringing which could include access to lower quality employment opportunities, poorer health outcomes, a greater risk of engaging in anti-social behaviour, and a strong likelihood of being unable to provide better opportunities to the next generation (Adam and Brewer, 2004; Banks and Brewer, 2002; Bennett, 2006; Blow *et al.*, 2005; Bray, 2003; Brooks-Gunn *et al.*, 1997; Duncan and Brooks-Gunn, 2000; Gershoff *et al.*, 2007; Hirsch, 2005, 2006; Irwin *et al.*, 2007; Mayer, 2002; Morris and Gennetian, 2003; OECD, 2009; Ridge, 2005; Yaqub, 2002). The links between investing in children and outcomes later in life have been studied at many different levels. In the

industrialised world the debates are more focussed on the extent to which policy can allow children to fulfil their potential, for example, this may include providing children with sufficient skills and education to operate successfully in today's economy (Esping-Andersen, 2002) or providing families with sufficient income to be able to devote adequate time and resources to raising children. There is also a growing body of research that lends to support to the theory that investment in children can have positive impacts over the short and long term. For example Mayer (2002) finds a small positive association between parental income and children's cognitive ability, future wage earning prospects and mental health. Morris and Gennetian (2003) find that children who grow up in poor families are less likely to succeed educationally and are more likely to exhibit anti-social behaviour in later life. They conclude that investment in supporting low-income families is likely to have positive benefits to the whole of society.

In the developing world discussions around improving child outcomes through policy interventions operate, to some extent, at a rather different level. Here there is the pressing issue of extreme poverty. For example, policy debates may consider how to provide families with sufficient income such that children can avoid malnutrition and access primary health care. Although the policy aims are different, the idea that investment in children is beneficial for society as a whole remains (UNICEF, 2000). Other issues such as the impact of HIV/AIDS are considerably more of a concern in the developing world. For example, Bray (2003) reviews the social consequences of the high numbers of HIV/AIDS orphans in South Africa. She finds that most evidence suggests that these children are likely to encounter multiple levels of economic and social disadvantage across their lifetimes.

Thus disadvantage in childhood has been linked to undesirable and costly social outcomes. There is also evidence that investment in policies to support children, through service provision and cash transfers, is able to have a favorable effect on child outcomes. For example Mehrotra (2004) finds that developing countries that invest more in policies which support children, rather than relying on market mechanisms, see an improvement in health and education outcomes. Likewise, Marcus (2004) finds that cash transfers to families are effective at improving school attendance and reducing child illness and malnutrition and there is also an increasingly broad evidence base from South Africa linking measures to support children with improvements in child-outcomes (Aguero *et al.*, 2005, 2006; Goldblatt, 2004; Hunter and Adato, 2007; Williams, 2007).

The examples cited above all provide support to the argument that investment in children whilst they are still children is more cost effective than paying for the consequences of failing to make such investments at a later stage. However, this is only one strand of the arguments put forward as to why governments should support children. Another key factor relates not to arguments about efficiency but to the issue of equity. Children are argued to be a public good (Adam and Brewer, 2004). They are necessary for the continuation of societies, as without children there would be no workers of the future to support the current workforce in their old age. Children are also costly, so an equitable society should provide compensation to those who, by having children, contribute to the wider good of society (Adam and Brewer, 2004; Folbre, 1994; Hirsch, 2005; Matsaganis *et al.*, 2004; Ridge, 2003). Of course, not all agree with this view and in some countries (for example Italy) the choice to have children is viewed mainly as a private decision for which the family rather than the state should bear the cost and the responsibility (Lynch, 2006). Indeed, the question of the extent to which children are a private (i.e. parental) or

public (i.e. state and societal) responsibility is a source of continual debate and has links with wider discussions around children's rights and responsibilities.

A further justification for providing support for children arises from arguments that children have a right to a certain standard of living. This relates back to notion that children are 'beings' as well as 'becomings' and have an entitlement to have their needs taken into consideration in the present rather than simply as adults of the future (Lister, 2006). The United Nations Convention on the Rights of the Child states that children have a right to a "standard of living adequate for the child's physical, mental, spiritual, moral and social development" (UNICEF, 1990:Article 27). Bennett (2006) claims that although this condition does not make explicit the distinct roles of the state and the family in upholding children's rights, it does imply that the state has a role to play in satisfying a wider societal goal. This may be especially true in cases when parents are unable to provide children with an adequate standard of living themselves. Gordon *et al.* argue that the existence of child poverty amounts to an infringement of children's rights: "[I]n recent years, UNICEF reports, such as The State of the World's Children 2000, continue to emphasise the grim truth that poverty denies the most basic rights of women and children – as set out in the Universal Declaration on Human Rights and, more elaborately, in the UN Convention on the Rights of the Child. Poverty damages survival and development. It can cause disability and early death. It can delay or even permanently obstruct children's inclusion and participation in society" (Gordon *et al.*, 2006:2). The fact that child rights are enshrined in international law – the United Nations Convention on the Rights of the Child has been ratified by around 200 countries – does not mean that children's rights will automatically be fulfilled. There are a number of issues related to the measurement and monitoring of the extent to which children's rights are upheld (Eekelaar, 1992; King,

1997; Olsen, 1992). Even in cases where there is a clear infringement of the rights of children as set out in the Convention on the Rights of a Child, it is generally difficult to enforce change. However, the Convention does provide a standard to which governments can be held accountable and lends impetus to calls for increased support for children, particularly in countries where child poverty remains a major issue. In South Africa the idea that children have certain rights has been key in shaping legislation and policy (Dawes *et al.*, 2007) and is thus an important factor in considering the extent to which policy supports children. The relationship between how children's rights are viewed in South Africa and the development of policy is a key part of this thesis and is discussed at length in Chapter 3.

The discussion so far has considered arguments for providing support to children on the grounds of efficiency, equity and from a rights perspective. However, there may also be more pragmatic arguments for investing in children. Most industrialized societies face the problem of an ageing society and declining birth rates. These factors, coupled with demographic trends towards dual-earner families and an increased number of single parent families, provide incentives to invest in strategies to encourage fertility (Esping-Andersen, 2002; Lewis, 2006). The same demographic imperatives are not applicable in the developing world where children typically form a much larger proportion of the total population. However, whilst encouraging fertility is typically not an aim in developing countries, the fact that large numbers of children live in poverty is itself an argument for investing in children (following the 'efficiency' arguments discussed earlier) as a failure to do so will have an impact upon a large proportion of the future labour force (Barrientos and DeJong, 2004; UNICEF, 2001).

1.2.2 How should governments support children?

The numerous and often contested justifications for supporting children give rise to an equally numerous array of policies used to support children throughout the world (African Child Policy Forum, 2008; Bradshaw, 2006; Bradshaw and Finch, 2002; Corak *et al.*, 2005; Esser *et al.*, 2007; Social Security Administration, 2009). As well as variation in the types of programs employed, governments also spend varying amounts on programs to support children. In fact, decisions regarding the types of programs to use and how much to spend are dependent not only upon the strength of the arguments for supporting children and the resources available, but also on the extent to which other groups are considered to need support. The fact that spending on social programs tends to be directed towards certain age groups has been referred to by Lynch (2006) as the 'age-orientation' of the welfare state. Lynch claims that "[W]elfare states work better for some age groups than for others. Social programs in the United States and Italy, for example, do little to raise children out of poverty, but elderly citizens are made better off by the substantial benefits available to them. In other countries, such as Norway and Portugal, senior citizens' incomes on average are lower than in the United States or Italy, but low-income workers, families with children, and the long-term unemployed receive significant support from the welfare state. Across the industrialised countries, social programs such as public pensions, family allowances and benefits for the unemployed vary significantly, with consequences for the well-being of different age groups in the population" (Lynch, 2006:1).

Clearly, governments differ in their views as to the level of support that should be provided to children and the policy instruments that should be employed to support

children. Bennett (2006) also recognises these differences but goes on to suggest that there is a certain degree of convergence (at least in industrialised countries) towards the view that children are important and should be supported by government policy, although the speed of progress and the strategies employed differ considerably. Related to this is a growing orientation towards what is termed the 'social investment' welfare state. Anthony Giddens first coined the term which embodies the idea that a welfare state should focus on investing in human capital rather than its traditional role of providing economic security (Lister, 2006a). The social investment welfare state is not necessarily child-focussed; however, it is of particular relevance to children as they are often best-placed to benefit from investments in human capital and the long-term impacts of failing to make such investments are perhaps the hardest to rectify (Lewis, 2006). The idea of the state as promoting development, economic growth and capacity building is equally applicable in developed and developing countries, with many authors arguing that investments in human capital are key to achieving economic growth and reducing poverty in the developing world (Adesina, 2007; Mehrotra, 1997, 2004; Mehrotra and Delamonica, 2007; Mkandawire, 2004b; Waddington, 2004).

Having considered the various justifications put forward for supporting children in the developing and developed world it is worth also considering in what form support for children might occur. The discussion focuses here on the types of programs of support that have been used rather than the level of support. Both factors are important and much of the empirical work in chapters five, six and seven considers the level of support provided to children in South Africa in some detail. However, from a comparative perspective it is problematic to compare differences in the level of support provided to children in different countries. Firstly, because differences in external factors such as

employment rates and the cost of living affect child outcomes but are not directly related to government programs and secondly because it is often difficult to define exactly which programs are targeted at children and which are not. For example, Corak *et al*. (2005) consider the impact of tax and transfer systems on children in the European Union and find that it is very difficult to compare the extent to which resources are directed towards children due to the variety of different programs employed, the mixture of cash and in-kind benefits and the fact that children often benefit from programs that are not specifically targeted towards them. One approach taken by Corak *et al.* is to consider child poverty rates post taxes and post transfers. Doing this they find that countries which have high levels of benefits generally tend to have low rates of child poverty but that these benefits are often not directed towards children. Bradshaw (2006) also finds from a sample of 15 industrialised countries that there is no direct relationship between the child poverty rate and the generosity of the child benefit package.

Despite the obvious difficulties in comparing programs of child support it is still helpful to give a brief outline of the types of tax and transfer programs used and, in particular, to highlight some of the differences between approaches in the developed and the developing world. Bradshaw (2006) lists the policies that are considered within his analyses to be part of the package of support for children. These include tax benefits (i.e. reductions in tax liability), means tested and non means tested cash benefits, social insurance contributions, housing benefits, local taxes and benefits, subsidies for childcare, social assistance and other forms of targeted child support (for example to meet educational costs). Each type of program can be found in at least some industrialised countries and many of them are also found in the developing world. The forms of support typically used within the developing world do match some of those listed above; in

particular, means tested cash benefits and social insurance. Other programs, which tend to be less common in industrialised countries, include conditional cash transfers (programs in which receipt of the benefit is dependent upon fulfilling additional conditions, for example, that a child attends school), school feeding programs and subsidies for utilities and services (for example, electricity, water, health care or educational equipment) (Lindert *et al.*, 2006). Private transfers between households are also extremely important in developing countries. Although these are not state provided they often act to fill gaps left by a lack of state support (Jensen, 2003).

Different programs may differ in the level of support provided to children, but even if two different programs were to provide the same level of income to families they cannot necessarily be seen to be equivalent. Factors such as the way in which support is provided, who receives the payment and even what the program is called can impact upon the effect that a transfer has and how it is used (Goode *et al.*, 1998). Thus, it is important to take in to account both the type and design of a program in assessing its impact on children. Some of these issues are discussed below in relation to three of the main forms of support for children: tax-related benefits; cash transfers and in-kind transfers.

In industrialised countries there has been an increasing trend in recent years towards using the tax system to support children (Adam and Brewer, 2004; Bennett, 2006; Bradshaw and Finch, 2002; Hirsch, 2005). Providing support through tax subsidies can be regressive as it can advantage wealthier families who pay more tax. However, such programs are also believed to encourage families to work rather than to rely on out-of-work benefits and have therefore been used where governments are also seeking to increase labour market participation (Hirsch, 2005). Support provided through the tax system is also

considered to avoid the stigma often associated with receiving benefits. In developing countries the tax system is generally not an effective way of providing direct support to children as developing countries tend to have narrow tax bases. However, taxation is an important means of collecting revenue to fund social programs and so is an important indirect means of providing support for children (Gilbert and Moon, 1988; Smith, 2000).

Where cash benefits are provided to families a distinction can be made between those which are provided on the basis of an income test and those which are universally available. Hantrais (2004) has noted a shift in Europe in recent years towards means-testing. This approach is considered to represent a move away from horizontal redistribution, (i.e. from those without children to those with children regardless of the income levels of those with children), to vertical redistribution, (i.e. from the rich to the poor). Thus, the focus has shifted from children in general to children in poor households. In theory targeted transfers can be paid at a more generous rate because they are only available to a small sector of families (in contrast to universal schemes), thus it may be argued that they can be more effective at tackling poverty. However, means tested schemes can be costly to administer and prone to fraud and corruption (Marcus, 2004). It has also been argued that universal transfers help to generate more support for income support schemes amongst the general population (Korpi and Palme, 1998). Targeted schemes also differ in the ways in which they are financed: social assistance schemes are mainly funded from general taxation; however, it is also common for transfers to be funded through social insurance programs where a certain level of contributions must be made to the scheme before an individual becomes eligible for benefits. In developing countries social insurance schemes often exclude the poorest families as they are more

likely to be working in the informal sector or in casual or irregular employment and not to be part of any formal social insurance program (Lindert *et al.*, 2006).

In terms of the ultimate impact of targeted versus universal programs in supporting children, Corak *et al*. (2005) find that European countries with the lowest child poverty rates often have a number of universal schemes amongst the package of support available to children and families and countries which tend to use mainly means tested schemes tend to have higher rates of child poverty. This is not to suggest that the policy of means testing per se creates higher rates of poverty; however, it shows that the relationship between policy design and policy impacts are often complex and may depend on many different factors. In developing countries strong arguments can be made for considering universal benefits on the basis that they are more likely to reach families in need (as the administrative barriers are lessened) and transfers made to the wealthy can be reclaimed through the tax system (Marcus, 2004; Samson *et al.*, 2001).

A further modification to cash transfer programs is to include certain conditions that must be fulfilled to ensure continued payment. These types of programs are known as conditional cash transfers and they have become increasingly popular in developing countries in recent years, especially in Latin America (Barrientos and DeJong, 2004; Tabor, 2002). Typical conditions include a requirement that children attend school or that they receive particular vaccinations. Opinion on the effectiveness of conditional cash transfers is mixed as it is difficult to separate the impact of the conditions from the other positive benefits that may be associated with the cash transfer. Das *et al.* (2005) and Rawlings and Rubio (2006) find that conditional transfers can be an efficient means of providing income to poor households and that households are more likely to make sub-

optimal decisions (for example to chose not to send their children to school) in the absence of the conditions. However, there is also considerable resistance to the use of conditions as they are often costly to implement in practice and are based on the premise that poor families are not capable of making decisions that are in their best interests. Lund *et al.* argue that this view is danger of assuming that poverty is the result of individual behaviour rather than broader structural factors. In arguing against the use of conditional transfers in South Africa Lund claims that "[C]onditional social security, based on assumptions that poor parents are in some way culpable if their children fail to attend school or attend clinics is inconsistent with the structural explanations for poverty which are implicit in the Constitution" (Lund *et al.*, 2007:18).

Finally, in-kind transfers often play a key role in providing support to children. In-kind transfers are not considered as part of this research but it is important to highlight that they can have a substantial impact on household incomes by providing services at zero or low cost (Garfinkel *et al.*, 2006; Meth, 2008b). In-kind transfers may be specifically targeted towards children, for example the provision of free education, school feeding programs or free primary health-care for children, or can be used more generally to assist low-income households through providing subsidies for commodities such as water and electricity. Whilst such transfers are not explicitly considered here they can form a substantial part of the overall package of measures aimed at supporting children, particularly in the case of an in-kind transfer such as a school feeding program which can be argued to be a direct trade-off for cash benefits .

The impact that any system of taxes and transfers has on families is dependent upon the extent of need or the underlying incidence of poverty prior to any government

intervention. Different benefit packages may have very different effects in different countries due to demographic and labour market factors (Makinen, 1999; Mitchell, 1992). The following two sections of this chapter provide an outline of the situation of children in South Africa and the developments in policy and legislation that have impacted upon children in recent years.

1.3 The situation of children in South Africa

In 1994 South Africa began its transition to democracy following several centuries of racial discrimination and oppression of the black[1] majority. The newly elected Government of National Unity set to work drafting a new constitution and dismantling the remnants of the apartheid regime. More than a decade later, whilst legislation supports a free and just society without discrimination, many people still face limited opportunities as a result of extreme poverty. In South Africa in 2006 around 29 per cent of households lived on less than R800 per month[2] which equates to approximately $4 per household per day (Statistics South Africa, 2007b). Child poverty is a pressing issue. In 2005 around 55 per cent of children aged under 18[3] (approximately 10 million children) lived in households whose expenditure was less than R800 per month. At these income levels these children were living in households unable to afford even the most basic necessities (Monson *et al.*, 2006). The vast majority of children and adults living in poverty are black

[1] Throughout the text the terminology used to describe population groups in South Africa follows the definition used by Statistics South Africa whereby the population is classified into five groups according to common characteristics of descent and history, these are: black African, coloured, Indian, Asian, white and other. The term 'black' is used to refer to all groups who are non-white. (see: Statistics South Africa (2004), *Census 2001 Concepts and Definitions*, Pretoria, Statistics South Africa).
[2] A poverty line of R800 per month is used by the government to denote an 'indigent' household and is seen as a measure of ultra-poverty.
[3] Unless otherwise specified, children are defined throughout as persons under the age of 18.

African – 95 per cent of poor people in 1999[4] - whilst black African households make up a relatively small proportion of the upper income groups (Gelb, 2003). In 2005, it was estimated that 63 per cent of black African children lived in ultra-poor[5] households whilst only 4 per cent of white children belonged to this group. By contrast, 1 per cent of black African children lived in the most affluent households with earnings of more than R16,000 per month compared to 29 per cent of white children (Monson *et al.*, 2006).

South Africa faces further challenges alongside the high incidence of income poverty. Crime is highly prevalent, affecting both the rich and the poor, unemployment is high, many people work in the informal sector and many areas lack any sort of economic activity (Hoogeveen and Ozler, 2004). HIV prevalence is increasing, as is the proportion of people who will die from HIV/AIDS each year, leaving increasing numbers of children without adult care-givers or caring for sick parents and siblings (AVERT, 2008). Huge inequalities exist between and within race groups; it is estimated that the richest 10 per cent of the population earn 50 per cent of the total income (Skweyiya, 2008) and estimates of the Gini[6] coefficient in 2000/2001 range from 0.56 to 0.77 which places South Africa amongst the most unequal countries in the world (Gelb, 2003; HSRC, 2004). In the days of apartheid income inequality could be equated with inequality between population groups, with wealth only prevalent in the white population and the vast majority of black Africans living in poverty. Whilst the transition to democracy has resulted in substantial increases in wealth for some black Africans, this has only occurred for a small proportion of the black African population. Within-group inequality is generally highest amongst

[4] Based on a household poverty line of US$220 per month.
[5] Ultra-poor households are households earning less than R800 per month.
[6] The Gini coefficient is a measure of income inequality ranging between 0 and 1. A value of 0 implies perfect equality where the wealth of a nation is equally spread amongst the whole population, a value of 1 indicates perfect inequality where one individual holds all the wealth and the rest of the population have nothing.

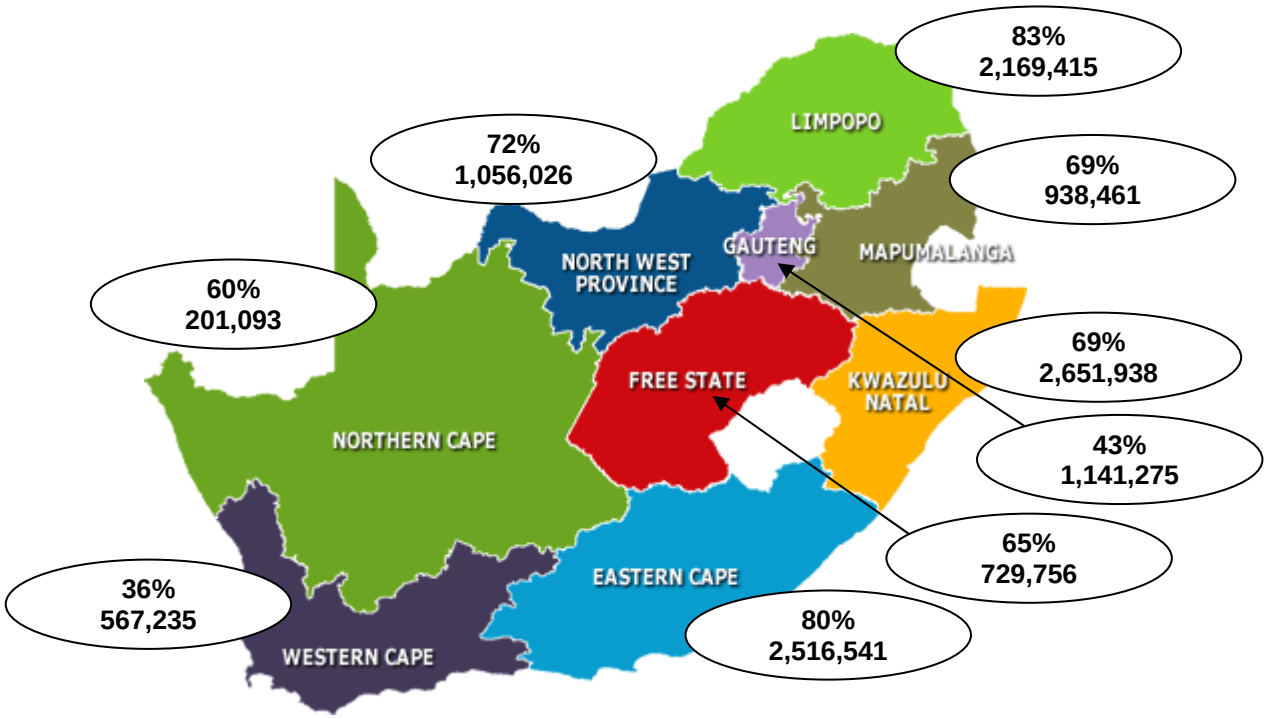
black Africans and lowest for white South Africans, with trends prior to 2001 indicating increasing inequality overall and increasing inequality within population groups (Leibbrandt *et al.*, 2005). The trends in inequality since 2001 are unclear as there is a lack of consistent data; however, it is suggested that, overall, inequality has continued to increase between 2001 and 2005 (Ramokgopa, 2008).

The estimated number and proportion of children living in poverty in 2005 in each province in South Africa is shown in Figure 1.1. The highest poverty rates are in the mainly rural provinces of Limpopo and the Eastern Cape. From these data the overall child poverty rate for the country is estimated to be 66 per cent[7]. The exceptionally high rates of child poverty in South Africa are rooted within the country's history and trajectory since the end of the apartheid era. As noted previously, poverty is unequally distributed by race and child poverty is no exception: around 95 per cent of children living in poverty are black African (Children Count, 2008b). Gelb describes South Africa as a country where, since the 17th century "conquest and political exclusion were the 'initial conditions' shaping black peoples' unequal access to resources, their potential for assets accumulation, and the returns from their assets" (Gelb, 2003). In relation to child poverty, Leatt *et al.* cites the "systematic disenfranchisement and underdevelopment of the black majority" under apartheid, the "rapid emergence of the South African economy into the global marketplace" and the HIV/AIDS pandemic as the three major causes of child poverty (Leatt *et al.*, 2005:3). Further contributing factors include unequal access to land,

[7] This relates to the number of children who live in households that spend less than R1,200 per month. The R1,200 per month poverty line was chosen as it is close to the R1,100 per month used by the Treasury and the Department of Provincial and Local Government to determine funding for poverty alleviation programmes. The GHS expenditure brackets break at R1,199 per month, thus the choice of this figure as a poverty line avoids the problems normally associated with banded income and expenditure data. However, it should be noted that this relates to total household expenditure which is not adjusted for household size nor for inflation (the same figure in nominal terms is used year after year). Thus, overall this cannot be considered an especially reliable measure of poverty.

unequal access to education and large numbers of men migrating in search of work. The latter contributed to the break up of families leaving female-headed households in rural areas with few opportunities for income generation (Lund *et al.*, 2007).

Figure 1.1: Estimated number and proportion of children living in poverty in each province in South Africa in 2005



Source: Children Count, Children's Institute University of Cape Town, data from the General Household Survey 2005.

Since 1994 the government has acted to remove many of the inequalities prevailing under apartheid and introduced new social grants to assist some of those living in poverty. However, some commentators have criticised the government for pursuing a macroeconomic strategy that has actually resulted in an increase in poverty (Aliber, 2003; Bond, 2004). Certainly medium term macroeconomic strategies have failed to produce the

required expansion in jobs that was considered a crucial requirement to reduce poverty rates. It is estimated that between 1995 and 2000 the broad unemployment rate[8] increased from around 31 per cent to around 42 per cent as the size of the workforce increased at a faster pace than the number of available jobs (Bhorat and Kanbur, 2006). In addition, the demand for unskilled labour is decreasing, which impacts disproportionately on black African households (van der Berg *et al.*, 2005). There is a strong relationship between child poverty and unemployment. Nationally 41 per cent of children live in households where there is no adult in work. In the province of Limpopo, which has the highest child poverty rate at 83 per cent[9], only 28 per cent of children live in a household where there is an employed adult (Children Count, 2008a).

Various research studies have measured child poverty in South Africa using different data and definitions. Although there are a number of different estimates of the extent of child poverty in South Africa, there is consensus that child poverty rates are high: estimates of the percentage of children living below internationally recognised poverty lines range from 60-80 per cent. Using the 2000 Income and Expenditure Survey, Woolard estimated that 74.9 per cent of children were living in poverty (based on a $2 a day poverty line) and Budlender used data from the 2004 General Household Survey (GHS) to estimate that 66 per cent of children lived in poor households (where monthly income was less than R1,200) (Leatt *et al.*, 2005). Other estimates are higher; the South African Index of Multiple Deprivation for Children 2001 calculated an overall child poverty rate based on 40 per cent of mean household equivalent income of 81.5 per cent (rising to 91 per cent in some provinces) based on 2001 Census data (Barnes *et al.*, 2006). More recently estimates from the 2006 GHS indicated that around 68 per cent of children lived in

[8] The broad unemployment rate includes those who are described as 'discouraged workers' i.e. people who have given up looking for work.
[9] Calculated using data from the GHS 2005, based on a household poverty line of R1,200 per month.

households with an income of less than R1,200 per month (Proudlock *et al.*, 2008). A similar figure of 66.5 per cent was estimated based on the 2005/6 Income and Expenditure Survey (Streak *et al.*, 2008), and Barnes (2009a) estimated a child poverty rate of 66 per cent using the 2007 Community Survey and a poverty line of R444 per month.

Looking at changes in child poverty over time, most research suggests that poverty in general, including child poverty, increased between 1995 and 2000, although some claim that poverty stabilised over this period (van der Berg *et al.*, 2005). Analysis of the 1995 and 1999 October Household Survey by Woolard (Martin and Rosa, 2002) showed that child poverty increased by more than 10 percentage points between the two surveys. Time-series analysis of the GHS between 2002 and 2006 shows child poverty declining from 75 per cent in 2002 to 68 per cent in 2006. Again, this is based on a household poverty line of less than R1,200 expenditure per month. Although, poverty appears to decline, it should be noted that this is based on a constant poverty line which is not adjusted for inflation.

Other indicators of child-wellbeing are included in the South African Child Gauge. The number of orphans and children living in child-headed households has remained fairly stable as a proportion of all children between 2002 and 2006 and the number of children living with an employed adult has decreased from 65 per cent to 60 per cent. Children's access to education is unchanged at around 96 per cent of children attending an educational institution between the ages of 7 and 17. Health statistics do not indicate good progress: the infant mortality rate and the under-five mortality rate have both increased between 2001 and 2005 as has the proportion of children living with HIV/AIDS (2.1 per cent in 2006). However, fewer children now live in households where there is child

hunger (29 per cent in 2002 and 16 per cent in 2006). The largest improvements amongst the indicators of child well-being have been seen in access to sanitation, water and electricity: 55 per cent of children in 2006 lived in households with basic sanitation, 61 per cent had access to on-site drinking water and 77 per cent had an electricity connection. Access to housing has not improved with only 68 per cent of children in 2006 living in formal housing, a figure which has remained virtually static since 2002 (Proudlock *et al.*, 2008).

Very few analyses explicitly compare indicators of child poverty with poverty indicators amongst the general population. As only a small proportion of households in South Africa do not contain children, poverty and child poverty tend to go hand in hand. Haarman estimated that 87 per cent of people lived in households that contained at least one person aged under 18 years of age in 1996 (Haarman, 2000) and 94 per cent of people in the bottom two income quintiles lived in households containing children (Haarman, 2000). Thus, poor households are more likely to contain children than non-poor households.

The broad range of indicators related to income poverty and general well-being amongst children in South Africa indicate that little progress seems to have been made since 1994. The main areas where improvements have been made are in access to sanitation, water and electricity. There is a lack of up-to-date time-series data from which to draw information on the latest trends in child poverty. The GHS does provide a series of comparable statistics year by year but the questions on household income are based on banded income data and so it can only provide approximate information about the distribution of income in different types of households. Despite a lack of recent

comparable statistics on child poverty, it is clear that rates of child poverty are high in South Africa.

1.4 Support for children in South Africa

The previous section highlighted that child poverty rates are high in South Africa and, following the arguments presented previously to justify support for children, the present situation of children merits government intervention to improve child outcomes. In order to provide some policy context to the situation of children in South Africa this section discusses developments in legislation and policy and the consequences for children in South Africa since the end of apartheid in 1994. These issues are discussed in greater detail in Chapter 3 following the analytical framework developed in Chapter 2.

The South African government, in common with the governments of many other countries, has made commitments to child protection and child rights through legislation enacted through the Bill of Rights in the South Africa Constitution, the Children's Act (Republic of South Africa, 1996a, 2005) and by ratification of various international treaties and conventions (Casseim and Streak, 2002). In particular, the United Nations Convention on the Rights of the Child, which came into force in 1990 and was ratified by South Africa in 1995, states that governments will take measures to ensure the economic, cultural and social rights of children "to the maximum extent of their available resources" (UNICEF, 1990:2). The 'rights' that governments should aim to provide include the right to social security and the right to a standard of living sufficient to provide adequate physical, mental, moral, spiritual and social development. Although it is not stated exactly

how available resources should be defined and measured, the Convention of the Rights of the Child implies that this should be done in some way.

In addition to ratifying the Convention on the Rights of the Child the government has also made commitments to children in the Bill of Rights in the South African Constitution. The Bill of Rights stipulates that certain social rights should be provided to all people as well as specific rights for children. Section 27 of the Bill of Rights states that "Everyone has the right to have access to…social security, including, if they are unable to support themselves and their dependents, appropriate social assistance." However, the statement contains the final caveat that "The state must take reasonable legislative and other measures, *within its available resources*, to achieve the *progressive realisation* of these rights." (author's emphasis) (Republic of South Africa, 1996a:Sec 27 1 and 2). The Bill of Rights also contains a separate section relating specifically to the rights of children. Section 28 states that "Every child has the right to basic nutrition, shelter, basic health care services and social services" (Republic of South Africa, 1996a:Sec 28 1.c). Whilst these rights do not differ greatly from the rights afforded to everyone, the clause relating to "available resources" and "progressive realisation" is not included, suggesting that the realisation of children's rights is not subject to limitations on available means and therefore should be prioritised over the weaker rights of adults. As Seekings comments: "…international conventions signed by South Africa and South Africa's own constitution not only require the government to provide for the basic needs of South African children but they further seem to suggest that children have the first claim on state resources" (Seekings, 2002:25).

Following the inclusion of children's rights within the Bill of Rights a national plan was established to ensure the realisation of children's rights, including monitoring and evaluation of progress. In 1996 a steering committee comprised of representatives from government departments and UNICEF set out a framework for the actions that the South African government would take in order to meet its commitments to children (National Programme of Action Steering Committee, 1996). The National Programme of Action for Children (NPA) was finally launched in 1999 with the aim of creating a "holistic programme that works to promote and protect the rights of children in South Africa" (National Treasury, 2008:1).

As well as expressing a commitment to children through legislation, the South African government has also provided tangible support to children through cash transfers. Since 1998, the government has provided direct financial support to carers of children through the Child Support Grant: a monthly cash benefit for carers of children under the age of 14[10]. The introduction of the Child Support Grant has resulted in improved outcomes for children, both financially and for other aspects of child well-being in recent years (Aguero *et al.*, 2005, 2006; Goldblatt and Liebenberg, 2004; Williams, 2007). However, slow take-up of the grant and other factors such as increasing unemployment have meant that, although the grant has undoubtedly had an impact on child poverty, child poverty rates – as measured by the proportion of children living in households with incomes (or expenditures) below a particular level – have not fallen significantly since the introduction of the Child Support Grant. Child poverty rates increased between 1995 and 1999 (Martin and Rosa, 2002) and have remained relatively static since the year 2000 (Proudlock *et al.*, 2008; Streak, 2000; Streak *et al.*, 2008).

[10] The Child Support Grant was initially available to children under the age of 7. The age range has since been gradually extended. In 2008 the grant was available to children aged 0 to 13 and it will be extended to children under the age of 16 in January 2010 and to children up to the age of 17 by 2012.

Given the extent and severity of poverty in South Africa amongst all groups – not just children – policy makers in 1994 faced difficult decisions around how to best target government resources in order to alleviate poverty. The idealistic commitments to ending child poverty expressed in legislation and government documents must be realised in a context where the budget was limited and there were constraints on the scope of policy reforms.

In 1994 the strategy of the first post-apartheid government – implemented through the Reconstruction and Development Program (RDP) – had a strong focus on poverty alleviation and redistribution and viewed children as central to the developmental process (Mokate and Morgan, 1996). The RDP aimed to rapidly reduce poverty and inequality through large-scale government investment in a range of public sector programmes that would provide both jobs and services to the poor. These ambitious targets were, however, not without constraints. The 1994 RDP White Paper clearly argues that poverty reduction and redistribution can only be achieved if government debt is reduced and fiscal restraint, rather than poverty reduction, was therefore the highest priority (Republic of South Africa, 1994). Following the RDP program came the Growth, Employment and Redistribution programme (GEAR) in 1996 and then the Accelerated and Shared Growth Initiative of South Africa in 2006. GEAR has been described as "more firmly rooted in the neo-liberal economic paradigm" (Streak and Wehner, 2004:71) and both strategies have been criticised for prioritising macro-economic aims and economic growth over poverty alleviation and assuming that the beneficial effects of growth would eventually 'trickle down' to reach the poor thereby reducing the need for other redistributive support mechanisms (Bell, 2006; Bhorat, 2006; McGrath and Akoojee, 2007).

In particular, critics have accused the government of not doing enough to address poverty amongst especially vulnerable groups, including children, and relying too heavily on markets to generate growth and poverty reduction (Leatt *et al.*, 2005; Streak, 2000; Streak and Wehner, 2004; Triegaardt, 2005a). Van Rensberg claims that it is clear that the South African government "is not fulfilling its constitutional or international duties towards the social security rights of the child" (van Rensburg, 2005:33). There have also been calls for more explicit analysis of the impact of budgetary decisions on children and for the monitoring and evaluation of government progress towards fulfilling its commitments on child poverty (Coetzee and Streak, 2004; Streak, 2000). The United Nations Committee on the Rights of the Child, commenting on South Africa's compliance with the Convention on the Rights of the Child, expressed concern about the "insufficient efforts made to ensure the adequate distribution of resources allocated for children's programmes and activities" (United Nations Committee on the Rights of the Child, 2000:Sec 15) and that the "current data collection mechanism is insufficient… in order to monitor and evaluate progress achieved and assess the impact of policies adopted with respect to children" (United Nations Committee on the Rights of the Child, 2000:Sec 14). The NPA seems not to have fulfilled its intended role as a champion of children's rights and it is not clear how, or even if, children are considered within the budgetary process. Creamer claims that "nowhere in the budget process are government's socio-economic rights obligations in general, or its socio-economic rights obligations to children in particular, explicitly taken into account and planned for" (Creamer, 2002:20).

The role of monitoring and evaluation has been carried out outside of government. For example, the Children's Budget Unit at the Institute for Democracy in South Africa

produces regular reports highlighting the mismatch between government commitments on children's rights and the life circumstances of children in South Africa, with the aim of encouraging discussion around how the budget should be used as a tool to alleviate child poverty (Casseim and Streak, 2002). The present thesis also seeks to help to address this need for more comprehensive information on the impact of budgetary decisions on children.

Claims that the government is not prioritising children in budgetary decisions are supported by empirical analysis. Analyses of social security beneficiary data by Guthrie highlights the fact that whilst children comprised 44 per cent of the population in 2001 only 14 per cent of the social security budget was targeted towards them. In contrast, older people received 62 per cent of the total budget share and only represented around 7 per cent of the population (Guthrie, 2001:7). This implies that, in per capita terms, spending on the old age population is around 22 times higher than that on the rest of the population. Directly comparable figures are difficult to find as this statistic is highly dependent upon the types of programs that are included in the expenditure calculation; however, Lynch (2001) provides estimates of elderly to non-elderly spending ratios for a number of different countries and these range from 99.7 for Greece to 6.4 for Sweden in 1993. A spending ratio of 22 would give South Africa the fifth highest elderly to non-elderly spending ratio in the list of 21 OECD countries analysed by Lynch.

The size of social transfers directed towards children have increased since 2001 as take-up of the Child Support Grant has increased (Noble *et al.*, 2005). The amount of the grant has also been increased and the maximum age until which children can receive the grant has been extended from 6 to 15 years and will be increased to 17 years by 2012. However, the

government has not prioritised expenditure on extending social assistance for children over tax cuts. In 2008 the budget delivered an extra R12 billion over the next three years to extended social assistance (Manuel, 2008) whilst simultaneously introducing tax reforms that returned more than R10 billion in just one year to taxpayers (South African Revenue Service, 2008). In 2009 the government announced that the Child Support Grant would cover children from 0 to 17 years by 2012 (Maseko, 2009). Whilst this is a positive step, it will have taken nearly fifteen years from the introduction of the Child Support Grant to achieve coverage of children from birth until adulthood.

The lack of substantial improvement in the child poverty statistics in recent years occurs in a context where there has been a significant increase in the take-up and coverage of child-targeted social assistance. In April 2000, around 457 thousand children received a social assistance grant (Department of Social Development, 2003); by December 2007 this figure had increased to nearly 8.7 million children (SASSA, 2007). The increase is partly due to the fact that around 90 per cent of eligible care-givers are now claiming social assistance for their children in the form of a Child Support Grant[11] and also that this grant can now (November 2009) be accessed by children up to the age of 15[12]. The lack of impact of the expansion of social assistance provided through the Child Support Grant on the child poverty statistics is largely due to the fact that the Child Support Grant provides a relatively small amount of income, which may be the only regular source of income for the household in which the child lives. Of course, the Child Support Grant does have an impact on the income of the households that receive it, but the amount of the grant is often insufficient to raise the household above most poverty lines. Looking at the potential

[11] Based on the author's own research.
[12] The Child Support Grant was initially available to children under the age of 7. The age range has since been gradually extended. In 2008 the grant was available to children aged 0 to 13 and it will be extended to children under the age of 16 in January 2010 and to children up to the age of 17 by 2012.

impact of social assistance on poverty (i.e. what would happen if everyone received a grant who was eligible for one), Haarman concludes that 80 per cent of households would have at least one person receiving social assistance if the 1998 system of social grants reached all potential beneficiaries, indicating that coverage of social grants is fairly broad. However, whilst the pre-1994 system social assistance closed the poverty gap by 21.6 per cent this only increases to 36.8 per cent under the system existing in 1998 (Haarman, 2000). This is a fairly small impact on the poverty rate given the large increase in the number of recipients of social assistance caused by the introduction of the Child Support Grant. This can be explained by the fact that the Child Support Grant is a relatively modest payment at R200 per month (in 2007) and is often the only or main source of household income. As such is it insufficient to lift a household out of poverty on the basis of the R1,200 per month poverty line (as has been used to analyse poverty rates using the GHS, for example).

The heavy reliance on the Child Support Grant as a source of income for poor households, and hence the inability of the Child Support Grant to lift households above poverty thresholds, is partly a function of a social assistance system which provides incomplete coverage for those at risk of experiencing poverty. Although relatively generous support is provided to older people, certain categories of people with work-limiting disabilities and children in need of full-time care (Lund, 2005; Vorster, 2000), there is no support provided to working age people who are unable to generate income from employment. This significant gap has long been recognised and debated both in government and within academic literature (Department of Social Development, 2007, 2008; The Taylor Committee, 2002; Triegaardt, 2005b). The impact of the lack of transfers to poor working age parents and carers on child poverty highlights the interdependence of policies and the

importance of considering a broad package of taxation and social protection policies and not just those directly targeted towards children.

1.5 Children and taxes and transfers – summary of Chapter 1

This chapter has set out the principal research questions of the thesis, explored the various justifications for focussing the analyses on the extent to which tax and transfer policy supports children in South Africa and summarised the socio-economic and policy context in relation to children in South Africa.

Tax and transfer policy impacts on household income and therefore has an impact on the resources available to individuals within households. Whilst children have historically been considered to belong to the private domain of the family, there has been a trend in recent years towards the view that investment in children is beneficial to society as a whole. Thus, the situation of children has increasingly become a public concern and governments around the world have used various different programs within the welfare state package to support children and improve child well-being.

The arguments for investing in children have become prominent in both the developed and the developing world but the strategies employed to support children have varied considerably. Whilst many countries have made use of cash benefits (which may be provided on a universal or means tested basis), industrialised countries have increasingly relied on the tax system to support children whilst developing countries have often chosen

to rely more on investment in basic services, benefits in-kind and conditional cash transfers.

In South Africa the justifications for supporting children have largely been based around a rights approach. Through ratification of the United Nations Convention on the Rights of a Child and the inclusion of children's rights within the South African Constitution, child rights are prominent in the policy agenda. Despite this, the policy response towards supporting children has been somewhat slow and commentators have criticised the government for failing to meet its commitments to children. Child outcomes have improved following the introduction of a new cash transfer for children in 1998 but the impact of this grant has been limited by low take-up (initially), the modest level at which it is paid and gaps elsewhere in the system of social security. Even though the government has acted to improve the situation of children, child poverty rates remain high and the majority of children still live in households with incomes considered to be below the level necessary to afford a basic standard of living.

This chapter has provided an overview of the recent developments in policy and legislation in South Africa in relation to children. However, a more comprehensive analysis is required to determine the extent to which tax and transfer policies support children and this is the subject of the remainder of the thesis. The next chapter considers the issue of how to measure support for children. It draws extensively on the literature on comparative welfare states as this has focussed on the measurement and analysis of different policies (including taxes and transfers) and can therefore provide a useful framework for thinking about the different ways in which the extent to which tax and transfer policies support children can be measured.

Chapter 2 – Measuring the extent to which tax and transfer policy supports children

2.1 Introduction

This chapter discusses what is meant by 'support for children' and how this can be measured. To do this the chapter draws extensively on the comparative literature on welfare states. The main goal within this literature is generally to formulate a method of classifying welfare states, often in order to generate generalised theories about the factors which explain welfare state development (Arts and Gelissen, 2002). In doing so the evaluation process employed within this field of research must be capable of producing quantitative and qualitative measures to draw out the distinctions between the policies employed in different welfare states. Whilst this thesis does not seek to classify the types of tax and transfer programs used in South Africa into a particular welfare state typology or to theorise about why these policies have developed in the way they have, the comparative welfare state literature is instrumentally useful as an analytical approach to measuring the extent to which tax and transfer policy supports children.

The welfare state[13] as a whole encompasses a wide range of policies, some of which cannot be classified under the broad heading of taxes and transfers, and some of which are not explicitly related to children. Despite this, this field of literature still provides helpful guidance on appropriate methodological approaches to measure the impact of different

[13] The term welfare state has been defined in different ways by different authors. In this thesis it is taken to represent a broad range of policies provided by the state, market, family and voluntary sector that aim to mitigate certain social risks.

policies on different groups in society. Whilst the focus of the thesis is on children, it is not possible to fully understand the extent to which policy supports children without also considering the extent to which policies support other age groups. As highlighted by Lynch (2006), the welfare state supports different age groups in different ways. The question around the extent to which children are supported thus requires understanding what other priorities are embedded in policy design. For example, policies may provide generous support to both children and the elderly, in which case children are supported but perhaps not a policy priority. On the other hand very little support may be provided to any sector of society, but what little is provided is focussed on children. Thus, the distinction between the extent to which children are supported and the extent to which they are seen as a policy priority is important.

One potential drawback of using the comparative welfare state literature is that it has typically originated within developed industrialised countries. However, other authors writing on the emergence of welfare states in developing and transitional states have found that the concepts and approaches used in the developed world literature, if not always directly applicable, can provide useful insights in less-developed countries. Indeed many authors have successfully built on methods and frameworks developed for industrialised countries and extended these to analyse developing and transitional countries (Adesina, 2007; Barrientos, 2004; Esser *et al.*, 2007; Huber, 1996; Kangas, 1999; Lelkes, 2000; Mkandawire, 2004a; Seekings, 2005; Seekings and Nattrass, 2005; Standing, 1996). Mkandawire argues that there is a striking gap between the literature on social policy in developed and developing countries but that the developed world literature "has definite value in aiding the conceptual understanding of the relationship between economic and social policy in market economies, and can lend depth to analysis

as a result of the diverse historical paths taken and the range of current practices" (Mkandawire, 2004b:21).

South Africa could be considered to be a hybrid case of the developed and developing world. Whilst a large proportion of the population lack the means to afford basic necessities, average income levels lead to South Africa's classification as a middle income country[14]. Certainly, in terms of provision of welfare, the policies in place during the apartheid era combined with labour market policy gave practically comprehensive social protection for the white population (Triegaardt, 2005b; van der Berg, 2002). The policies employed at this time were also similar in design to those seen in more developed countries over the same period. Current welfare provision, whilst not comprehensive, remains extensive compared to other countries with a similar level of development (Pauw and Mncube, 2007; Woolard, 2003) and plans to develop a fully comprehensive system of social security have been given serious consideration (Department of Social Development, 2007, 2008; Samson *et al.*, 2002; The Taylor Committee, 2002; Thurlow, 2002). Thus, both in terms of existing policies and potential for expansion, there is considerable benefit in attempting to apply theories relating to developed world welfare states in the South African case.

Finally, it is important to reiterate that the aim here is *not* to try and explain why support for children through taxes and transfers in South Africa has developed in the way that it has. Underlying many attempts to categorise welfare states are explanations of why particular countries pursue similar or different trajectories of policy development. It is also not an intention to attempt to place South Africa within one of the typologies already

[14] CIA World Factbook (2009), https://www.cia.gov/library/publications/the-world-factbook/index.html

developed or to create a new typology appropriate to the South African case. The main purpose in analysing the literature related to the development and classification of welfare states in the developed and developing world is to reflect upon the different approaches used to evaluate what the welfare state does and what factors are important in determining the extent to which policy supports individuals and hence to develop a framework to structure the analyses in this thesis.

2.2 Measuring support – insights from the comparative welfare state literature

This section outlines three strands of comparative welfare state research (aggregate expenditure approaching, policy modelling approaches and welfare outcomes approaches) and highlights how the methods developed within each of these strands can aid the measurement and understanding of the extent to which tax and transfer policy supports children in South Africa. The findings from this section are used to develop an analytical framework which is used to structure the analyses in Chapters 3, 5, 6 and 7 of the thesis. The analytical framework draws upon the literature review in this section and is summarised in the final section of this chapter.

2.2.1 Measuring support through aggregate expenditure

Comparative data on expenditure on welfare programs has been available for a number of years and, as such, the approach of comparing aggregate expenditure was one of the first methods used to quantify the level of welfare provided by the welfare state. Early studies

on the development of welfare states tended to assume that a state's welfare effort could be measured by aggregate expenditure on welfare programs and that higher expenditure implied not only a greater commitment to supporting the welfare of citizens through state-provided programs but also better welfare outcomes for individuals. Typically, early studies attempted to find explanatory factors to explain the level of welfare expenditure (for example, the level of economic development (Cutright, 1965; Wilensky, 1975) or the development of democracy (Hicks and Swank, 1992)). In these studies it was assumed that higher aggregate expenditure on welfare programs implied a higher welfare effort i.e. stronger state commitment to welfare equates to a more expansive welfare state and hence better welfare outcomes.

These early theories have received criticisms on two fronts: the view that the welfare state can be explained in such a simplistic model, and; the basis on which the extent of development of the welfare state is measured. It has been argued that aggregate welfare expenditure is an inadequate measure of welfare effort (Gilbert and Moon, 1988) and higher welfare expenditure does not necessarily equate with a 'better' and more supportive welfare state (Castles and Mitchell, 1993; Esping-Andersen, 1990; Skocpol and Amenta, 1986).

Expenditure is seen as a 'black box' whereas it is actually the contents of the welfare state or the instruments and means that provide welfare that are more important (Makinen, 1999). This point can be illustrated with examples of countries which do not fit the model of 'more expenditure equates to a more developed and more effective welfare state'. Here Esping-Andersen cites examples from Austria and the UK. Austria has reasonably high levels of welfare expenditure but much of this is directed towards civil servants, who are

already in a privileged position. Thus, even though welfare expenditure is high, the support provided by the state is narrowly targeted on a particular group in society. In the UK, the Thatcher Government was ideologically opposed to providing support through welfare programs; however, total social expenditure actually increased during its period of office, largely because rates of unemployment increased (Esping-Andersen, 1990). Comparing expenditure on children compared to other age groups can be a useful starting point for measuring the extent to which the welfare state supports children. Such an approach has been used by Lynch (2006), Hodgkin and Newell (2002) and Björnberg (2006). However, the criticisms highlighted above again apply to these analyses, namely that aggregate expenditure cannot tell us about the actual impact of policy on children. In addition, the focus on a particular group (i.e. children) means that a further difficultly arises in selecting exactly which policies support children and which do not (Bennett, 2006; Corak *et al.*, 2005).

However, it is possible to make a distinction between policies that are specifically targeted towards children and those which are not. For example, Corak *et al.* (2005) analyse differences in the provision of child-contingent taxes and transfers (i.e. tax concessions and transfers that are only received by a household where there is a child) in different countries. Aggregate expenditure approaches have become increasingly sophisticated as more detailed data has become available in national accounts and more recent studies have begun to disaggregate national accounts data to identify different types of spending on families with children (Bradshaw, 2010). The work of Adema (2001) has led to the production of estimates of the percentage of GDP spent on cash benefits, services and tax credits for families with children in the OECD countries. The OECD has

also split expenditure further to determine the aggregate expenditure on different age groups (OECD, 2009).

Whilst the advances in the reporting of welfare expenditure on different groups have certainly increased the value and relevance of aggregate expenditure analyses, there are still a number of drawbacks associated with these methods. The main problem is in identifying which types of expenditures do benefit children as policies that are not child-contingent can still impact upon children. Duflo (2000) finds that many children in South Africa benefit from living in a household where there is an older person in receipt of a state-provided old age pension and Figari *et al.* (2009) find that measuring support for children purely through child-contingent transfers underestimates the total amount of support provided to children by around one fifth. In essence, any tax or transfer that affects a household that a child lives in can also affect the child. For this reason, the analyses in this thesis consider all taxes and transfers[15], not just those which are child-contingent. As it is not possible only to isolate policies which are child-contingent and not those which affect children, the approach of looking at aggregate welfare expenditure is not very helpful. Rather than knowing the level of aggregate expenditure on child-contingent policies it is more instructive to know how the whole range of tax and transfer policies affects families with children. Such analyses are only possible through the use of household survey data or by using a technique such as model family analysis. The advantages and disadvantages of each of these approaches are discussed in section 2.2.4.

[15] All taxes and transfers are included that can be modelled using the data available from household surveys – this is further discussed in Chapter 4.

2.2.2 Beyond the black box of welfare expenditure – the importance of policy type

The inadequacies of early theories on the development of welfare states sparked a series of studies that employed new approaches to measuring the content of the welfare state. At the forefront of these studies was Esping-Andersen's (1990) *Three Worlds of Welfare Capitalism* in which it was proposed that welfare effort could be measured more accurately by explicitly considering the state's ideological approach to welfare using both the types of policy instruments employed and the level of welfare expenditure.

Earlier work by Titmuss (1974) and Marshall (1964) formed the theoretical starting point for Esping-Andersen's approach. Titmuss distinguished between residual, industrial achievement-performance and institutional redistributive models of social policy. In the residual model the state is a provider of last resort and steps in (on a temporary basis) only when other institutions fail to protect an individual from market failure. Support provided by welfare programs is minimal and tends to be focussed on the neediest groups in society. The industrial achievement-performance model incorporates a more significant role for social welfare institutions; however, welfare is provided on the basis of merit, performance or productivity. By contrast the institutional redistributive welfare state provides welfare services on a universal basis and is the provider of first rather than last resort. The institutional welfare state is based on an ideological commitment to welfare as a right of citizenship (Titmuss, 1974).

The model proposed by Titmuss seeks to distinguish between differing ideological approaches to welfare. These ideological approaches are driven by a particular political philosophy which incorporates concepts of who is deserving of support as well as the

aims of providing support and in what form should support be given. Such ideological differences result, at a practical level, in the use of different policy instruments which, in turn, can lead to differences in welfare outcomes. For Esping-Andersen the ways in which this ideological approach to welfare could be measured include the design of welfare programmes (as targeted or universal), eligibility conditions, quality of benefits and services and the extent to which an individual can maintain a livelihood without reliance on the market (Esping-Andersen, 1990). The other defining characteristic of welfare ideology, according to Esping-Andersen, is the extent to which welfare states reinforce or mitigate existing structures of inequality. This stems from the work of Marshall (1964) and the idea that the granting of social rights for citizens implies some form of welfare state provision in order to fulfil these rights[16].

Esping-Andersen suggests that linear explanations of welfare state development are inadequate and that welfare states actually cluster around three distinct types which each have a unique position in relation to the extent to which individuals can survive without recourse to the market (termed the extent of decommodification) and the extent to which the welfare state reinforces or reduces existing structures of inequality (termed stratification) (Esping-Andersen, 1990). Each type has strong links to particular traditions of political philosophy (namely, conservatism, liberalism and socialism) and hence particular configurations of social policy (Arts and Gelissen, 2002). By using dimensions which capture how social welfare is delivered as well as the quantity (i.e. in expenditure terms) of welfare, Esping-Andersen argues that his model is able to capture some of the fundamental differences in the ways in which a particular ideological approach to welfare

[16] It has also been argued that it is not only social rights that imply welfare provision. For example, Plant (1992) argues that civil and political rights cannot be upheld without a certain amount of state expenditure.

provision influences social policy that cannot be identified or explained with more simplistic theories.

It is worth briefly summarising Esping-Andersen's three worlds of welfare capitalism (described as liberal, conservative-corporatist and social-democratic) here as so much of the later literature draws upon it:

The liberal regime is typically residual in that the market is the provider of first resort whilst the state is the provider of last resort. Social protection is directed towards the most needy in society, generally in the form of means tested benefits and the state encourages membership of private welfare schemes for those who can afford them. In terms of social stratification the development of social rights is not a particular concern of the liberal regime and society tends to be split between a minority forced to rely on social protection and a majority who can afford to access higher quality welfare provision. The United States is often given as an example of a country that typifies the liberal regime.

In the conservative-corporatist regime social protection is strongly linked to occupational status. Social benefits are typically provided through occupationally based social insurance schemes. The main influences on the corporatist regime are Catholicism and status maintenance. This is embodied in the more favourable welfare provision for those already attached to the labour market and protection of traditional family structures. Labour market participation by women is therefore not overly encouraged. Germany is considered to exemplify the conservative-corporatist welfare regime.

Finally, the social-democratic regime strongly adheres to the principle of equality of the highest degree between all individuals. The state is committed to supporting social rights of citizenship and maximising the opportunity of all individuals, regardless of gender, to participate in the labour market. Social protection is generally provided through universal schemes and benefits are generally reasonably high in value. Sweden is considered to be the best example of a welfare state that follows the social-democratic model.

Since Esping-Andersen's initial work on the 'three worlds' many authors have criticised both the outcomes of his research (in terms of the number of welfare state clusters and the classification of particular countries into certain clusters) and his methodology. Many other typologies have been developed which draw on slightly different indicators or dimensions of analysis to produce new sets of welfare state clusters (Bambra, 2007a; Bonoli, 1997; Castles and Mitchell, 1993; Ferrera, 1996; Kangas, 1994; Korpi and Palme, 1998; Leibfried, 1992; Lewis, 1992; Ragin, 1994). It is beyond the scope of this research to provide a summary of all the competing models. A good overview is given in Arts and Gelissen (2002) and Bambra (2007b). However, it is worth giving some examples of the different dimensions and indicators which have been used to attempt to capture the nature of the welfare package. This highlights the extent to which an analysis based on decommodification and stratification may be insufficient in fully evaluating what the welfare state does and how support is provided to different groups. Of particular relevance is the extent to which Esping-Andersen's model is applicable to children and its relevance to developing countries.

Esping-Andersen's 'three-worlds' model was originally criticised for ignoring the position of women (Abrahamson *et al.*, 2005; Lewis, 1992; Orloff, 1993), and this also

has relevance to children as the position of children in society is often found to be strongly related to the position of women (Lewis, 1992; Orloff, 1996). Esping-Andersen's later work (Esping-Andersen, 1999, 2002) does shift focus towards the position of women and children in the welfare state through the incorporation of a concept referred to as 'defamilialization'. Essentially this aims to measure the degree to which welfare states reduce the reliance on the family as a provider of welfare, or enhance the economic independence of women. Defamilialization is measured in a number of ways including public expenditure on family services, day-care coverage and home help coverage.

In relation to the relevance of the three-worlds approach to developing and transitional countries, authors such as Barrientos (2004), Lelkes (2000), Huber (1996) and Standing (1996) have applied similar frameworks outside of the industrialised countries. However, it should be noted that this does present some difficulties. For example, Lelkes (2000) argues that it is difficult to apply Esping-Andersen's static typology in a country when rapid reforms are taking place and Gough (2004) and Seekings (2005) claim that the notion of decommodification is only readily applicable in countries where unemployment rates are low and the vast majority of people are employed in the formal economy. Seekings (2005) further adds that typologies of welfare states developed in the North are inadequate in the South because they fail to account for the way in which governments influence distributive outcomes through growth and development policy.

These criticisms are certainly valid; however they relate more to the process of generating typologies rather than the process of evaluating tax and transfer policy. In relation to this second objective the insight provided from Esping-Andersen's work – that the type of policies used should be considered as well as the amount of expenditure on welfare

programs – is still valuable. Thus, the question of whether concepts such as decommodification and defamilialization are useful measures for comparing welfare states is not centrally relevant to the analyses in this thesis.

2.2.3 Other approaches to measuring support: moving beyond decommodification and stratification

Esping-Andersen's work highlights that welfare expenditure on its own is not always a useful indicator of welfare effort. According to Esping-Andersen welfare effort (or the extent to which a state uses welfare programs to support its citizens) stems from a particular political ideology and can be captured by measuring the position of a welfare state within a two dimensional space of decommodification and social stratification. The nature of the welfare effort, identified in this way, then gives rise to a particular set of welfare outcomes.

As discussed above, Esping-Andersen's model has been criticised for its applicability which is limited to a male-centred, westernised welfare system. Whilst it is argued that elements of Esping-Andersen's approach can add conceptual understanding to analysing the extent to which tax and transfer policy supports children in South Africa, his methodology does have limitations, further criticisms of which are discussed in more detail below.

First, in terms of the overall question of welfare effort and welfare outcomes, Bonoli (1997) highlights that Esping-Andersen assumes that the same outcomes result from policies with differing aims. Bonoli argues that decommodification is a measure which

does not adequately capture differences in the nature of welfare effort which can result from using different policy instruments. This is evidenced by the fact that the Netherlands (a social-insurance based welfare state) and Denmark (a universal tax-financed welfare state) are both classified by Esping-Andersen within the social-democratic cluster when the policy mechanisms employed by each are clearly very different. Thus, whilst recognising the importance of the type of policies employed, Esping-Andersen does not recognise this difference in cases where two different policies are considered to be equally 'decommodifying'.

Bonoli's approach is to try and capture both welfare state expenditure and the type of provision. He builds on the earlier work of Ferrera (1996) who uses the degree of coverage of social protection schemes to differentiate between universalist and occupational welfare states. Bonoli's work takes, as an example, the distinction between Beveridgean and Bismarckian social policy where "Bismarckian social policy is concerned with income maintenance for employees, whereas Beveridgean social policy aims at the prevention of poverty" (Bonoli, 1997:357). He argues that these distinctions are important in terms of their implications for equality and redistribution. Bismarckian social policies provide earnings-related benefits to employees based on a contributions record, whereas the Beveridgean model provides flat-rate universal benefits financed through taxation and provided on the basis of citizenship.

Bonoli acknowledges that countries are not pure cases of either type but lie somewhere on a continuum between the two extremes, this position being measured by the percentage of social expenditure that is financed through contributions. Thus, welfare states can be positioned according to their aggregate welfare expenditure and their position on the

Bismarckian-Beveridgean continuum. Bonoli argues that the Bismarckian-Berveridgean dimension is important as each regime has different policy implications. For example, the Bismarckian regime can penalise women due to its strong reliance on occupational insurance and tends to reduce the extent of vertical redistribution (i.e. redistribution between the rich and the poor). However, he suggests that his two-dimensional analysis still fails to adequately capture the complexity of differences between welfare states and other dimensions could be incorporated, depending upon the area of interest. For example a two-dimensional analysis could compare welfare expenditure with the amount of redistribution or the position of women. In this sense Bonoli seems to be moving away from a cohesive model, where policies form a consistent package which can be captured by overarching indicators (for example, decommodification and social stratification), to an approach that uses dimensions relevant to the area of interest in order to illustrate the relationship between welfare expenditure and the type of welfare provision.

Finally, Bonoli argues that the quantitative comparison of welfare states can make little sense when they have fundamentally different aims. He argues that "Bismarckian and Beveridgean social policies are not only two different kinds of social policy: they are two different policies, because their objectives are different. Both policies can be measured in quantitative terms, but the results will fail the test of comparability, since in one case we will have a measure of a country's effort put into poverty prevention and in the other case the measure will tell us how much is spent for the purpose of income maintenance" (Bonoli, 1997:357).

The idea that different types of policies have different aims, and that it is essential to understand the type of support that welfare programs are intended to provide before it is

possible to evaluate whether or not these goals are achieved through the provision of particular welfare programs, is central to the research question of this thesis. For example, it may be taken for granted that reducing child poverty must be a goal of the South African government and the policy response is therefore judged on that basis. However, the approach of Bonoli suggests that a first step is to identify the *ideology* behind the welfare package and how this might translate into particular policy *aims*. These policy aims might then have further implications in terms of policy *instruments* and welfare *outcomes*. In summary, as Bonoli suggests, the aim is to test the extent to which social policy outcomes satisfy the social policy goals.

Another relevant outcome from Bonoli's work is the value of independently analysing different dimensions of policy. Esping-Andersen has been criticised for his decision to use cash benefit programmes as a principle of classification (Bambra, 2005; Gough, 2004; Kautto, 2002). Other authors have found that changing the basis of the analyses to the provision of services rather than cash, or focusing on a particular type of policy (for example protection against ill health), can result in quite different welfare state clusters emerging. For example, Kangas (1994) analyses health insurance provision, Kautto (2002) looks at service provision and Ragin (1994) considers the decommodifying effects of pensions. Each author produces a different typology of welfare states implying that the way in which a welfare state is classified depends on the particular dimension of policy which has been analysed (Seeleib-Kaiser, 2008).

The sensitivity of the results of an analysis of welfare state programs to the particular type of policies considered is also noted by Bambra (2005). Bambra replicates Esping-Andersen's methodology for health care services and compares the position of countries

on a health care services index with their position on Esping-Andersen's original cash benefit index. Thus, she aims to test how different policies fare when analysed using the same methodology. She finds that there is often inconsistency between the scores on each index, suggesting that in some countries there is inconsistency within the welfare state arrangements for different policy spheres. The UK provides a good example of a country which has a universal health service, which is free at the point of use, at the same time as means tested social assistance.

The internal inconsistency of policy configurations is also noted by Kasza (2002). Kasza uses his analysis of Japanese welfare policy to illustrate the difficulties associated with constructing welfare state typologies where policy making is assumed to reflect some underlying ideological approach to welfare (and therefore to be largely consistent). Whilst Kasza does agree that the principles and values upon which a state's welfare package is based are important, he asserts that policy making is cumulative and is the product of competing forces. In many cases these competing forces will result in policies that may appear to reflect different ideologies. Kasza concludes that "most countries practice a disjointed set of welfare policies due to the following typical features of welfare policymaking: (1) the cumulative nature of welfare policies, (2) the diverse histories of policies in different welfare fields, (3) the involvement of different sets of policy actors, (4) variations in the policymaking process, and (5) the influence of foreign models" (Kasza, 2002:271). Because of this he advocates that comparative analyses of welfare state programs should be "policy-specific".

The focus in this thesis is on tax and transfer policy and there is no intention to compare these policies with, for example, health or education policy. However, the findings of

Bambra and Kasza are still relevant for two reasons. First, they suggest that there are arguments for analysing each of the elements of tax and transfer policy independently as well as in combination. Second, the work of Kasza in particular suggests that the ideological approach to welfare should be assessed independently from policy instruments, rather than assuming that the choice of particular types of policy instruments implies a particular ideological approach to the provision of welfare. This is a crucial finding as Esping-Andersen sought to identify the nature of the ideological approach to welfare from an analysis of the characteristics of cash benefit programs. However, Bambra and Kasza suggest that welfare ideology may exist *independently* from policy instruments, and that these two factors may even be inconsistent. As Kasza has highlighted, various factors can intervene in the smooth translation of the principles and values underlying the approach to welfare provision through to the actual design and implementation of policies. Similarly, there may also be inconsistency between different policy instruments, for example in different types of tax and transfer policy that form part of the overall welfare state package.

The review of the literature relating to the choice of policy instruments provides some useful guiding principles for the analyses to follow. First, it is important to consider policy outcomes in the context of policy goals. In this case, the nature of the ideological approach to supporting children in South Africa must be thoroughly analysed before it is possible to assess the extent to which taxes and transfers provide support to children. Second, it is suggested that the ideological approach to welfare provision cannot necessarily be inferred from the type of tax and transfer policies used. Whilst the ideological approach to welfare should, in theory, guide the development of policy aims and policy instruments in order to result in the desired set of welfare outcomes, this may

not always happen in practice. Thus, the ideological approach, policy aims and the choice of policy instruments should be analysed independently.

These are helpful guiding principles to follow, however certain points have been neglected in the discussion thus far. First, the literature analysed under the strands of 'aggregate expenditure' and 'choice of policy instruments' pays little attention to the analysis of welfare outcomes i.e. the actual impact that policies have on individuals. Welfare outcomes are either seen as linked to aggregate levels of welfare expenditure or to be inherently related to particular types of welfare provision. This lack of an explicit focus on welfare outcomes was, in part, due to the fact that at the time of the original research little data was available that could be used to compare welfare outcomes across countries in a meaningful way. However, once such data became available welfare outcomes were given a more central position in the analysis of welfare states. This development in the literature is discussed in the following section and is key to the analytical approach employed in this thesis.

2.2.4 A focus on welfare outcomes

Many comparative studies, including Esping-Andersen's work and many following studies, tend to assume that certain policies imply certain outcomes (often because data on outcomes were not available) and leave aside a consideration of outcomes in favour of looking only at welfare expenditure and policy instruments. Makinen argues that "the core of the welfare state is its outcome – measured for instance by poverty rates and income

inequality – not the welfare effort… the main interest is focused on the results that can be obtained with certain expenditure levels and eligibility rules." (Makinen, 1999:5).

Studies that consider welfare outcomes as a key analytical dimension in comparative welfare state research have been undertaken by several authors (Castles and Mitchell, 1992, 1993; Fritzell and Ritakallio, 2004; Headey *et al.*, 1997; Lelkes, 2000; Makinen, 1999; Mitchell, 1992). The availability of new data from the Luxembourg Income Study (LIS) (Luxembourg Income Study, 2009) in the 1990s provided a new opportunity for researchers to consider welfare outcomes directly rather than assuming that this can be inferred from policy design. The work of Castles and Mitchell (1992, 1993) and Mitchell (1992) was at the forefront of this approach. In their view many English speaking nations – namely Australia, New Zealand and the UK – are considered to be welfare laggards due to their relatively low levels of welfare expenditure and a focus on means tested benefits. However, Castles and Mitchell argue that, far from being laggards, these countries have been responsible for some of the major innovations in social policy. In addition, the fact that none of these countries has experienced mass protest against state welfare provision is taken as an indication that the protective effects of welfare provision (i.e. welfare outcomes) cannot be inferred from an analysis of welfare expenditure.

Whilst Castles and Mitchell acknowledge the contribution of Esping-Andersen in terms of recognising that both welfare instruments and welfare expenditure affect welfare outcomes, they further add that a final dimension should focus on welfare outcomes specifically: "To understand the genesis of welfare outcomes, we have to start from the way in which the different incidence of need in different countries leads to variation in the distribution of market incomes. Thereafter, the redistributive policy process begins,

whereby market income is modified by a series of inputs consisting of the level of expenditure devoted to social policy goals and the level of revenues extracted to finance these expenditures. The final distribution of income will also depend on the characteristics of the transfer and tax instruments, for example, the extent to which expenditures and revenues are targeted" (Castles and Mitchell, 1993:99). In summary, they propose an analysis that links welfare expenditure, welfare instruments and welfare outcomes. The analysis also incorporates the concept of need as it is recognised that the final outcomes of any welfare regime will depend upon the initial level of need in society.

Castles and Mitchell (1993) argue that, as well as ignoring outcomes (or assuming that outcomes automatically follow from employing particular instruments), Esping-Andersen's typology relies on indicators that are still heavily influenced by aggregate expenditure. As a consequence his method fails to capture differences in welfare instruments and welfare outcomes adequately. In order to capture differences in welfare instruments Castles and Mitchell use average benefit equality (the extent to which policies which reduce differences in market income are used) and income and profits taxes as a percentage of GDP. These measures are intended to capture the equalising effect of benefits (regardless of what particular form those benefits happen to take) and the redistributive potential of a nation's taxation system. Thus, for Castles and Mitchell, it is the welfare outcome that characterises a welfare regime rather than the choice of instruments. In addition, differing policy responses may produce similar welfare outcomes.

A further question which could be addressed with data from the longitudinal LIS is the extent to which countries drift between different clusters. Mitchell (1992) uses the LIS

data to chart the trajectories of the OECD countries between 1980 and 1985 in terms of the relationship between pre-tax and transfer inequality and poverty rates and post-tax and transfer inequality. Thus, her analyses look at how the tax and transfer systems in each country counteract changing trends in market incomes. Mitchell finds that countries that have been classified within the same welfare state cluster by other authors do not follow the same trajectories in terms of the changing impact of their tax and transfer systems. For example, in terms of the impact of tax and transfer policy on income inequality, the UK shifts further towards the liberal position between 1980 and 1985 whilst Canada (often considered to belong to the liberal cluster, in common with the UK) moves towards a social-democratic model. In addition, the impact of the tax and transfer systems in the different welfare state clusters is not as might be expected. For example, the system in Sweden (considered to typify the social-democratic model) appears almost equally effective at mitigating the rise in inequality of market incomes over the period of analysis as that in the United States (considered to typify the liberal model).

The findings of Mitchell are similar to those of Makinen (1999) who also uses the LIS data to examine changes in welfare outcomes over time in the OECD countries. Makinen tests her findings against the typologies developed by Korpi and Palme (1998) rather than those of Esping-Andersen; however, the two typologies are not widely different and the resultant message is the same. Makinen finds that the incidence of poverty and spending on income transfers between the 1980s and 1990s is not consistent in countries which are grouped into the same welfare state cluster. However, in analysing the efficiency of social security schemes, the findings do suggest that countries classified as belonging to the encompassing model (similar to the social-democratic model) tend to be most efficient at reducing poverty.

There are two main ways in which outcomes-focussed studies can incorporate children. Although the studies discussed above chose to look at outcomes at a national level, the impact of policies on household incomes can also be determined for different family types using a 'model families' approach. Using this method, the net impact of a tax and transfer package, and other programs that affect income such as service provision, are compared for different types of families with different income levels. The model families approach has been widely used (Bradshaw, 2010) and is a relatively straightforward method of making robust comparisons between the impact that policies have on families in different countries. However a major disadvantage is that it becomes extremely difficult, or often impossible, to gross up the results to the national level. Thus, whilst it is possible to understand how government policy affects a particular type of family, it is not known how representative this family is of all family types and what the total impact of tax and transfer policy is on all families with children. In order to do this nationally representative survey data and analytical techniques such as microsimulation are required. As the interest in this thesis is to understand the overall impact of policy on children at the national level analyses based on model families are not appropriate here, although this is not to say that such analyses do not have value, rather that they are better suited to addressing different questions.

The incorporation of the analysis of welfare outcomes into the comparative welfare state literature highlights several important points. First, welfare outcomes are important and the relationship between policy instruments and outcomes is more complex than anticipated. Second, the fact that different countries start with differing levels of need and then apply different configurations of policies means that an analysis of welfare outcomes must consider both the initial pre-policy conditions and the final post-policy outcomes. A

third point is that welfare systems are not static. Most of the welfare state typologies developed draw on data from a single time point and, as such, cannot make assumptions about the trajectories of welfare packages over time. However, assessing the extent to which policy supports children involves considering not just what policies do at present but how policy trajectories are changing over time.

It could be assumed that outcomes-focussed studies imply that evaluating what the welfare state does is simply a matter of considering the final welfare impact of policy on factors such as poverty or inequality. In terms of analysing the extent to which policies provide support to different groups this insight is helpful as it removes the need to make decisions about which policies are targeted on which groups: instead welfare outcomes can simply be compared between different groups, for example poverty rates for children compared to poverty rates for other age groups.

However, focussing solely on welfare outcomes is insufficient to fully understand how tax and transfer policy supports children as this neglects the key influences of welfare ideology, policy aims and policy instruments. It could be argued that these factors matter less than welfare outcomes, i.e. one could ask why the choice between two different types of policy is important if the final impact on household incomes is the same? As discussed earlier, one reason is the fact that different welfare systems have different goals. It is therefore difficult to asses the extent to which actual welfare outcomes match the desired outcomes without fully understanding what the desired outcomes are. A slightly different argument has been put forward for considering welfare ideology, policy aims and policy instruments in the case of developing countries. It is argued that welfare systems in the developing world share a more consistent goal of economic and social development.

Although, there is, of course, disagreement about how this may be achieved, there is nevertheless an implication that particular configurations of social policies are more desirable than others in developing countries (Adesina, 2007; Dreze and Sen, 1991; Ghai, 2000; Mehrotra, 1997; Midgley, 2001; Mkandawire, 2004a). As Adesina notes "(T)he idea of a tolerable, minimum level of livelihood and decency is intuitive and socially constructed, and normative (ideological) rather than technical. Such concerns define the links between economic and social policies; the desirable system of social relations and governance; and the specific instruments for achieving the perceived minimum level of well-being" (Adesina, 2007:iii). Thus in developing countries there are perhaps stronger arguments for considering welfare outcomes alongside welfare ideology, policy aims and policy instruments.

2.3 Developing a framework for the analyses

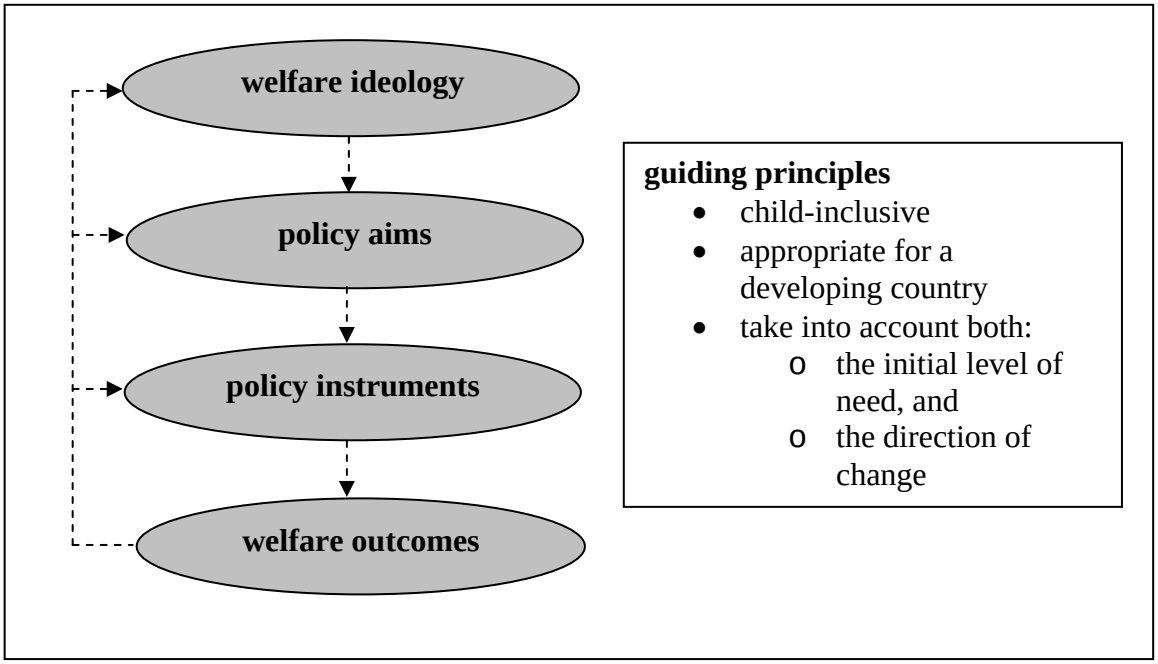
This chapter has reviewed the literature on classifying welfare states in the developed and developing world in order to consider how existing analytical methods can be extended or modified to develop a framework and a set of guiding principles which can be used to analyse the extent to which taxes and transfers support children in South Africa. The main findings of the literature review show that the analytical approach should focus on four distinct dimensions that each relate to tax and transfer policy. These are: welfare ideology, policy aims, policy instruments and welfare outcomes. Whilst the analyses are structured around these dimensions, the overall approach should take into account that the research aims to focus on children specifically and that the analyses should be appropriate for a developing country. The analytical framework and guiding principles are summarised in

Figure 2.1. The logic behind adopting this framework is outlined below with reference to the main findings from the literature review.

First, aggregate welfare expenditure can provide a helpful indicator with which to compare welfare states or compare expenditure on different groups. However, this measure cannot differentiate between the effects of employing different types of policy instruments and says little about welfare outcomes.

Second, the type of welfare outcomes that are considered to be desirable can vary. In seeking to determine the extent to which policies support a particular group it is essential to understand first the underlying welfare ideology. In theory, different ideologies of welfare give rise to different aims which, in turn, will result in different policy configurations. For example, following Titmuss' approach, the residual welfare model encourages self-reliance without recourse to welfare (therefore implying targeted and minimal welfare provision) whilst the institutional welfare model is based on promoting equality (therefore implying universal and generous welfare provision). Thus, the impact of the residual model on poverty may differ from that of the institutional model but this is not to say that one is more effective than the other as the fundamental values and aims behind each one are different. In developing countries understanding welfare ideology is essential as it can have a key influence on economic and social development.

Figure 2.1: Summary of the analytical framework and guiding principles



Third, a government's ideological approach to welfare cannot necessarily be inferred from welfare expenditure or the choice of policy instruments. Welfare ideology may influence the choice of policy aims and policy instruments and hence have an impact on welfare outcomes. However, various factors may intervene in the direct translation of an ideological commitment to a particular type of welfare provision, through to the choice of policy aims, selection of specific policy instruments and achieving the desired welfare outcomes. Therefore in fully understanding the links between welfare ideology, policy aims, policy instruments and welfare outcomes, each should be considered independently. There is also value in analysing different policy instruments independently as it has been found that there is often incoherence in the selection of policy instruments within a single country.

Finally, welfare outcomes are important. The early comparative literature tended to assume that certain policy instruments implied certain outcomes. However, the advent of

longitudinal cross-national data has since highlighted that initial levels of need differ across countries and so the same policy instruments may not always result in the same welfare outcomes. In addition, welfare outcomes should be analysed using a dynamic rather than a static approach. This is key in this thesis where the focus is on the position of children in relation to other groups and the changing trajectories of policy over time. Again, this adds another layer of complexity as the welfare outcomes experienced by one group may differ considerably from that experienced by another group and may move in a different direction over time.

Drawing together these findings leads to the analytical framework proposed above. The four-dimensional framework used here is an extension of the two-dimensional analytical approach proposed by Bonoli (1997) and elaborated on by Bambra (2007a). Bonoli claims that most of the comparative welfare state studies can be divided into two main methodological approaches: those that measure the quantity of welfare provision – termed the 'how-much' strand – and those that measure the mechanisms used to provide welfare (in broad terms via social insurance or social assistance programmes) – which is described as the 'how' strand. Bonoli argues that too many models are one-dimensional and a more fruitful evaluation lies in considering both 'how' and 'how much' in combination. Bambra's analysis of the utility of various typologies according to this two-dimensional framework suggests that the addition of a third dimension is also valuable. This 'how spent' dimension complements the existing dimensions and seeks to examine the nature of cash benefits and the welfare state services mix.

The approaches of Bonoli and Bambra are extended in the four-dimensional approach proposed here. The policy instruments and welfare outcomes strands largely align with

the ‘how’, ‘how much’ and ‘how spent’ dimensions of Bambra. In other words these relate to the types of policy instruments employed by the South African government and how these act to produce outcomes in relation to poverty and inequality for different groups in society. The addition of dimensions relating to welfare ideology and policy aims is in recognition of the fact that the provision of welfare is strongly linked to a particular vision of society which, in turn, can guide the development of policy towards achieving particular welfare outcomes. However, it is important to distinguish between the theoretical underpinnings of a particular approach to welfare provision and policy aims. For example, in the case of South Africa the social rights accorded to children in the Bill of Rights can only be realised if achieving these rights is operationalised in policy objectives.

Whilst, the analytical approach is structured around four distinct dimensions these dimensions may influence each other. This possibility is illustrated in Figure 2.1 by linking each dimension with dotted lines i.e. the welfare ideology in part determines policy aims which then leads to a particular set of policy instruments and welfare outcomes. However, the links between each dimension may not be straightforward and the policy aims and policy instruments might be inconsistent with welfare ideology. The diagram also aims to show how the relationship may change in a dynamic sense as changes in welfare outcomes might feedback into the system and lead to changes in the other dimensions. The analytical framework in Figure 2.1 is used to structure and inform the analyses in subsequent chapters. The next chapter considers the three qualitative dimensions of analysis: welfare ideology; policy aims; and policy instruments. The welfare outcomes dimension is addressed in the empirical chapters (5, 6 and 7) through the use of microsimulation modelling.

Chapter 3 – Supporting children through tax and transfer policy: welfare ideology, policy aims and policy instruments

3.1 Introduction

In the previous chapter the comparative welfare state literature was reviewed in order to develop an analytical framework through which to evaluate the extent to which tax and transfer policy supports children in South Africa. The analytical framework contains four distinct dimensions: welfare ideology, policy aims, policy instruments and welfare outcomes. This chapter focuses on the first three dimensions within the analytical framework: welfare ideology, policy aims and policy instruments; whilst the analysis of welfare outcomes is the subject of Chapters 5 to 7.

In theory the underlying welfare ideology should guide the selection of policy aims and policy instruments and result in a specific configuration of welfare outcomes. However, it was noted in Chapter 2 that various factors can act to generate inconsistencies between these four dimensions. Thus, the extent to which tax and transfer policy is considered to support children may depend upon which dimension is analysed. In order to identify how the extent to which tax and transfer policy supports children varies according to the dimension of analysis this chapter is split into three sections, each focusing upon a separate dimension of analysis. By separating the analyses of welfare ideology, policy aims and policy instruments in this way the objective is to move from the high-level theories, values and ideas related to the sort of society that South Africa is envisaged to be, through to more concrete aims in terms of how this vision might be realised in

practice, through to the actual detail of policy design. To give an example: a view of society in which all citizens are treated equally would be considered to represent an ideological approach to welfare; halving the number of people living below a specified poverty line would be an aim; and a universal child grant to help pay for the cost of school materials and transport would be considered as a policy instrument. It is acknowledged that there may be a good deal of overlap between each of these dimensions and, although the analyses are undertaken in three separate sections here, they are considered as different stages along a continuum rather than three distinctly different spaces. In some respects the three dimensions can also be separated in terms of their continuity over time. Welfare ideology is considered to embody a long-term vision of society, aims are likely to be periodically updated to reflect changes in socio-economic factors and policy instruments are even more frequently modified as progress towards particular aims is made (Hall, 1993). As the current ideological approach to welfare has roots in values and ideas of society that were originally formulated many years ago the path of the discussion also traces the historical development of policy from pre to post-democracy South Africa.

3.2 Evaluating the ideological approach to welfare in South Africa

One of the key findings from the review of the comparative welfare state literature in the previous chapter was the importance of understanding a government's ideological approach to welfare provision and the associated policy goals, before evaluating the extent to which policy supports these goals. Underlying this notion is the suggestion that there are different ideologies of welfare which have fundamentally different aims and which can therefore be expected to translate into different policy instruments and welfare

outcomes (Goodin *et al.*, 1999; Titmuss, 1974). For example in Esping-Andersen's 'liberal' welfare state (described in Chapter 2) the underlying ideological approach to welfare may be characterised by: minimal state intervention; an emphasis on personal responsibility; and the creation of incentives for individuals to engage in the labour market. The aims of the liberal state may include reducing the number of people relying on state provided benefits over time, and the policy instruments employed would typically contain a range of means tested benefits provided at a low level and often linked to an obligation to be actively seeking employment. This example relates to a hypothetical model of the welfare state and, whilst some real welfare states may exhibit elements of this model, in reality the link between welfare ideology and welfare outcomes is often more complex. As already noted, many factors may intervene in the smooth translation from welfare ideology to welfare outcomes (Kasza, 2002). So far the discussion has not explicitly considered exactly how a particular welfare ideology might relate to a particular set of aims, policy instruments and welfare outcomes. This link can be more clearly evaluated using theories and concepts related to social citizenship.

3.2.1 Social citizenship and policy vision

The concept of social citizenship provides a lens through which to evaluate the ideological approach to welfare in South Africa. The Bill of Rights in the South African Constitution is seen as a key text here as it outlines the set of rights that South African citizens are entitled to.

The idea of citizenship rights is often associated with the work of T.H. Marshall. According to Marshall social citizenship, when fully realised, provides universal rights to

citizens to a set of social and economic provisions which enable them to live according to the standards prevalent in society, socially and economically (Marshall, 1964). Such rights are typically not unconditional but are often linked to certain citizenship obligations (White, 2000). Marshall views citizenship rights and obligations as a means to generate equality between all citizens to compensate for the inequalities inherent in capitalism. Citizenship rights can be separated into three distinct groups: civil; political; and social, which are defined by Marshall as follows: "[T]he civil element is composed of the rights necessary for individual freedom —liberty of the person, freedom of speech, thought and faith, the right to own property and to conclude valid contracts, and the right to justice … By the political element I mean the right to participate in the exercise of political power… By the social element I mean the whole range from the right to a modicum of economic welfare and security to the right to share to the full in the social heritage and to live the life of a civilised being according to the standards prevailing in the society" (Marshall, 1964:71-72).

Social rights of citizenship can therefore be a means to encourage inclusion and participation of all members of society, regardless of existing differences (for example in income) between them (Dean, 2002; Dwyer, 2004). As Dwyer notes, there are various approaches to social citizenship and each "looks to policy to prioritise certain types of social provision as a way of engendering a wider notion of the social order or common good that fits with their specific normative vision of a good society… such issues are essentially philosophical in nature, but the ways in which they are resolved have a profound impact on the kinds of welfare rights that citizens are able to access" (Dwyer, 2004:51). Thus, the extent to which individuals can achieve economic security and fulfil their social needs, purely through their status as South African citizens (rather than

through other mechanisms such as the market or the family), is a *function* of the model of social citizenship prevailing in South Africa. Thus, welfare outcomes in South Africa may, at least in part, be dependent upon the welfare ideology expressed through the notion of social citizenship outlined in the Constitution.

The analytical application of Marshall's three spaces of citizenship rights is well established in the developed world (Dwyer, 2004), yet a common criticism of Marshall's approach is that it is based in the English context and experience (Turner, 1993). However, in South Africa the use of the concept of social citizenship to evaluate welfare ideology is considered to be particularly relevant as claims for human rights (including social, political and civil rights) have been key throughout the political struggles and debates occurring in South Africa since the early 1940s (Asmal *et al.*, 2005; van Niekerk, 2007; van Niekerk and Noble, 2009). A key text here is the Bill of Rights in Africans' Claims (1943) which was considered to be ground-breaking for its time by laying claim to a wide range of universally provided rights, including the right to social security (Asmal *et al.*, 2005). Similar demands were also expressed in later documents, notably the Freedom Charter (1955) and the Women's Charter (1954). Again, these documents call for certain universal rights of citizenship, which include the right to social security. For example, the Freedom Charter demands that: "the state shall recognise the right and duty of all to work, and to draw full unemployment benefits; men and women shall receive equal pay for equal work; There shall be a forty-hour working week, a national minimum wage, paid annual leave, and sick-leave for all workers, and maternity leave on full pay for all working mothers" (ibid:62).

Africans' Claims, the Freedom Charter and the Women's Charter were ground-breaking in their use of the concept of social citizenship to argue for welfare rights and the inclusion within these demands of non-whites and women. Asmal *et al.* also argue that these early documents were crucial in establishing a human rights tradition within the African National Congress (ANC) and setting out a framework for establishing a justiciable Bill of Rights within a South African Constitution that would act to enshrine universal rights and freedoms. In 1991 a committee was established within the ANC to draft a Bill of Rights for the new democracy. The draft Bill of Rights was completed in 1993 and, after extensive review and amendment, was eventually incorporated into the Bill of Rights in the new South African Constitution in 1996. The Constitution is an important document in articulating a vision for the sort of society that South Africa aims to become. As Motala argues: "[T]he constitution is the supreme policy guide, which all who live and work in South Africa abide by and hold in high esteem. Our democracy is built on this" (Motala, 2009:1). Given the importance placed upon the Constitution – as a vision for South African society and a framework for policy – it is necessary to further understand exactly what model of social citizenship it embodies and what implications arise from this in terms of tax and transfer policy to support children.

Social citizenship is considered to be a relevant concept with which to evaluate the ideological approach to welfare provision in South Africa due to its use in the historic debates and struggles for human rights and the fact that social rights of citizenship are set out formally in the South African Constitution (Dawes *et al.*, 2007). However, the Marshallian framework is typically applied to adults and – as children are the focus of these analyses – the evaluation of the model of social citizenship embodied within the Constitution must be appropriate for children. Children do not have (and are not likely to

obtain) exactly the same rights of citizenship that are conceded to adults (although this is not to say that children's citizenship rights are necessarily 'weaker' (Lister, 2007)). Despite this, the concept of social citizenship is still argued to be of relevance to children, particularly in the case of South Africa. The following section considers how theories of social citizenship might be modified to incorporate children and the relevance of these modifications for interpreting the model of social citizenship embodied within the South African Constitution.

3.2.2 Social citizenship and children

Social citizenship is concerned with the extent to which individuals can achieve a certain level of welfare purely as result of their citizenship status. However, many discussions of social citizenship do not mention the role of children as citizens and the implications that this may have in terms of welfare rights and welfare outcomes. A child's citizenship status has often been linked to their future status as adults (Lister, 2006b). For example, Marshall described education as a social right of citizenship; however, he viewed it in terms of the right of the adult to have been educated rather than the right of the child to go to school (Marshall, 1964). Similarly, discussions around the social rights of children have also been wrapped up in feminist concerns with gender and the family. There are often strong linkages between the position of women in society and the position of children (Cockburn, 1998) and both are more likely to hold weaker social rights if social rights are associated with formal attachment to the labour market. However, Alanen argues that the distinctiveness of children must be recognised: "parallel to a 'gender agenda' we can also imagine a 'generational agenda' being at work – a particular social order that organizes children's relations to the world in a systematic way, allocates them

positions from which to act and a view and knowledge about themselves and their social relations" (Alanen, 1994:37).

Many have argued that the notion of social citizenship needs re-thinking in ways that can meaningfully incorporate children, rather than developing separate definitions for children and adults (Alderson, 1992; Cockburn, 1998; Lister, 2007; Roche, 1999). This is to acknowledge the fact that citizenship is not an all-or-nothing concept but can be unpacked to incorporate difference. Just as inclusive notions of citizenship cannot be modelled on male norms (Lister, 2003; Sevenhuijsen, 1998), they can also not be modelled purely on adult norms and children can be citizens in practice if not always in law (Lister, 2007). Models of social citizenship which include children as equal but different types of citizens emphasise reciprocity and inter-connectedness. Such models should not be seen as child-centred, rather they aim to be inclusive and recognise the ways in which all people are connected to one another rather than autonomous beings (Cockburn, 1998; Lister, 2007; Minow, 1986; Roche, 1999). Just as children are dependent upon adults, adults are also dependent upon the contributions that children make to society, for example by contributing to domestic work or obtaining an education, and that these contributions are made in the present as well as in preparation for adulthood (Cockburn, 1998; Twine, 1994). Thus, some authors argue that children should be considered as current citizens (i.e. as 'beings') rather than citizens in the making (i.e. as 'becomings') (Cockburn, 1998; Lansdown, 2005; Lister, 2006b; Makrinioti, 1994).

The practical implications of this re-conceptualisation of social citizenship to include children are not straightforward. Advocates of child-inclusive citizenship suggest that the central features of child-inclusive notions of social citizenship are: giving children a voice

and the right to participate[17]; and, recognising the inter-connectedness between children and adults (Cockburn, 1998; Lister, 2007; Roche, 1999). Thus, in the case of South Africa, the model of social citizenship incorporated within the Constitution (and hence the implications of this for the provision of welfare to support children) can be evaluated according to the extent to which it recognises these key features of child-inclusive social citizenship.

The issue of recognising the inter-connectedness of children and adults necessitates a broadening of the discussion to consider both children's and adults' rights. It has been argued that children's rights are enhanced by increased autonomy (Alderson, 1992; Therborn, 1993); however, the inter-dependence of children and adults cannot be ignored and adults and children cannot be so easily separated that the welfare of one group can be improved independently (King, 1997). Thus, in understanding the implications of the South African Constitution in terms of a child-inclusive view of social citizenship it is also necessary to understand whether the sets of rights accorded to adults and children are complementary or contradictory.

These two issues –children as participating citizens and children and adults as connected citizens – are discussed in relation to the South African Constitution and other relevant texts in the following section.

[17] This is not to say that children are obliged to fulfil a particular role as citizens: Lister argues that a child's right to be a child (for example to be free from responsibility and protected) should not be subordinated to citizenship obligations (Lister, 2007). The age and capability of a child are particularly important factors here: rather than being absolute, children's rights can be thought of as conditional as they depend upon the evolving capacities of the child (Aldersen, 2000).

3.2.3 Evaluating welfare ideology in South Africa – a child-inclusive model of social citizenship?

Although children are expressly given social rights in the Constitution they are viewed as dependents requiring protection from harm rather than as citizens with a right to participate and to express a view in relation to decisions affecting their lives (Moses, 2008). This is not to say that children have no right to a voice or to participate in South African society. Moses (2008) notes that even though the Constitution makes no explicit reference to the rights of participation, the United Nations Convention on the Rights of the Child (UNICEF, 1990) and the African Charter on the Rights and Welfare of the Child (African Union, 1990), both of which South Africa has ratified, state that the government must allow children the opportunity to be heard in matters which affect their lives.

Whilst supporting the efforts of international treaties and conventions in promoting children's rights, many have questioned the impact that these can actually have in reality (Eekelaar, 1992; King, 1997; Olsen, 1992). In South Africa there is limited provision for children's participation in the public sphere. Moses (2008) gives the examples of children's rights to participate in the process of school governance (implemented through the South African Schools Act no. 84 of 1996 (Republic of South Africa, 1996b)) and to express a view in child protection matters (implemented through the Children's Act no. 38 of 2005 (Republic of South Africa, 2005) and the Amendment Bill of 2006 (Republic of South Africa, 2006b). There are also an increasing number of examples of research programmes, commissioned by government and NGOs, which either seek to gather the views of young people and / or include them in programme planning and decision making

(Barnes, 2009b; Cluver *et al.*, 2007; Mniki and Rosa, 2007; Morrow *et al.*, 2005). A number of NGOs and research organisations also aim to promote children's rights and raise the profile of children in the policy arena[18].

Although children are not entirely excluded from the policy-making process in South Africa, there is lack of systematic consultation of children in policy design and development. Moses argues that "a traditionally welfarist approach to children's service delivery means that children tend in practice not to be viewed as stakeholders who are important to consult when delivering programmes and policies" (Moses, 2008:329). Clearly, involving children in policy-making is not a straightforward task and requires careful planning and consideration of how meaningful involvement can be achieved. However, the fact that children have not been involved in key policy developments, for example in the design of the Child Support Grant, has meant that these have been based around adult views of children's needs and hence (following the arguments outlined above) a model of social citizenship that is not fully inclusive of children. The implications of this in terms of the provision of welfare are not particularly clear. It could be the case that the fact that children are not treated as fully participating citizens means that social policy is geared towards sub-optimal outcomes for children, but this assertion is difficult to test and is not the main focus of this thesis.

The other area in which the constitutional model of social citizenship has the potential to be child-inclusive is in recognising the interconnectedness between children and adults. This has a more obvious relationship to welfare outcomes, as the social rights accorded to

[18] Examples are: the Children's Institute at the University of Cape Town; the Black Sash; the Children's Budget Unit; the Community Agency for Social Inquiry; the Alliance for Children's Entitlement to Social Security; Child, Youth, Family and Social Development at the Human Sciences Research Council and; the Centre for Child Law.

adults arguably have an influence on the welfare outcomes of children. Hence the ideological approach to the provision of welfare for children is, in part, dependent upon the provision of social rights to adults.

As already noted in Chapter 1 the fundamental distinction between children's and adults' social rights made in the South African Constitution is that children's rights are not budget-constrained. The Bill of Rights sets out a number of different rights specifically for children which include: appropriate care; basic nutrition; shelter; health care; social services; protection from maltreatment and exploitative labour practices; legal representation; and a name and nationality. Children are also given the right not to be detained, except as a measure of last resort and not to be used in armed conflict. Of most relevance here are rights relating to appropriate care and provision of basic social rights. For example the statements that "[E]very child has the right to basic nutrition, shelter, basic health care services and social services" (Republic of South Africa, 1996:Sec 28.1.c) and "[E]very child has the right to family care or parental care, or to appropriate alternative care when removed from the family environment" (Republic of South Africa, 1996:Sec 28.1.b) imply that the state should take action to ensure these rights are fulfilled. By contrast, less strength is given to adults' rights, for example, adults are accorded the right to social security: "[E]veryone has the right to have access to…social security, including, if they are unable to support themselves and their dependents, appropriate social assistance" (Republic of South Africa, 1996a:Sec 27, 1 and 2), but this is to be provided progressively and is subject to "available resources" (Republic of South Africa, 996a:Sec 27,2).

The differences in the interpretation of children's and adults' right is somewhat unclear as, in the extract above, the provision of social security subject to available resources is applicable to everyone (adults and children). Thus, it could be argued that both children's and adults' rights are budget constrained. However, the fact that the rights that are provided to children *only* are not subject to this caveat has been interpreted as implying that the government *must* take positive steps towards realising children's rights (van Rensburg, 2005) and that children have a first and undisputable claim on state resources (Liebenberg, 2001; Seekings, 2002; Sloth-Nielsen, 2001; The Taylor Committee, 2002; van Rensburg, 2005). These interpretations have also been supported through various judgements in the constitutional courts, for example in the cases of Grootboom and S versus M. In the Grootboom case the applicants approached the High Court asking that the Government provide them with adequate basic shelter as they had been evicted from their dwellings on private land. The Court ruled that, as the group of applicants contained children, provision of basic housing should be made, as stipulated in Section 28 of the Bill of Rights. In the case of S versus M the court ruled that the primary care giver of three children could not be sent to jail for credit card fraud as this would deny her children their rights to a family life as set out within the UN Convention on the rights of a child. The judgements of Grootboom and S versus M have far reaching implications for the interpretation of children's rights in South Africa. These judgements support the progressive expansion of social rights (Liebenberg, 2001; Sloth-Nielsen, 2001) and the view that children in South Africa are seen as citizens in their own right with a legitimate claim on society (Kemp, 2009)

In assessing the extent to which children's and adults' rights are connected in South Africa it is also helpful to return to the historic debates on social rights. As has already

been discussed, many of the early texts which sought to set out models of social rights in South Africa (i.e. Africans' Claims, the Women's Charter and the Freedom Charter) made explicit calls for universal rights of citizenship for all adults formalised through comprehensive social protection schemes provided on a non-discriminatory basis. It is true that these early texts make no reference to social citizenship rights for children (aside from the right to education), but they were produced at a time when thinking on children's rights was globally at a very early stage.

The later draft Bill of Rights and the final Constitution contain quite different conceptions of social rights. Firstly, children's rights are explicitly acknowledged; however, in relation to adults a change is observed from a desire for universal and equal rights to a desire only to achieve basic rights. Furthermore, these basic rights are only to be delivered when the state considers that it has the means to provide such rights, or, in cases where the individual has been able to make sufficient financial contributions in order to claim them.

The draft Bill of Rights states that "[A]ll men, women and children have the right to enjoy basic social, educational and welfare rights" and "[L]egislation shall ensure the creation of a progressively expanding floor of minimum rights in the social, educational and welfare spheres for all in the country"; however, this includes the caveat that "[S]uch legislation shall take into account national priorities, the availability of resources and the capacity of the beneficiaries of such rights to contribute towards the costs involved" (Asmal *et al.*, 2005:104). Similarly, the Constitution also aims for "progressive realisation" of social rights (Republic of South Africa, 1996a:Sec 27, 2) and makes a distinction between social security and social assistance, with the implication that social assistance (i.e. on a non-contributory basis) should not be available as a universal right

but only to those “unable to support themselves and their dependents” (Republic of South Africa, 1996a:27.1c).

The implications in this shift from a universal right to comprehensive social protection to a progressively expanding floor of minimum social rights are difficult to interpret. It is important to note that the Constitution differs from its predecessors in that it was intended to be a justiciable document which presented a realistic vision for South African society. Previous texts could afford to be idealistic in their claims; however, it would not have been possible, given the economic reality in South Africa in 1994, to provide all citizens with an equal claim on state resources. This may not be a problem provided that progressive realisation of social rights is supported by an appropriate policy response. However, the problem with progressive realisation of social rights is that it is difficult to monitor and enforce the appropriate speed and direction of progression (Gloppen, 1997; King and Waldron, 1988; Whitworth and Noble, 2008). Thus, whilst the realisation of social rights is legitimised in the Constitution, there is no guarantee that it will be achieved.

Analysing the model of social citizenship embodied within the Constitution according to a child-inclusive model of social citizenship indicates that, whilst children are recognised as citizens and provided with certain social rights, children’s contributions to, and rights to participate in, society are not fully acknowledged. Furthermore, the fact that basic social rights are provided to children on an unconditional basis, but that adults rights are subject to available resources, presents some difficulties according to child-inclusive models of social citizenship. If progressive realisation of social rights for adults is not supported by an appropriate policy response then it could be argued that the state is failing to recognise the dependence of adults and children upon one another and, as a consequence, may be

undermining children's entitlement to social rights in the large number of cases where adult carers do not have the means to provide a basic standard of living for their children(van Rensburg and Lamarche, 2005). Thus, although the Constitution makes a commitment to children's social rights, the case for policies to support the fulfilment of children's rights is weakened by the caveats attached the social rights of adults.

3.3 Evaluating policy aims

This section discusses the policy aims set out in key government documents and considers how the actual policy aims have matched the policy aims that might be expected to follow from the ideological approach to welfare embodied in the Constitution. Policy aims are analysed by examining how these have been articulated in certain key policy documents and policy speeches between 1994 and 2008.

The previous section used concepts related to social citizenship to evaluate the ideological approach to welfare in the South African Constitution. This section discussed theoretical conceptions of social citizenship in South Africa rather than the real-life experience of what it means to be a South African citizen. It is acknowledged that there can be discrepancies between citizenship theory and practice (Prior *et al.*, 1995; Turner, 1993) and that it may take time for the full realisation of social rights as described in the Constitution. However, as Dean argues "[R]ights are central to social policy not only because they relate to the substantive entitlements to which the policy process gives rise, but because they provide the basis of the rhetorical claims which drive debates and struggles over welfare" (Dean, 2002:3). Thus, whilst the citizenship rights enshrined in

the Constitution can be seen as embodying a vision of the ideal future policy landscape as well as the one currently in operation (King and Waldron, 1988), the reality of citizenship rights in practice will be dependent upon a wide range of economic, social and political factors.

Whilst the Constitution sets out the social rights that citizens are entitled to it is not specific in setting out concrete policy aims. Policy aims are considered here to be measurable and to relate to specific objectives, for example to reduce poverty. The Constitution supports the provision of basic social rights for children as a priority and the progressive realisation of basic social rights for adults. Social rights can encompass a wide variety of entitlements to both services, such as health and education, and income (Marshall, 1964). However, as the focus here is on tax and transfer policy, the interest lies primarily in the right to a certain level of income. Whilst the Constitution does not explicitly state that South African citizens have the right to a particular level of income it does include the right to social security and it could also be argued that the fulfilment of certain social rights – for example the right to basic nutrition – is very difficult to achieve without at least some minimal level of income. Thus, if policy aims matched the ideological approach to the provision of welfare then policy aims should reflect the use of tax and transfer policy to eradicate child poverty in the short-term (until a minimum standard of income is achieved) and the progressive reduction of income poverty for adults. In parallel with this, a related aim may be the reduction of income inequality. The Constitution does not explicitly set out a position on income equality; equality is considered to represent “the full and equal enjoyment of all rights” (Republic of South Africa, 1996a:Sec 9.2), thus implying only an equal right to a basic minimum. However, improving the basic entitlement of the poor would result (all other things being equal) in a

reduction in inequality. As the Constitution implies that children's social rights should be realised as a priority, and given that significant fiscal resources would not be expected to become rapidly available, this may only be achievable in the short term through some form of redistribution. Hence, a reduction in income inequality might be an additional outcome of meeting children's entitlement to a basic set of social right, though this is not explicitly cited within the Constitution.

The remainder of this section outlines the policy aims set out within certain key government strategies, policy documents and speeches from 1994 to 2008.

3.3.1 The Reconstruction and Development Programme – a vision for post-apartheid South Africa

Immediately prior to the first democratic elections in 1994, the ANC set out its vision for post-apartheid South Africa in the Reconstruction and Development Programme (RDP) base document. The RDP was intended to be "an integrated, coherent socio-economic policy framework" (African National Congress, 1994:1.1.1). It was drawn up in conjunction with civil society and research organisations and was based firmly on an "inclusive approach to developing and implementing policy" (ibid:1.1.6). The RDP was clear in identifying that "poverty is the single greatest burden of South Africa's people" (ibid:2.1.1) and that "[T]he first priority is to meet the basic needs of the people" (ibid:1.4.2). These needs included social welfare provided as a social right to all citizens: "[T]he RDP aims to transform the existing social welfare policies, programmes and delivery systems so as to ensure basic welfare rights are provided to all South Africans, prioritising those who have been historically disadvantaged" (ibid:2.13.2). The

'historically disadvantaged' included women, children, youth, the disabled and people in rural communities and informal settlements. In addressing the problem of poverty the RDP crucially suggested that it was a problem that South Africa *could* afford to tackle. It argued that the transformation must occur through "[T]he redressing of past imbalances through a deliberate process of affirmative action" (ibid:2.13.4.2), although the document acknowledges that "unlocking existing resources for reconstruction and development will be a challenge" (ibid:2.1.3).

In addition, the RDP base document included key statements on the relationship between growth and development, the need to measure progress in reducing poverty and the importance of participation in the policy-making process. For example, in relation to growth and development, the RDP states: "[G]rowth – the measurable increase in the output of the modern industrial economy – is commonly seen as the priority that must precede development. Development is portrayed as a marginal effort of redistribution to areas of urban and rural poverty. In this view, development is a deduction from growth. The RDP breaks decisively with this approach" (ibid:1.3.6). The RDP firmly supported the idea of developmental social welfare. According to this view, providing access to a basic level of income and services acts as a means of building human capacity as well as providing a safety net. Thus, social welfare is an important component of a successful growth and development strategy.

There is also a clear intent to measure and monitor levels of poverty in South Africa indicating that the importance of analysing welfare outcomes has been recognised: "[T]he lack of accurate statistics to quantify and locate the problem of poverty underlies the need for a national unit to monitor poverty and deprivation in an ongoing manner" (ibid:2.2.9).

The RDP base document arguably embodies a strong commitment to reducing child poverty, including the measurement of progress towards this goal. Even though children are not cited as *the* priority group, they are still amongst the priority groups. This acknowledgement of the fact that poverty amongst the most vulnerable groups in society must be addressed as soon as possible, and the recognition of the equal social rights of children and adults through the provision of "basic welfare rights… to all South Africans" (ibid:2.13.2), is consistent with a move towards child-inclusive models of social citizenship.

At the same time as the RDP base document was being developed a different political ideology was emerging in the ANC. Van Niekerk and Noble (2009) argue that, following the first democratic elections in 1994, the macro-economic reality of declining growth coupled with the extensive problems of inequality and poverty led the leadership of the ANC to move towards fiscally conservative policies. This shift was reflected in the White Paper for Reconstruction and Development, which was to follow the RDP base document in September 1994. Although both growth and development were cited as key objectives in the RDP White Paper, growth was seen as the priority: "[T]he fundamental goal of the RDP is an employment-creating, labour-absorbing economy which will ultimately lead to full employment. Secondly, redistribution must occur to alleviate poverty in the process of meeting basic needs" (Republic of South Africa, 1994:3.4.5).

3.3.2 Growth, employment and redistribution – re-thinking the role of social welfare

The programmes set up under the RDP were given limited time to develop before the RDP was effectively abandoned and the Government announced the implementation of

the Growth, Employment and Redistribution (GEAR) strategy in 1996. GEAR followed from the RDP White Paper in pursuing a strategy of growth followed by development. The first priority of GEAR was to build "a competitive fast-growing economy which creates sufficient jobs for all workseekers" and a second aim was the "redistribution of income and opportunities in favour of the poor" (Department of Finance, 1996:1).

Although GEAR claimed to hold true to the goals of the RDP, Weeks (1999) observes that the GEAR document makes little mention of addressing poverty and inequality and focuses more on fiscal austerity. Notably, although GEAR acknowledges the role of social grants in poverty alleviation, the document makes references to 'reprioritisation' and 'scaling back' of government expenditure: "Reprioritisation within the health and education budgets, a municipal infrastructure programme, restructuring the welfare system, land reform and a review of training and small business support policies are amongst the initiatives which aim to address the claims of the poor to a fair package of basic needs. These adjustments are being accompanied by the elimination or scaling down of activities which cannot be provided to all or which could be undertaken effectively by the private sector" (Department of Finance, 1996:10).

The welfare commitment made under GEAR is set out in the 1997 White Paper for Social Welfare (Department of Welfare, 1997). The White Paper still makes explicit the links between social welfare and development and views welfare as a right: "Welfare programmes do not only contribute towards enhancing social welfare through human capital development and the alleviation of poverty, but also through the provision of merit goods. These programmes are an expression of a country's commitment to human and social rights" (ibid:Ch1, 7). However, the document makes it clear that the provision of

welfare is resource constrained and must follow from economic growth: "[S]ince resources are limited, trade-offs must be made between investment in economic growth and human resources, and investment in a social safety net. Welfare expenditure will only be able to expand as higher economic growth rates are achieved. The benefits of economic growth, however, should be equitably distributed through raising real per capita income and through social development programmes, which in turn will increase the capacity of individuals and families to meet their own needs" (ibid:Ch1, 9). The GEAR strategy document and the White Paper for Social Welfare place a greater emphasis on economic growth, rather than redistribution, to achieve the realisation of basic social rights. This implies that social rights will not be provided as a priority and shifts the responsibility for fulfilling these rights from the government towards the market. Thus, in terms of welfare provision, GEAR takes a marked departure from the RDP model of developmental social welfare provided as a high priority and as a universal right of citizenship (Adelzadeh, 1996; Weeks, 1999).

3.3.3 GEAR and beyond – budgeting for social protection

Following the introduction of GEAR in 1996, the evolution of policy aims in subsequent years can be traced through the annual budget speeches. Motala argues that the State of the Nation address and the Budget Speech are "the two most important policy agenda-setting opportunities that the two most powerful men in the country have at their disposal" (Motala, 2009:1). The budget speeches are considered to be especially relevant to the discussion as the budget is the ultimate barometer of policy priority. As the former South African Finance Minister Trevor Manuel has argued, "[T]he Budget, and its progressive evolution… is a powerful index of a society's values, not merely in its language and

numbers, but in the lived experience of its impact on people, families, workers, businesses and organisations" (Manuel, 2004:1).

It was noted earlier that there would inevitably be some overlap when attempting to separate welfare ideology from policy aims and policy instruments and it is in the budget speeches where this is most apparent. Many of the speeches refer back to an underlying vision of society. This vision tends to link strongly with the values of freedom and equality which are also articulated in the Constitution. For example, in the 2000 budget speech Manuel states that "[O]ur vision and commitment are clear, to build a better life for all our people" (Manuel, 2000:3), and again in 2004: "we will continue, day by day and year by year, to translate the resources at our disposal and the opportunities before us into people-centred development, human fulfilment and freedom" (Manuel, 2004:2), and in 2007: "[T]he foundation of human association is the idea that human life has equal worth and human beings are equally entitled to political, economic and social rights which allow them to choose a life that they have reason to live" (Manuel (2007:4)).

This societal vision is often linked to the aims of eradicating poverty: "[T]he fundamental challenge we continue to face as a country is how to grow our economy in a sustainable way so that poverty is eradicated and the prosperity and well-being of all our people is increased" (Manuel, 2000:4). Despite this focus on poverty, it is not clear how the 'poor' are identified and what constitutes a minimally acceptable level of income (Meth, 2006a). Various budgets make reference to vulnerable members of society which include children, the elderly and the disabled. However, the strategies employed to improve the situation of these groups are generally related to service provision and economic growth rather than the provision of cash benefits: "[O]ur future success also depends on our ability to

develop the potential of our children and grandchildren, which is largely a responsibility of the health and education systems" (Manuel, 2000:10); "[B]roader economic growth and job creation are undoubtedly the most important elements in redistributing income and economic opportunities" (Manuel, 2000:12).

Another key theme in many of the budget speeches has been reducing the burden of taxation. In fact, the differing magnitude of budget allocations on programs to reduce poverty and reforms to tax policy may provide some clues about the underlying priorities of the government. For example, the 2000 budget returned R9.9 billion to taxpayers whilst only allocating an additional R1.3 billion to social grants and the 2000 budget speech makes tax-cutting an explicit policy aim: "[A] key objective of our economic policy is to reduce the tax burden on ordinary people… The changes to income taxes tabled here today are designed to promote equity. By putting a substantial amount of money back in people's pockets we want to reward work effort, savings and entrepreneurship" (Manuel, 2000:22). Given that income tax is only paid by the wealthiest 16 per cent of the adult population[19], this notion of promoting equity would have no impact on the incomes of the majority of 'ordinary' South Africans other than by reducing the resources available for spending on lower income groups. Thus, this type of tax-cutting strategy suggests that policies aimed at reducing poverty were less of a priority than pursuing economic growth.

As it became clear that GEAR was not succeeding in creating sufficient growth and unemployment remained at a high level, considerable pressure was put on the government to take direct action to address poverty and inequality (Bond, 2005). From 2003 onwards

[19] From the author's own calculations using the microsimulation model SAMOD (see Chapter 4 for further details).

the budget speeches reflect a shift in position with a renewed focus on social protection. In particular, the 2003 budget was one of the first to articulate a specific focus on child poverty. This budget included plans to extend the age range of the Child Support Grant and announced the first increase in the value of the grant since its introduction in 1998. The link between social grants and redistribution was also explicitly recognised: "Social assistance grants provide critical income support to vulnerable groups – the elderly, young children and people with disabilities. This is our largest and most effective redistribution programme" (Manuel, 2003). In addition, the Child Support Grant was recognised in the 2009 budget speech for its contribution to reducing child poverty: "[C]ompelling evidence that the phasing in of the Child Support Grant has contributed significantly to reducing child poverty has emerged in recent research and so consideration is being given, subject to affordability, to the extension of the Child Support Grant to the age of 18" (Manuel, 2009:16).

Although the increased emphasis on social protection does become apparent in the budget speeches following 2003, this is viewed as a logical progression from the earlier approach of GEAR rather than a fundamental shift in priorities: "In 1994, we had a choice, to expand spending by borrowing, or reprioritise while reducing dependence on debt. The choices that we have made, consciously made, provide us with the fiscal space to spend more on education, on health, on public transport. It has also provided us with the policy room to contemplate long-term reforms to our social security system that will benefit all South Africans" (Manuel, 2007, p11). The change in policy priority was also seen in macro-economic policy as outlined in the Accelerated and Shared Growth Initiative for South Africa (ASGISA), which, in 2006 represented the first major re-evaluation of macro-economic strategy since GEAR. The ASGISA strategy document states that: "[W]e

believe that we have built the basis for a national effort to achieve faster and shared economic growth. With this programme we can achieve our social objectives and we can more than meet the Millennium Development Goals [to half poverty and unemployment by 2014]. Our second decade of freedom will be the decade in which we radically reduce inequality and virtually eliminate poverty" (Republic of South Africa, 2006a:Conclusion). Even though the ASGISA strategy document expresses a renewed focus on poverty, this does not represent a departure from the earlier GEAR philosophy of growth *followed by* development.

To summarise, the policy aims expressed in the budgets following the introduction of the GEAR strategy in 1996 largely reflect the main aims of GEAR: to encourage economic growth as a priority and a reduction in poverty as a secondary aim (and an outcome of economic growth). This represented a departure from the earlier views expressed in the RDP base document where development and growth were thought of as simultaneous rather than sequential activities, with at least some degree of redistribution required to achieve the necessary levels of social development. Whilst the aim of a more equal society with lower levels of poverty and inequality which would support the realisation of the social rights laid out in the Constitution is still reflected in GEAR, the White Paper for Social Welfare and the subsequent budget speeches, this is often subordinated to the primary aim of economic growth. In particular, the Constitution implies the fulfilment of basic social rights for children as a policy priority whereas the budget speeches suggest that these rights will only been realised *after* a certain level of economic growth has been achieved.

Although the actual policy aims implied by the welfare commitment made within the Constitution *do* match the policy aims expressed in policy strategy documents and budget speeches, the time periods over which these aims should be realised are inconsistent. This inconsistency in timing is particularly apparent for children as the Constitution implies that children's rights should be addressed as a priority and the policy priority (at least prior to 2003) was to achieve economic growth. In relation to adults it is harder to determine if policy aims are inconsistent with the welfare commitment implied by the Constitution as the Constitution calls for progressive realisation of social rights for adults and it is not clear over what time scale this should be achieved.

3.4 Evaluating policy instruments – taxes and transfers

This section considers policy instruments, specifically the tax and transfer policies that have been used in South Africa pre and post 1994 to determine the extent to which the policies employed over this period have supported children's entitlement to social rights and the progressive realisation of social rights for adults. Tax and transfer policies are not the only policy instruments that can be used to achieve these goals. However, the Constitution does explicitly set out the right to social security and – in the light of the very high levels of income poverty in South Africa – these policies are arguably a crucial component of a welfare package aimed at promoting the realisation of social rights. The discussion of recent policy reforms is first contextualised by a brief discussion of the evolution of tax and transfer policy up to 1994 as the historic features of policy design can be influential in terms of constraining the trajectories of future policy reforms (Pierson, 1994, 2000).

3.4.1 Tax and transfer policy in South Africa pre-1994

Social assistance

During, and prior to, the apartheid era the social protection system in South Africa was largely aimed at responding to the needs of the white population. By the early 1960s social assistance in the form of cash transfers was provided to pensioners, people with disabilities and single mothers. In theory this was available to all South Africans; however, there was an extreme racial bias in access to social assistance and the level of income provided (Lund, 2008). Coloured and Indian populations were increasingly able to access social grants from the 1970s onwards and received the greatest income (in per capita terms) from social assistance of all races by the early 1990s (van der Berg, 2002). Social assistance was supposedly also available to black Africans. However, the fragmentation of administrative structures and the creation of a number of separate 'homeland' areas for the black African population with independently functioning welfare systems facilitated widespread corruption with welfare officials and social workers often acting as gatekeepers to severely limit the number of grants administered to black Africans (Lund, 2008:16).

Rising numbers of protests against the inequalities in the social assistance system led to its gradual reorganisation and the removal of racial discrepancies. This included harmonising the multiple rules and administrative systems and equalising the level of the grants between race groups. Legislation enacted via the Social Assistance Act of 1992 (Republic of South Africa, 1992) eventually enforced the complete removal of racial discrimination in the administration of social assistance. By 1994, social assistance grants

to pensioners, the disabled and single parents were fixed at a level of R410[20] per month for all South Africans (with an additional amount available for the children of single parents). Whilst this is not a large amount it was sufficient to meet basic living costs at the time.

Pensions and disability grants accounted for nearly 90 per cent of total spending on social assistance in 1996 (Lund, 2008:14). The monetary value of these grants was large enough to have a significant impact on the income of the poorest households and, by the early 1990s, receipt of a pension or disability grant was sufficient to lift many households out of poverty. Although these grants did have an impact on those who were eligible to receive them, it is estimated that less than 10 per cent of the population was receiving social assistance in 1993 and the majority of these were pensioners.

For children the only forms of social assistance available prior to 1994 were the State Maintenance Grant and the Foster Child Grant and between them these grants accounted for around 10 per cent of the social assistance budget. The State Maintenance Grant was paid to single parents (almost exclusively mothers) with children under the age of 18 whose spouse had either died, been imprisoned, was unable to work or had deserted them. In the latter case support was only provided to a family if the applicant had applied (and been unsuccessful) in claiming private maintenance through the courts. Although all South Africans were legally entitled to social assistance by 1994, in practice some racial inequalities in access remained, particularly in relation to the State Maintenance Grant. In the early 1990s the majority of claimants of the State Maintenance Grant were coloured and Indian women, and less than 1 per cent of claimants were black African (black

[20] One Rand is equivalent to £0.075 in August 2009.

Africans make up around 80 per cent of the population). Fully expanding access to the State Maintenance Grant to all those who were eligible in 1994 was considered to be prohibitively expensive. It was estimated that this would have cost around R12 billion, representing a doubling of the budget for social grants at the time (Lund, 2008:18).

The other main grant available to support children was the Foster Child Grant for families caring for a foster child which, in 1995, was paid at a rate of R288 per month. This amount would meet most of the costs of providing a basic level of care for a child but only in cases where the family had access to other sources of income. Take-up of the Foster Child Grant was also low amongst black African families due to a lack of knowledge about the grant and the considerable bureaucratic hurdles which had to be overcome to claim the grant (Vorster, 2000).

Social insurance and other provisions

Various other policies and services which acted to protect the interests of white families had a significant impact on the design of social protection[21]. In particular the policies of job reservation (where certain jobs could only be carried out by white workers) and job guarantee (where every white South African was guaranteed a job from the state if employment could not be found elsewhere) ensured that unemployment was not a social risk that needed to be catered for. Any kind of policy to protect against unemployment was, therefore, absent from the social protection package until the introduction of the Unemployment Insurance Fund (UIF) in 1946. Black African workers were not officially covered by the fund until the late 1970s and in 1990 the UIF was estimated to cover less

[21] These included housing subsidies, education subsidies and loans, as well as the overarching policy of apartheid which provided preferential access to land and jobs.

than 40 per cent of the labour force and around 70 per cent of formal employees. For the majority of those in informal employment no coverage was provided by the UIF (van der Berg, 2002).

For informal sector workers and the long-term unemployed limited additional support was available. Public works programmes had occasionally been used in pre-1994 South Africa to combat structural and cyclical unemployment and provided employment and training to a small segment of the labour force. However, the limited scope of the programmes and the lack of jobs for programme participants to move on to when the programmes finished meant that public works programmes could not really be considered a significant form of social protection.

The final strand of the package of social protection worth mentioning is the key role of private and occupational insurance schemes. These have historically provided considerable income security for the wealthy (generally white) old age population. In the 1990s about 73 per cent of the formal labour force was covered by occupational schemes and considerably more was paid out to individuals through occupational and private schemes than through social assistance pensions (van der Berg, 2002:3.2). Private medical schemes also played an important role accounting for around 60 per cent of medical expenditure but covering only 20 per cent of the population (McIntyre *et al.*, 2003). Both occupational and private insurance for retirement and medical aid apply mainly to the wealthiest individuals, either those in formal employment or who can afford to make contributions to private insurance funds.

Taxation

Tax revenue in South Africa is raised from a variety of sources which can be split into direct and indirect taxation. Direct taxation is levied directly on individuals and institutions. Most of the direct tax revenue in South Africa is provided by personal income tax and company taxes. Other sources of direct tax revenue include taxes on retirement funds, donations taxes and estate duties. Indirect tax is paid on purchases of goods and services: this includes value added tax (VAT), customs and excise duties and stamp and transfer duties. The present research focuses on personal income tax, VAT, excise duties and fuel levies. These taxes constitute the major sources of revenue in South Africa (excluding company tax[22]) and also have a direct impact upon household incomes.

Personal income tax prior to the 1990s was designed with a strong emphasis on the traditional nuclear family. A system of joint taxation was in place which created disincentives for women to participate in the labour force due to the high marginal tax rates applied to second earners (Smith, 2000). In addition, a number of tax concessions were available to subsidise contributions to private medical and pension schemes but these were generally only available to high income tax payers. A small tax rebate was also available to couples with dependent children. In the early 1990s income tax was reformed and a new system of individual taxation was implemented. By 1994 tax rates had begun to be harmonised so that the same tax rates were applied to men and women regardless of their marital status. The tax rebate for children was removed; however, the subsidies for private insurance schemes remained. The income tax system in 1994 was largely

[22] Tax on companies is not included as it is not clear exactly how this affects individual households. Other direct taxes, such as tax on property sales, are excluded because there is insufficient data to robustly analyse the impact of these taxes on welfare outcomes.

progressive with tax rates increasing in relation to earnings and a large tax-free allowance so that income tax was only paid by those towards the top of the income distribution.

By contrast, indirect taxation has always had a significant impact on the poor (Go *et al.*, 2005; Smith, 2000). VAT was introduced in 1991 in South Africa at a rate of 14 per cent to replace a general sales tax. In order to reduce the burden of VAT on the poor and, in particular, to address concerns of malnutrition 19 basic food items such as brown bread, rice and vegetables had become zero-rated by 1993 (Alderman and del Ninno, 1999). Other relevant indirect taxes in 1994 included excise duties (applied to luxury goods such as alcohol and tobacco) and fuel levies.

3.4.2 Tax and transfer policy post-1994

The inadequacies in the 1994 system of social protection were recognised by the new Government of National Unity and an inter-departmental task team was set up by the Department of Welfare[23] in 1999 to consider how these should be addressed. The team recommended a thorough review of the existing system and this was undertaken by the Taylor Committee in 2001. The findings of the Taylor Committee supported the view that the government had committed itself to providing a basic level of income security to poor households but pronounced the existing social security system to be "neither comprehensive nor adequate" (The Taylor Committee, 2002:154). Moves towards a comprehensive system of income support were advocated as a means of providing people with their socio-economic rights: "comprehensive social protection, by providing universal coverage, thus embeds an important form of social citizenship – and could be

[23] Now the Department of Social Development.

seen to form a central component of the democratic State's 'contract with the people'" (ibid). The Taylor Committee's report has been cited as providing the framework through which subsequent social security initiatives should be developed. However, with the exception of the introduction of a new cash transfer for children in 1998, there have been no other major reforms to the system of social protection and taxation since 1994. Whilst various reform schemes have been proposed to address the gaps identified by the Taylor Committee (Department of Social Development, 2007, 2008), policy reforms to address these gaps have yet to be implemented.

Reforms to income support for children

The lack of support for children in South Africa was recognised by the new government in 1994 as a significant policy gap and in 1995 the Lund Committee for Child and Family Support was set up to undertake an appraisal of existing state support to children and families and explore alternative policy options (Lund, 2008:40). The committee's initial remit was broad and appeared to be firmly grounded in ideas of 'developmental social welfare' as they were tasked with exploring "alternative policy options in relation to social security for children and families as well as other anti-poverty, economic empowerment and capacity-building strategies" (Lund, 2008:36). The Committee also experienced initial feelings of solidarity with the aims of the new government: "[T]his policy intervention took place shortly after the transition to a new regime. All Committee members and advisers were committed to a society that would address the problems of poverty and inequality, which were the legacy of apartheid. We wanted, in 1996, to be helpful, to collaborate with the new government in devising a policy that would be workable" (ibid:29). However, even in the early stages it became clear that the

government was more concerned by fiscal restraints than addressing the problems of poverty and inequality: “Finally, the Committee strategically decided to work ‘within fiscal constraints’: It became quite clear within weeks of our establishment that any policy recommendations which failed to take into account the new slogan coming from the Cabinet – ‘Reform, but reform within the existing envelope’ – would not be entertained seriously by the political leadership” (ibid:30).

After considering various options and reviewing international evidence the Committee eventually decided that a cash benefit for children was the most effective strategy to pursue in South Africa. The new benefit was originally based on three main principles: first, that it would ‘follow the child’; second, that it would not be means tested and third, that, in light of the fiscal constraints, it would be age-limited in order to target children most in need. The committee had wanted the new cash transfer to be universal but fiscal constraints meant that it was only realistic to target around 30 per cent of the poorest children. With rates of child poverty in 1995 estimated to be over 60 per cent (Martin and Rosa, 2002) this has been criticised as a somewhat arbitrary distinction. As Liebenberg argues “any attempt to design a mechanism to select only 30 per cent of poor children is bound to encounter a number of insurmountable problems… (it) is destined to be arbitrary, unfair, and administratively impractical. The test developed should not artificially divide the poor (Liebenberg cited in Lund, 2008:86). It was argued that a universal benefit would reinforce principles of solidarity and the idea that “all of South Africa’s children are important” (Lund, 2008:85). Despite these arguments, the fiscal conservatism of GEAR, an upwards revision of the estimate of the number of children in South Africa and the belief that universalism would not receive government backing

meant that the Committee considered it more prudent to work towards a targeted benefit rather than risk losing the allocated funding altogether.

The Child Support Grant was finally implemented in 1998. The grant was means tested and available only to children under the age of seven at an amount of R100 per month. In comparison to the State Maintenance Grant and Old Age Grant at R410 per month and the Foster Child Grant at R288 per month, the Child Support Grant was considered to represent a very small contribution to family income and was insufficient to cover the costs of raising a child. The Lund Committee was severely criticised by children's interest groups and civil society for the small amount of the grant and the scaling back of support for existing recipients of the State Maintenance Grant[24]. In defence of these criticisms Lund argues that there was a real concern that the fiscal austerity of the treasury would result in the new grant being dropped entirely. Even though the final policy design had moved away from the initial vision, "[C]onceptually and strategically, the process also kept alive the idea of a direct role for the state in poverty alleviation" (Lund, 2008:97).

Following the introduction of the Child Support Grant the value of the grant was increased to R150 in 2003 and by a further amount each following year. The value of the grant in 2008 was R210 per child per month representing a real increase in the value of the grant of nearly 30 per cent since its introduction in 1998[25]. The age range has also been expanded: the grant was made available to children under the age of nine in 2003 and children under the age of 14 in 2005. The government has recently announced that all children up to the age of 18 years will be able to receive the grant by 2012 (Maseko, 2009) with 15 year-olds becoming eligible in January 2010, 16 year-olds in January 2011

[24] The State Maintenance Grant was gradually phased out in order to fund the Child Support Grant.
[25] The real values of the grants are calculated using the consumer price index.

and 17 year-olds in January 2012. In 1998 the combination of the limited age range and a strict income test meant that only a small proportion of poor children were eligible to receive the grant. Whilst the age range was gradually expanded the income test remained at the same level in nominal terms (thus declined in real terms) between 1998 and 2008. In 2008 the income test was raised considerably such that around 60 per cent[26] of *all* children in South Africa are now eligible for the grant. Finally, there has also been a considerable increase in take up of the grant since 1998 (Noble *et al.*, 2005), with take-up rates estimated to be 86 per cent in 2007 (Children Count, 2009).

The other social assistance grants targeted at children are the Foster Child Grant and the Care Dependency Grant. The Care Dependency Grant is a means tested grant introduced in 1996 which is available to disabled children until the age of 18. The Care Dependency Grant is paid at the same rate as the grant for older people (the Old Age Grant) and the grant for disabled adults (the Disability Grant). The Care Dependency Grant is an important source of income for children who are eligible to receive it; however, as relatively few children are eligible its potential to impact upon national rates of child poverty is limited (Proudlock *et al.*, 2008). The Foster Child Grant was already in existence in 1994. Since then the value of the grant has been increased roughly in line with inflation and the income test was removed in 2008. Although take up of the grant has improved since then the grant remains extremely difficult to access (Proudlock *et al.*, 2008) and the number of actual claimants for the grant is significantly less than the estimated number of children who are not living with either of their biological parents (Woolard, 2003).

[26] From the author's own calculations using the microsimulation model SAMOD. This model is discussed in further detail in Chapter 4.

Other reforms to tax and transfer policy

As already outlined above, aside from the introduction of the Child Support Grant and the cessation of the State Maintenance Grant, there have been no major reforms to the system of social protection and taxation since 1994. Social assistance for the elderly and disabled provided through the Old Age Grant and the Disability Grant continues to be a key form of support (Duflo, 2000; Maitra and Ray, 2003; Samson *et al.*, 2004) and, for those employed in the formal sector, occupational and private pension schemes are still the dominant form of provision. The Disability Grant is provided to adults aged 18-59 unable to work due to permanent illness or disability and the Old Age Grant is provided to men over from the age of 65 and women from the age of 60. Both the Old Age Grant and the Disability Grant are means tested; however, the income threshold and the value of the grant have been increased since 1994 at a rate slightly greater than the rate of inflation. Take up of both of these grants has also improved, with the take up rates for both grants estimated to be between 85-90 per cent in 2003 (Standing and Samson, 2003:23).

Coverage for the unemployed largely remains unchanged. There is still no social assistance provided to the unemployed although there is limited short-term relief available to those in dire poverty provided as cash or a food parcel. This provision is only intended to cover exceptional circumstances such as a natural disaster or death of a family member. In most cases the UIF is the main form of protection for those workers who are eligible to make contributions. However, given that slightly less than 0.5 million claims were made for the Unemployment Insurance Fund in 2007 (Meth, 2008a) and there were approximately 17 million working age people who were classified as unemployed or not economically active (Statistics South Africa, 2008c), it is clear that the significant number

of adults who are not employed are likely to be at risk of poverty. Public Works Programmes have been championed by the South African government as a key component of social protection and a means of building skills. However, research suggests that both the scale and design of the programmes means that their impact has been limited. In a study of the potential for poverty reduction to occur in two Public Works Programmes, McCord finds that "PWPs have no prospect of representing an adequate policy response to the social protection gap facing the working-age unemployed" (McCord, 2004:74).

Finally, personal income taxation underwent major reforms following the work of the Katz Commission in 1994. Following its recommendations further steps were taken to remove any remaining gender discrimination in the income tax system. The number of income tax bands was reduced and the threshold for paying income tax was increased to reduce the burden of taxation on low and middle income taxpayers (Smith, 2000). The Committee decided against requests to consider reforms to the VAT system to make it less regressive, believing that this would entail too great a loss in VAT revenue. Tax subsidies for contributions to private medical and pension schemes remain and have been increased (in nominal terms) on a regular basis. In 2005 the loss in tax revenue due to subsidies on contributions to retirement schemes and investment earnings alone was estimated to be R29 billion (van den Heever, 2007). In comparison, the government spent around R67 billion on the administration and payment of social grants in the same year (National Treasury, 2007:329).

3.4.3 Links between tax and transfer policy and welfare ideology

A number of observations can be made regarding the evolution of tax and transfer policies in South Africa between 1994 and 2008. Seekings (2005) and Gough and Wood (2004) note that the analysis of welfare states in developing countries must take account of areas where the welfare package *fails* to provide formalised support. It is clear that there were a number of gaps in the system of social protection in South Africa in 1994 and that many of these gaps remain in the system in place in 2008. Whilst there has been a considerable increase in support for children up to the age of 14, there is still no support available for particular groups, most notably for children aged between 15 and 17 (although this should come in due course) and healthy working age adults unable to find employment and not eligible for support from the Unemployment Insurance Fund.

In order to understand the implications of the gaps in the system of social protection for South African households it is necessary to examine fully the way the transfer system affects the distribution of income. This includes a consideration of the relative values of the different social grants, the eligibility criteria for access to grants, and the underlying extent of need (for example, in terms of national poverty and unemployment rates). Under the current system an individual's access to income (for the healthy working age population) is highly dependent upon their employment status rather than their status as a citizen (Seekings, 2005). This is not consistent with the provision of basic social rights as an entitlement of citizenship outlined in the Constitution. The lack of coverage for these groups also creates undesirable tensions, for example, between work and education (for children aged 15 and over) (Proudlock *et al.*, 2008) and between income and health (in the case of Disability Grant recipients who may chose not to receive medical treatment in

order to keep claiming a grant) (Nattrass, 2005; Whitworth and Noble, 2008). Tax policy in South Africa currently has no direct impact on children as there are no tax concessions available to families. However, the tax cutting strategy that has been employed since 1994 has reduced the potential of the tax and transfer system to reduce inequality in the distribution of income and also limited the revenue available for expanding social assistance.

Although there has been little progress in the progressive realisation of social rights for adults (at least in terms of an entitlement to a basic level of income) (van Rensburg and Lamarche, 2005), the introduction of the Child Support Grant in 1998 goes some way to meeting the welfare commitment made to children in the Constitution. However, the Child Support Grant has been criticised as being an inadequate policy response for several reasons: first, it was only targeted on a small proportion of children in poverty; second, the amount of the grant was too small to make a significant difference to the children receiving it (Guthrie, 2000, 2002); and, third, children who had been in receipt of the more generous State Maintenance Grant were put at greater risk of poverty (Vorster *et al.*, 1996; Zain, 1999). Despite these criticisms, the fact that the introduction of the Child Support Grant has been the only major policy reform since 1998 may suggest that, to some extent, children have been considered as a policy priority.

3.5 Welfare ideology, policy aims and policy instruments – conclusions from Chapter 3

This chapter began by using the concept of social citizenship to evaluate the ideological approach to welfare embodied within the South African Constitution. Whilst the concept

of social citizenship is argued to be particularly applicable in the South African case due to its inclusion within the historic debates surrounding the struggles for democracy, it must be used here in a way which recognises the citizenship status of children. Models of social citizenship which are child-inclusive highlight the need to give children a right to participate and the need to recognise the interconnectedness of children and adults. The latter is particularly important in assessing the extent to which the ideological approach to welfare outlined in the Constitution supports the provision of a welfare package to improve outcomes for children. It is argued that the model of social citizenship contained within the Constitution has the potential to be fully child-inclusive but this requires an appropriate policy response towards the progressive realisation of social rights for adults also. Thus, whilst there is a constitutional commitment to welfare provision for children, this may have a limited impact on child outcomes in practice.

The welfare commitment made in the Constitution implies that policy should address income poverty amongst children as a priority and that income poverty should be progressively reduced for adults. However, analysing the policy aims articulated in various key government speeches between 1994 and 2008 indicates that whilst poverty reduction is cited as an aim, it is not the priority. Instead there has been a focus on economic growth with the view that this will lead to a reduction in poverty over the long term. However, considering the evidence presented in Chapter 1 on the situation of children in South Africa, there is little indication that this approach to poverty reduction has been successful.

Considering the policy reforms which have taken place since 1994, the existing system of social protection has remained fairly entrenched, with few reforms taking place. One of

the major reforms was the introduction of a cash transfer targeted at children in 1998. The Child Support Grant was initially criticised for providing an inadequate level of support to a small proportion of children; however, since its introduction the grant has been expanded and around 60 per cent of all children in South Africa are now eligible to receive it. Despite its shortcomings the Child Support Grant does indicate that where reforms to social assistance have occurred the focus has been on children. However, the increased level of support provided to children must also be considered in a context where tax reforms have returned considerable amounts of income to those at the top of the income distribution. As well increasing the incomes of the wealthiest, these tax reforms are likely to have also reduced the revenue available for expanding social assistance.

Whilst social assistance is provided to the elderly, the disabled and children up to the age of 14, the extent to which this provides sufficient income to attain basic social rights is variable and there are also significant gaps in the provision of social protection, most notably for healthy working age adults and children between the ages of 15 and 17. These gaps have been acknowledged by the government and various schemes have been proposed to address them. Although there are plans to extend the Child Support Grant there are still no firm proposals to extend support for working age adults, and this remains a key gap in social assistance provision.

This chapter has highlighted that recent policy reforms in South Africa appear to fall short of fully supporting the provision of social rights set out within the Constitution. However, the discussion in Chapter 2 indicated that a full analysis of the extent to which tax and transfer policy supports children needs to incorporate an analysis of welfare outcomes. Whilst the analyses in this chapter can provide a good indication of the impact of policies

on children it is not able to look at the actual impact on household incomes or to explore exactly how the impact of policies changes over time. A thorough evaluation should take into account: the initial levels of need in society; the extent to which policy is able to respond to these needs; and how the policy response changes over time. Whilst, the analyses in this chapter suggest that tax and transfer policy does not currently support children in line with the ideological approach to welfare set out in the Constitution, an analysis of welfare outcomes can determine the extent to which policy reforms appear to be moving towards this position. The impact of tax and transfer policies on the incomes of households in South Africa is assessed in the empirical chapters of the thesis (Chapters 5 to 7). The following chapter outlines the data and methodology used to undertake these analyses.

Chapter 4 – data and methods: using microsimulation to analyse welfare outcomes

4.1 Introduction

This chapter discusses the methodology and datasets selected to analyse the impact of tax and transfer policy on welfare outcomes. Welfare outcomes are considered in terms of the impact of policy on household incomes for children and other age groups in South Africa and represent the fourth dimension of the analytical framework set out in Chapter 2. The analysis of welfare outcomes in Chapters 5 to 7 directly addresses the research question and sub-questions set out in Chapter 1. In particular, the analysis of welfare outcomes aims: to investigate the impact of the tax and transfer system in South Africa on children; to explore the extent to which the system prioritises children over other age groups; to examine whether the policy reforms that have taken place between 2000 and 2008 have become more or less focussed on children over time; and to determine if the government could have done more to support children.

This chapter is structured as follows: first, the methodology employed – a technique known as microsimulation – is discussed in relation to its history as a tool for policy analysis and its suitability for analysing the welfare outcomes for children in South Africa; second, the construction of a microsimulation model to carry out the necessary analyses is described; third, the data used within the model, and the replication of the tax and benefit system in South Africa, are discussed; finally, the chapter considers the use of equivalence scales, poverty lines and assumptions about income pooling which impact

upon the results of the analyses presented in Chapters 5 to 7. Throughout this chapter, the strengths and weaknesses of the proposed approach and any resulting implications for the validity of the subsequent analyses presented in Chapters 5 to 7 are highlighted.

4.2 Microsimulation as a tool for policy analysis

The methodology employed to analyse the welfare outcomes resulting from tax and transfer policies is a technique known as microsimulation. Microsimulation models, also known as tax-benefit models, are computer programmes that simulate the impact of taxes and transfers on individual and household incomes. These models therefore require two essential components to operate: a dataset containing all the information about household characteristics, incomes and expenditures needed to calculate tax liability and entitlement to benefits and a set of rules and parameters for each policy to be simulated; for example the latter might include the rate at which a benefit is paid and the level of the income-means test. Microsimulation is described as a technique that allows policy analysts to study the "interactions between policy and the complexities of economic and social life" (Mitton *et al.*, 2000). In particular, it allows simulation of the effects of policy on a representative sample of agents (individuals or households) at the individual level. Thus, microsimulation is similar to a social experiment without actually needing to change anything in reality.

Others methods of evaluating the impact of policy on individuals and households include model family approaches (Bradshaw, 2010), as discussed in Chapter 2, and life course analysis. The two methods are similar in that they both focus on hypothetical households.

In life course analysis households are aged forwards to examine how the impact of policy changes over the life course (Evans and Williams, 2009). Life course analysis and model family analysis are useful ways of exploring policy impacts on specific individuals and households; however, neither method can be used to determine the redistributive impacts and costs of programmes at a national level (Bourguignon and Spadaro, 2006; Redmond *et al.*, 1998). Consequently, the true winners and losers of a policy reform are hard to identify (Bourguignon and Spadaro, 2006) and such approaches are therefore considered to be less suitable for the analyses carried out here than microsimulation modelling.

The aim of generating an accurate representation of policy impacts on individuals and households at an aggregate (as well as individual) level was first expressed by Orcutt in his 1957 work on microsimulation models and methods. Orcutt suggested that the function of these 'new' models would include "facilitating and improving predictions about aggregative aspects of our socio-economic system, by facilitating and improving testing of hypotheses about behaviour of individuals, households and firms, and by furnishing guidance in the selection of research efforts" (Orcutt, 1957). Since Orcutt's work, the advancement of computing power and the availability of survey data has led microsimulation to become a widely used technique in comparative policy analysis and evaluation. Merz (1994) gives numerous examples of microsimulation models developed and used in the US, Europe and Australia, and, further examples of their use within policy analysis are discussed by Hancock and Sutherland (1992) and Mitton et al. (2000). The Luxembourg Income Study, already discussed in Chapter 2 in relation to its contribution to comparative welfare state research, provided comparable cross-national data for the first time and gave impetus to the creation of multi-country microsimulation models (Lietz and Mantovani, 2006).

There are also many examples where microsimulation has been used specifically to analyse the impact of policy on children. For example: Spadaro simulates the effects of applying a similar child benefit scheme in France, Italy and the UK (Spadaro, 2005); Corak *et al.* (2005) and Figari *et al.* (2009) look at the impact of tax and transfer systems on children in the European Union using the European Union microsimulation model EUROMOD; Brewer *et al.* (2006) use a UK model 'TAXBEN' to predict child poverty rates in the UK in 2010 and 2020; and Harding and Percival (2007) describe how microsimulation was a key tool in designing reforms to the Australian Child Support Scheme.

4.3 Microsimulation in South Africa

Microsimulation also has a history in South Africa. A number of models have been developed and used for a variety of analyses. Haarman (2000) modelled the impact of existing social grants on poverty and tested the impact of potential reforms using a microsimulation model. Woolard has examined the redistributive impacts of the tax system and looked at the relationship between social assistance grants and economic growth (Woolard, 2003; Woolard *et al.*, 2005). Adelzadeh has developed a microsimulation model that is accessible on the internet where the user can modify certain elements of the existing system and add in a basic social assistance benefit (Adelzadeh, 2005). Adelzadeh has also developed more complex models to investigate options for halving poverty and unemployment in South Africa over the next ten years (Adelzadeh, 2007). Finally, researchers at the Economic and Policy Research Institute have used

microsimulation modelling to investigate the potential impact of existing social grants and proposed policy reforms (Samson *et al.*, 2002; Samson *et al.*, 2004).

Research has also been undertaken on linking microsimulation models with macro-economic models (Herault, 2005). A model developed by Herault examines how macro-shocks and policy changes lead to macroeconomic changes. A microsimulation model is then used to investigate the impact of the macro-level changes on individual behaviour.

Although there are a small number of models already in existence in South Africa, none of these was suitable to carry out the analyses required for this thesis. The main issues are that: other researchers' models are not publicly available (with the exception of Adelzadeh's); all the models are limited in the types of policy reform that they allow (both in terms of altering the parameters of existing policies and adding completely new policies); and the calculations carried out by the model are only 'accessible' to the model builder. Hence, there is a lack of transparency over how the simulations are carried out and existing models can only be used to carry out certain types of 'in-built' simulations. Therefore as part of the work undertaken for this thesis a new microsimulation model was built to analyse the impacts of taxes and transfers on household incomes in South Africa. As well as being an invaluable tool to undertake the analyses for this thesis, the new microsimulation model has also been handed on to the South African government for use in policy evaluations and testing the impact of proposed policy reforms. SAMOD has already been used be the Department of Social Development to explore options for providing social assistance to carers and the working age population. Thus the work undertaken here has the potential to make a significant contribution to policy evaluation and policy design in South Africa.

4.4 Designing a new microsimulation model

In developing a new microsimulation model to be used for the analyses in this thesis the first step was to decide what sort of model needed to be built. Microsimulation models are classified in various different ways. Bourguinon and Spadaro describe the three key components of microsimulation models as: a micro-data set of information on individuals and households; a set of policy rules; and a theoretical model of the behavioural responses of agents (Bourguignon and Spadaro, 2006:79). It is in the last component that models tend to differ in terms of whether they ignore or take into account behavioural responses where behavioural responses can include any individual or household behaviour that may change in response to a policy change. Typical examples of behavioural responses include labour supply, family composition and saving and investment decisions. The majority of the South African models described above do not take account of behavioural responses, although Adelzadeh (2007) has produced a behavioural response model.

Often microsimulation models are classified according to the process which is used to age the micro-units in the data as time moves forwards. Models described as 'static' do this by re-weighting the household data whilst keeping the ages of individuals within the household the same. Thus, whilst household structures remain the same, population growth and changes in population demographics can be included in static models. Dynamic models attempt to age forward the population year by year. Dynamic ageing inevitably incorporates some form of behavioural response as individuals may change employment status, have children and form new families as they age. In this case, however, the changes occur because of ageing and not because of policy changes, so the distinction between static and dynamic models is an important one. It is also possible to

include behavioural responses in static models, although it is fairly unusual to do so. In contrast, dynamic models always use models of behavioural responses to age the micro-data units and they may additionally model behavioural responses to policy changes.

Static models without behavioural responses are the simplest and most transparent and they are widely used in academia and government. They are sometimes criticised as being overly simple and restrictive, however, Mitton *et al.* (2000) argue that the choice of model really depends upon the policy question to be addressed and both static and dynamic models have uses in differing applications. Bourguignon and Spadaro (2006) also suggest that static models are perfectly adequate in evaluating changes in individual and social welfare in the short-term as, in most cases, behavioural changes can be assumed to be insignificant. However, they do warn that static models may not be entirely reliable in predicting government budget constraints when strong behavioural responses are predicted or when making longer term predictions.

One major drawback of dynamic models is that the simulation results they produce are very sensitive to the robustness of the model of behavioural response used. It is difficult to develop good behavioural response models from cross-sectional data and there are no national longitudinal studies available in South Africa from which it might be possible to develop reliable models of behavioural responses to policy changes[27]. In addition, as many households in South Africa have incomes which are at or below a basic subsistence level, and unemployment rates are high due to a severe shortage of jobs, it could be argued that, for most households, the impact on labour supply of a change in household

[27] The first wave of a national household panel study "The National Income Dynamics Study" was undertaken in early 2008 and longitudinal data will, therefore, be available for South Africa in the near future.

income is likely to be small as most individuals do not have the choice to opt in to or out of work if their income changes (Noble *et al.*, 2008; Surender *et al.*, 2007).

This is not to say that other factors, such as household formation decisions, are not affected by tax and transfer policy. However, the primary aim of this thesis is to examine the impact of policy on poverty using a number of cross-sectional analyses at different points in time, whilst income and demographic characteristics are held constant and only tax and transfer policies are modified. A static model is, therefore, entirely suitable as there is no need to model behavioural response. Modelling the long-term impacts of policy may require a consideration of behavioural change; however, a static model is appropriate for evaluating the short-run distributional effects and the research does not attempt to make predictions, except in general terms, about the long-term impacts of policy reform.

Having decided that a static microsimulation model was required there were two options: to build a new model from scratch or to modify an existing model. The first approach would have been more time consuming but would have had the benefit of producing a model to the exact specifications required. The second approach had the advantages of allowing a working model to be produced more quickly and provided an opportunity to draw on the experience and time already invested by other researchers. As there was an opportunity to use an existing, well-established model, EUROMOD[28], to develop a new South African model, and as EUROMOD fulfilled all of the needs identified for the new

[28] The author is grateful to Professor Sutherland and her team at the Institute for Social and Economic Research at the University of Essex for providing access to EUROMOD for this project.

South African model (hereafter referred to as SAMOD[29]), the second approach was followed. The significant amounts of research time and expertise that have already been undertaken to develop EUROMOD meant that far more could be achieved by building on this existing model rather than developing a new model from scratch.

EUROMOD is a multi-country static tax benefit model covering all 15 pre-2004 European Union member states and four new accession states. EUROMOD was initially developed using funding from the European Commission in 1998 and has since been improved and extended by the collaborative efforts of researchers from many different countries (Lietz and Mantovani, 2006; Sutherland, 2001, 2005; Sutherland *et al.*, 2008). The original project aim was to build a model that was capable of making reliable cross-national comparisons. Whilst many countries have, and continue to operate, national microsimulation models, these are generally 'black boxes' operable only by a small number of people and specifically designed for the policy system in a particular country. Cross-national comparisons are generally not possible with such models. The EUROMOD approach was to try and make a model that was flexible enough to cope with the variety of policy designs that exist within Europe using a standardised approach and methodology. In addition the model had to be designed so that it could be used by anyone with a small amount of training and, particularly, that users could design and test their own policy reforms. It is this flexibility and ease of use that makes EUROMOD an excellent basis on which to build a microsimulation model suitable for undertaking an analysis of welfare outcomes for this thesis and as a tool to assist more generally in future policy analysis in South Africa.

[29] The construction of the microsimulation model SAMOD was part of a wider project undertaken by the Centre for the Analysis of South African Social Policy at the University of Oxford. SAMOD is jointly owned by the University of Oxford, the University of Essex and the Department for Social Development in South Africa. Details of the relationship between the analyses conducted for this thesis and the wider research project are given in Appendix C.

Like EUROMOD, SAMOD is a static model with a user interface in Excel. The actual model calculations are carried out by an 'engine' written in C++ but this never has to be viewed or amended by the model user. Aside from preparing the data in a format suitable to be read into the model, all policy specifications and parameterisations are carried out within Excel. The model allows a variety of different policy systems and datasets to be incorporated and this enables the user to build up a cross-section of policy changes over time and to undertake 'policy swapping' exercises. SAMOD simulates the majority of national tax and transfer schemes that have a significant and direct impact on household incomes.

Whilst SAMOD was able to draw on the calculation engine provided by EUROMOD, all other aspects of the model needed to be amended. The main steps involved in this process were to re-design the front end of the model so users interact with a single-country interface, construct worksheets for each policy using the EUROMOD calculation modules and build a dataset to feed into the model. Figure 4.1 shows the main screen of SAMOD (from which all policy simulations can be accessed) and Figure 4.2 shows an example of a 'policy sheet' in which all the relevant parameters relating to each policy are stored. In Figure 4.2 the policy relating to the Child Support Grant is shown but each policy that can be simulated in SAMOD is stored on a separate Excel worksheet.

Policies in EUROMOD are constructed from a series of calculation modules which can carry out calculations and eligibility tests and perform more complex functions such as apply a schedule of income tax rates. The modules are very flexible and allow the user to implement almost any imaginable policy reform and add entirely new policies into the model using the Excel-based interface.

Figure 4.1: Main screen in SAMOD



Figure 4.2: The Child Support Grant policy sheet in SAMOD

	A	B	C	D	E	F	G
1		param_name	period_sy		SA_2000	SA_2007	SA_2008
2		first_module			Child Support Grant		
3	1	co_Elig			Eligibility of main carer (pre-2008)		
4		elig_cond			{codag>=16} & {{{nDepChOfPerson>0} & {il_social_grants<amount}#1 & {codht=0} & {codur=1}} | {{nDepChOfPerson>0} & {il_social_grants<amount}#2 & {{codht=1} | {codur=0}}}}	{codag>=16} & {{{nDepChOfPerson>0} & {il_social_grants<amount}#1 & {codht=0} & {codur=1}} | {{nDepChOfPerson>0} & {il_social_grants<amount}#2 & {{codht=1} | {codur=0}}}	
5		#1_amount	y		9600	9600	
6		#2_amount	y		13200	13200	
7		#1_level			couple_sa	couple_sa	
8		#2_level			couple_sa	couple_sa	
9		output_var			co_sin01	co_sin01	
10		TAX_UNIT			sben_family_sa	sben_family_sa	
11		SWITCH			1	1	
12	2	co_Elig			Eligibility of main carer (from 2008)		
13		elig_cond			0	0	{codag>=16} & {{{nDepChOf {il_social_grants<amount}#1 & {{nDepChOfPerson>0} & {il_social_grants &
14		#1_amount	y		0	0	
15		#2_amount	y		0	0	
16		#1_level			0	0	
17		#2_level			0	0	
18		output_var			0	0	
19		TAX_UNIT			0	0	sben_family_sa
20		SWITCH			0	0	
21	3	co_Elig			Eligibility for children		
22		who_must_be_elig			one_adult	one_adult	
23		elig_var			co_sin01	co_sin01	

Further details on the construction and operation of SAMOD can be found in Wilkinson (2009) and Wilkinson *et al.* (2009). The following sections of this chapter describe the two key components of SAMOD: the construction of a micro-dataset; and the simulation of tax and benefit policies.

4.5 Constructing a micro-dataset

4.5.1 Selection of a base micro-dataset

Underlying every microsimulation model are micro-data on individuals and/or households which supply the information necessary to carry out the calculations. An important step in building a microsimulation model is choosing an appropriate data-set and cleaning and preparing the data for use in the model. It is common practice to use household survey data for microsimulation modelling (for example, EUROMOD uses a series of national household surveys), although census data may also be used in certain cases. Obtaining comparable data from different countries can be a considerable challenge. For a single country model, such as SAMOD, comparability across countries is not an issue; however, to accurately model tax and transfer policies the data requirements are still substantial.

A number of national household surveys currently carried out by Statistics South Africa[30] have the potential to be used to construct a base micro-dataset. There is also a national population census. South Africa's Census pattern is not yet established: the first post democracy Census was in 1996 and was followed by the 2001 Census. The next full Census is not until 2011; however, there is also a new Community Survey (2007) (which replicates the 2001 Census questionnaire), an annual General Household Survey (available from 1993 to 2008), a bi-annual (and more recently quarterly) Labour Force Survey (available from 2002 to 2008) and a five-yearly Income and Expenditure Survey (available from 1995 to 2006). The Labour Force Survey was an unsuitable source of micro-data for this project as most of the information relates to the working age population (those aged over 15) and it contains only banded income data. A 10 per cent

[30] Statistics South Africa is the government statistical service in South Africa.

sample of the 2001 Census is available at individual level; however, the data is now becoming increasingly out of date and, again, does not contain sufficiently detailed information on income (income data is banded) and no information on expenditure. The General Household Survey does contain detailed information on the receipt of social grants and some income and expenditure items, but the coverage of income and expenditure items is not comprehensive enough to provide the detail required to calculate tax liability and entitlement to social grants needed for the microsimulation model. The Community Survey was ruled out because it suffers similar problems to the 2001 Census in that there is little information on income and no information on expenditure. Consequently, the Income and Expenditure Survey (IES) was selected as the primary micro-dataset for SAMOD as it satisfies more of the base data requirements than any of the other datasets considered. The IES has been conducted at approximately five yearly intervals, most recently in 2006. The survey is primarily used to update the consumer price index for economic decision making; however, the detailed information it contains and its relatively large sample size (24,000 dwellings) makes it a suitable source of base data for microsimulation. Although the IES 2000 is not the most recent source of income and expenditure data in South Africa, a number of methodological changes between the 2000 and 2006 surveys meant that the IES 2006 was an unsuitable source of micro-data for SAMOD, as outlined below.

First, the IES 2000 and the IES 2006 have near identical questionnaires; however, the IES 2000 is a richer data source as the same respondents were sampled as for the September 2000 Labour Force Survey (LFS). This meant that the IES and the LFS could be joined together to increase the number of variables available. For example, the LFS provided key information on the relationships between household members, employment status and

receipt of / contributions to unemployment insurance. Second, the IES 2006 only included banded age data for individuals. However, the eligibility rules for all of the benefits available in South Africa include conditions based on age, hence the simulations could not be done accurately with banded age data.

4.5.2 Updating the base data to 2007

Although the IES contains much of the information required to simulate the vast majority of the tax and benefit policies in South Africa, a number of steps were necessary to ensure that the micro-data were as accurate and up to date as possible. This included improving the data where key information was missing or badly recorded. Each improvement made to the 2000 IES data to create a suitable base micro-dataset for SAMOD is described below. To summarise, these included:

- imputing relationship information to identify the main carer of each child;
- re-weighting the data to take account of population change between 2000 and 2007;
- up-rating income and expenditure figures to take account of changes in these values since the year 2000;
- imputing missing income data;
- estimating the number of individuals with a work-limiting disability and the number of children with a disability;
- estimating the number of children who have lost both their biological parents; and,

- estimating the number of people making contributions to the Unemployment Insurance Fund and the number of people eligible to claim benefits from the fund.

Imputing relationship information

The main drawback of using the IES is that there is very little information on the relationships between family members (although detail is given about each person in the household). The data do allow individuals to be linked with a spouse or partner who is living in the same household but more detailed relationship information to enable children to be linked with their parents or carers is required to determine eligibility for child grants. The relationships between children and their carers had to be imputed in the data.

The creation of relationship structures was carried out following the methodology developed by Woolard (Noble *et al.*, 2005). This method assigns children to carers according to a series of rules. First, children are assigned to the first female in the household who was aged between 13 and 40 in the year of child's birth[31]. If no carer is assigned then the child is assigned to the first female aged over 40 in the year of the child's birth. If the child still has no assigned carer then the process is repeated for males aged 13 to 40 and then males aged over 40. If this still does not assign a carer to all children then the oldest person in the household who is 18 or over is assigned as the carer to any remaining children. Thus, it is only in child-headed households, where there are no individuals aged 18 or over, that children are not assigned a carer. In these cases (representing about 0.5 per cent of all cases) the oldest child is nominated as the carer for the younger children and the oldest child has no assigned carer.

[31] The household data is structured so that the head of the household is likely to be the first person listed followed by their spouse or partner, followed by other adult members, followed by children.

Re-weighting the data to take account of population change

Ideally the micro-dataset used within a microsimulation model should relate to a time point as close as possible to the time point of the tax and transfer rules that will be fed into the model. For this thesis the main interest is in the most recent tax and transfer policies and future policy reforms so the data therefore had to be as up to date as possible. At the time when SAMOD was being developed the latest population estimates available related to 2007. Other key data, for example the national accounts and the consumer price index were also published up to 2007 and thus it was decided that mid-2007 should be used as the time point for the micro-data. The IES 2000 data therefore had to be re-weighted to take account of population change between 2000 and 2007. The method employed made use of the CALMAR re-weighting programme (Sautory, 1993) which re-calculates household weights based on a series of constraints. Household weights were re-calculated so that the population totals by sex, race and five-year age-band for each province[32] matched the 2007 population estimates produced by the Actuarial Society of South Africa (Dorrington *et al.*, 2005) as closely as possible[33].

Up-rating household incomes and imputing missing income data

In addition to updating the population totals, income and expenditure figures also had to be updated as these are likely to have changed between 2000 and 2007. Of course, other variables within the data will have changed between 2000 and 2007, for example, household composition and employment status. However, as changes in such variables are harder to predict, only population totals and income and expenditure figures were

[32] South Africa is divided into nine administrative areas known as provinces.
[33] Statistics South Africa also produce population estimates; however, these estimates could not be obtained at the level of detail required to re-weight the survey data.

updated. The process used to update household income data is described in this section and the following section describes the updating of household expenditure data.

The publication of the 2006 IES provided detailed information about individual incomes from various sources in 2005/06. However, the challenge lay in using this information to update the incomes of the households surveyed in the 2000 IES. South Africa is characterised by a highly unequal income distribution in which income inequality appears to be increasing over time (Leibbrandt *et al.*, 2005). There are also large numbers of individuals employed in the informal sector and growth in formal and informal sector wages is likely to exhibit very different trends. The split between formal and informal sector employment is still largely along racial lines as the majority of informal sector workers are black and the majority of formal sector workers are white. Thus, in very broad terms, both race and income are likely to be important factors to take into account when estimating growth in earnings. To take account of the fact that earnings for households from different population groups and with different income levels are likely to change at different rates, a series of income up-rating factors were calculated for each income quintile within each race[34] group. The process by which these income up-rating factors were calculated is described below.

[34] Even though all elements of racial discrimination were removed from legislation in 1994, the legacy of the apartheid regime prior to 1994 has resulted in significant income polarisation between white and black South Africans. Even though there are a growing number of middle and high income black South Africans, those living in poverty are almost exclusively black African. It is therefore still appropriate to examine income trends along racial lines. In South Africa race groups are typically referred to as 'population groups'. The population is classified into five groups according to common characteristics of descent and history; these are: black African, Indian, Asian, white and other. The term 'black' is used to refer to all groups who are non-white. (see: Statistics South Africa (2004), *Census 2001 Concepts and Definitions*, Pretoria, Statistics South Africa)

The first step was to calculate the average household income for each income quintile within each race group for households in the 2006 IES[35]. There were a number of households reporting zero total income from any source (including social grants and remittances). There are various reasons why households may report zero incomes. For example, Deaton (1997) argues that poor households living at a subsistence level may struggle to understand the concept of income when income and outgoings are approximately equal. In addition, income often tends to be under-reported or not disclosed at all as it is a sensitive topic and people may be afraid of their data being passed on to the tax authorities (Statistics South Africa, 2008b). As zero income was considered to be an implausible result (and it was difficult to identify any systematic biases in the failure to report income), households reporting zero income were excluded from the calculations of average household income.

The second step was to calculate equivalent figures for the households in the 2000 IES. In this case households with zero incomes could not be dropped because these households were included in the re-calculation of the household weights and to exclude them from the data would affect the 2007 population totals. Rather than dropping these households their income was randomly imputed based on the income distributions observed in households of the same race group reporting non-zero incomes. More complex imputation procedures could have been used (for example, as in Ardington *et al*. (2005) and Barnes and Noble (2006)); however, this was not considered necessary given that less than 2 per cent of households reported zero incomes. Thus, after incomes had been imputed and average incomes calculated for each income quintile within each race group, the 2000 and 2006 average household income figures could be compared.

[35] The calculations were based on income from all sources except social grants.

The average household income for each income quintile within each population group in 2006 was divided by the equivalent figure in 2000 to generate a ratio. This ratio was then used to calculate the year-on-year growth (or decline) in nominal incomes between 2000 and 2006. Assuming that these income trends continued into 2007, the expected average household income for July 2007 was calculated. The equivalent ratio of average household incomes in 2007 to average household incomes in 2000 could then be obtained for each income quintile and population group.

Household income in 2000 was then multiplied by the ratio of average household income in 2007 to average household income in 2000 in order to generate an estimated household income in 2007. The ratios were not applied to income from social grants as the amount of the grants is determined by government policy.

Finally, to check the robustness of the income up-rating process the estimated total wage income was compared to the total compensation to employees as reported in the national accounts (South African Reserve Bank, 2008). The estimated figure was around 20 per cent smaller than the figure recorded in the national accounts, therefore, household incomes in 2007 were scaled up until the total wage income matched the total recorded in the national accounts. It is debatable whether it is always appropriate to scale up income to match national account totals as this can falsely alter measures of poverty and inequality. In South Africa the process of scaling up incomes has often been used to produce up to date estimates of poverty although the method used to do this has been the subject of considerable debate (Meth, 2006b, 2007; Simkins, 2004; van der Berg *et al.*, 2005, 2007; van der Berg and Louw, 2004). The Income and Expenditure Surveys do

seem to undercount income as wage income in the 2000/2001 survey was 21 per cent lower than the national accounts and 30 per cent lower in the 2005/2006 survey[36]. As the method used to update incomes here creates a separate scaling factor for each race group and each income quintile (25 separate scaling factors in total), and is only applied to earned income (and not income from cash transfers), the final scaling up of earned income to national accounts has only a small effect on poverty and inequality measures. The poverty rate changes from 64 per cent prior to scaling up to 60 per cent post scaling up[37] and the Gini coefficient (on pre tax and transfer income) remains at 0.83. Thus, it is considered appropriate to scale-up household incomes in these analyses as this has little impact on poverty and inequality metrics.

Updating household expenditures

To update household expenditure data it was assumed that each household purchases the same types of items in 2000 and 2007; however, the total quantity of items purchased may vary. The method used to update household expenditures has two stages. Firstly, price inflation factors from the July 2007 consumer price index (Statistics South Africa, 2007a) were applied to each item purchased by a household in 2000 in order to calculate how much it could cost the household to purchase the same items in 2007. Secondly, the estimated cost of household consumption in 2007 was then constrained to actual levels of household consumption reported in the IES data. As the latest IES was conducted in 2006, it was necessary to project the 2006 IES forward in order to predict actual household consumption in 2007.

[36] From the author's own calculations.
[37] These estimates are calculated using a poverty line of R851 per capita per month. As there are no reference data against which to check poverty rates it is not known whether 60% or 64% is the more accurate estimate.

Equation 1 below shows the calculation of household expenditure for household ***y*** on a single expenditure item ***i*** in 2007 where e_{yi2007} is the estimated expenditure on a particular item in 2007, e_{yi2000} is the expenditure on the same item recorded in the IES 2000, p_i is the price inflation factor for the item and S_q is a multiplier which constrains the calculation to the expenditure values estimated from the IES data.

Equation 1 $$e_{yi2007} = S_q \times e_{yi2000} \times p_i$$

The multiplier S_q was calculated as follows: Households in the IES 2006 were grouped into deciles according to total expenditure and an average household expenditure figure was calculated for each expenditure decile. For each expenditure decile the ratio of the 2006 average household expenditure to the 2000 average household expenditure was then used to determine the year-on-year growth in household expenditures for the decile. Assuming that the ratio of expenditure in any one year to expenditure in the previous year remained the same between 2000 and 2006, an average ratio of expenditure growth can be calculated. This ratio can then be multiplied by the 2006 expenditure totals to calculate the expected average total expenditure for households in each decile in 2007.

Equation 2 shows the calculation of the average total household expenditure for a household in decile ***q*** in 2007 (E_{q2007}) where E_{q2006} is the average total household expenditure for a household in decile ***q*** recorded in the IES 2006 and ***R*** is the ratio of expenditure in 2007 to expenditure in 2006.

Equation 2 $$E_{q2007} = E_{q2006} \times R$$

The ratio R is calculated following Equation 3. R is the average ratio of the growth in expenditure over a single year period between 2000 and 2006. Again, $\boldsymbol{E_{q2000}}$ is the average total household expenditure for a household in decile $\boldsymbol{q}$ recorded in the IES 2000 and $\boldsymbol{E_{q2006}}$ is the average total household expenditure for a household in decile $\boldsymbol{q}$ recorded in the IES 2006.

Equation 3 $$R = \left(\frac{E_{q2006}}{E_{q2000}} \right)^{1/6}$$

Finally, the multiplier required to calculate the estimated expenditure on each item in 2007 for every household $\boldsymbol{y}$ in expenditure decile $\boldsymbol{q}$ is calculated as in Equation 4. In this case an individual household consumes a total of $\boldsymbol{j}$ different items and there are $\boldsymbol{n}$ households in decile $\boldsymbol{q}$. Again, $\boldsymbol{e_{yi2000}}$ is the expenditure on item $\boldsymbol{i}$ for household $\boldsymbol{n}$ recorded in the IES 2000, $\boldsymbol{p_i}$ is the price inflation factor for the item, $\boldsymbol{E_{q2007}}$ is the estimated average total household expenditure for a household in decile $\boldsymbol{q}$ in 2007 and $\boldsymbol{S_q}$ is the multiplier for decile $\boldsymbol{q}$.

Equation 4 $$S_q = \frac{E_{q2007} \times n_q}{\sum_{nj} \left(e_{yi2000} \times p_i \right)}$$

Thus, applying the multiplier ensures that the total expenditure in 2007 matches that estimated by rolling forward the IES data.

Imputing disability status and identifying potential foster children

As already discussed in Chapter 3, social assistance is available in South Africa for adults with a disability that prevents them from working (Disability Grant) and children who have a disability that necessitates full-time care (Care Dependency Grant). There is also a grant available for an individual who cares for a foster child (Foster Child Grant). With all of these grants it is important to make a distinction between the number of people who actually receive these grants and those who may be eligible to receive them but who, for whatever reason, do not receive them. As this thesis seeks to explore the intended impact of policy, rather than the actual impact, the interest here is determining the number of individuals eligible for a grant as opposed to the number of individuals who actually receive a grant.

Thus, to calculate eligibility for these grants individuals with a disability and potential foster children must be identified. However, as the IES does not record information on these characteristics this had to be obtained from the 2007 Community Survey. The Community Survey was used to identify adults reporting that they were not able to work due to ill health or disability and children who are recorded as having a disability that prevents them from taking part in normal activities. Potential foster children were identified as children who had neither a mother nor father still alive.

The information obtained from the Community Survey was used to impute disability status and foster child status in the IES data. For example, having identified individuals who may be eligible to receive a disability grant in the Community Survey, a logistic regression model was used to calculate the probability that an individual is disabled using characteristics available in both the Community Survey and the IES. The explanatory variables used were: age; gender; race; age of head of household; gender of head of household; province of residence; household income; highest education level achieved by the head of the household; number of adults in household; and, number of children in household. Only individuals who were not working were included in the model. The model coefficients were then applied to individuals in the IES data to identify those individuals most likely to be disabled. As the Community Survey provided an estimate of the total number of individuals likely to be eligible to claim a disability grant, the aim was to assign a disability status to the same number of individuals in the IES data. Thus, individuals in the IES data were ranked according to their probability of being disabled (again only individuals who were not working were included) and the highest probability individuals were 'assigned' to the disabled group until the total number of disabled persons matched the totals estimated from the Community Survey. A similar process was followed to identify potential foster children and children likely to be eligible for the Care Dependency Grant within the IES.

Identifying unemployment insurance fund contributors and claimants

The only form of protection against unemployment for working age individuals currently available in South Africa is the Unemployment Insurance Fund (UIF). Employees and employers in certain parts of the formal sector are obliged to make contributions.

Although the 2000 LFS (which is matched to the 2000 IES) does record information on UIF contributions and claimants, this information needed to be updated to 2007. The latest LFS available at the time of SAMOD's construction related to 2006 and this was used to estimate the total numbers of UIF contributors and claimants in 2007.

The process used to identify UIF claimants in the 2007 data was the same as that used to identify foster children and individuals with a disability i.e. a logistic regression was used to calculate the probability of each individual being a UIF claimant and individuals most likely to be UIF claimants were assigned this status in the IES until the total number of claimants matched the number reported in the 2006 LFS. Certain other constraints were placed on the models, for example, that claimants had to be currently unemployed but having previously worked. The explanatory variables used in the claimants' model included: gender; age; race; province of residence; size of household; means of support; education and time since last employment.

UIF contributors were imputed in the IES data according to their occupational sector. The proportion of workers contributing to the UIF in each occupational sector was estimated using the 2006 LFS. Individuals in the IES data were then randomly assigned to the UIF contributors group until the proportion of contributors in each occupational sector matched the proportions estimated in the 2006 LFS.

4.5.3 Other data issues

Family structures

Adapting EUROMOD for South Africa presented a number of challenges due to the differing nature of household structures and relationships in South Africa compared to the European countries which EUROMOD was designed for. Indeed it has been argued that the household itself as a unit of analysis is somewhat inappropriate for many individuals living in countries like South Africa (Haarman, 1999). Westernised analyses tend to treat the household as a self-contained unit and ignore its relationship with, and economic dependence on, the wider community. Certainly, it is true that many households in South Africa have different compositions from households typically seen in Europe. For example, nearly 20 per cent of households contain children, working age and old age adults[38] and many households contain multiple families. Many working age individuals are compelled to migrate in search of work and this fact, coupled with the incidence of HIV/AIDS, means that many children are cared for by people other than their biological parents and there is an increasingly large number of child-headed households. These differences in household structures have implications for the analysis of simulated data in terms of the assumptions made about income pooling between household members. However, there are also implications for the method used to specify relationships in SAMOD.

As discussed above, relationship information is not available in the IES data with the exception of information on partners. Children were therefore linked with carers

[38] From calculations on the 2007 Community Survey.

following the application of a series of rules. In EUROMOD a child's parent would typically be their biological parent or legal guardian; however, given that many South African children do not live in the same household as their parents because their parents may have migrated in search of work or died, the person identified as the 'parent' in the South African data is actually the child's main carer. Fortunately policy design in South Africa has also adapted to better reflect family structures and child grants are provided to the child's main carer regardless of whether or not this person is a direct relation to the child. Thus, the variable linking parents and children can easily be used in SAMOD to link children to their carers. As there is no need, in policy terms, to identify the biological parent or the legal guardian of the child in addition to the child's 'carer', this poses no problems.

Child-headed households

Although child-headed households are not generally found in European countries these households actually did not present a problem for SAMOD. EUROMOD is able to recognise a household unit without requiring there to be a person over the age of 18 resident in the household. Thus, child-headed households could be included in SAMOD simulations.

Polygamy

Multiple marriage is not common in South Africa but is still widespread enough to be worthy of consideration in terms of its impact on the simulations in SAMOD. The extent

to which multiple marriages were accurately or comprehensively captured in the survey data is not clear as an individual's partner could only be identified if they were physically living in the same household. However, there were incidences where multiple women in a household were recorded as having the same partner. EUROMOD is not designed to process multiple-marriage arrangements. Individuals are linked to a partner, and their partner is likewise linked to the original individual. In other words both people must be recorded as being each other's partner in order for the model to recognise that they are a couple. Hence it is not possible for one individual to be the partner of more than one other person. This has implications for the way in which means tests are applied as these generally relate to the income of an individual and their spouse (if they have one). Thus, the means test may not be properly applied if the spouse of a carer cannot be identified because they have been linked with another partner. The number of cases in which this occurs is small; however, it is worth noting that multiple marriage structures cannot be recognised in SAMOD simulations.

4.6 Modelling tax and transfer policies in South Africa

4.6.1 Selecting policies to simulate in SAMOD

In the construction of any microsimulation model decisions often need to be made about which policies to simulate and which to leave out. The aim in building SAMOD was to simulate as many existing tax and transfer policies as possible. However, data constraints meant that certain policies could not be simulated so the focus was on those policies most relevant in terms of their direct impact on household incomes.

Given the focus on the impact of policy on poverty, it was important to include social grants available to those with low incomes and people with disabilities. In addition, the inclusion of personal income tax and VAT was also crucial given that these taxes provide revenue to fund the payment of social grants. As well as cash benefits, there are also a number of benefits 'in-kind' in South Africa such as free basic water, electricity and schooling (where these services are normally subject to user charges). Ideally, these would also have been included in the simulations as they can have a considerable impact on the income of poor households (Meth, 2008b). However, there are no reliable data with which to identify households who receive benefits 'in-kind' so these were not simulated within SAMOD.

The policies included within SAMOD for 2008 are:

- Child Support Grant – a means tested grant available to the carer of a child under the age of 15[39] (R210 per month)
- Care Dependency Grant – a means tested grant available to the carer of a child[40] with a severe disability (R940 per month)
- Foster Child Grant – a grant available to the carer of a foster child[11] (not means tested) (R650 per month)
- Disability Grant – a means tested grant available to working-age adults who are unable to work due to disability or illness (up to R940 per month depending on income)

[39] The Child Support Grant was extended to include 15 year-olds in January 2009 and the government has announced that 17 year olds will be included by 2012.
[40] The grant is available until the end of the year in which the child reaches their 18th birthday.

- Old Age Grant – a means tested grant available to men aged 65 and over and women aged 60 and over[41] (up to R940 per month depending on income)
- Grant-in-aid – a top up to the Disability Grant or Old Age Grant for recipients of these grants who require full-time care (R210 per month)
- Personal income tax
- Value-added tax and excise duties
- Fuel levy – a tax levied on petrol and diesel

A more detailed description of each of these policies is given in Appendix A. The same policies are also simulated using the policy rules from 2000 and 2004.

Other policies which may impact on household incomes but are currently not simulated within SAMOD include:

- War Veteran's Grant – very small numbers of individuals are now eligible for this
- Free electricity – provided as 50Kwh free per month
- Free water – provided as 6,000 litres per household per month to all households with a mains connection or access to a standpipe
- School fees - school fees are charged as standard in South African schools; however, there are an increasing number of no-fee schools operating in the poorest areas
- Free school meals – one free meal is provided per day in certain schools
- Municipal indigent grants – amounts vary according to the area

[41] In October 2008 the Old Age Grant was extended to include men aged 63 and 64. The extension of the age range for men will continue over the next few years until both men and women aged 60 and over are eligible.

- Early Childhood Development subsidies – amounts vary according to the area
- Free primary health care – primary health care is free for people who are not members of a private medical scheme. Free health care is also provided to children under the age of 6 and pregnant and lactating women
- Social relief of distress – provided as a short-term cash payment or food parcel to households undergoing temporary financial distress
- Compensation for occupational injuries and diseases
- Compensation for road traffic accidents
- Motor vehicle tax
- Road toll fees
- Private medical and retirement schemes
- Corporate taxation
- Capital gains tax
- Transfer duties – paid on the acquisition of fixed property
- Tax on retirement funds

4.6.2 Replicating policy rules – social grants

It is never possible to exactly replicate the policy rules for any of the policies simulated in SAMOD as every policy has additional eligibility conditions that cannot be tested using the data in the IES. However, the simulated policy rules are generally a very close approximation to reality. For all of the social grants modelled in SAMOD eligibility conditions associated with characteristics that can be obtained from the micro-data are included. For example, conditions related to age, gender, marital status, family

composition and income can easily be simulated. Other eligibility rules cannot be simulated, for example, to claim a Child Support Grant the carer must have a valid birth certificate for the child, but this information is not recorded in the micro-data. As is the case in many microsimulation models, conditions such as having a valid birth certificate cannot usually be simulated. However, none of the conditions which could not be modelled are believed to have a significant impact on the number of claimants.

One way in which SAMOD differs significantly from reality is that it does not account for take up (i.e. in cases where an individual does not take up the benefits to which they are entitled) or fraudulent claims. This is not seen as an issue as the aim in this thesis is to examine the intended rather than the actual impact of policy and it is arguably equally important to know how many children may be eligible for this grant (given that they have lost both their parents) rather than knowing how many are actually claiming it, especially as actual numbers of recipients can be obtained from administrative data. Take-up rates for the majority of the social grants available are now fairly high and rates of fraudulent claiming are not thought to be a problem, although this is difficult to estimate. The only grant which still has very low take-up rates is the Foster Child Grant. This is due to the fact that foster carers have to go through the courts to formally take a foster child into their care before they are eligible to receive a Foster Child Grant and many carers do not have the knowledge or means to do this (Vorster, 2000). The simulations in SAMOD therefore overestimate the actual number of individuals receiving a Foster Child Grant.

The other issue worth noting is the approximation made in the application of the income means tests to determine eligibility for the majority of social grants. The income test for some social grants also includes the value of assets owned by the household or earnings

arising from the disposal of assets. Asset values are not recorded in the IES and the asset test cannot therefore be applied in the simulations.

4.6.3 Replication policy rules - Taxation

Personal income tax

Compared to the calculations for the simulation of social grants, calculating personal income tax liability is significantly more complicated. As the payment of income tax is only recorded at the household level in the IES and the data are not accurate[42], it is preferable to simulate personal income tax rather than use the values recorded in the IES. Building a personal income tax policy into the model also means that it is possible to simulate policy changes, which is a key requirement of the model.

Again, data constraints meant that the simulated income tax policy in SAMOD is a simplification of the actual policy rules. The main challenge in calculating tax liability is that certain income and expenditure items which are necessary for calculating individual liability for personal income tax are only provided at the household level. These include: lump sum payments from insurance and pension schemes; contributions to private medical schemes; employer contributions to health care insurance; and individual expenditure on health care. In these cases the amounts recorded at the household level are assigned to the main earner in the household (or apportioned between the main earners in each family according to income if more than one family lives in the same household).

[42] From the author's own calculations comparing the tax take recorded in the IES with that reported in the national accounts.

Individual and employer contributions to pension schemes are also reported at the household level but the data appear to significantly underestimate the value of these contributions. There are a large number of pension schemes in South Africa and each varies in terms of the contributions made by the employer and employee. As it was not possible to simulate the rules for each pension scheme (it is not even known which particular scheme an employee belongs to) average contribution rates were applied to all employees. A recent survey by a South African pension fund estimated that, on average, individuals contribute 5.5 per cent of gross salary to pension schemes and employers contribute 9.7 per cent (Sanlam Employee Benefits, 2008). These average estimates were therefore applied to all formal sector wage earners to estimate individual and employer pension contributions.

Tax evasion was not taken into account in the simulations. In countries with a large informal economy, such as South Africa, rates of tax evasion are likely to be high. However, even though the informal sector is sizeable in South Africa (almost 40 per cent of the labour force) tax collection is considered to be reasonably efficient (Lieberman, 2001) and the threshold at which earners begin paying tax is so high up the income distribution that very few informal sector workers are likely to be liable for income tax. Assuming no tax evasion occurs it is estimated that there were around 4 million tax payers in 2008[43]. By comparison there are around 8 million formal sector workers (Statistics South Africa, 2008c), and these formal sector workers are likely to have higher earnings than informal sector workers. Thus, given that around half of formal sector workers earn too little to be liable for income tax, it is considered unlikely that many informal sector

[43] From SAMOD simulations.

workers will earn enough to be liable for income tax. For this reason tax evasion due to a large informal sector is not considered to be a significant problem.

Indirect taxes

The 2000 and 2006 IES contain detailed expenditure information on a wide range of items. It is possible to identify directly spending on goods which attract VAT at a rate of 14 per cent and those which attract no VAT. In addition, spending on goods which also have excise duties applied can be identified. It is not possible to identify expenditure on services which are provided by businesses which are not VAT registered and all services are therefore assumed to have VAT included in the cost.

The calculation of the VAT paid by households is relatively straightforward. VAT is calculated at the household level as expenditure is reported at the household level (rather than at individual level) in the IES. Calculation of excise duties is more complex as the duty is applied to a unit of good rather than at an *add valorem* rate. As the expenditure data does not specify how much of a particular good was purchased it is therefore necessary to assume a particular price per unit and to estimate the number of units purchased in order to calculate the excise duty. Prices for goods and services in 2000 were obtained from supermarket price data and the price inflation figure from the consumer price index was used to update prices in 2000 to later years. To calculate the amount of fuel levy paid by each household historic price data for petrol and diesel was obtained from the South African Coal, Oil and Gas Corporation.

4.6.4 Comparing policy systems across time

In the analyses presented in Chapter 6 the impacts of the policy systems operating in 2000, 2004 and 2008 are compared. In order to do this all monetary parameters must be converted to an equivalent base. For example, a grant paid at R100 in 2000 is not equivalent to a grant paid at R100 in 2008 as price inflation reduces the real value of the grant in 2008. There are various ways of up-rating policy parameters. The most straightforward method is simply to use the change in an index, typically prices or wages. Other methods that can be used are to assume that the total income to total tax ratio remains the same in each year, or to fix the total tax revenue at the same level each year (Redmond *et al.*, 1998). As the main interest here is in poverty and whether or not a household has the means to finance a minimal standard of living, policy parameters have been updated using price inflation figures from the consumer price index. Price inflation has been chosen rather than wage inflation as there are relatively small differences in rates of price inflation faced by different household types but changes in wage rates vary considerably depending upon whether a person is employed in the formal or informal sector. Formal sector earnings growth is typically much higher than informal sector earnings growth. As the population data relate to 2007, the parameters of each system (2000, 2004 and 2008) are adjusted to prices in July 2007. The average consumer price index figure for the whole country for July of each year is used to calculate the adjustment ratios.

4.7 Validating SAMOD

The extent to which the output from a microsimulation model needs to replicate reality is debatable, particularly when the analyses seek to evaluate the intended rather than the actual impacts of policy. There is a balance to be struck between generating realistic results and adjusting the micro-data to produce such results. Most surveys do contain deficiencies in the data; however, unless there are particular known problems that can be easily (and robustly) addressed it is generally preferable to adjust the micro-data as little as possible. There are various methods of validating model output, for example, by comparing indicators of poverty and inequality or aggregate data on tax revenue and social expenditure. In some cases discrepancies between simulated and recorded figures may not be an issue; this depends very much on how the simulation results are to be used. However, validating model output is a useful test of the robustness of a microsimulation model and can highlight the strengths and weaknesses of the model.

The SAMOD microsimulation model is validated by comparing estimates of poverty and inequality generated by the model with other researchers' estimates and by comparing the results from simulations of the 2007 tax and benefit policies with records of social grant payments from the South African Social Security Agency and tax data from the National Treasury.

First, looking at indicators of poverty and inequality, SAMOD simulations produce an overall poverty rate of 50.6 per cent based on a poverty line of R462 per capita per month

in 2007[44]. The Gini coefficient for South Africa based on the simulations of 2007 policies is 0.67. Comparable poverty and inequality figures are hard to obtain due to the absence of regularly updated national surveys providing detail about household incomes. However, Armstrong *et al.* (2008) report poverty rates of 47.1 per cent in 2006 and a Gini coefficient of 0.72 and Streak *et al.* (2008) report a poverty rate (for adults only) of 45.2 per cent. Both these estimates are based on a poverty line of R322 in 2000 Rand, which is equivalent to the R462 poverty line in 2007 Rand. The results from SAMOD are therefore in line with these other estimates.

Second, considering tax revenue and expenditure on social grants, Table 4.1 and Table 4.2 compare the simulation results from the 2007 policy system in SAMOD with actual results obtained from the South African Social Security Agency and the National Treasury. Table 4.1 shows the results for the social grants and the UIF and Table 4.2 shows the results for direct and indirect taxation.

[44] The choice of a poverty line and an equivalence scale is discussed further in section 4.8.1.

Table 4.1: Comparing SAMOD simulations with actual figures (social grants), 2007

Policy	Number of claimants – July 2007 (actual)[45]	Number of claimants – July 2007 (predicted by SAMOD)	Total expenditure (million R per annum), July 2007 (actual)[46]	Total expenditure (million R per annum), July 2007 (predicted by SAMOD)
Child Support Grant	7,978,107	7,664,483	19,857	18,395
Foster Child Grant	431,151	836,855	3,434	6,226
Care Dependency Grant	105,290	112,647	1,084	1,176
Disability Grant	1,405,765	1,465,637	*	14,432
Old Age Grant	2,206,694	2,474,210	*	23,894
Grant-in-Aid	33,933	34,548	96	83
Unemployment Insurance Fund	464,335	44,496	*	249

* figure could not be obtained

In Table 4.1, the majority of the simulated and actual figures match reasonably well, with the exception of the Foster Child Grant and the UIF. In the case of the Foster Child Grant, as discussed previously, the simulations seek to estimate the number of potential foster children rather than the number who have actually gone through the formal procedure to claim a grant. For the UIF, the figure shown for the actual number of claimants relates to the number of claims made in 2006 (Meth, 2008a). As many claimants are only able to claim the grant for a short period (a month or less) it is likely that the caseload at any single point in time (as presented in the SAMOD simulations) is likely to be much smaller. Given that the Unemployment Insurance Fund currently has relatively few claimants this is not considered to be a significant problem. However, if the UIF were to be expanded in the future, there would be a need to improve how this benefit is simulated in SAMOD.

[45] Figures for the number of social grants claimants obtained from South African Social Security Agency, July 2007.
[46] Where the grant is a fixed amount the total expenditure per year can be estimated by multiplying the number of claimants by the annual amount of the grant.

Table 4.2: Comparing SAMOD simulations with actual figures (direct and indirect taxation), based on policies in place in July 2007

Policy	Revenue (million R per annum), actual[47]	Revenue (million R per annum), estimated from SAMOD
Personal income tax	140,578	134,779
VAT	134,463	61,722
Excise	15,927	8,885
Fuel excise	21,845	5,202

Considering the results of the taxation simulations in Table 4.2, the simulated value for personal income tax is close to the actual recorded value, which suggests that the income up-rating process was reasonably accurate. For the indirect taxes, there is clearly a considerable shortfall between the actual and simulated amounts. Expenditure by households does not represent the total expenditure on goods and services in South Africa. For example, the Treasury VAT figure will include expenditure by overseas visitors and small business that are not VAT registered and the fuel excise figure includes expenditure on fuel in the commercial sector. Under-reporting of expenditure by households may also contribute to the shortfall in the VAT figures. An underestimate of VAT is common when modelling VAT using household survey data (Mitton, 1998; Ssewanyana and Okidi, 2008) and is considered to be mainly due to the fact that household surveys always omit certain categories of consumers. As indirect taxes are not modelled in EUROMOD it is not possible to compare the SAMOD results for indirect tax simulations with the results from EUROMOD.

As it is difficult to judge the extent to which the differences between the simulated and reported values are due to under-reporting of expenditure in the IES or non-household

[47] Figures obtained from the National Treasury Estimates of Revenue (2007-08), published in February 2008.

expenditure, the household expenditure data has not been adjusted upwards to improve the match between simulated and recorded indirect tax revenues.

4.8 Post simulation parameters – poverty measures, income pooling and equivalence

The discussion so far has focussed on the construction of a micro-dataset and the modelling of policy rules and parameters. Thus, the issues discussed so far relate to decisions regarding the SAMOD simulations. SAMOD is able to run simulations for policy systems in the years 2000, 2004, 2007 and 2008. The 2007 system is used for the purposes of validating the model only (as described in section 4.7) and the remaining years are used in the analyses described in Chapters 5 and 6. A number of hypothetical policy reforms are also created and these are discussed in Chapter 7. Each simulation produces a new micro-dataset which then requires further analysis and interpretation to understand the impacts of tax and benefit policies on household incomes. Further decisions which need to be made in developing a methodology for carrying out these analyses can be thought of as post-simulation parameters. In the analyses which follow in Chapters 5 to 7 three issues are worthy of particular consideration: determining whether or not a particular household is in poverty (i.e. the choice of an appropriate measure of income poverty); comparing the income levels of households containing different numbers and types of people (i.e. the choice of an appropriate equivalence scale); and considering how the income accruing to a household is shared amongst the household members and therefore impacts upon the welfare of each individual in the household. Each of these is addressed in the following sections.

4.8.1 Measuring income poverty

It is acknowledged that income poverty is not the only method of measuring poverty (Alcock and Campling, 1993; Lister, 2004; Spicker, 1993). For example, the Breadline Britain surveys measure individual poverty directly through an individual's inability to enjoy a selection of common items or activities (Bradshaw and Finch, 2003; Mack and Lansley, 1985; Pantazis *et al.*, 2006). Another widely used method is the capabilities approach, which focuses on the selection of freedoms (e.g. material goods, activities, relationships, sexual or other forms of expression) that individuals are able to choose from at any point in time (Nussbaum, 2000; Sen, 1983, 1992).

The fact that individuals who are income poor may not be materially poor, and vice versa is well recognised (Ringen, 1988; Tomlinson *et al.*, 2008). However, given the focus on the impact of tax and transfer policy on household income, income-based poverty measures are appropriate for these analyses. Thus, the key decision is whether to use a relative measure of poverty (for example 60 per cent of median income is commonly used in developed countries) or an absolute measure (i.e. a measure based on the cost of achieving a certain standard of living).

South Africa does not have an official poverty line at present, although there has been considerable discussion on the choice of an appropriate poverty measure (Hoogeveen and Ozler, 2004; Meth, 2006b; Meth and Dias, 2004; Statistics South Africa, 2007c; Streak *et al.*, 2008; Woolard and Leibbrandt, 1999, 2006). Whilst a consideration of the income distribution as a whole remains important in South Africa, relative poverty measures make less sense in the case where more than half the population lacks the means to afford

a minimal standard of living. The preferred approach to setting a poverty line in South Africa therefore follows a 'cost of basic needs' methodology. Work done by Statistics South Africa has calculated the expenditure necessary to purchase sufficient food to provide adequate calorific requirements for an adult. The poverty line is then set at the average expenditure level (on all items) of households that spend enough on food to satisfy these minimum calorific requirements. This approach is intended to capture the cost of essential food and non-food items (Statistics South Africa, 2007c). As this poverty line is based on household expenditure rather than income it could be argued that households in poverty should be identified by their levels of expenditure rather than income. However, as the analyses here involve simulating the impacts of taxes and transfers on income, and the response of expenditure to changes in income is not known, it is assumed that the ability to satisfy basic consumption needs can be proxied by household income.

The 'cost of basic needs' poverty line used is R462 per month in 2007 Rand. This poverty line has been recommended by Statistics South Africa and the National Treasury (Statistics South Africa, 2007c), although it has not yet been adopted as an official measure of poverty. The poverty line is updated from 2000 to 2007 prices using the average consumer price index for 2007.

The choice of the exact level at which to set the poverty line clearly has an impact on the results presented later in this thesis. Table 4.3, taken from Statistics South Africa (2007c), shows how poverty rates estimated using the cost of basic needs poverty line of R462 used here compare to estimates based on other poverty lines which have been used in the

South African context. Note that the R462 poverty line is equivalent to the 'Statistics SA – lower bound' line of R322 in 2000 Rand.

Table 4.3: Poverty rates according to different poverty lines

Rand values and poverty incidence: alternative "poverty lines"

	Poverty line in 2000 Rands*	% of individuals below the poverty line (2000 IES)
Poverty line set at per capita expenditure of the 40th percentile of *households*	R346 per capita	54.9%
Poverty line set at 50% of mean national per capita expenditure	R538 per capita	68.1%
Statistics SA – lower bound	R322 per capita	52.6%
Statistics SA – upper bound	R593 per capita	70.4%
"Dollar a day" - International poverty line of US$370 (1985 prices) per capita per annum	R81 per capita	8.1%
"Two dollars a day" - International poverty line of US$370 (1985 prices) per capita per annum	R162 per capita	27.0%
"Poverty line" implied by the Old Age Pension means test for married persons, assuming a household of 5 persons and no non-elderly income earners	R454 per capita	63.4%
"Indigence" line of R800 per household per month (in 2006 prices)	R573 per household	11.7%
"Indigence" line of R2400 per household per month (in 2006 prices)	R1720 per household	55.1%

Source: Leibbrandt and Woolard, 2006 and Magasela (2005) *Constructing an Official Poverty Line in South Africa,* http://www.naledi.org.za/docs/povertylineW2.pdf

The R462 poverty line is equivalent to a poverty line of around $4 per day or the expenditure of households at the 40th percentile. Whilst poverty lines of $1 or $2 per day are often used in developing countries, Table 4.3 shows that the cost of living in South Africa is such that estimates of poverty based on these poverty lines are unfeasibly low.

Whilst the actual poverty rate is clearly sensitive to the poverty line, the analyses in this thesis focus more on the differences in poverty rates between different groups, thus the actual rate of poverty is perhaps of less importance. Undertaking similar analyses to those presented in Chapters 5 to 7 using the 'Statistics SA – upper bound' poverty line, as opposed to the 'lower bound' line used in this thesis, indicates that the substantive findings in relation to the impact of tax and transfer policies on different age and income groups remain the same (see, for example, Wilkinson (forthcoming)).

4.8.2 Choosing an equivalence scale

A number of methods have been used to compare household incomes in South Africa and there is little consensus about which is most appropriate, although current trends seem to be moving towards a simple per capita approach (Streak *et al.*, 2008; Woolard and Leibbrandt, 2006). The choice of scale clearly influences household income levels and measures of poverty and inequality, although it has been shown by Woolard and Leibbrandt (2006) that most of these statistics for South Africa are not especially sensitive to the choice of equivalence scale. It has been noted that the choice of scale should be appropriate to the type of analyses being carried out. Proponents of the simple per capita scale argue that this is suited to measuring poverty because poor households spend little on the type of goods that can generate economies of scale in larger households (for example furniture or electrical appliances) and spend most of their income on items such as food where economies of scale are minimal. In addition, attempts to derive empirical scales have demonstrated that for poor households it is often found that the costs of children are very similar to the costs of adults (Deaton, 1997).

However, there are also drawbacks with per capita scales as they do not allow for economies of scale. Economies of scale will no doubt vary across the income distribution and may be more likely to occur in wealthier households. As the aim of the research is not just to identify households in poverty but to examine the *relative* income levels of households across the income distribution it is important to select a scale that does allow for some economies of scale. The approach taken in these analyses is to calculate the number of adult equivalents in a household following the method used by Cutler and Katz (1992). The number of adult equivalents (A) in a household is calculated using Equation 5

where α is the total number of adults in the household (aged 16 and over) and β is the total number of children:

Equation 5 $$A = (\alpha + (c \times \beta))^{\theta}$$

Values of c=0.75 and θ=0.86 are selected; these represent the ratio of the cost of a child to the cost of an adult and the household economies of scale, respectively. These align with the implicit equivalence scales derived by Potgieter (Woolard and Leibbrandt, 1999) using the Household Subsistence Level approach and also represent an approximate mid-point in the range of scales that have been used in South Africa.

4.8.3 Income pooling

As a large number of households in South Africa live on incomes close to or below the subsistence level it is likely that household income may be pooled in order to provide the household with basic necessities. There is evidence to suggest that social grant income is pooled in South Africa (Case, 2001; Guthrie, 2002; Sagner and Mtati, 1999). This means that a social transfer may not always be used solely by the person for whom it is intended, for example, income received from a social grant directed at an elderly person may be shared between all household members. Intra-household allocation is extremely difficult to determine and it has been argued that in a country like South Africa even the concept of a household as a unit of income pooling is inappropriate as the household also interacts with the wider community (Bozalek, 1999). At a basic level income can be assumed to be pooled by all household members or only within the immediate family (i.e. between a

person, their spouse and their children). Although the majority of the analyses in subsequent chapters assume that income is pooled at the household level, where relevant, consideration is also given to the extent to which any reported results may vary according to whether household or family income pooling is assumed.

4.9 Data and methodology - summary of Chapter 4

This chapter has discussed the data and methodology selected to analyse the dimension of welfare outcomes. Microsimulation is chosen as an appropriate technique to evaluate the impact of tax and transfer policies on household incomes due to its capacity to provide results at an aggregate level and to compare policy impacts on different groups, for example by age or household type. Microsimulation has been used extensively to evaluate policy impacts both in South Africa and in other countries and the literature on this method is helpful in determining how the technique can be most suitably applied to the analysis of the South African data.

As there were no existing microsimulation models suitable for carrying out the analysis required for this thesis, a significant component of the work involved building a microsimulation model for South Africa. Construction of the model required certain key decisions regarding the creation of a micro data-set and the modelling of policy rules and parameters. The impact that these decisions may have had on the results of the subsequent analyses has been considered in detail in this chapter. Overall, the model is considered to be robust, appropriate for the analyses undertaken in this thesis and a valuable contribution to policy analysis in South Africa.

A series of ‘post-simulation’ decisions were also important in determining how the data should be analysed most appropriately. Key factors are the choice of a poverty line, equivalence scale and decisions regarding household income-pooling. Previous research provides helpful guidance on each of these issues.

In the following empirical chapters of the thesis the results from the analysis of welfare outcomes are presented: Chapter 5 focuses on the most recent (2008) policy system; Chapter 6 considers policy changes between 2000 and 2008; and Chapter 7 explores a number of hypothetical policy reforms to test if the tax and transfer system could provide more support to children.

Chapter 5 – Analysing welfare outcomes: the incidence and impact of taxes and transfers on children in South Africa in 2008

5.1 Introduction

This chapter is the first of three to focus on the dimension of welfare outcomes. More specifically, Chapters 5 to 7 consider how taxes and transfers affect the income distribution broadly and how they change the income available to particular types of households. This chapter contributes to addressing the main research question – the extent to which taxes and transfers support children. The analyses also compare the support provided to children through the tax and transfer system to the level of support provided to other age groups.

The analysis of welfare ideology, policy aims and policy instruments in Chapter 3 highlighted that since 1994 policy reforms to support children have not yet provided social assistance to all children. In addition, the fact that healthy working age adults are unable to access social assistance is also likely to have a considerable impact on child poverty. In the light of fiscal constraints, the legacy of the existing system of social protection and substantial income inequalities, it is perhaps unreasonable to expect that the system of social security would have been able to transform overnight. For example, it was unrealistic in 1994 to immediately eradicate child poverty. However, from the analyses in Chapter 3 it is difficult to judge the extent to which the policy reforms that have taken place since 1994 have prioritised the reduction of child poverty. This chapter

and the two following attempt to address this issue by analysing the impact of tax and transfer policy on the income of different age groups across the income distribution. The analytical approach in this chapter is informed by the literature review in Chapter 2 and the finding that an analysis of what policies do should consider both the initial conditions and the final outcomes (Castles and Mitchell, 1992, 1993; Lelkes, 2000; Makinen, 1999). It begins by considering the composition of households in South Africa and the implications this may have for an individual's access to income from different sources. This helps to highlight the extent to which policies targeted on a particular age group may impact upon individuals in another age group who are resident in the same household. Next, the analyses consider the distribution and sources of pre tax and transfer income amongst different age groups and across the income distribution, thereby highlighting differences in the initial endowment of income prior to any policy intervention by government. Thus, the first two sections of the chapter focus on the initial conditions in terms of household structure and pre tax and transfer income.

The discussion then moves on to consider the impact of the 2008 system of taxes and transfers on household incomes, focussing first on the impact of policies on the poverty rate and poverty gap for different age groups. The results are found to be particularly sensitive to the assumptions made about income pooling and so the analyses also explore how changing these assumptions affects the poverty measures. As taxes are found to have little impact on poverty measures, the final two sections focus on the distributional impacts of income tax and indirect tax and the extent to which these policies can be considered to support children.

5.2 Household structures and income pooling in South Africa

Household composition may influence household income in several ways. First, the number of working age adults in a household is likely to have an effect on the amount of employment income that the household has access to. Second, the presence of individuals entitled to receive social assistance will also have an impact on household income. Finally, the size of the household and the extent to which income is pooled between household members will affect the level of income available to each household member. The relationships between each of these factors are complex. For example, household composition may affect total household income *and* total household income may equally influence household formation decisions. Thus, untangling each of these factors is not straightforward but it is nevertheless helpful to consider the prevalence of different household types when interpreting the findings of the analyses to follow.

Prior to considering the distribution of pre tax and transfer income[48] and the incidence of taxes and transfers, it is helpful to look first at household structures in South Africa. As income pooling is assumed to occur within households (as discussed in Chapter 4), household composition is an important factor which impacts on the income streams that flow into the household as well as on the demands placed on household resources.

Chapter 4 discussed in detail how data from the 2000 Income and Expenditure Survey (IES) were updated to 2007. This process involved updating income and expenditure variables and re-weighting the data to reflect the 2007 population totals by age, race and

[48] Pre tax and transfer income is defined as gross income before adding income from social assistance and social insurance and removing any liability for income tax.

province. One factor which was not updated was household structure, as this could not be incorporated into the re-weighting programme. Thus household size and composition (i.e. the number of people of different ages in each household) in the data used in this thesis may not reflect actual household compositions in 2007. Despite this the data still broadly reflect household structures in South Africa and are therefore useful in illustrating the prevalence of different household types[49].

Table 5.1 shows the proportion of each age group living in each type of household. As household compositions vary considerably between poor and non-poor households[50], the data for people living in households with equivalised pre tax and transfer incomes below the poverty line are presented in the top panel of Table 5.1 and the data for people living in households with pre tax and transfer incomes above the poverty line are presented in the bottom panel of Table 5.1. For example, 31.9 per cent of children living in households with equivalised incomes below the poverty line live in three-generation households. Children are defined as those aged below 18[51], working age adults are defined as those aged between 18 and 59 and old age adults are defined as those who are aged 60 and over.

The majority of children in both poor and non-poor households live only with working age adults. However, children in poor households are much less likely to live only with working age adults compared to children in non-poor households. A larger proportion of the old age population live in three-generation households than any other age group.

[49] The data from the IES can be compared with data from the 2007 Community Survey. This shows that there has not been a significant change in the proportions of households of different types. For example, the IES records that 58 per cent of households contain only children and working age adults and the Community Survey reports that 59 per cent of households are of this type.
[50] A household is defined as being poor in Table 5.1 if the household's equivalised income is below the poverty line of R462 per month. See Chapter 4 for a discussion of the selection of a poverty line for use in these analyses.
[51] Note that in the calculation of the number of adult equivalents, children are regarded as adults once they reach the age of 16.

However, fewer individuals in non-poor households live in three-generation households across the age spectrum. Three-generation households are likely to be in receipt of more than one social grant and are therefore likely to have higher total incomes from social transfers than other types of households; however, this must be balanced against the increased costs associated with living in a larger household. Klasen and Woolard (2008) find that the presence of unemployed working age people in three-generation households often pulls the household into poverty, despite the fact that these households benefit from higher levels of social grant income.

Table 5.1: Household compositions for poor and non-poor households

	% living with					
	Children	**Working age**	**Old age**	**Three generations**	**Total %**	**Number of persons**
Poor households						
Children	1.1	64.3	2.7	31.9	100	10,891,863
Working age	56.3	11.8	4.4	27.5	100	10,862,809
Old age	8.2	14.6	12.2	65	100	2,010,070
Non-poor households						
Children	0.2	84.9	0.3	14.6	100	7,302,943
Working age	53	33.6	4.2	9.2	100	14,202,371
Old age	1.2	24.7	40.2	34	100	1,521,622

Note: Households are defined as poor if their pre tax and transfer equivalised income is below the poverty line of R462 per month.

Chapter 3 discussed how there is currently very little support provided to the working age population, whilst social assistance is available for some children and the elderly. Table 5.1 indicates that the vast majority of the working age population (88 per cent) live in households with children or an old age person and therefore many working age adults may be able to access social assistance indirectly.

Attention has also been drawn to the presence of 'skip-generation' households (where children live with grandparents or older relatives) and child-headed households (Haarman, 1999). Although only 3.8 per cent of children in poor households live in skip-generation and child-headed households, this represents nearly half a million children who are not living with a working age adult. Whilst these households are more likely to be able to obtain social assistance income, they are less likely to be able to rely on wage income and are therefore more dependent on social assistance. The impact of HIV/AIDS on the working age population is expected to lead to an increase in the number of children living in these types of households (Bray, 2003; Richter and Desmond, 2008) and this trend is confirmed by comparing data from the 2007 Community Survey with the household demographics presented in Table 5.1[52].

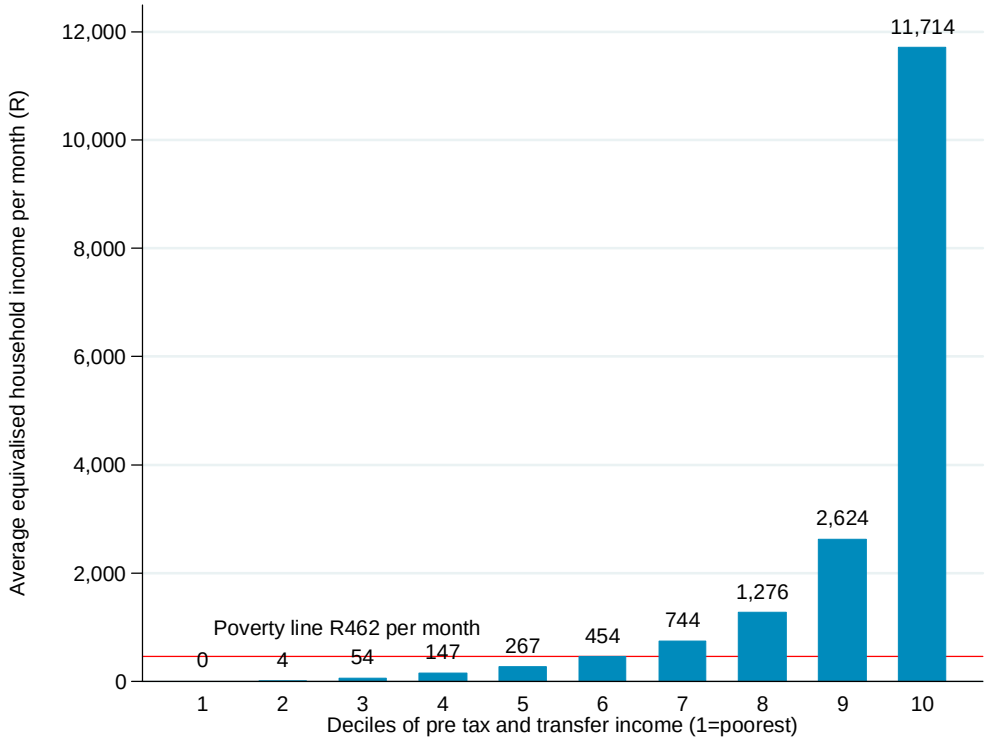
5.3 Analysing the distribution of pre tax and transfer income

Both household structures and the initial endowment of income are considered to be important 'initial conditions' which shape the impact of tax and transfer policies. This section considers the distribution of pre tax and transfer income (i.e. gross income before taking into account income from social assistance and social insurance and liability for income tax) and how sources of pre tax and transfer income vary between different household types.

[52] Comparing data from the IES and the 2007 Community Survey indicates that the proportion of child-headed households has increased from 0.03 per cent of all households in 2000 to 0.06 per cent of all households in 2007, and the proportion of skip-generation households has increased from 1.1 per cent to 1.3 per cent over the same period.

Figure 5.1 shows the average pre tax and transfer income for individuals across the income distribution.

Figure 5.1: Distribution of pre tax and transfer income, R[53] per month (equivalised)



To produce the data presented in Figure 5.1 the equivalised pre tax and transfer income for each household is calculated using the equivalence scale described in Chapter 4 (it is assumed that all sources of pre tax and transfer income are shared equally between household members[54]). Individuals are then grouped into income deciles according to their household's equivalised pre tax and transfer income and the average income is calculated for each decile. The analyses are presented at the individual rather than the household level in order to take into account the differences in household size across the income distribution. The average household size for poor households is 6.6 persons,

[53] R refers to Rand. One Rand is equivalent to £0.075 in August 2009.
[54] See Chapter 4 for further discussion of the assumptions made about income pooling.

whilst the average household size for non-poor households is 5.0 persons. Thus, an analysis at the household level would give a misleading picture of the extent of poverty as the proportion of households that are poor is smaller than the proportion of individuals who live in poor households.

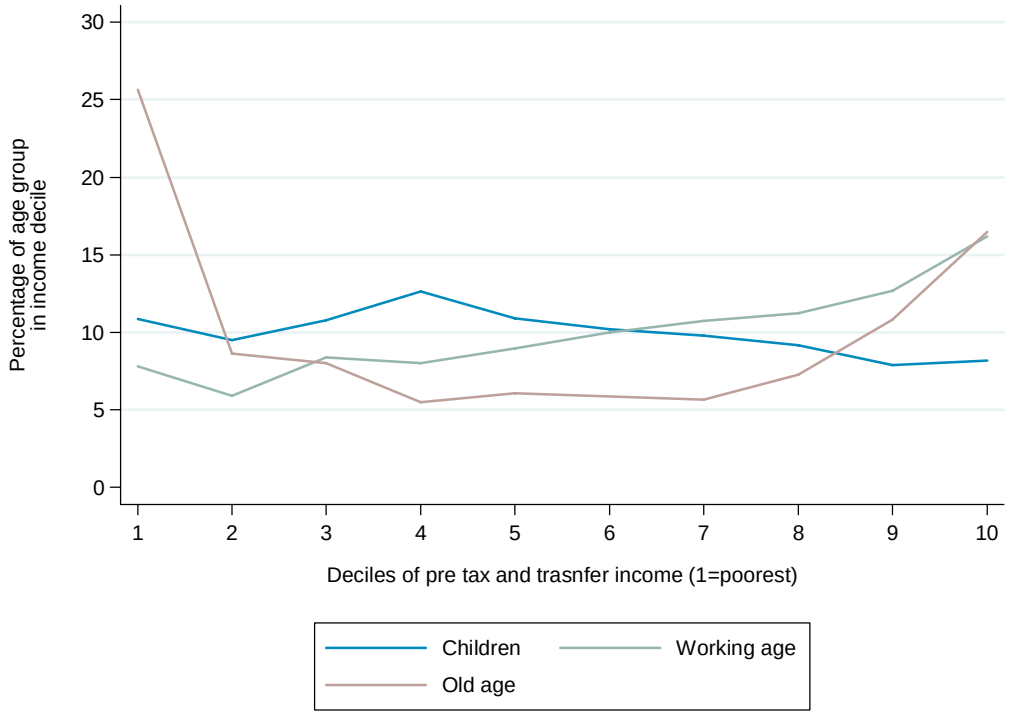
More than 10 per cent of the population live in households that record zero pre tax and transfer income[55]. From the second decile onwards the average income roughly doubles between each decile until the richest decile where the average income is around four times higher than the second richest decile. The poverty line (as discussed in Chapter 4) is R462 per month. Thus, most individuals in the first six deciles (almost 60 per cent of the population) live in households that lack the means to afford a basic standard of living in the absence of social transfers. The Gini[56] coefficient for original income is 0.78 which confirms that inequality in terms of pre tax and transfer income is extremely high.

Figure 5.2 shows how different age groups are situated within the distribution of pre tax and transfer income. As in Figure 5.1, the data presented relate to individuals rather than households. Individuals are grouped into deciles according to the equivalised pre tax and transfer income of the household they live in. If all age groups were equally distributed between income deciles then there would be exactly 10 per cent of each age group in each decile. Figure 5.2 shows the actual percentage of each age group in each income decile. For example, more than 25 per cent of the old age population are in the lowest income decile according to pre tax and transfer equivalised household income. Children tend to be

[55] See Chapter 4 for a discussion of how the data were cleaned to try to identify households genuinely reporting zero pre tax and transfer income from those missing data on pre tax and transfer income.
[56] The Gini coefficient is a measure of income inequality ranging between 0 and 1. A value of 0 implies perfect equality where the wealth of a nation is equally spread amongst the whole population, a value of 1 indicates perfect inequality where one individual holds all the wealth and the rest of the population have nothing.

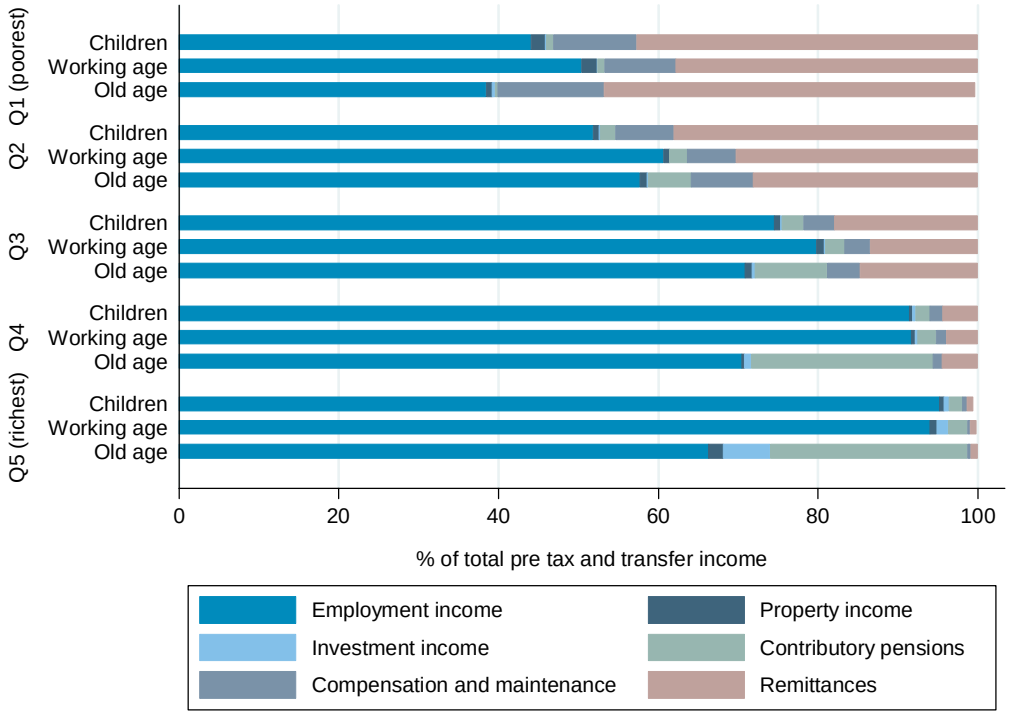
concentrated at the lower end of the income distribution whilst those of working age are more likely to be at the higher end of the income distribution. The old age population tend to live in households with either very high or very low pre tax and transfer incomes.

Figure 5.2: Position of different age groups across the income distribution



Finally, Figure 5.3 illustrates the contribution of each income source to total pre tax and transfer household equivalised income for different age groups across the income distribution. Individuals have been grouped into quintiles of household equivalised income rather than income deciles as previously.

Figure 5.3: Sources of income across the age / income distribution



As might be expected, the main source of income for the majority of households is from employment. However, employment income makes up a much smaller proportion of total income for the poorest 40 per cent. For the poorest two quintiles remittances (private income transfers between households) account for nearly 40 per cent of total income[57]. In general, households containing children receive a slightly larger share of remittance income except amongst the poorest 20 per cent where households with old age adults rely most heavily on income from remittances. The fact that individuals living in households with equivalised incomes in the poorest quintile receive a larger proportion of pre tax and transfer income from remittances than any other income quintile might suggest that private transfers between households account for short-falls in pre tax and transfer

[57] Whilst income from remittances is included in equivalised household income for households that receive remittances, expenditure on remittances is not subtracted from households that provide money to other households as expenditure on remittances is not accurately reported in the expenditure data. Thus, income from remittances is effectively counted twice across the income distribution. Whilst acknowledging that remittances play an important role in boosting the incomes of some households it should be remembered that this will necessarily reduce the disposable incomes of other households.

income. However, research has indicated that the receipt of social transfers can have an impact on both the giving and receipt of private transfers (Jensen, 2003; Maitra and Ray, 2003). The incidence of remittances therefore needs to be considered whilst also taking into account income from social assistance and social insurance.

The other main difference between the income quintiles is that pension income from occupational or private schemes only becomes significant for the old age group for individuals in the richest 40 per cent of households. This indicates that the lower income groups have not been able to benefit from such schemes either due to lack of income to contribute to a private scheme or lack of formal employment.

The findings from this section show that more than half of the population live in households lacking the means to afford basic necessities before income from social assistance and social insurance is taken into account. Children are concentrated at the bottom of the income distribution and there are also a large number of old age adults amongst the poorest 10 per cent.

The following section considers how policy, in the form of social assistance, social insurance and taxation, acts to modify the initial income endowment. The policies considered relate to the tax and transfer system in place at the end of 2008.

5.4 The impact of tax and transfer policy on household incomes in 2008

The analysis of household structures and the initial endowment of income in the previous section can help to predict the impact of tax and transfer policies on household incomes. For example, children and the old age population are concentrated at the bottom of the income distribution prior to taxes and transfers. Thus, as social assistance in the form of social grants is available to both the old age population and children, poverty rates are likely to be reduced for these groups after considering income from social transfers. The impact of social assistance on the poverty rates of children and the old age population may be reduced in cases where social assistance income is 'shared' with working age adults. As nearly 90 per cent of working age adults are co-resident with children and / or old age adults it is likely that this will act to reduce the impact of social assistance on children and the elderly but lead to a greater impact on the working age population.

The social assistance and social insurance schemes operational in South Africa in 2008 are summarised in Table 5.2 (a full description of these policies is provided in Appendix A). Whilst Table 5.2 reports the actual monetary values of the grants in July 2008, for the analyses to follow in the remainder of this chapter all monetary amounts in tax and transfer policies have been adjusted to 2007 monetary values (see Chapter 4 for more details). This adjustment is carried out because the income and expenditure data used relate to 2007 so, for consistency, the policy parameters should also be reported at 2007 prices. This adjustment also makes it possible to compare policy changes over time in a consistent manner. For example, Chapter 6 compares policies from 2000, 2004 and 2008 and all policy parameters for the policy systems in each of these years are adjusted to their

2007 monetary values. Hence, it is necessary to follow the same methodology here so that the findings from this chapter can be compared with those in Chapters 6 and 7.

Table 5.2 shows that the Child Support Grant has the largest number of recipients, with an estimated 10.4 million children eligible to receive this grant, and the Old Age Grant has the second largest number of recipients (around 2.6 million). The difference in the value of these two grants is also striking: the Old Age Grant is more than four times the value of the Child Support Grant and therefore has the potential to have a larger impact on the poverty rate than the Child Support Grant.

Table 5.2: Social assistance and social insurance, December 2008[58]

Social Grants				
Type	***Mean- test***	***Amount***	***Other conditions***	***Number of eligible recipients****
Child Support Grant	- Income must be below R50,400 per annum for a couple and R25,200 for a single person	R210 per month	- Child must be aged under 14 - Carer must be aged 16 or over	10.4 million
Foster Child Grant	- No means test	R650 per month	- Child must be placed in the care of foster parent through a court order - Child must be aged under 18 or under 21 if completing education	0.84 million
Care Dependency Grant	- Income must be below R225,600 for a couple per annum and R112,800 for a single person - No means test for children	R940 per month	- Child must be aged under 18	0.13 million
Disability Grant	- Income must be below R53,856 per annum for a couple and R26,928 for a single person	Up to R940 per month depending on income	- Person must be aged over 18 and under 60 (female) or under 65 (male)	1.5 million
Old Age Grant	- Income must be below R53,856 per annum for a couple and R26,928 for a single person	Up to R940 per month depending on income	- Person must be aged over 59 (female) and over 64 (male)	2.6 million
Grant-in-Aid	- Based upon receipt of DG or OAG	R210 per month	- Person must require full-time care	0.04 million
Social Insurance				
Unemployment Insurance Fund	- Must have made sufficient contributions	Up to R12,478 per month dependent on previous salary	- Can only be claimed for a maximum of 6 months - Maximum period of claim depends on previous contributions	0.05 million

* Estimated using SAMOD

[58] One Rand is equivalent to £0.075 in August 2009.

5.4.1 Receipt of social assistance and social insurance by household type

Before analysing household incomes post taxes and transfers, it is helpful to examine what types of households are likely to receive income from social assistance and social insurance. As discussed above, household composition will have an impact on the likelihood that a household receives social assistance income in the form of social grants. In addition, the receipt of social assistance may, in turn, have an impact on household formation decisions; however, this is not something that will be explored in this thesis. The relationship between the type of household that an individual lives in and the amount of income they receive from social grants and social insurance is shown in Table 5.3. The data in Table 5.3 show the average equivalised household income from social grants and social insurance payments in 2008 (adjusted to 2007 prices) for individuals in each type of household. Only households classified as poor according to pre tax and transfer equivalised income are shown[59] (as in the top panel of Table 5.1). For example, children living with working age adults in poor households receive, on average, R172 per month from social assistance and social insurance.

[59] Whilst the households for which data are presented in Table 5.3 are all poor according to equivalised pre tax and transfer household income, the addition of income from social assistance and social insurance is sufficient to lift some of these households above the poverty line.

Table 5.3: Average equivalised household income from social grants and social insurance for individuals in different household types (R per month – poor households only)

Household type	Average equivalised income from social grants and social insurance (R per month)	Number of households
Children	79	115,724
Working age	96	1,454,008
Old age	811	249,603
Children and working age	172	13,263,770
Children and old age	545	461,634
Working age and old age	409	792,170
Children, working age and old age	335	7,811,791

Note: Households are defined as poor if their pre tax and transfer equivalised income is below the poverty line of R462 per month.

As the Old Age Grant is the highest in value (R940 per month), households containing older people receive higher amounts of social grant income, on average. However, older people are much better off (considering only social assistance) when living independently or with other older people rather than in households with children or working age adults. The presence of multiple social grants in three-generation households does not tend to outweigh the increase in living costs as household size increases (supporting the findings of Klasen and Woolard (2008)). However, the fact that the majority of older people live in three-generation households might indicate that families form larger households in order to maximise the income available to the younger generations. Despite living in larger households, the older population still obtains the largest income, on average, from social grants. The majority of the old age population (65 per cent) live in three-generation households receiving R335 per month from social grants and social insurance, whereas, the majority of children (64 per cent) live with working age adults and receive only R172 per month from social grants and social insurance.

5.4.2 Impact of taxes and transfers on poverty

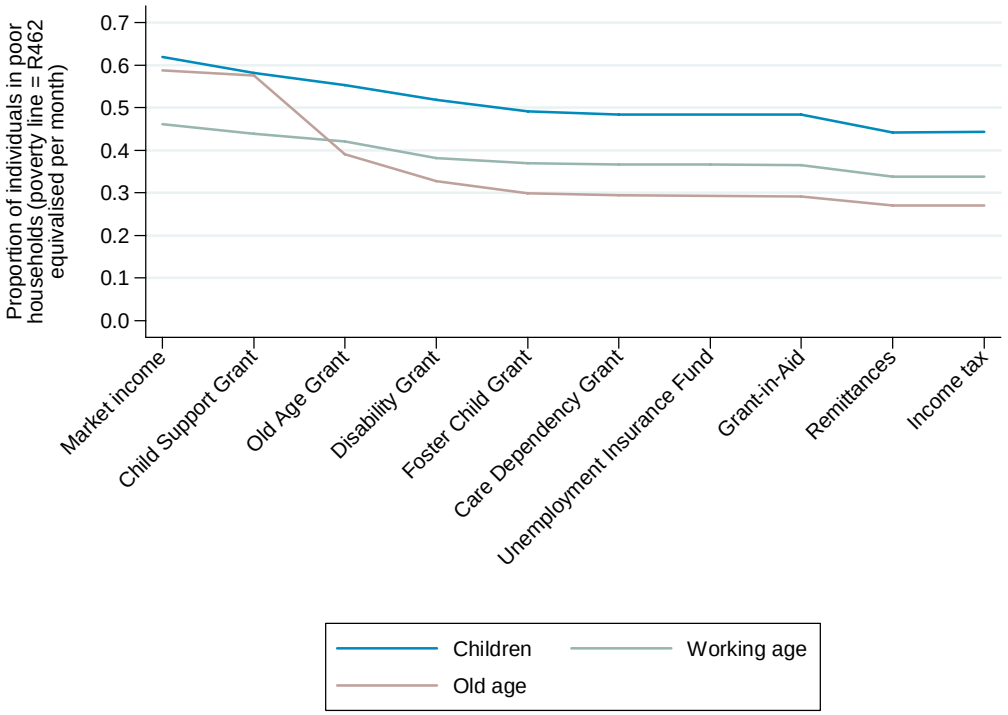
It is evident that the difference in value of the Child Support Grant and Old Age Grant has an impact on the average income from social assistance received by individuals living in different types of households. In relation to the Child Support Grant, Guthrie has argued that the "amount of the grant is insufficient to meet the basic needs of a child" (Guthrie, 2002:130) and indeed Table 5.3 shows that, in most cases, children can only obtain sufficient transfer income to surpass the poverty line by living with older people. However, the extent to which households with children are able to meet the basic costs of living also depends on the other income sources (aside from social assistance income) coming in to the household.

In Figure 5.4 the proportion of individuals in households with incomes below the poverty line is shown for each age group as income from different sources is gradually added to total household income. The proportion of individuals in poor households according to market income[60] is shown on the left of Figure 5.4. Each social grant is then added to household income in turn. Finally, income from social insurance and remittances is added and income tax liabilities are subtracted from household income in order to arrive at final disposable income. Thus the proportion of individuals living in households with incomes below the poverty line after taxes and transfers is shown on the right of the chart[61]. Income from private remittances is clearly not a state provided transfer; however, as income from this source is demonstrated to constitute a significant proportion of household income for poor households, it is included here in order to compare the impact

[60] Market income is defined as pre tax and transfer income excluding income from remittances.
[61] Again, it should be noted that income provided as remittances is not deducted from final disposable income.

of state versus private transfers on the poverty rate. Overall, the proportion of individuals living in poor households decreases for all age groups with the largest decrease (around 32 percentage points) observed for the old age population and the smallest decrease (around 12 percentage points) observed for the working age population.

Figure 5.4: Impact of 2008 taxes and transfers on the proportion of individuals living in poor households



As might be expected, only grants with relatively large numbers of claimants (the Child Support Grant, Old Age Grant and Disability Grant) have a significant impact on the proportion of individuals living in poor households. The Old Age Grant has the largest impact for the old age population (and indeed the largest impact of any of the grants on any age group) and is responsible for most of the reduction in the poverty rate amongst this group. Remittances also have an effect on poverty, especially for children. There is a

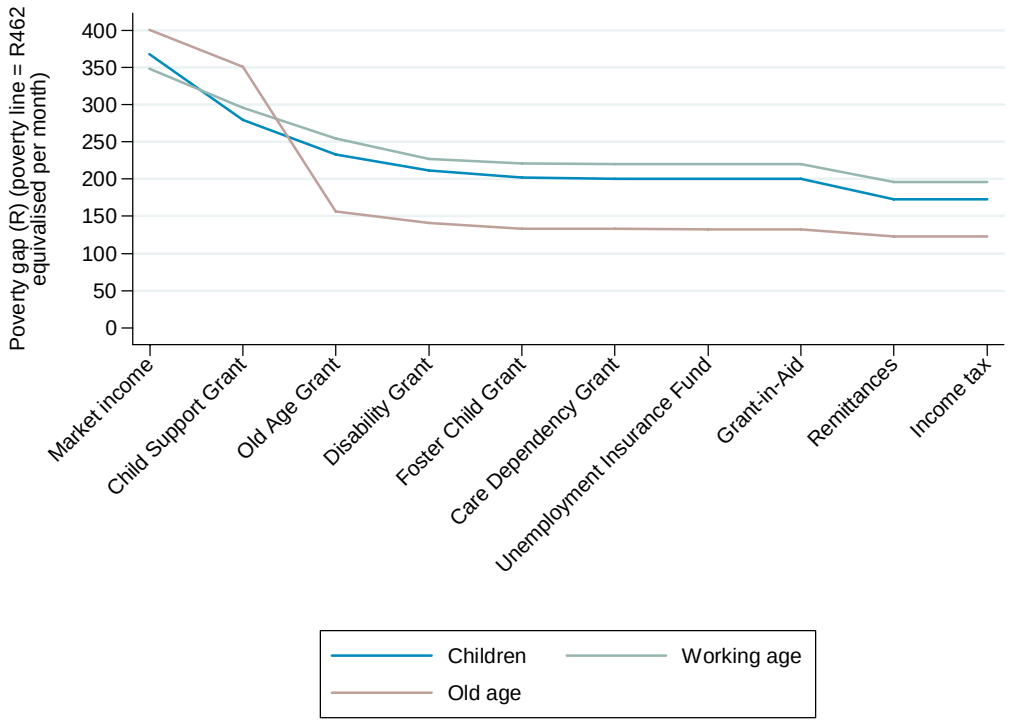
reduction of four percentage points in the number of children living in poor households after accounting for remittances, whilst for other groups the reduction is around two percentage points. The apparent targeting of remittances to children is interesting as children are most likely to live in poor households after accounting for income from social assistance and social insurance; this is explored further in Figure 5.6.

Whilst Figure 5.4 focuses on the impact of taxes and transfers on the poverty rate, Figure 5.5 shows how the average gap between household equivalised income and the poverty line changes following the addition of each type of transfer and income tax. Again, the impact of the Old Age Grant in increasing household income is noticeable and the Child Support Grant also has an impact on the poverty gap for children.

There are interesting differences in the final position of each age group between Figure 5.4 and Figure 5.5. Although Figure 5.4 shows that, of all the age groups, children are most likely to live in a poor household after taxes and transfers have been taken into consideration, Figure 5.5 shows that the working age population tend to live in households with incomes furthest from the poverty line after taxes and transfers. Thus, whilst more children live in poor households than working age adults, households containing children tend to be closer to the poverty line, on average, than households containing working age adults.

In both Figure 5.4 and Figure 5.5 income tax is shown to have no impact on the proportion of individuals living in poor households or the average poverty gap. This is due to the fact that the threshold for paying income tax is much higher than the poverty line and households with incomes close to the poverty line therefore pay no income tax.

Figure 5.5: Impact of 2008 taxes and transfers on the poverty gap (R per month)



Whilst the aggregate picture, illustrated in Figures 5.4 and 5.5, shows how the incidence of transfers and taxes varies *between* age groups, it is also of interest to understand how taxes and transfers may be having a differential impact *within* each age group. In order to examine how taxes and transfers generate unequal access to resources for children living in different types of households, Figure 5.6 shows the amount of market income, social transfers and remittances received by different household types. Only households which are defined as poor according to pre tax and transfer income are shown.

The importance of remittances in reducing poverty rates, for children in particular, is shown in Figure 5.4. Figure 5.6 illustrates the relationship between income from social assistance and social insurance payments and income from private remittances. There

appears to be a relationship whereby remittances make up some of the short-fall in social transfer income: child-headed households benefit the most from remittances, followed by households containing children and working age adults. This finding supports existing research which suggests that child-headed households in South Africa often receive considerable support from family and other kinship networks (Meintjes and Giese, 2006; Posel, 2001; Richter and Desmond, 2008). However, these households also benefit least from state-provided transfers. Thus, the data suggest that there is at least some degree of redistribution between households which acts to reduce inequalities introduced through the incomplete coverage of social assistance and social insurance schemes and through differences in the value of social assistance payments (for example, between the value of the Child Support Grant with the Old Age Grant). Figure 5.6 illustrates how households may be able to mitigate the short-falls in social assistance and social insurance payments through private income transfers. In addition, Figure 5.3 showed that household formation decisions can also have a significant impact on the level of state transfers that can be accessed by the household, and this is another potential mechanism by which households themselves can reduce poverty rates.

Remittances do increase the incomes of households where little income is received from social assistance. However, Figure 5.6 shows that there is still a substantial difference in the final levels of disposable income amongst different types of household even though all the households in Figure 5.6 were below the poverty line before taxes and transfers were taken into consideration[62]. In particular, the average household income, and the likelihood that the household is in poverty, depends very much on the household composition. Thus, from Figure 5.6 it seems that household composition has a large impact on the amount of

[62] Note that post tax and transfer income does not take into account income that is spent by households on remittances.

income from social assistance available to households containing children and social grants are generally only effective at lifting a household out of poverty when the household contains an older person.

Figure 5.6: Total income from different sources by household type, poor[63] households only

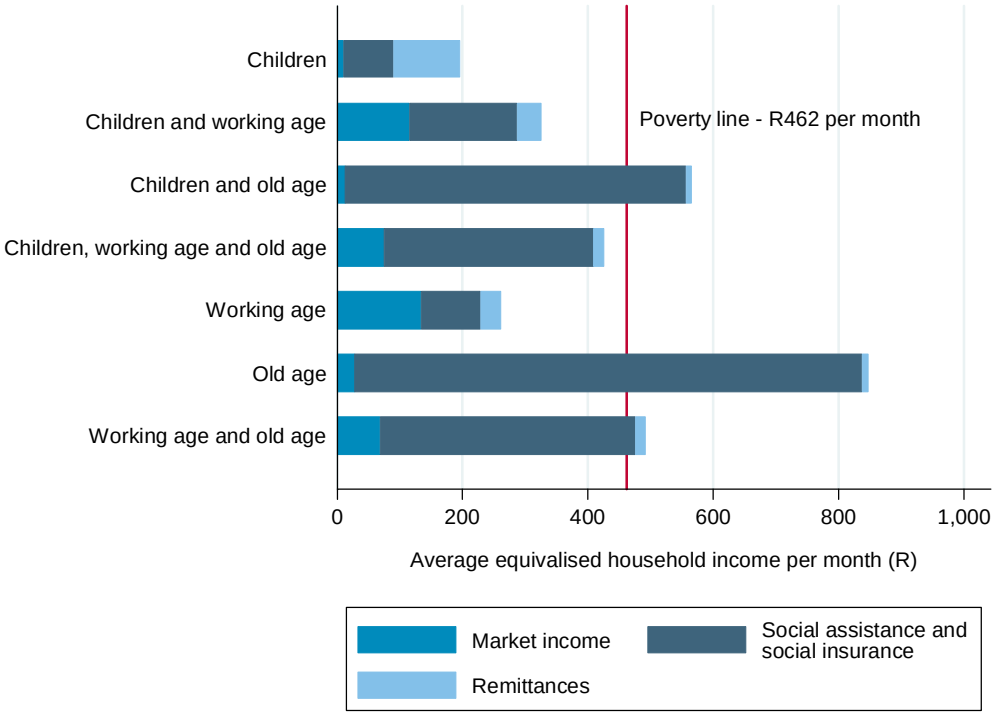


Figure 5.6 indicates that any policy reform aimed at reducing child poverty needs to target households in which there are no old age adults (i.e. child-headed households and households containing only children and working age adults). In the case of child-headed households these represent a particular policy problem. Whilst the low income levels of these households is a policy concern, the appropriate policy response should also try to

[63] Households are defined as poor according to pre tax and transfer income.

ensure that children do not end up in child-headed households (for example, by providing easier access to the Foster Child Grant) (Proudlock *et al.*, 2008).

With regard to children living with working age adults, it is difficult to determine from the analyses here whether the most cost effective strategy to improve the situation of these children is to target resources at children or at working age adults. Certainly in terms of the child-inclusive models of social citizenship discussed earlier and the progressive realisation of socio-economic rights for adults to support the welfare outcomes of children, there are strong arguments for directing resources towards working age adults. Alternative policy approaches to tackle this issue will be considered in Chapter 7.

5.5 Sensitivity of the analyses to income pooling assumptions

The analyses in the previous section highlight the importance of household composition and pooling of income from social transfers in reducing poverty. However, as outlined in Chapter 4, the results presented in the previous section are sensitive to the assumptions made about income pooling within the household. In particular, the assumption that income from social grants is shared results in many more people benefiting from social assistance income than the actual number of people eligible to receive grants. For example, very few of the working age population are eligible for a grant; however, since nearly 90 per cent of the working age poor live with either children or old age adults (see Table 5.1) social grants still do have an impact on poverty rates for the working age population.

Research evidence suggests that there is some degree of income pooling within households (Ardington *et al.*, 2009; Bertrand *et al.*, 2003; Case, 2001; Duflo, 2000); however, the actual extent to which this occurs may vary considerably between households. To test the sensitivity of the results to the assumptions made about income pooling, the analyses in Figures 5.4 and 5.5 have been repeated using different assumptions about income pooling. In Figures 5.7 and 5.8, households are split into family units and income is assumed only to be pooled only within the family. A family unit is defined as a person, their spouse and any children that the person is the main carer for (i.e. children under the age of 18). Thus, older people living in households with children and working age adults are treated as belonging to an entirely separate family unit for the purposes of the analyses presented in this section[64]. Similarly, unmarried people with no dependents are treated as single-person family units.

Figure 5.7 shows the proportion of individuals living in family units with incomes below the poverty line as income from each transfer is added to market income, as in Figure 5.4 (the same poverty line is used as in Figure 5.4). The results from Figure 5.4 are also included on the chart to aid comparison. The assumption of income pooling only within the family unit results in an increase in the proportion of individuals living in families with incomes below the poverty line for both children and the working age population. A much smaller proportion of the old age group live in families with incomes below the poverty line and poverty is largely eliminated for this group. This confirms that income pooling within the broader household would result in a transfer of social assistance income from the elderly to the working age and children, thereby highlighting the

[64] In households where there are no working age adults, children and their old age carers would be treated as a family unit.

importance of household composition on the potential for the tax and transfer system to support children.

Figure 5.7: Impact of 2008 tax and transfer policies on the proportion of individuals living in households / families with incomes below the poverty line under different income pooling assumptions

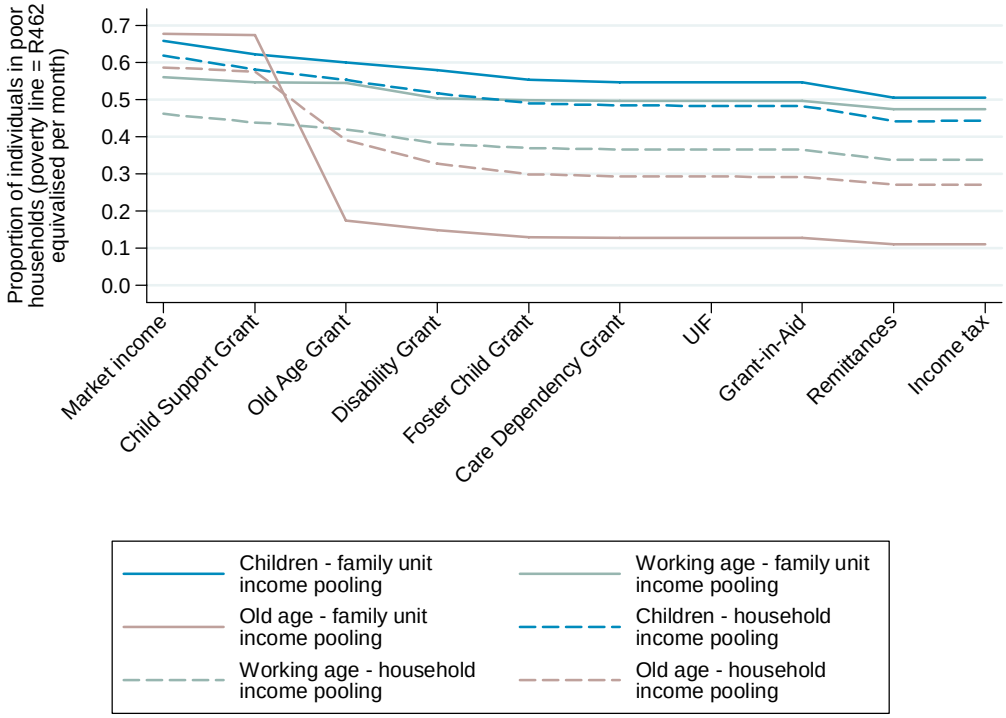
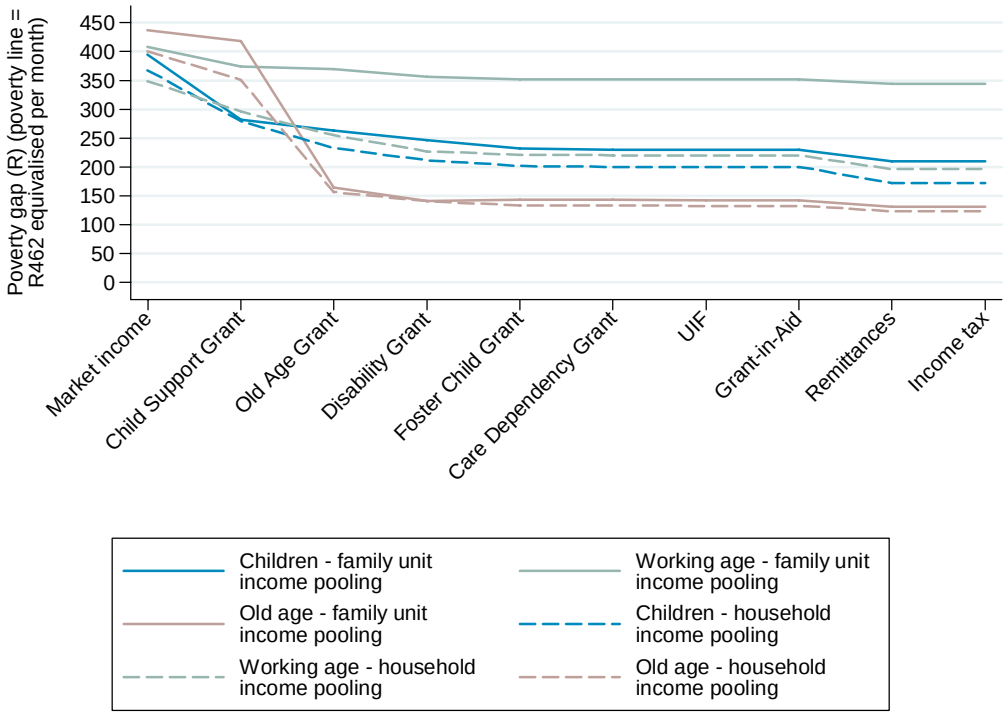


Figure 5.8 illustrates the impact of changing the income pooling assumptions on the poverty gap. Again, the poverty gap increases for working age adults and children with family income pooling. The increase in the poverty gap for children is fairly small, whilst there is a large increase in the poverty gap for working age adults. This is due to the fact that most children are eligible for a Child Support Grant but, under the family income pooling scenario, working age adults only receive income from the Child Support Grant if they have dependent children. There is also an increase in the poverty gap for old age adults. This result is because men aged between 60 and 64 were not eligible for an Old

Age Grant in 2008. Many of them were able to claim a Disability Grant instead which results in the generally low poverty rate for this group. However, a small proportion of poor old age males are not entitled to any form of social assistance under the 2008 system[65] and this results in a large poverty gap for this group.

Figure 5.8: Impact of 2008 tax and transfer policies on the poverty gap under different income pooling assumptions



Overall, the analyses presented here represent two extreme positions of full income pooling between all households members and income pooling only between immediate family members. In reality, the actual level of income pooling is likely to be somewhere between these two extreme positions. For example, Bertrand *et al.* (2003) and Ardington

[65] In the 2008 budget speech it was announced that the minimum age of eligibility for the Old Age Grant would be set at 60 for men and women by 2010.

et al. (2009) both find evidence that income from social grants is pooled, and Case (2001) reports that between 75 and 80 per cent of households pool income to some extent[66]. Regardless of the actual amount of income pooling that takes place, the findings here illustrate that the extent to which child poverty is reduced relies both on household composition and how income is allocated within households. With family income pooling the child poverty rate decreases from 66 per cent (considering only market income) to 55 per cent after all social assistance and social insurance income (but not remittance income) has been taken into account. If income pooling of social assistance and social insurance occurs then the poverty rate drops further to 48 per cent. Finally, remittances between households are able to reduce the child poverty rate to 44 per cent.

Thus, around half of the potential reduction in child poverty can be attributed to the system of social assistance and social insurance alone and the remainder of the reduction in child poverty is achieved through redistribution within and between households. It would of course be possible to reduce the child poverty rate further by allocating a greater share of household income to children. There is little evidence on how grant income is spent within households although it has been shown that income from the Child Support Grant and the Old Age Grant have a positive impact on child outcomes in areas such as education, health and nutrition, perhaps suggesting that children are prioritised in household expenditure decisions (Aguero *et al.*, 2005, 2006; Duflo, 2000; Goldblatt, 2004; Williams, 2007). Research carried out by Hunter and Adato (2007) finds that the way in which income from the Child Support Grant is spent is dependent upon the other sources of income in the household as well as the household's needs. Generally the Child Support Grant is used for general household needs (i.e. for all household members) such

[66] It is not known if this figure includes single person households.

as buying food and clothing and other child-related expenditure such as school fees and medical care.

5.6 Income tax – a transfer to the wealthy?

Social transfers clearly have a direct impact on the incomes of individuals living in poor households. However, in considering the extent to which policy prioritises particular groups, an evaluation of tax policy is also relevant (Gilbert and Moon, 1988; Smith, 2000). Whilst income taxes are not paid by the poor, consumption taxes do tend to impact heavily on the poor as low-income households spend a larger proportion of their income, and thus pay proportionally higher amounts of indirect tax, than wealthier households (Alderman and del Ninno, 1999; Go *et al.*, 2005; van Niekerk, 2002; Woolard *et al.*, 2005). Thus, tax policy decisions impact directly on the poor, in the case of indirect tax, and, in the case of income tax, decisions on the income tax structure are related to decisions on the extent of redistribution between the rich and the poor. In addition, the income and consumption taxes analysed in this thesis represent a sizeable proportion of government revenue and are thus essential in providing revenue to fund cash transfers to the poor.

In evaluating the impact of tax policy the aim is not to engage in discussions related to the optimum level of taxation in South Africa; however, it is recognised that this is also an important factor to consider in general. Van Niekerk (2002) argues that the optimum level of taxation is a key factor within a country's development strategy and is dependent both upon ideology and the practical limits on the extent to which additional revenue can be

raised. As an aim of this thesis is to consider how the tax and transfer system prioritises different groups and how this has changed over time, the interest is more in analysing the distributional effects of taxes and tax reforms rather than actual tax rates. A time-series analysis of policy reforms is undertaken in Chapter 6 and the present chapter considers particular features of the 2008 tax system in terms of their impact on different groups across the income distribution. Two issues considered in particular are the system of income tax subsidies and the removal of consumption taxes on certain basic food and fuel items. This section looks at the system of tax subsidies in more detail and consumption taxes are considered in the final section of this chapter.

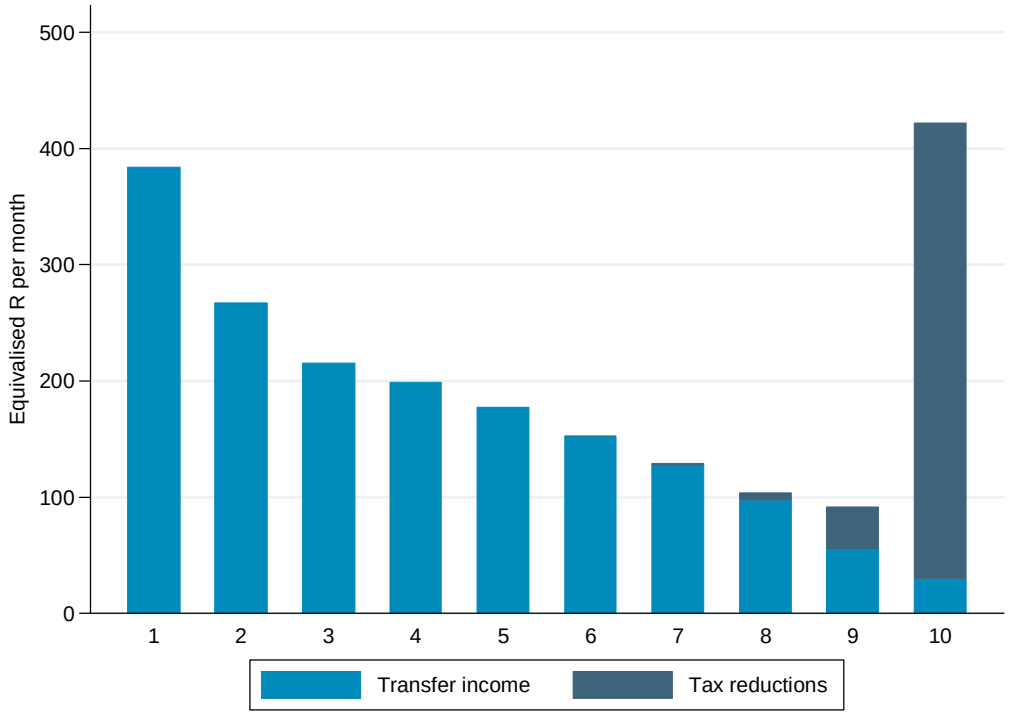
The analyses so far have treated income tax as a single payment made by tax payers. However, the system of income taxation contains a number of tax subsidies and concessions which reduce the tax burden on individuals obtaining income from particular sources and individuals making contributions to certain types of private insurance schemes. The simulation of tax subsidies and concessions is described in more detail in Chapter 4. In summary, income derived from investments and lump sum payments is taxed at a lower rate than employment income and contributions made to private medical and pension schemes attract a reduction in tax liability. There is also an additional tax rebate for those over the age of 65. If these tax concessions and subsidies are treated as a cash transfer then it is possible to compare the tax paid under the current rules with the tax that would be paid if the tax subsidies and concessions were removed.

Two scenarios are analysed here. In the first the tax rules are assumed to be unchanged; in the second it is assumed that no tax reductions are available for expenditure on private medical and healthcare schemes and that all income is taxed according to the same rate

structure regardless of the source of income and the age of the individual. The difference between the tax paid under the two scenarios is then assumed to equate to a cash transfer.

In Figure 5.9 individuals are grouped into deciles according to their household's pre tax and transfer equivalised income. Figure 5.9 shows the average income from tax subsidies, calculated as described above, for individuals living in households in each income decile. For comparison purposes, the average income from social grants and social insurance is also shown.

Figure 5.9: Income from social grants and social insurance and tax reductions by deciles of pre tax and transfer income (decile 1 =poorest, decile 10 = wealthiest)



It appears that social assistance is well targeted in that those in households with the lowest pre tax and transfer incomes receive more in cash transfers. However, a striking finding is that the absolute value of tax subsidies in the wealthiest decile (decile 10) is larger than the value of social transfers in the poorest decile (decile 1). Even though the income from tax subsidies will be a very small proportion of total income for the wealthiest decile, removing the tax subsidies would release funding which could be directed towards the lower income deciles.

Removing the tax subsidies may also have equity implications for tax payers, particularly if low-income tax payers benefit proportionally more than high-income tax payers from the tax subsidies. The extent to which tax subsidies are directed towards low-income tax payers is considered in Figure 5.10. This shows the concentration curve[67] of income tax payments with and without subsidies and the Lorenz curve of pre-tax income[68]. The concentration curve represents the cumulative proportion of tax payments and the Lorenz curve represents the cumulative proportion of income. Each curve is plotted against the cumulative proportion of individuals ranked in order of pre-tax income. For the Lorenz curve, the closer the curve is to the line of income equality the more equitable the income distribution. The opposite is true for the concentration curves: the closer the concentration curve is to the line of income equality, the higher the proportion of taxes that is paid by low income groups. Thus, the further the tax concentration curve is from the line of equality the more progressive the tax system.

[67] The concentration curves plot the cumulative proportion of income tax payments.
[68] The Lorenz curve plots the cumulative distribution of pre-tax income. Pre-tax income is defined as total income from all sources prior to income tax deductions.

Figure 5.10: Lorenz curve (pre-tax income) and tax concentration curves (with and without tax subsidies)

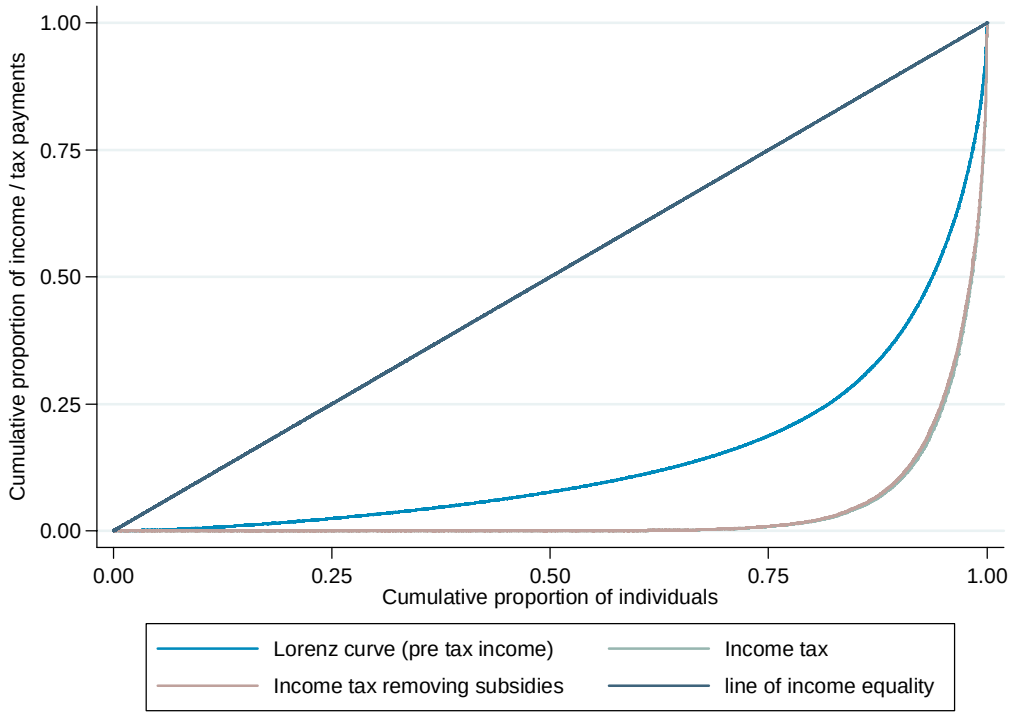


Figure 5.10 confirms that the income tax system is progressive (the concentration curve for tax is below the Lorenz curve). It also shows that the system of tax subsidies is very mildly progressive (removing the tax subsidies shifts the concentration curve very slightly to the left), thus, removing the tax subsidies to generate extra income to fund cash transfers for the poor would actually make the tax system slightly more regressive than it is at present. In other words this would disadvantage low-income tax payers more than high-income tax payers.

To explore which groups benefit most from the tax subsidies in more detail Kakwani indices have been calculated for each age group for the tax system with and without subsidies. The Kakwani index is a measure of the area between the Lorenz curve and the

tax concentration curve[69] (Formby *et al.*, 1981; Kakwani, 1977). A positive value of the index implies that the tax system is progressive (i.e. the burden of taxation is proportionally greater for high income groups) and a negative value indicates regressivity (i.e. the burden of taxation is proportionally greater for low income groups). Kakwani indices for the different age groups for each tax scenario are shown in Table 5.4.

Table 5.4: Kakwani indices for each age group

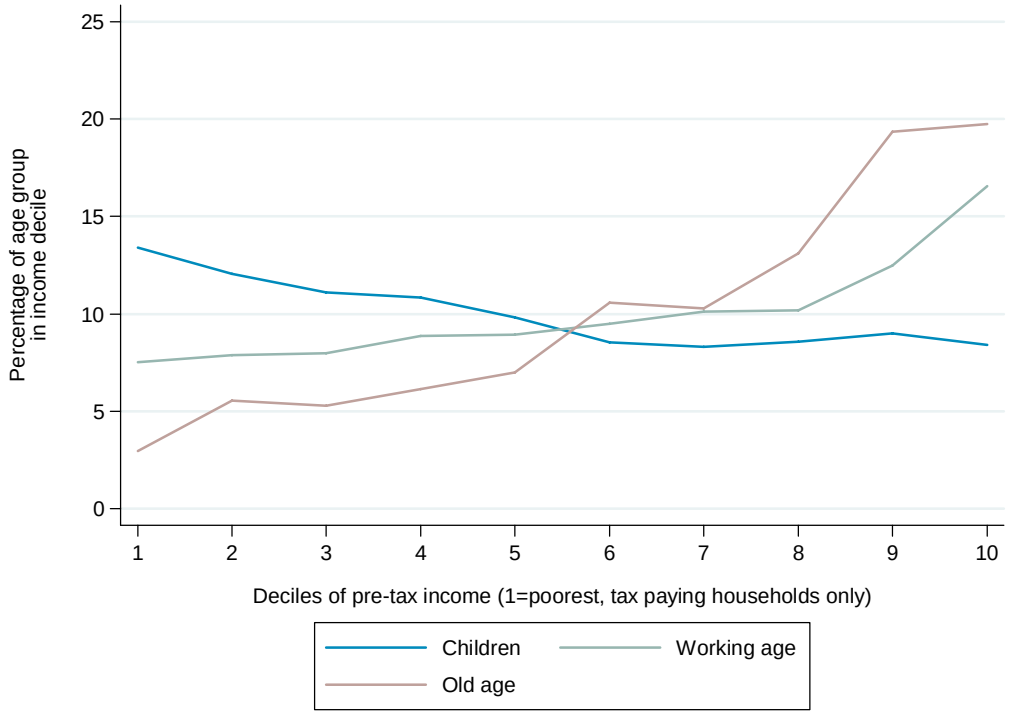
	Kakwani index (with no tax subsidies)	Kakwani index (with tax subsidies)	% increase in tax progressivity due to subsidies
Children	0.263	0.265	0.89
Working age	0.193	0.196	1.57
Old age	0.224	0.235	4.73
Overall	0.210	0.213	1.53

From Table 5.4 it appears that the redistributory effects of tax subsidies accrue mainly to the old age population (progressivity increases by 5 per cent), whilst there is very little difference in the degree of tax progressivity for children under the differing tax regimes. This raises an interesting question of what these tax subsidies are aiming to do. Inequality amongst tax payers is potentially also a concern as well as inequality between tax payers and non-tax payers. Children in households paying tax are benefiting very little from tax subsidies and it could be argued, from the perspective of horizontal redistribution (Bennett, 2006; Hirsch, 2005), that this group should be supported by the tax system.

[69] The Kakwani index is calculated by subtracting the Concentration index from the Gini coefficient, where the Concentration index is defined as 1 – twice the area under the Concentration curve.

Figure 5.11 shows how the different age groups are distributed according to pre-tax income equivalised household income; only households paying income tax are shown. Children can be seen to be disproportionately concentrated amongst tax-paying households with the lowest incomes. Hence, the combination of the analyses in Figure 5.11 and Table 5.4 indicates that the existing system of tax subsidies does little to benefit lower income tax payers or families with children.

Figure 5.11: Distribution of age groups by pre-tax income decile, tax paying households only



Overall, this analysis of the income tax system and its potential to redirect revenue to low-income groups (including children) presents some complex conclusions. Although the income tax system is progressive and reduces income inequality, the system of tax

subsidies could be considered as an additional transfer to the wealthy. Whilst the proportional increase in income for households receiving these subsidies is very small, if this revenue could be redirected towards the lower income deciles then it could have a significant impact on the poorest groups in society (which are largely comprised of children). However, a more detailed analysis of the redistributive effects of tax subsidies indicates that they are very mildly progressive. The fact that tax subsidies are only very mildly progressive suggests that they could be removed without having a large effect on income inequality between tax payers. In particular, the tax subsidies do very little to support low-income tax paying households with children as they mainly impact upon older people. However, as removing these subsidies would impact disproportionately on low-income tax payers it would be more sensible to consider further reforms to the tax system to compensate for this loss. The analyses here do indicate that there is potential in the tax system to redistribute more revenue to low-income groups. The possibilities for reform and the impacts on poverty and inequality will be further explored in Chapter 7.

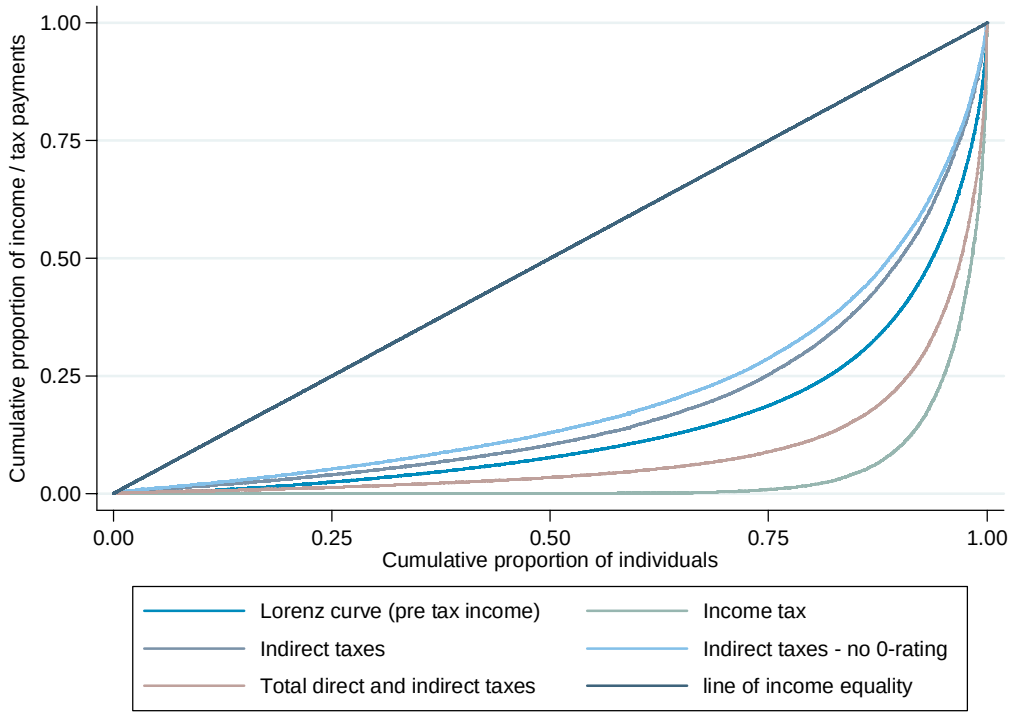
5.7 Indirect taxes – taxing the poor?

This section focuses on the general impact of indirect taxes across the income distribution and the impact of the policy to remove VAT on basic consumption items. Indirect taxes are often considered to be regressive as low income individuals generally spend a larger proportion of their income on consumption than high income individuals and indirect taxes therefore constitute a higher proportion of their total expenditure (Alderman and del Ninno, 1999; Garfinkel *et al.*, 2006; Go *et al.*, 2005; Woolard *et al.*, 2005). In South Africa VAT is levied at a rate of 14 per cent on most goods and services. However, there

are two main features of indirect taxes that should, in theory, act to make indirect taxes more redistributive. First, additional taxes are levied on non-essential items such as alcohol and tobacco and, second, a number of basic foods (including fruit and vegetables, bread, eggs and milk) and paraffin (used as a fuel by low-income households) are zero rated. Zero-rated VAT items are consumed by all households, not just poor households and so this policy therefore benefits households across the income distribution. However, it would be expected that these items make up a larger proportion of the total consumption expenditure of poor households than wealthy households and thus benefit poor households proportionally more than wealthy households.

The incidence of indirect taxes on households is examined in Figure 5.12. This chart shows the Lorenz curves for gross income and the concentration curves for taxes. Both direct tax (income tax) and indirect taxes (VAT, excise duties and fuel levies) are shown. Figure 5.12 also shows the overall incidence of taxes (combining direct and indirect taxes) and the concentration curve for indirect tax after removing the zero-rating policy.

Figure 5.12: Lorenz curve and concentration curves for indirect and direct taxes



Indirect taxes are shown to be regressive – the fact that the concentration curve for indirect taxes is to the left of the Lorenz curve indicates that a higher proportional share of indirect taxes is paid by those with low incomes. The policy of zero-rating does make indirect taxes less regressive, as evidenced by the leftwards shift in the concentration curve after removing the zero-rating policy. Considering the overall incidence of taxation, the fact that income tax is highly progressive acts against the regressive nature of indirect taxes and the overall tax structure is still progressive. Finally it is helpful to consider if indirect taxes and the policy of zero-rating have a differential impact on different age groups. This is done via analysis of the Kakwani indices as described previously. The results are presented in Table 5.5.

Table 5.5: Kakwani indices by age group, regressivity of indirect taxes with and without zero-rating

	Kakwani index (indirect tax)	Kakwani index (without zero-rating)	% decrease in tax regressivity due to zero-rating
Children	-0.069	-0.124	79.57
Working age	-0.098	-0.135	36.81
Old age	-0.069	-0.106	53.08
Overall	-0.084	-0.126	50.17

Table 5.5 shows that the policy of zero-rating is most effective in reducing the regressivity of indirect taxes for children; poor older groups also benefit from this policy. Despite the fact that the zero-rating policy makes VAT less regressive it is still worth considering whether this is an efficient poverty alleviation strategy. Considering the average equivalised savings accruing to each person from the zero-rating policy, individuals living in households with disposable incomes[70] below the poverty line save, on average, R17[71] per month and individuals in households with disposable incomes above the poverty line save around R54 per month. Thus, in terms of its impact in boosting the incomes of the poor the policy of zero-rating is not particularly effective. Of course there are other justifications for pursuing this policy, for example, on the grounds of improving nutrition amongst low-income groups (Alderman and del Ninno, 1999). These issues will be discussed in more detail in Chapter 7 which considers, amongst other policy reforms, the extent to which the VAT system could be reformed to benefit low-income groups.

[70] Disposable income is defined as the income remaining after all social transfers and income tax has been taken into account.
[71] From the author's own calculations using SAMOD.

5.8 Analysing welfare outcomes – conclusions from Chapter 5

This chapter has focussed on the dimension of welfare outcomes by analysing the system of taxes and transfers in place in South Africa in 2008. The analyses in this chapter seek to address the main research question – the extent to which tax and transfer policy supports children in South Africa – by considering the impact that tax and transfer policies have on household incomes for households containing children. In addition, this chapter has also compared the impact of tax and transfer policies on children with the impact on other age groups.

Overall, taxes and transfers do reduce poverty rates and transfers are well targeted on low income households. However, considering each age group independently, transfers are much more effective at reducing poverty rates for the elderly rather than for children. The situation of children is highly dependent upon the types of households that they live in. Poor children living in three-generation households, or with older adults, are far less likely to be poor (after accounting for taxes and transfers) than children living in child-headed households or only with working age adults. This implies that household composition, combined with the incomplete coverage of social assistance and social insurance and the fact that there are large differences in the value of different social grants all have an impact on poverty rates. Given that older people make up a far smaller proportion of the population than children, there will always be a large number of children who are unable to benefit from income from the Old Age Grant. These children will continue to be disadvantaged whilst the Child Support Grant remains at a low level, unemployment rates remain high and there is no support to the working age poor.

The impact of transfers on poverty is also highly dependent on the assumptions about how income is pooled within the household. If it is assumed that income is only pooled within the immediate family unit then the overall impact of social assistance and social insurance on poverty is reduced for children and working age adults. Under this scenario, however, poverty amongst the old age population is largely eliminated.

Income transfers *between* households are also important. The findings here suggest that these may act to mitigate short-falls in social assistance. Considering the impact of policy compared to the actions of households, social assistance and social insurance payments are only responsible for around half of the potential reduction in poverty and the rest is due to re-allocation *between* and *within* households.

Finally, an examination of the tax system has shown that there may be capacity here to redirect additional revenue towards poor groups. Even though the tax system is progressive overall, both the income tax and the VAT systems transfer income to wealthy households.

The policy analyses undertaken in this chapter do not particularly support the view that children were a policy priority in 2008. However, these analyses have only considered tax and transfer policy in a single year and it is important to also consider the direction of policy change over time. As discussed previously, support for pensioners was already well established and relatively generous in 1994 whilst support for children was virtually non-existent at that time. The following chapter explores how the policy reforms taking place between 2000 and 2008 have altered the level of support provided to children and other age groups over this period.

Chapter 6 – Analysing welfare outcomes: the changing impact of tax and transfer policy between 2000 and 2008

6.1 Introduction

This chapter considers the impact of tax and transfer systems on household incomes at three time points between 2000 and 2008 in order to address one of the main research questions of the thesis: how has the level of support provided by the tax and transfer system to children changed over time?

The previous chapter explored the impact of the tax and benefit policies in place in 2008. The analyses considered the impact of these policies on poverty, how different policies are targeted towards different groups, the distributional impact of the tax system and the key influence of household composition and income pooling on the ability of cash transfers to alleviate poverty. The findings from Chapter 5 indicated that an examination of the impact of tax and transfer policy in 2008 would not suggest that children were a policy priority. Whilst poverty rates were reduced for children, transfers were much more effective at reducing poverty rates for the old age population. Children tend to be concentrated in the poorest households and the tax system in 2008 acts to subsidise the wealthiest households. Thus, both taxes and transfers in 2008 could do more to support children.

However, the analyses in the previous chapter only considered a single year and the analytical framework developed in Chapter 2 highlighted the importance of analysing

changes in welfare outcomes over time. The literature classified under the broad heading of 'third generation approaches' – for example Castles and Mitchell (1992, 1993), Fritzell and Ritakallio (2004), Lelkes (2000), Makinen (1999) and Mitchell (1992) – recognises that tax and transfer systems are not static. Thus, whilst a cross-sectional analysis can be helpful in understanding certain features of tax and transfer policy, this needs to be complemented by a time-series analysis in order to discover if policy support for children has strengthened over time. In South Africa, policy design may be influenced by both fiscal constraints and the legacy of the system that was in place prior to the transition to democracy in 1994. Thus, whilst it is important to measure actual progress (i.e. in a cross-sectional sense), it is also important to consider the trajectory of policy reforms.

When analysing the impact of policies over time there are two factors which can vary: the design of policies; and demographics and the underlying level of need in society. In relation to the latter, changes in wages, employment rates and household structures, for example, can all have an effect on the extent to which tax and transfer policy supports children. Whilst such changes are doubtless important, examining the extent to which they affect policy impacts is not a focus of this thesis. Here the intention is to look only at the effect of reforms to tax and transfer policy and this is most clearly achieved whilst holding all other variables constant. Thus, the analyses here apply policy systems from different years to the population in 2007. Income and expenditure variables and all other characteristics therefore remain fixed and only policy parameters are changed. Whilst the scenarios analysed relate to combinations of tax and transfer systems and population demographics that have not occurred in reality, they act to isolate the impact of reforms to tax and transfer policies from other changes.

As discussed in Section 4.6.4, tax and transfer systems in different years are compared by updating policy parameters using the consumer price index. The year 2007 is taken as the base year as the income and expenditure data relate to 2007. Policy parameters are therefore adjusted to account for differences between prices in 2007 and the year of analysis. For example, prices in 2007 were approximately 1.16 times higher than prices in 2004 so the monthly amount of all social grants in 2004 is multiplied by 1.16 to obtain the real value of the grant in 2007 prices. Throughout this chapter the analyses relate to *real* monetary amounts, i.e. adjusted to 2007 prices. Where nominal monetary amounts are used (i.e. the *actual* monetary value of a grant in 2004) this is clearly highlighted.

This chapter considers reforms to social transfers first then moves on to look at reforms to taxation policy. In each case, the analyses begin by considering the overall differences between the policy systems in 2000, 2004 and 2008 and then examine the impact that these changes have on the poverty rate (in the case of transfers) and the income distribution (in the case of tax policies). Finally, the analyses focus on the overall impact of reforms to taxes and transfers on the income of different household types and across the income distribution.

6.2 Reforms to social transfers

6.2.1 Outline of policy reforms

The decisions made by government on the amount to pay individuals receiving social assistance and the amount of income tax to collect have an impact on both the incomes of

individuals and on government revenue (Sutherland *et al.*, 2009). Even a decision to make no changes to policies is not without consequence. For example, the impact that the system of social transfers has on poverty is dependent upon the extent to which policy reforms have taken into account changes in the cost of living Thus, for social grants to reduce poverty over time, they must either be made available to a larger number of people (i.e. by broadening eligibility criteria or increasing the income threshold) or paid at a higher rate than increases in the cost of living. This section focuses on reforms to social assistance and illustrates how overall changes in expenditure on social assistance are related to changes in the payments made to individuals and changes the number of individuals entitled to receive social assistance.

The reforms to social assistance and social insurance implemented over the time periods 2000 to 2004 and 2004 to 2008 are summarised in Table 6.1. Note that the data in this table relate to the nominal monetary values i.e. they have not been adjusted for price inflation. The majority of policy reforms relate to changes in income thresholds and the amount payable to recipients of each grant per month. Table 6.1 indicates that, at least in nominal terms, the income thresholds for receipt of each grant have been increased (or in some cases removed) between 2000 and 2008 and the amount payable each month has increased. There have been other reforms to the eligibility criteria for receipt of a Child Support Grant as the grant has also gradually been made available to a wider age-range. Apart from this, between 2000 and 2008 there have been no other major reforms to eligibility criteria for receipt of a grant and no new social grants have been introduced.

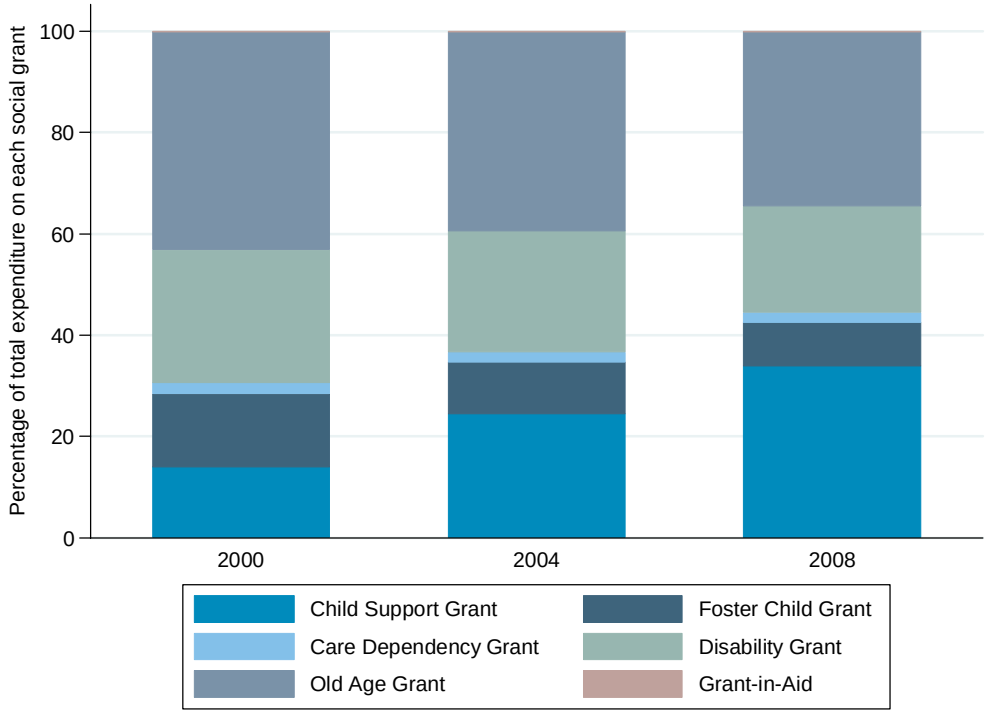
Table 6.1: Reforms to social transfers, 2000-2008

Type of transfer	Reforms between 2000 and 2004	Reforms between 2004 and 2008
Child Support Grant	- Grant amount increased from R100 to R170 per month - Eligible age range extended from 0-6 to 0-10	- Grant amount increased from R170 to R201 per month - Eligible age range extended from 0-10 to 0-13 - Income threshold increased from R9,600 (urban areas, formal housing) and R13,200 (rural areas or informal housing to R25,200 (single person) and R50,400 (couple)
Foster Child Grant	- Grant amount increased from R500 to R530 per month - Child income threshold increased from R1,200 per year to R1,270 per year	- Grant amount increased from R530 to R650 per month - Child income threshold removed
Care Dependency Grant	- Grant amount increased from R540 to R740 per month	- Grant amount increased from R740 to R940 per month - Child income threshold removed
Disability Grant	- Grant amount increased from R540 to R740 per month - Single person income threshold increased from R16,920 to R18,024 - Couple income threshold increased from R31,320 to R33,384	- Grant amount increased from R740 to R940 per month - Single person income threshold increased from R18,024 to R26,928 - Couple income threshold increased from R33,384 to R53,856
Old Age Grant	- Grant amount increased from R540 to R740 per month - Single person income threshold increased from R16,920 to R18,024 - Couple income threshold increased from R31,320 to R33,384	- Grant amount increased from R740 to R940 per month - Single person income threshold increased from R18,024 to R26,928 - Couple income threshold increased from R33,384 to R53,856
Grant-in-Aid	- Grant amount increased from R150 to R160 per month	- Grant amount increased from R160 to R210 per month
Unemployment Insurance Fund	- Maximum payment increased from R3,078 to R3,358 per month	- Maximum payment increased from R3,358 to R4,742 per month

6.2.2 Changes in total expenditure on social grants

In real terms expenditure on social grants increased between 2000 and 2008 (assuming full take-up in each time period). Expenditure on social grants (excluding the Unemployment Insurance Fund[72]) was approximately R50 million in 2000, R60 million in 2004 and R66 million in 2008. The increase in expenditure has been driven by increases in the amount of the grants and increases in the number of individuals eligible to receive a grant. These factors are explored further in Figures 6.1 to 6.3. First, Figure 6.1 shows how expenditure is distributed between the different social grants in each year.

Figure 6.1: Proportion of total expenditure allocated to each grant[73]



[72] The Unemployment Insurance Fund has not been included because the number of recipients is very small and as the benefits it provides are financed through contributions it is, therefore, distinct from government-funded social assistance.

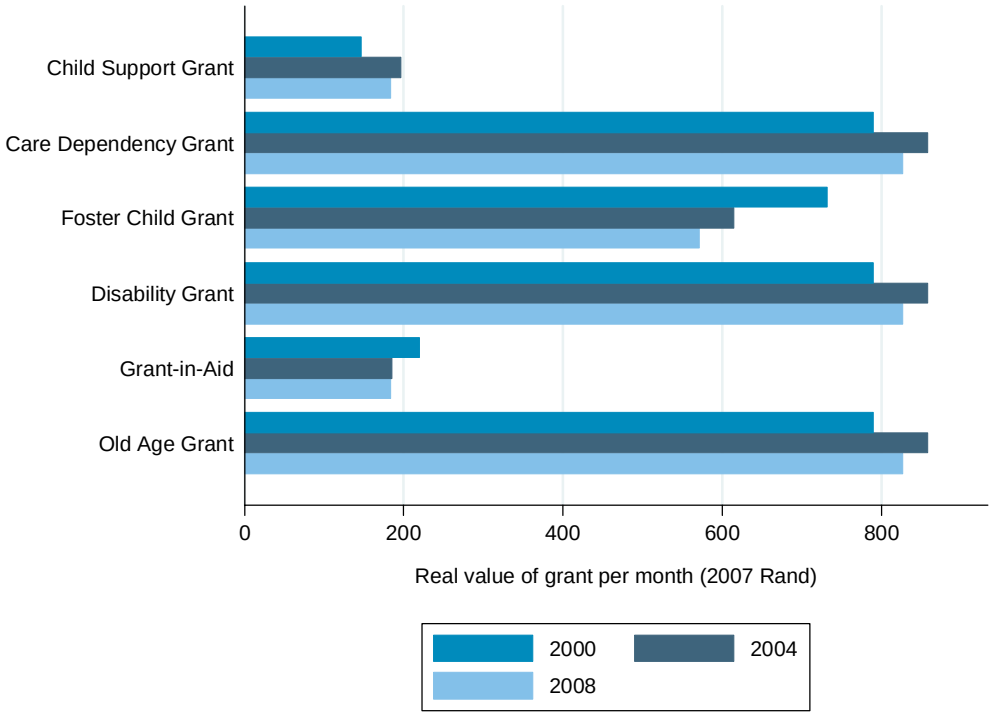
[73] Note that expenditure on the Grant-in-Aid is not visible on the chart because it represents such a small proportion of overall expenditure.

The key trend that emerges from Figure 6.1 is that the proportion of social grant expenditure going to the Child Support Grant has increased significantly between 2000 and 2008. In 2000, the Child Support Grant accounted for around 15 per cent of total expenditure and this increased to around 35 per cent by 2008. However, even though an proportion of spending on social grants directed towards children has increased over time, the proportion spent on older people has also remained high. In 2008 the total expenditure on the old age population and children is approximately equal but there were around 18.2 million children and 3.5 million elderly people in 2007. Thus, whilst per capita spending on children has increased, per capita spending on the elderly is still significantly greater than per capita spending on children.

Figure 6.2 shows the change in the real monthly payment for each grant[74] and Figure 6.3 shows the changes in the number of claimants in each time period. The data presented in Figure 6.2 and Figure 6.3 help to unpick the broader changes observed in total social grant expenditure. There has been little real change in the value of the majority of social grants between 2000 and 2008. With the exception of the Foster Child Grant and the Grant-in-Aid, which have declined in value, all other grants have seen a slight increase in real value between 2000 and 2008. However, whilst several grants increased in value between 2000 and 2004, there was a decline in the value of all social grants between 2004 and 2008. Thus, increases in the cost of living between 2004 and 2008 have not been fully reflected in social grant payments. This implies that if there had been no other changes to social grants (for example, broadening of the eligibility criteria) between 2000 and 2008 then poverty levels would have changed little over the period.

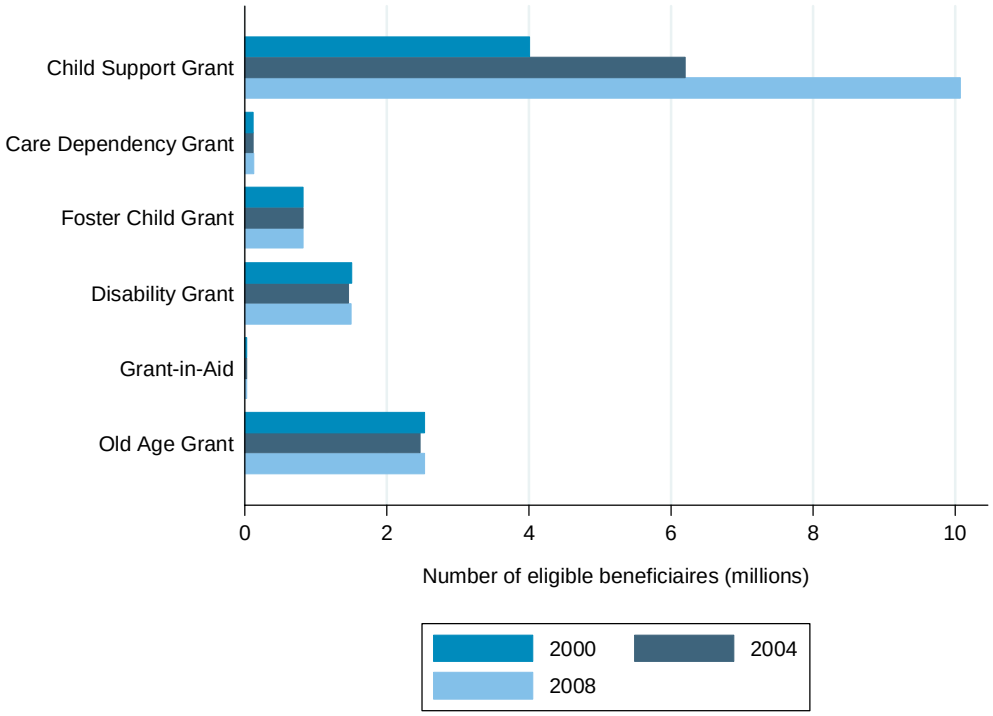
[74] Note that Figure 6.2 shows the maximum amount payable for each grant. The Old Age Grant and Disability Grant payment may be reduced depending on the income of the recipient.

Figure 6.2: Changes in the real values of social grants



In Figure 6.3, which shows the change in the number of social grant beneficiaries, the majority of social grants have approximately the same number of beneficiaries in each year. Given that Figure 6.2 shows that the real values of the grants have increased little, this indicates that reforms to most social grants between 2000 and 2008 cannot have had a significant impact on the poverty rate or poverty gap. There is, however, a striking increase in the number of recipients of the Child Support Grant. The number of children eligible to receive the grant has increased from 4 million in 2000 to 10 million in 2008. This has largely been driven by extensions to the upper age limit for receipt of the Child Support Grant. When the grant was introduced in 1998 only children under the age of 7 could receive the grant. By 2004, the upper age limit had been increased to 10 and by 2008 to 13.

Figure 6.3: Changes in the number of social grant beneficiaries[75]



The other major change affecting the number of children eligible to receive the Child Support Grant was an increase in the income threshold for receipt of a grant in 2008. Prior to 2008, the income threshold had not been increased since the introduction of the Child Support Grant in 1998. In 2000 the real amount of the income threshold in 2007 Rand was R1,610 per month for those living in rural areas or in informal housing and R1,171 per month for those in formal housing in urban areas. The income threshold was then left unchanged in nominal terms between 2000 and 2008. This meant that, in real terms, the income threshold declined each year and families had to be increasingly poor in order to receive the grant. By 2008 the income threshold in real terms was approximately half the

[75] It should be noted that the data presented in Figure 6.3 assume 100 per cent take up of social grants, whereas, in reality, take up rates (particularly for the Child Support Grant) have increased dramatically since 2000 (Noble *et al.*, 2005}.

income threshold in 2000. In 2008 the income threshold was increased (in real terms); two different thresholds were set for single-parents (R1,848) and married couples (R3,696) and the urban / rural distinction was removed. Thus, changes in the design of social assistance between 2000 and 2008 have been focussed on the Child Support Grant and have, therefore, provided increased support to children. However, the small changes made to the other social grants would not be anticipated to have significant effects on poverty levels for any age group.

6.3 The changing impact of social grants on poverty

6.3.1 Impacts at the aggregate level

This section considers the impact that policy reforms have had on the poverty rate and the poverty gap, and the relative contribution that each social grant makes to the changes in each of these measures. It was noted in the previous section that the major reforms to social assistance between 2000 and 2008 have been in the design of the Child Support Grant and this would be expected to result in a reduction in child poverty rates. As most children live in households with other age groups (i.e. very few children live in child-headed households) the reforms to the Child Support Grant are likely to have also benefited other age groups. In contrast, very few changes have been made to other social grants. As it was noted in Chapter 3 that the situation of children is also highly connected with the situation of their adult carers, this lack of expansion of social assistance for other age groups will also impact upon children.

In Chapter 5 it was demonstrated that the potential reduction in poverty is greater, overall, if it is assumed that income is pooled within households rather than just within family groups. Thus, in this chapter the assumptions made about income pooling will also affect the extent to which policy reforms are considered to support children. For example, if income is assumed to be pooled within the household, rather than within the family unit, the reforms to the Child Support Grant are likely to have less of an impact on children.

The analyses in Section 5.4.2 considered poverty rates after taxes and transfers and it was shown in Figures 5.4 and 5.5 that income tax has virtually no impact on the poverty rate or the poverty gap. This is due to the fact that those living in households with equivalised incomes below the poverty line do not pay any income tax. For consistency, the analyses here also look at the poverty rate after taxes and transfers. However, changes in the poverty rate are entirely due to changes in social grants rather than changes in income tax policy so the discussion focuses around the impact of social grants on poverty measures.

In Figure 6.4 the final poverty rate is shown in each year for post tax and transfer income (indirect taxes are excluded). As demonstrated previously in Chapter 5, the poverty rate for children and the working age population in 2008 is higher if income pooling is assumed to occur only within the immediate family and not within the wider household. This occurs because the Old Age Grant (which is much higher in value than the Child Support Grant) is less likely to be distributed to younger members of the household under the family income pooling scenario[76]. Figure 6.4 confirms that poverty rates under the family income pooling scenario are also higher for children and the working age population in 2000 and 2004.

[76] Children will only benefit from the Old Age Grant under the family income pooling scenario if they are cared for by an individual who is entitled to an Old Age Grant. It is assumed that this will only occur if there are no working age individuals in the household.

Figure 6.4: Post tax and transfer poverty rate with different income pooling assumptions[77]

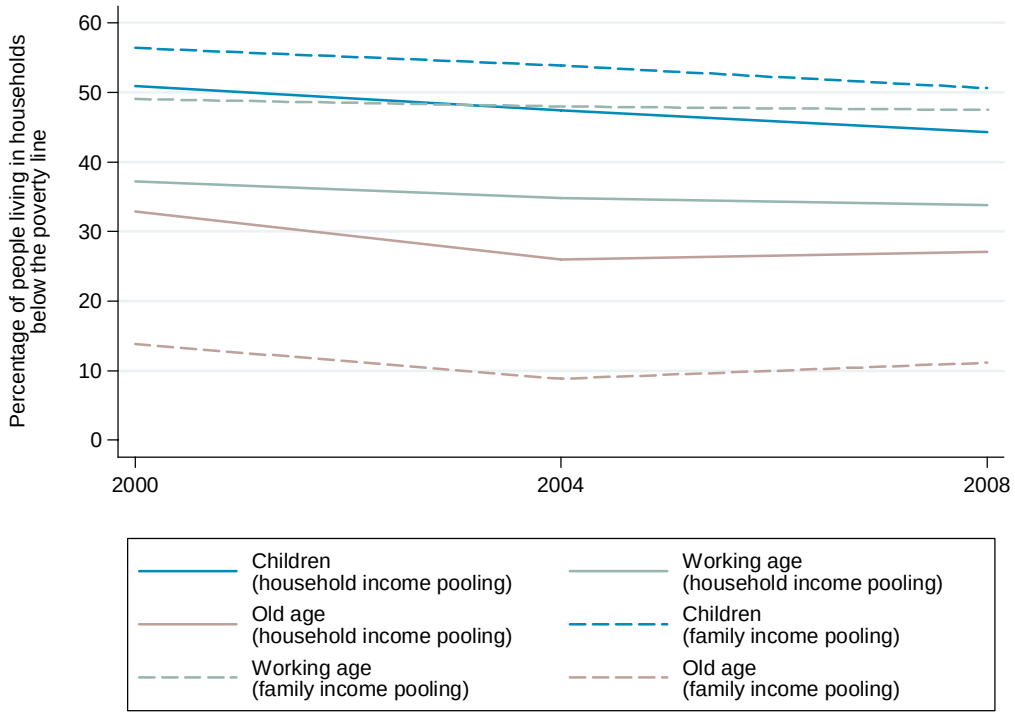


Figure 6.4 also shows that the poverty rate for all groups is lower in 2008 than it is in 2000 meaning that reforms to social grants have lead to a small reduction in poverty rates over time. There is a steady decline in the poverty rate for the working age population and children; however, there is an increase in the poverty rate for the old age group between 2004 and 2008 which is due to the decrease in the real value of the Old Age Grant between 2004 and 2008. Despite this increase in the poverty rate between 2004 and 2008, the old age population experiences the lowest poverty rates of all age groups in all time periods and under both income pooling scenarios. Even though the overall reduction in poverty rates for all age groups is small, children experience the largest absolute reduction in this measure (6.7 percentage points) followed by the old age, then the working age group.

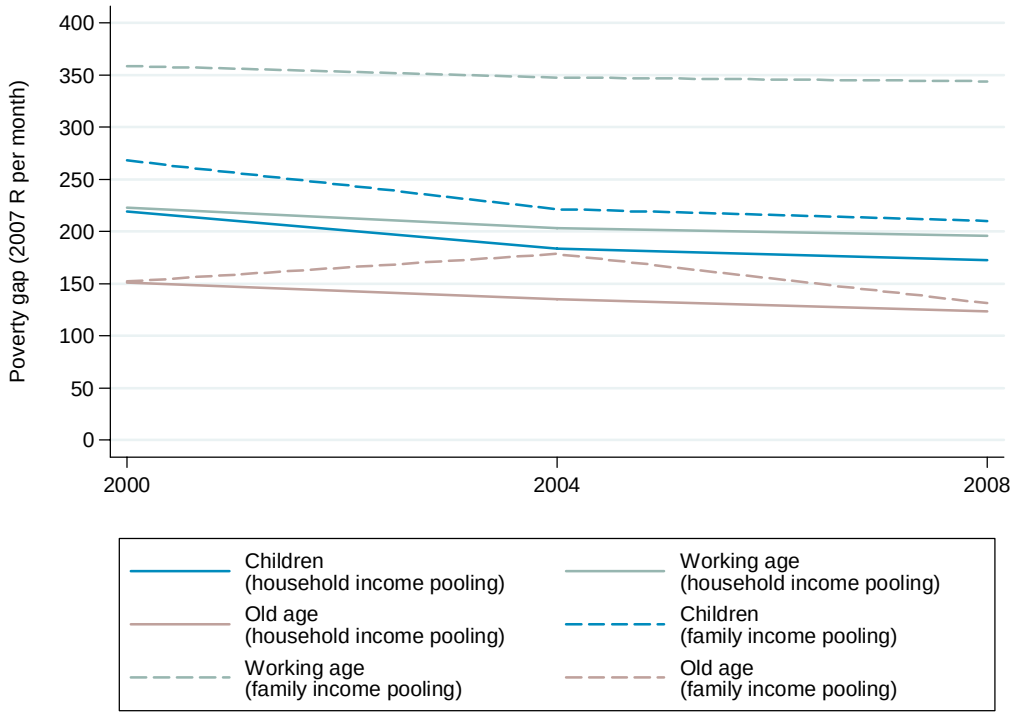
[77] Note that the data in Figure 6.4 are presented at the individual rather than household level and the poverty line is R462 equivalised per month.

It is interesting that the overall absolute reduction in the child poverty rate is approximately equal under both income pooling scenarios. Thus, despite the expansion of the Child Support Grant, which reduces child poverty rates in 2004 and 2008, children are still better off when they benefit from social assistance income received from the wider household. Thus, the Old Age Grant remains crucial in reducing poverty rates for children and the working age population.

Figure 6.5 shows the change in the poverty gap over time; again the chart relates to post tax and transfer income. Regardless of the assumptions made about income pooling, children experience the largest absolute reduction in the poverty gap. Most of this reduction takes place between 2000 and 2004 and is driven by the increase in the real value of the Child Support Grant and an increase in the number of children eligible to receive the grant. The subsequent decline in the real value of the Child Support Grant between 2004 and 2008 results in a smaller reduction in the poverty gap over this period even though the number of eligible children continues to increase (see Figure 6.3).

With family income pooling there is virtually no reduction in the poverty gap for the working age population and a small reduction in the poverty gap occurs for this age group if household income pooling is assumed. The poverty gap is lowest for the old age population at all time points although there is an increase in the poverty gap in 2004 for the family income pooling scenario. This is likely to be caused by the fact that the poverty rate for the old age population is lowest in 2004 and those remaining in poverty will mostly be men between the ages of 60 and 64 who are not eligible for the Old Age Grant, have low average incomes and, therefore, a high average poverty gap.

Figure 6.5: Post tax and transfer poverty gap with different income pooling assumptions[78]



Thus, Figures 6.4 and 6.5 confirm that the social assistance reforms between 2000 and 2008 do benefit children. Fewer children live in poor households overall, and those who still live in poor households see an increase in their incomes. However, the changes in child poverty levels are relatively small in absolute terms and are comparable to the improvement in poverty measures for other age groups. This result is, in part, dependent upon the assumption that social assistance income is pooled (either within the family or household) so adults are affected by changes to the Child Support Grant and children are affected by the (lack of) changes to social assistance targeted at adults.

[78] The poverty line is R462 equivalised per month.

6.3.2 The contribution of each social grant to changes in poverty measures

An analysis at the aggregate level is helpful as it shows how each tax and benefit system performs overall. However, each policy contributes to the overall change in different ways. For example, the decrease in the real value of Old Age Grant between 2004 and 2008 resulted in an increase in poverty for the old age group between these two years and may have also had a impact on the poverty rates for other individuals who also depend on income from this grant, for example children who are co-resident with their grandparents. In the analyses presented below the impact of each grant is examined independently. This is done by implementing a policy reform to one grant only and assuming that all other grants remain unchanged. For example, to isolate the impact of policy reforms to the Child Support Grant between 2000 and 2004, changes made to the Child Support Grant in 2004 are implemented but all other policies are kept in their year 2000 configurations. This creates a hypothetical scenario where the Child Support Grant is adjusted to reflect the 2004 policy reforms and the other social grants are left unchanged. Thus, for every other social grant, the same individuals eligible for each grant in 2000 continue to be eligible for the same grant(s) and receive the same amount of payment in real terms.

After considering the changes occurring in 2004, the same scenario is repeated for 2008 i.e., in the example just discussed, the 2008 policy reforms to the Child Support Grant are implemented and all other grants remain as they were in 2000. After implementing these hypothetical scenarios for each social grant the poverty rate is calculated for post tax and transfer income and for each age group. The results after implementing 2004 policy reforms to each social grant in turn are presented in Figures 6.6 and the analyses are repeated for the 2004 to 2008 policy reforms in Figure 6.7. Note that household income

pooling is assumed[79] and the impact of the Unemployment Insurance Fund on poverty is not considered as the number of eligible recipients is very small.

Figure 6.6: Impact of 2004 policy reforms for each grant on the poverty rate between 2000 and 2004

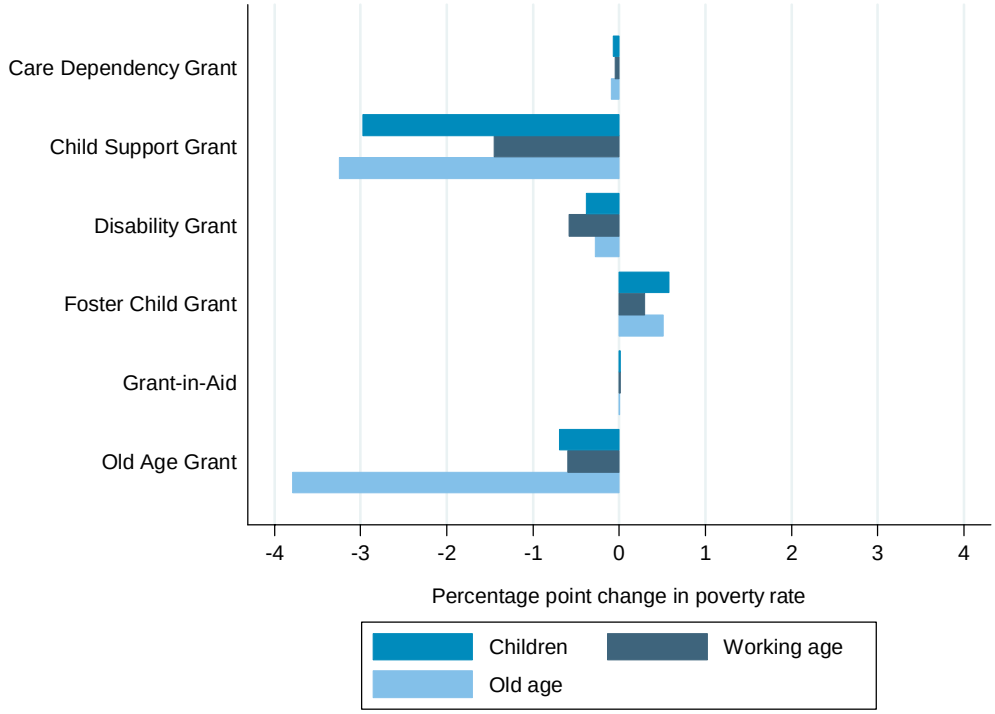


Figure 6.6 indicates that the Child Support Grant and the Old Age Grant are largely responsible for changes in poverty levels between 2000 and 2004. In both cases these grants reduced the poverty rate for all age groups over this period. In the case of the Old Age Grant this effect is due to a real increase in the value of the grant (see Figure 6.2)

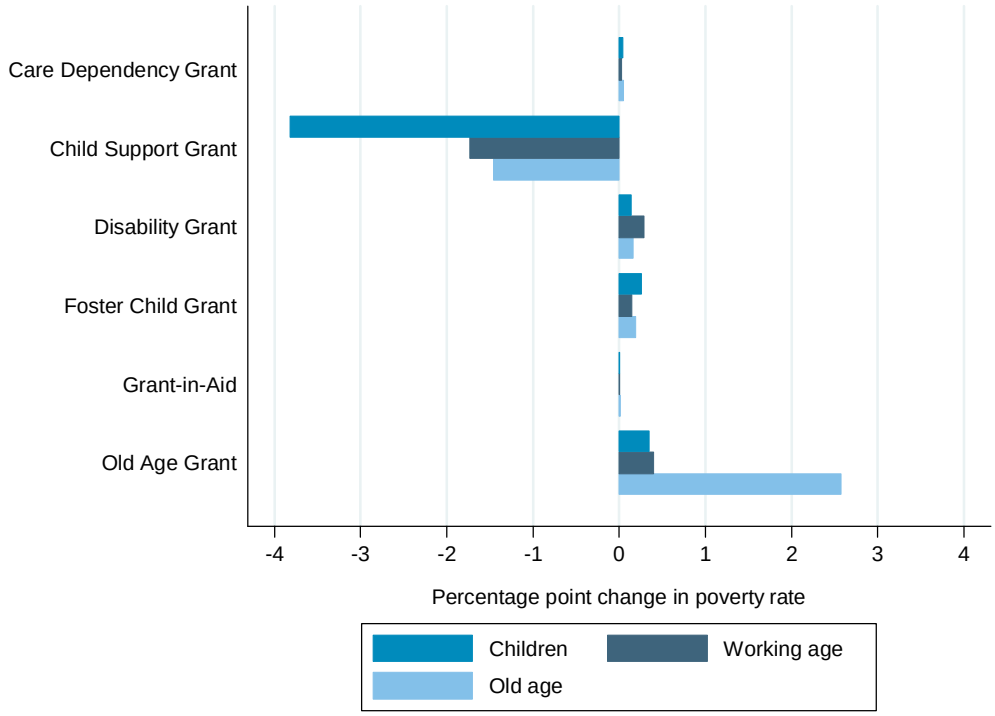
[79] The same analyses were also carried out under assumptions of family income pooling. There was very little difference in the findings when the income pooling assumptions were changed so only the results from the household income pooling analyses are presented here.

and, for the Child Support Grant, this is due to an increase in the real value of the grant and an increase in the number of eligible recipients (see Figure 6.2 and Figure 6.3).

The old age group experienced the largest reduction in poverty rates as a result of reforms to the Old Age Grant and the Child Support Grant. The latter result is surprising as it might be expected that children would benefit most from reforms to the Child Support Grant. However, it was noted in Chapter 5 that 73.2 per cent of old age adults classified as poor according to pre tax and transfer income live with children, whilst only 33.6 per cent of 'poor' children live with old age adults. Thus, whilst the Old Age Grant has the potential to benefit around a third of children, more than two thirds of the elderly are able to benefit from reforms to the Child Support Grant.

Figure 6.7 repeats the analyses presented in Figure 6.6 except that it shows the changes occurring between 2004 and 2008. Again, the Child Support Grant and Old Age Grant are the only two grants to have any noticeable impact on the poverty rate, but in this case only reforms to the Child Support Grant reduce poverty rates. The increased in the poverty rate following reforms to the Old Age Grant is due to the fact that the grant fails to keep pace with increases in cost of living (this can be seen in Figure 6.3). The real value of Child Support Grant also declines over this period but the expansion of the grant to a wider age range is sufficient to counteract this resulting in a net reduction in the poverty rate for all age groups.

Figure 6.7: Impact of 2004 policy reforms for each grant on the poverty rate between 2004 and 2008



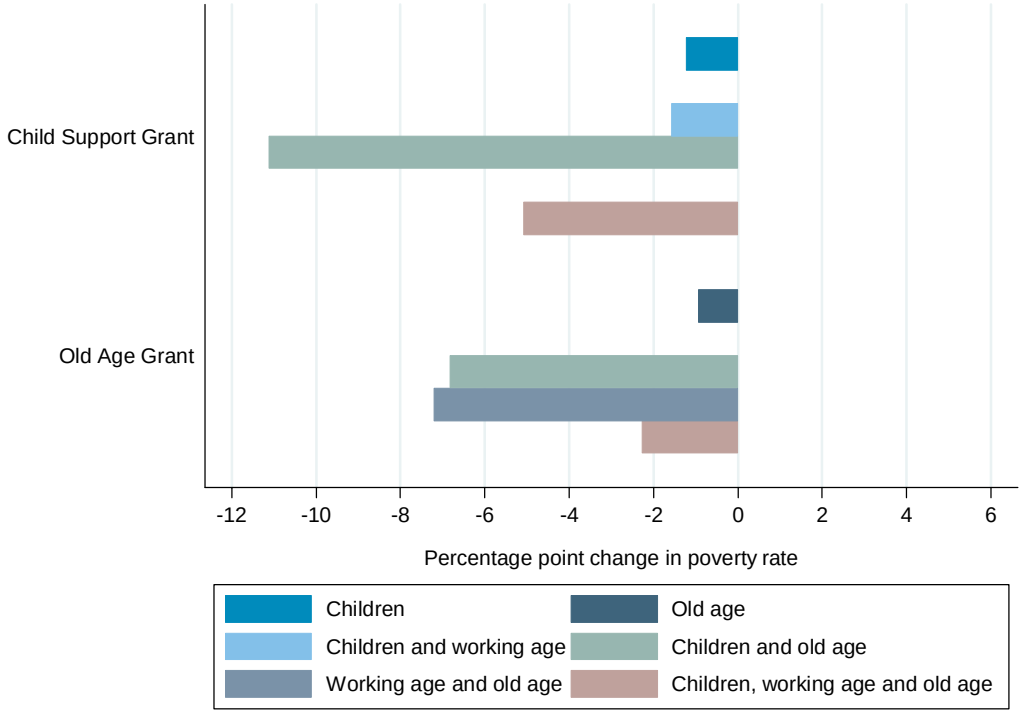
As well as exploring how policy impacts differ by age it is also helpful to consider how different age groups benefit from policy reforms depending upon the type of household that they live in. Chapter 5 highlighted that children who are co-resident with older people are generally able to access sufficient income from transfers (at least at the household level) to overcome poverty. However, children living in child-headed households or with working age adults are much more likely to live in poor households post taxes and transfers.

Figures 6.8 and 6.9 consider the impact of reforms to the Child Support Grant and the Old Age Grant on different household types. The methodology used in these analyses is identical to that used to construct Figures 6.6 and 6.7 except that the analyses are broken down by household type. Results are only shown for the Child Support Grant and the Old

Age Grant as these two grants were demonstrated to have the largest impact on poverty rates in Figures 6.6 and 6.7.

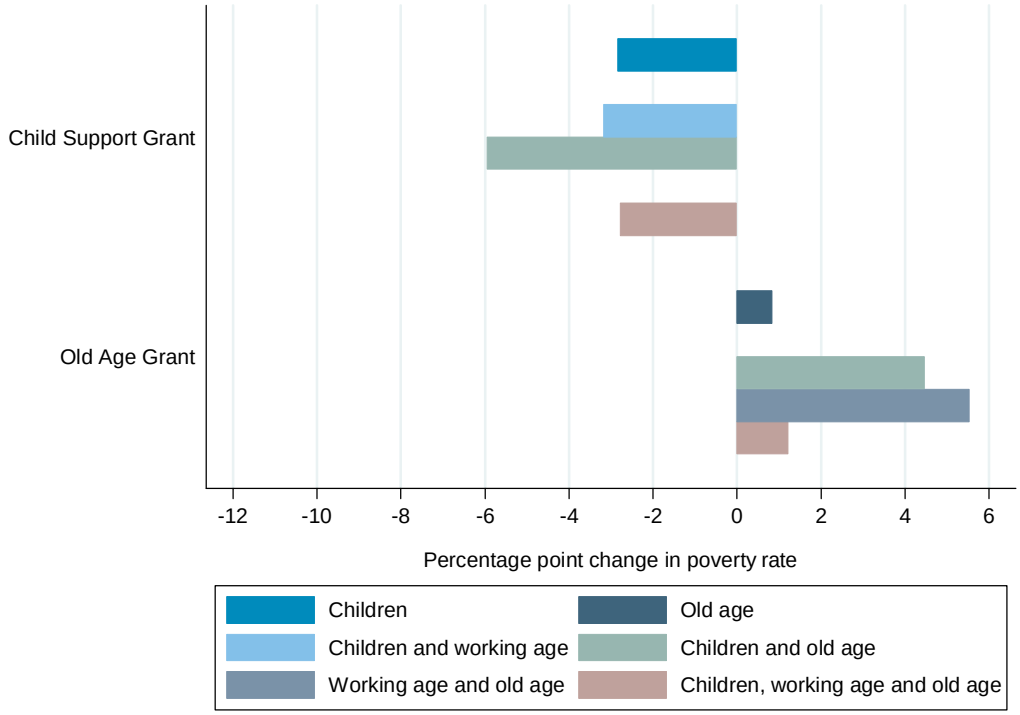
Figure 6.8 shows that reforms to the Child Support Grant between 2000 and 2004 have the most impact on households containing children and old age adults: the poverty rate for this household type is reduced by around 11 percentage points. However, it is worth recalling from Table 5.2 that less than 3 per cent of children live in this type of household whereas 64 per cent of children live with working age adults and the reduction in the poverty rate for these households is less than 2 per cent. The Old Age Grant also reduces the poverty rate for households containing children and old age adults but clearly has no impact on households containing children and working age adults.

Figure 6.8: Impact of 2004 reforms to the Child Support Grant and Old Age Grant on the poverty rate between 2000 and 2004, by household type



In contrast to the 2000 to 2004 policy reforms, Figure 6.9 shows that the Child Support Grant and the Old Age Grant have differing impacts on the poverty rate between 2004 and 2008: reforms to the Child Support Grant reduce the poverty rate for all household types but reforms to the Old Age Grant increase the poverty rate for all households. As for the earlier time period, children living with old age adults benefit most from reforms to the Child Support Grant. However, the reduction in the poverty rates for households containing children and working age adults (in which the majority of children live) is slightly greater between 2004 and 2008 than between 2000 and 2004.

Figure 6.9: Impact of 2008 reforms to the Child Support Grant and Old Age Grant on the poverty rate between 2004 and 2008, by household type



Two clear trends have emerged in the analysis of the reforms to social grants taking place between 2000 and 2008. Firstly, there has been little overall impact on poverty measures over the time period and, secondly, most of the reduction in poverty over can be attributed to reforms to the Child Support Grant. Whilst this indicates that reforms to social grants have prioritised children there remains a large gap between the poverty rates of children and the poverty rates of the old age population. If the poverty rate for the old age population remained stable and the poverty rate for children continued to decline at the same rate then it would take over 20 years for the poverty rate for children to fall to the same level as that for the old age population. Thus, the considerable disparity between the old age population and children is being addressed, but very gradually. There has also been virtually no improvement in the poverty rate for the working age population and the lack of reforms to assist this group have also lessened the impact of policy reforms specifically directed towards children.

6.4 Reforms to taxation policy

6.4.1 Outline of tax policy reforms

The discussion of the policy impacts of social grants relates to the direct impact of policy on the incomes of those living in poor households. As already noted here and in Chapter 5, the poor do not pay income taxes and hence the direct impacts of tax policy on the poor are negligible. Policy discourse in South Africa tends not to recognise taxes as a method of redistributing resources to the poor, tending to focus instead on cash transfers and the provision of services. However, tax policy is crucial to an evaluation of policy impacts on

poverty as taxation provides revenue to fund social expenditure and indirect taxes are paid by both rich and poor and therefore do have an impact on household incomes of those living in poverty (Gemmell and Morrissey, 2005). In addition, comparing reforms to transfer and taxation policy is helpful in highlighting how policy impacts differ across the income distribution. In South Africa there is clear division whereby tax policy mostly affects the wealthy and transfer policy mostly affects the poor. Thus, comparing the policy trajectories in each of these areas provides an insight into the distributional affects of policy reform.

This section considers the changes occurring in direct and indirect taxation between 2000 and 2008. The main changes in each tax policy are summarised in Table 6.2 which shows the key policy parameters in each year (note that Table 6.2 reports nominal rather than real monetary amounts). The major reforms occurring over the time period have been in personal income tax policy. In each time period the tax brackets have been adjusted upwards and the rate structure was revised between 2000 and 2004. There have also been changes to the rules regarding tax subsidies for income from certain sources and contributions to private pension and medical schemes. These changes are complex and have not been fully described in Table 6.2; however, the impacts of the changes in the tax subsidy system are discussed further in section 6.4.4.

Very little change has occurred with respect to indirect taxation (VAT, excise and fuel levies). The main reform was the inclusion of paraffin (a common fuel source for low-income households) to the list of zero-rated VAT items in 2001. Indirect taxes have increased in nominal terms over each time period. As in the analysis of reforms to social grants, the actual impact that these changes have on consumers can only be determined by

adjusting the analyses to account for changes in prices. The impact of changes in indirect taxes on household incomes is explored in the next section and the impact of personal income tax is examined in section 6.4.3.

Table 6.2: Nominal changes in taxation policy 2000-2008

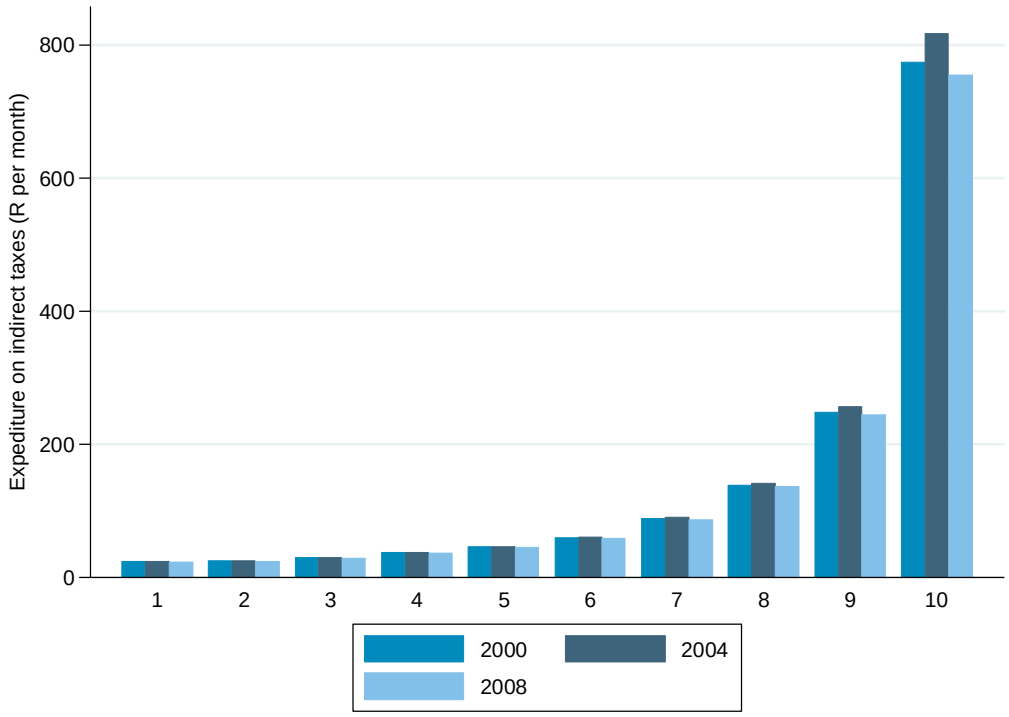
Tax policy	**Reforms between 2000 and 2004**	**Reforms between 2004 and 2008**
Income tax	- Income threshold for paying tax increased from R19,526 to R30,526 for the under 65s and from R32,222 to R50,000 - Tax rates and income bands revised: lowest band rate reduced from 19% to 18%, upper limit of lower band increased from R33,000 to R74,000, highest band rate reduced from 45% to 40%, lower limit of highest tax band increased from R120,001 to R270,001 - Revisions to tax subsidies for contributions to medical and pension schemes	- Income threshold for paying tax increased from R30,526 to R46,000 for the under 65s and from R50,000 to R74,000 - Income bands revised: upper limit of lower band increased from R74,000 to R122,000, lower limit of highest tax band increased from R270,001 to R490,001 - Revisions to tax subsidies for contributions to medical and pension schemes
Value added tax	- Paraffin included in list of zero-rated items	- None
Excise	- Excise duties increased - Excise duties removed for mineral water and soft drinks	- Excise duties increased
Fuel levy	- Fuel levies increased on petrol and diesel	- Fuel levies increased on petrol and diesel

6.4.2 Reforms to indirect taxes

There has been very little change to indirect tax policy between 2000 and 2008 and therefore little change would be expected in the impact of indirect taxation on household

incomes. Figure 6.10 shows the average amount of indirect tax paid by individuals by deciles of disposable household income in each time period. There is some evidence of a slight increase in expenditure on indirect taxes in 2004 followed by a decrease in 2008. It should be noted that actual household expenditures do not change in each year so this increase is entirely due to changes in indirect tax policy.

Figure 6.10: Expenditure on indirect tax by decile of household disposable income, 2000-2008



There is generally very little variation in the amount of indirect tax paid in each time period, especially for poorer households. The analyses in section 6.3.2 showed that there is an overall reduction in the poverty rate over the same time period due to policy reforms to social assistance. A consequence of this is that household disposable incomes will increase between 2000 and 2008 and the proportion of indirect taxes paid as a proportion of disposable income will therefore decrease (even though the actual amount of indirect

tax pays stays the same). This change is due to an increase in social transfer payments rather than any changes in indirect taxation policy so whilst the burden of indirect taxes will lessen between 2000 and 2008 this is not driven by policy reforms to indirect tax. Thus, reforms to indirect taxes have had virtually no impact on the level of support provided to children between 2000 and 2008.

6.4.3 Reforms to income tax policy

It was demonstrated in Chapter 5 that income tax provides little direct support to children. However, an analysis of income tax policy is still relevant for two reasons. Firstly, as the majority of children live in poor households, the transfer of income via tax subsidies to wealthy households suggests that providing support for (poor) children is not necessarily a policy priority. Secondly, and of particular interest in this chapter, is the fact that revenue collected from taxation is an important source of funding for social assistance payments (income tax provided around 30 per cent of total tax revenues in 2004 (Nyamongo and Schoeman, 2007)). Thus, in the same way, decisions on how much revenue is collected through taxation have a knock-on impact on the resources available to the government that could be directed towards children. This section considers the reforms to income tax that have taken place between 2000 and 2008 and the impact that these have had on government revenue and the income distribution.

The major tax reforms occurring between 2000 and 2008 have been in income tax policy. As Table 6.2 shows, the income threshold at which income tax is first paid has been increased in each time period. The thresholds for each tax bracket have also been increased in each time period and, between 2000 and 2004, the tax rates for each income

level have been reduced. As wages generally increase over time, if tax thresholds are not adjusted then the total amount of tax revenue collected by the government will gradually increase over time. This phenomenon is commonly termed ‘fiscal drag’ and can be useful for a government wishing to increase tax revenues without making (potentially unpopular) explicit reforms to income tax policy (Immervoll, 2003, 2005). However, given that both prices and wages increase over time, if tax thresholds are not adjusted to compensate for increased costs of living then this can lead to distributional effects and can be particularly harmful to low-income tax payers (Sutherland *et al.*, 2009). Reforms to tax policy can also have an impact on economic growth. For example, cutting taxes might be expected to stimulate demand and lead to economic growth, which in turn may lead to a reduction in poverty. As the links between changes in tax policy and the resultant impact on factors such as poverty are complex (Immervoll, 2003), the analyses here do not attempt to consider any effects of tax reforms beyond changes in household income.

As in the analysis of social grants, it is helpful to consider first the total tax revenue collected for each year of analysis. In real terms the total tax revenue collected has declined between 2000 and 2008. In 2000 the total tax revenue in 2007 Rand equated to nearly R230 billion, by 2004 this fell to R162 billion and reduced further to R146 billion by 2008. This indicates that tax reforms have more than compensated tax payers for increased costs of living. If the increases in the tax bracket thresholds had only been adjusted to reflect changes in the cost of living then there would have been no change in the real amount of tax revenue collected between 2000 and 2008.

The factors driving the real decline in tax revenues are explored further in Table 6.4 which shows the number of tax payers and the average tax bill per tax payer in each time

period. From these data it is clear that real tax revenues have declined because the total number of tax payers has decreased *and* the average amount of tax paid by each tax payer has also declined. Thus, on average, changes to income tax have increased the disposable income of tax payers between 2000 and 2008.

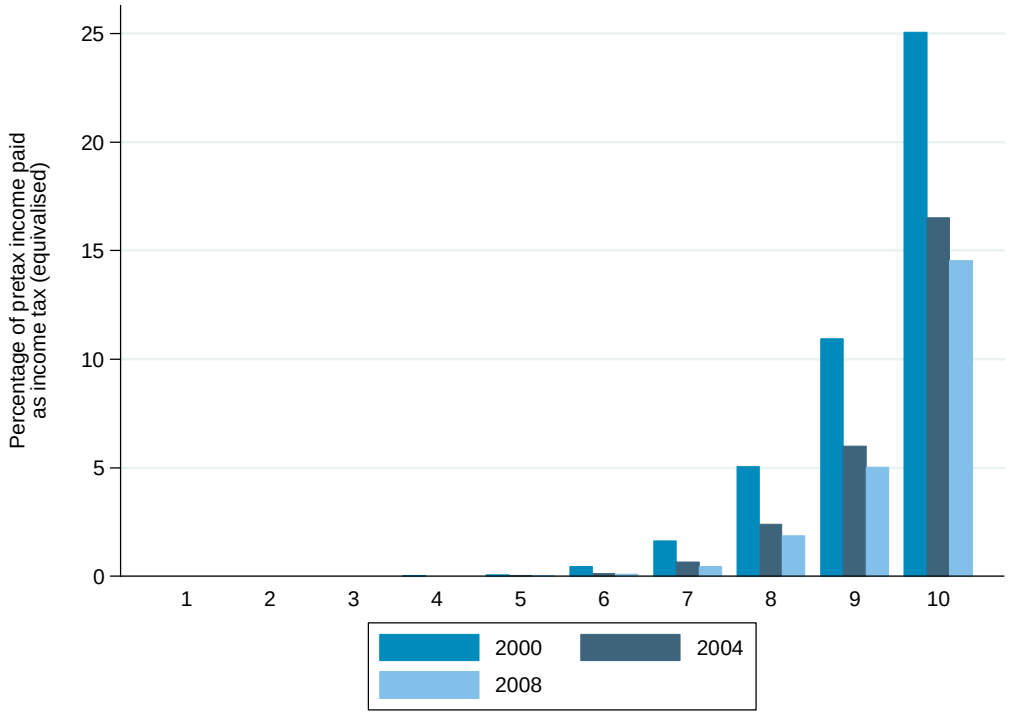
Table 6.4: Total number of tax payers and average tax bill, 2000-2008

	Number of tax payers	Average tax bill per taxpayer (R per year)
2000	5,793,054	39,642
2004	5,159,010	31,357
2008	4,878,524	29,980

As discussed above, the structure of the income tax system plays a large part in the ability of the government to fund cash transfers directed towards children. The data presented in Table 6.4 indicate that, over time, policy reforms have acted to reduce the burden of taxation on tax payers and, as a result, real tax revenues have declined. Thus, the revenue available to fund policies aimed at supporting children in poor households has also declined. However, whilst child poverty is a particular problem in South Africa and therefore merits particular attention here, it is also worth considering the distributional effects of tax reforms i.e. to determine whether low or high income tax payers have benefited most from tax cuts. This is also relevant to the extent to which tax policy supports children as Chapter 5 demonstrated that, amongst tax paying households, children tend to be concentrated towards the lower end of the income distribution.

Figure 6.11 examines the changes in the proportion of pre-tax income paid as income tax across the income distribution. Individuals are grouped into deciles according to the pre-tax income equivalised income of the household they live in. For individuals in households in the wealthiest decile (decile 10) the ratio of income tax payments to pre tax income was around 25 per cent in 2000, this fell to less than 15 per cent by 2008. Similar trends occurred in the other deciles although the proportional reduction in the percentage of income paid as tax is greater in the lower-income deciles. Thus, the reduction in tax paid does appear to be more beneficial to low-income than high-income taxpayers.

Figure 6.11: Percentage of pre-tax income paid as income tax by decile of pre-tax income, 2000-2008



The Kakwani indices measuring tax progressivity in each time period are shown in Table 6.5. These indicate that the income tax system does actually become marginally more

progressive over time so low-income[80] tax payers (i.e. the majority of tax-paying households containing children) do benefit more than high-income tax payers from the tax reforms.

Table 6.5: Kakwani indices for income tax, 2000-2008[81]

	Kakwani index (income tax)	% change in progressivity
2000	0.177	-
2004	0.203	14.80
2008	0.213	5.14

The reforms to tax policy carried out since 2000 have benefited low-income tax-payers proportionally more than high-income tax-payers. However, the fact that there has been a reduction in the tax burden for all tax-payer remains and it could therefore be argued that tax policy could have focussed less on increasing the incomes of the wealthy and allowed the effects of fiscal drag to generate increased revenue to fund social assistance reforms to provide additional support to children.

[80] It should be noted that those described as 'low-income tax payers' are not poor as taxpayers typically lie within the top 15% of the income distribution.

[81] The Kakwani index is calculated by subtracting the Concentration index from the Gini coefficient, where the Concentration index is defined as 1 – twice the area under the Concentration curve. A positive value of the index implies a progressive tax system (i.e. one in which the tax burden is disproportionately placed on high income households) whilst a negative value implies that the system is regressive (i.e. one in which the tax burden is disproportionately placed on low income households).

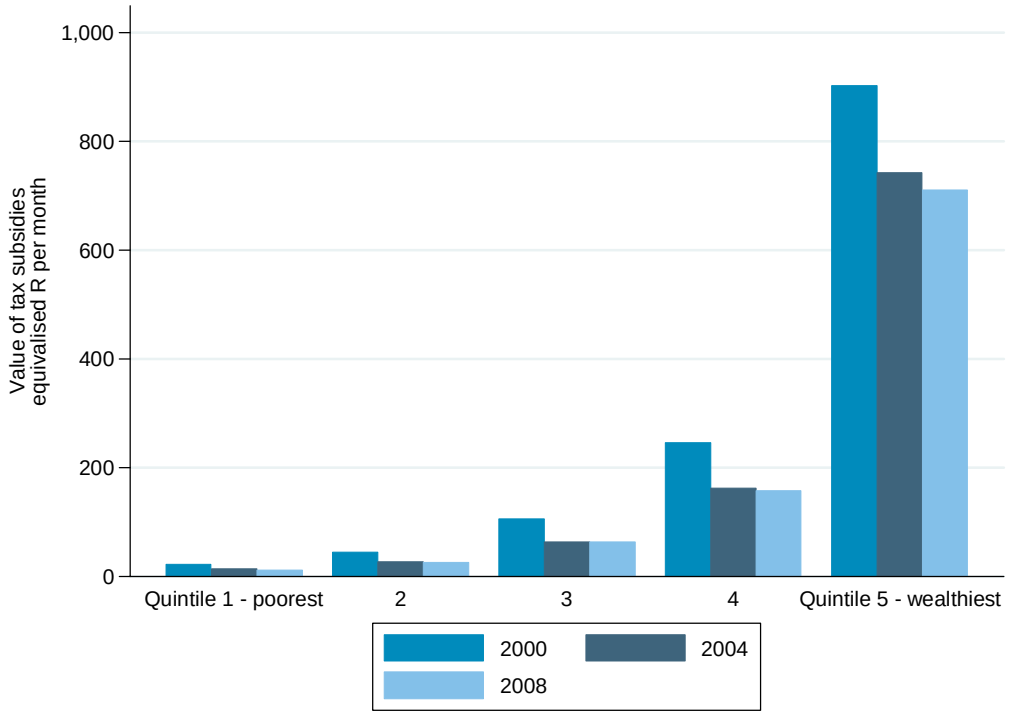
6.4.4 Reforms to tax subsidies

Section 5.6 in Chapter 5 compared the income received from tax subsidies to that accruing from social transfers. The analyses indicated that tax subsidies represent a cash transfer to wealthy households of around the same magnitude as that provided to the poorest 10 per cent of households and provide very little benefit to households containing children. Figure 6.12 shows the value of tax subsidies for tax payers in each income quintile for each time period. The real amount of expenditure on tax subsidies (estimated using SAMOD) has declined by R1.3 billion between 2000 and 2008. Most of this decline occurred between 2000 and 2004 with very little change occurring between 2004 and 2008. Despite the small decline in tax subsidies since 2000, they do still have an effect on individual incomes and overall tax revenues.

It may be politically unfeasible to remove tax subsidies completely; however, as discussed previously, fiscal drag can be a useful mechanism to allow the value of tax subsidies to gradually erode over time. Thus, if the government wished to gradually phase out this policy without making any policy reforms they could simply leave the nominal values of the subsidies unchanged each year. The government has not indicated any particular policy approach towards tax subsidies and little analysis has been carried out in relation to them. This is partly because, as van den Heever (2007) indicates, it is very difficult to estimate the exact loss in government revenue resulting from subsidies and the potential impact on healthcare and retirement provision of removing them. It has been noted by the health subcommittee in the 2002 Inquiry into a Comprehensive System of Social Security (Department of Health, 2002) and by van den Heever (2007), that tax subsidies are an inefficient and inequitable method of subsidising healthcare and pension funding. The

health subcommittee report estimates that per capita tax subsidies in respect of health exceed per capita expenditure on health in the public sector and that this goes against the principle of aiming to improve the health of the poorest in society. Van den Heever also criticises the government's explanation in the 2006 Budget Review that tax subsidies on contributions to private pensions encourage saving for retirement and reduce the need for state assistance, arguing that the vast majority of those who benefit from the subsidies would never become dependent on state support even if the subsidies were removed.

Figure 6.12: Value of tax subsidies in each year by pre tax and transfer income quintile (tax payers only)

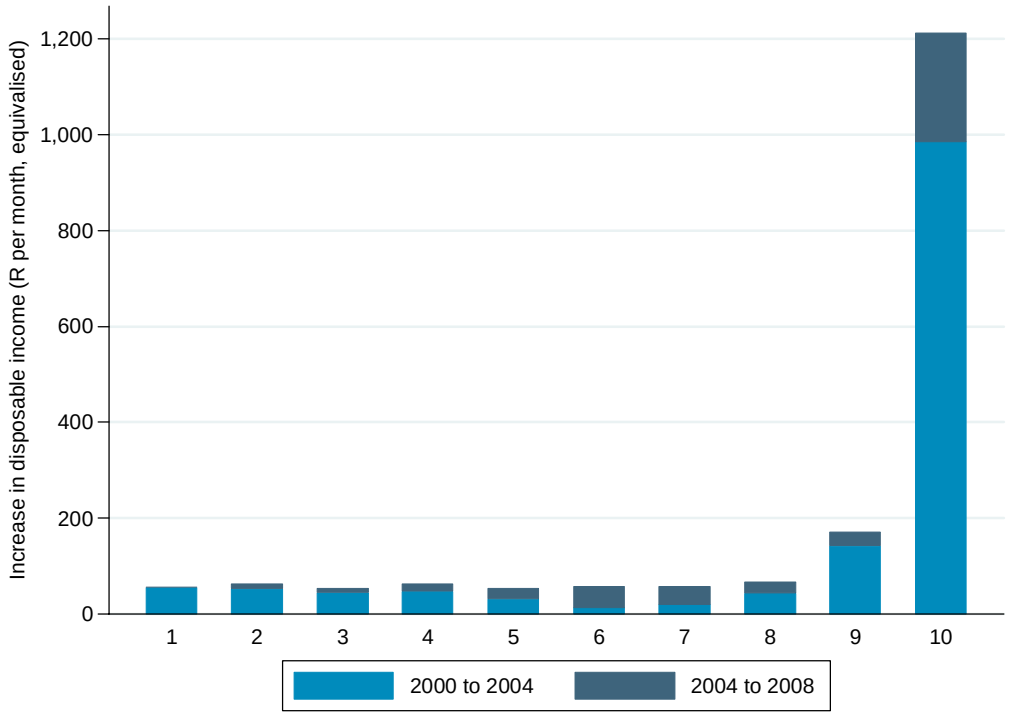


6.5 Overall impact of policy reforms on household incomes

Reforms to taxes and transfers have been discussed separately up to this point and this is in part due to the fact that tax and transfer policy in South Africa affects different groups in different ways. Whilst transfer policy predominately impacts on the household incomes of the poor the opposite is true of taxation. Reforms to both tax and transfer policy have been shown to increase household incomes between 2000 and 2008. To understand the aggregate impact of all policy reforms this section compares the changes in disposable income resulting from reforms to tax and transfer policy and thus illustrates how the magnitude of tax cuts impacts on the incomes of the wealthy in comparison to the impact of reforms to social grants on the incomes of the poor.

In Figure 6.13 individuals are grouped into income deciles according to their pre tax and transfer income. The average absolute change in disposable income for individuals living in households in each income decile is then calculated. Figure 6.13 shows the change in equivalised household income between 2000 and 2004 and between 2004 and 2008. This change in equivalised household income is entirely due to changes in taxes and transfers between 2000 and 2008.

Figure 6.13: Changes in household equivalised income by decile of pre tax and transfer income, 2000-2008 (decile 1 = poorest)



Considering only changes occurring in tax and transfer policy (i.e. assuming that all other sources of income for each individual remain unchanged in real terms), individuals living in households in the first eight deciles are around R50 a month better off in 2008 than they were in 2000. In decile 9, the increase in disposable income is around R175 per month and in decile 10 this increases dramatically to over R1,200 per month. The difference is striking; every individual living in a household in the wealthiest decile is R1,200 better off in 2008 compared to 2000 whilst every individual living in a household in the poorest decile is only R50 better off. This increase in income for the wealthiest decile is mostly due to income tax cuts between 2000 and 2008. It is also noticeable that, whilst there was an increase in disposable income for the wealthiest decile in both time periods, between 2004 and 2008 households in the poorest decile experienced virtually no increase in disposable income.

Finally, it is instructive to examine the change in disposable income for different types of households in order to understand how the extent to which policy reforms have supported children varies according to the type of household that they live in. Figure 6.14 shows the overall change in household disposable income for different household types between 2000 and 2008. Data are only presented for households classified as poor according to pre tax and transfer income.

Figure 6.14: Change in disposable income for poor households by household type, 2000-2008

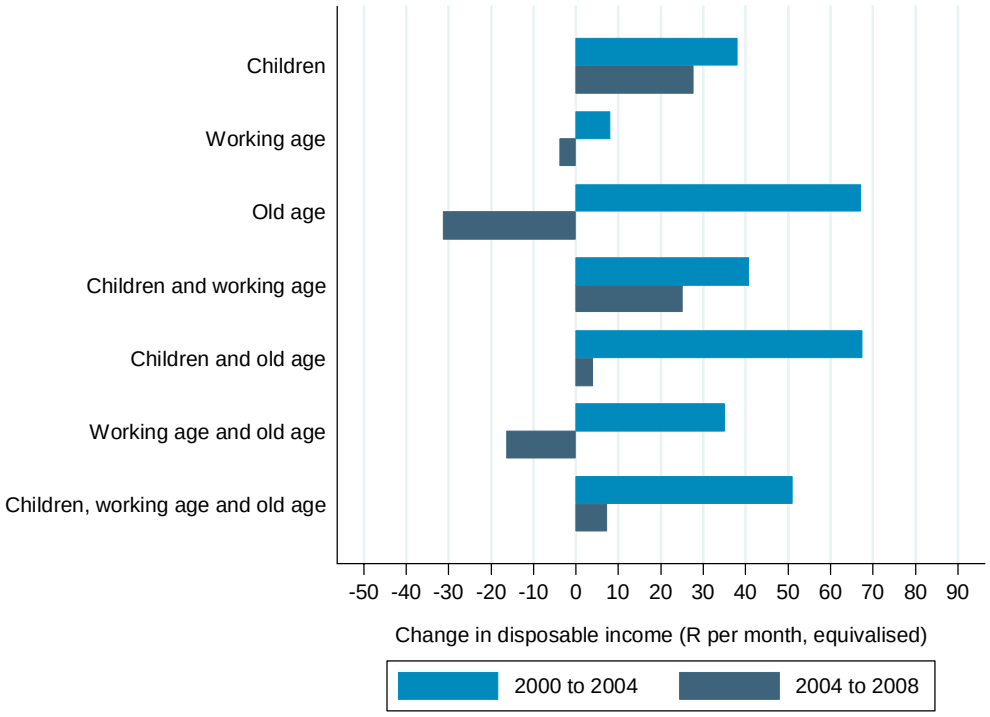


Figure 6.14 highlights some interesting trends. In Figure 6.13 there was an increase in disposable income for every decile. However, Figure 6.14 shows that certain household types experience a decrease in disposable income between 2004 and 2008, although in all cases there is a positive net increase in income between 2000 and 2008.

The declining real value of the Old Age Grant is a key influence on household disposable income: all households containing old age individuals experience very little change in disposable income between 2004 and 2008. Where children are also present in households with older people, the expansion of the Child Support Grant between 2004 and 2008 is able to compensate for the reduction in the real value of the Old Age Grant and these households do not experience a decrease in disposable income between 2004 and 2008. However, for households containing older people and no children, disposable income decreases over this period. The decrease in the real value of the disability grant between 2004 and 2008 also reduces the disposable income of households containing working age adults.

Comparing the position of children across the different household types it is interesting that each type of household containing children has benefited from approximately the same overall increase in disposable income (of around 60 to 70 equivalised R per month) between 2000 and 2008. Thus, policy reforms do appear to have distributed the additional revenue allocated to social grants equitably amongst households containing children. However, it is also important to consider absolute income levels as well as changes in disposable income. Whilst children living with old age adults typically live in households with an equivalised post tax and transfer household income above the poverty line, children living in other types of households generally remain below the poverty line. Thus, even though the disposable income of poor households has increased, the majority of children still live in households that are currently unable to meet the basic costs of living.

6.6 Sensitivity of the results to measures of price inflation

All of the results presented in this chapter are sensitive to the method used to compare the policy systems in different years. This method (described in section 4.6.6) uses price inflation factors to compare policy parameters at different time points. However, it is possible that the price inflation may vary by area and for households with different income levels. Thus, the increase in the cost of living, between 2000 and 2008 for example, will not be the same for all households and, as a consequence, changes in factors such as the monetary value of social grants may have differing impacts on different households. Appendix B reports the results of analyses to test the sensitivity of the results presented in this chapter to the choice of price inflation factor used. This is done by repeating some of the key analyses using the range of price inflation factors that have been reported for South Africa. The findings indicate that whilst the choice of index used to compare monetary values does have an impact on the results of the analyses, it does not alter the substantive conclusions from this chapter.

6.7 The changing impact of tax and transfer policy over time – conclusions from Chapter 6

This chapter has added further depth to the analyses in Chapter 5 by undertaking a time-series analysis of tax and transfer policy. The impacts of tax and transfer policies have been considered separately, in addition to examining the combined effect of all policy reforms on household disposable income.

The analyses have shown that, whilst children still have the highest overall poverty rate, the percentage point reduction in the poverty rate has been larger for children than for any other age group. Thus, although there is considerable gap between child poverty rates and those for adults (as illustrated in Figure 6.4), the gap is gradually closing. However, it is worth noting that the overall reduction in child poverty is small and it would take a considerable number of years to reduce the child poverty rate to the same level as the poverty rate for the old age group.

The reduction in the poverty rate for all age groups has largely been driven by reforms to the Child Support Grant. Whilst these reforms have benefited children, they have also helped to reduce poverty rates for other age groups. Reforms to other social grants have had negligible impacts on the poverty rate and in some cases have resulted in an increase in poverty. As Chapter 3 highlighted that the situation of children is dependent upon both the level of support directed specifically towards children and the level of support directed towards those who care for children, the lack of expansion of social assistance more generally has meant that the improvement in indicators of child poverty has been minimal.

Household composition remains a key factor in determining the income that a household receives from social assistance and hence the likelihood that a household is poor. Poor households containing children have seen an increase in disposable income between 2000 and 2008. However, for the majority of children, social assistance provides insufficient income to raise the household they live in above the poverty line.

Reforms to both direct and indirect taxes have provided virtually no additional support to children between 2000 and 2008. The only major tax reforms have been in personal

income tax where tax cuts have resulted in a decline in real tax revenues each year. Although the income tax reforms have been progressive, they have more than compensated tax payers for increases in the cost of living and the average tax payment has decreased and the tax base has narrowed in each time period. Tax subsidies were shown to have a significant impact on tax revenues in 2008 and the analyses here provide little indication that these are being reduced in value over time.

Comparing the changes in disposable income across the income distribution shows that, whilst there has generally been an increase in household incomes for both rich and poor groups, tax cuts have returned more to high income groups (in absolute terms) than reforms to social grants have provided to low income groups. In summary, whilst social assistance has provided additional support to children, it could be argued that the government could have directed more revenue towards supporting children as opposed to financing tax cuts. In addition, the lack of reforms to social grants for adults has reduced the impact of reforms to the Child Support Grant and the extent to which policy reforms support children. This conclusion leads to the analyses in Chapter 7 which consider what the government could do to provide more support to children.

Chapter 7 – An end to child poverty? Exploring the policy options

7.1 Introduction

This chapter takes a departure from the previous analytical chapters by focussing on hypothetical rather than real policy changes. Exploring recent reforms to tax and transfer policy is clearly worthwhile as it is important to understand the influence of real policy changes. However, it is difficult to determine where these policy reforms sit in the wider picture of all potential policy reforms. For example, the previous analyses raise questions such as:

- how much would it cost to eliminate child poverty?
- what other policy reforms could the government have pursued to provide more support to children?
- what impact would alternative reforms have on the incomes of households containing children?

Thus, in assessing the extent to which tax and transfer policy has supported children it is also important to consider what the government could have done in addition to what actually happened.

Tax and transfer policies do not exist in isolation and other factors such as fiscal constraints, macroeconomic trends and the political influence of different groups will all act to constrain the set of policy reform options that are available. The analyses to follow

in this chapter do take into account some of these factors when considering the feasibility of a particular policy reform. For example, it is possible to estimate the direct cost of a reform to social assistance and consider what changes would be required (in tax policy, for example) to fund the increased expenditure. However, indirect costs, such as changes in the administration of social grants, are harder to quantify and are outside the scope of this research, as are any changes in factors such as labour supply that might result from changes in tax and transfer policy. Even if it were possible to measure all the costs and benefits associated with a particular policy reform, there is still no guarantee that such a reform would be politically acceptable or feasible. Despite these caveats, an analysis of hypothetical policy reforms is valuable and also provides an opportunity to test some of the policy reforms that have been debated within government and academia.

This chapter has three sections. The first considers the overall cost of ending poverty in South Africa for children and other age groups. The second moves on to examine the policy gaps and the policy options – this section draws on the findings of the earlier empirical chapters and also discusses the recent debates in government and academia that have taken place in relation to tax and transfer policy in South Africa. The final section selects a number of policy reforms that have been identified as having the potential to reduce poverty. These reforms are analysed using SAMOD to determine their cost, their impact on the poverty rate for different age groups and the extent to which each one is realistic (i.e. could be implemented in practice).

7.2 The cost of ending poverty

It has become evident from the analyses in Chapters 5 and 6 that poverty rates, especially child poverty rates, remain high in South Africa even after accounting for the impact of social transfers. So far the analyses have yet to consider the cost of ending poverty.

In simple terms the cost of eradicating poverty can be calculated by summing up the poverty gap for each individual living in a household below the poverty line. This approach provides a useful guideline figure for the cost of ending poverty; however, it should be noted that the reality of ending poverty may be rather more complicated. Firstly, the poverty gap, measured as the distance from a pre-specified poverty line, may not actually reflect the expenditure required to provide all people with sufficient income to avoid poverty. Applying the same poverty line to all implies that all individuals require the same level of expenditure to avoid poverty; however this is unlikely to be the case, as different individuals will have differing levels and types of need (Townsend, 1962). Secondly, removing income poverty is not the same as ending poverty. It may be argued that income is only one component of a package of items required for an acceptable standard of living (Ringen, 1988; Room, 1995). Typically, access to good quality education and health care might also be considered to be criteria that must be fulfilled in order to say that an individual is able to avoid poverty (Kingdon and Knight, 2005). Whilst the focus here is on income poverty, it is acknowledged that this is not the only factor which determines poverty status in a multi-dimensional sense (Lister, 2004). Thirdly, it is unlikely to be practical to simply give each individual sufficient income to reach the poverty line. This type of policy would be extremely difficult and costly to administer. The most easily implementable reforms (and also perhaps those with the

lowest additional administrative costs) are likely to be those that build on existing policies rather than creating new ones. Thus, an approach that considers reforms to the existing system – rather than simply asking what it would cost to end poverty – is more realistic.

Notwithstanding these issues, a simple estimate of cost of eradicating income poverty is nevertheless helpful in gauging roughly the level of expenditure required to close the poverty gap for all individuals and how this varies by age group. Table 7.1 presents the average poverty gap for each age group and the cost of raising the incomes of poor individuals to reach the poverty line of R462 per month. The data in Table 7.1 are based on the 2008 policy system and 2007 population demographics. It is assumed that income is pooled within the household. As it has already been noted that the poverty-reducing potential of tax and transfer policies is greater if household (rather than family) income pooling is assumed, the data in Table 7.1 represent a 'best case' scenario or a minimum estimate of the cost of ending poverty. It is also helpful therefore to consider the family income pooling scenario, which might be considered to represent the upper end of the estimate of the cost of ending poverty – or the 'worst case' scenario. Data relating to the family income pooling case are presented in Table 7.2.

Table 7.1: The cost of ending poverty by age group – best case scenario (household income pooling), 2008 tax and benefit system

Age group	Average poverty gap (equivalised R per month)	Cost of eliminating poverty (R billion)
Children	173	1.39
Working age	196	1.66
Old age	123	0.12
Total population	**181**	**3.17**

Table 7.2: The cost of ending poverty by age group –worst case scenario (family income pooling), 2008 tax and benefit system

Age group	Average poverty gap (equivalised R per month)	Cost of eliminating poverty (R billion)
Children	210	1.94
Working age	344	4.09
Old age	132	0.05
Total population	**283**	**6.10**

The monthly cost of increasing the household income of all individuals to meet the poverty line is R3.17 billion (assuming household income pooling), but this doubles under the family income pooling scenario. Most of this expenditure is required to bring the incomes of children and the working age up to the poverty line and the cost of eliminating income poverty amongst the old age population is relatively small, regardless of the assumptions made about income pooling. This finding is not surprising given that there are relatively few older people and most are eligible for the Old Age Grant which, as shown in Chapters 5 and 6, is effective at reducing poverty amongst this group. One major difference between Table 7.2 and Table 7.1 is the change in the relative costs of eliminating child poverty compared to poverty amongst the working age population. In Table 7.1 the cost of eradicating child poverty is roughly equivalent to the cost of eradicating working age poverty, but in Table 7.2 the cost of eradicating working age poverty is twice that of eradicating child poverty. This difference occurs because the working age only need to be co-resident with an older person or a child under the household income pooling scenario in order to have a high chance of living in a household that is receiving social assistance (and therefore less likely to be poor). However, with family income pooling a working age individual (excluding the disabled) can only benefit from social assistance if they care for a child (or are the partner of

someone who cares for a child)[82]. Thus, family income pooling assumptions severely limit access to social assistance for the working age population.

The amounts reported in Tables 7.1 and 7.2 represent the monthly cost to eliminate poverty. Thus, on an annual basis it would cost between R38 and R73 billion to eradicate poverty. This seems like a very large amount, however, it is helpful to make a comparison here with decline in government revenue due to tax reforms reported in Chapter 6. This chapter showed that the annual real tax take from income tax has decreased by R84 billion between 2000 and 2008. Thus, if the tax policies in place in 2000 were applied to the population in 2007 this would generate an additional R84 billion in tax revenue compared to the tax revenue that would be generated by applying the 2008 tax policies to the 2007 population. Whilst this is clearly a hypothetical scenario, and it assumes that all other factors remain constant (for example, employment rates), it is noteworthy that the difference in real tax revenue between these two policy systems is greater than the amount required to completely eradicate poverty as estimated in Tables 7.1 and 7.2.

Given that tax reforms have already occurred it would be an unpopular move (amongst taxpayers) to return to higher taxation. However, the discussion above highlights that there are two approaches to take in considering hypothetical policy reforms. The first is to imagine what *could have* occurred had past policy reforms taken a different path and the second is to calculate the impact of various reform options starting from the fixed position of the current policy system. Thus, whilst understanding the extent of government support for children requires a consideration of what the government could have done, politically

[82] As the relationship between children and their carers was not recorded in the data this had to be simulated (as described in Chapter 4). It is therefore possible that the data underestimate the number of working age carers. For example, in a household with two children and two single adults it is not known whether one adult cares for both children, or, each adult cares for one child. This may have an impact on the results under the family income pooling scenario.

viable approaches to addressing child poverty at the present time may need to work within the constraints of current policy design. However, it is also probably unrealistic to assume that raising extra tax revenue is impossible as expansion of social assistance is costly and the revenue to fund this must be generated from somewhere, taxation being an obvious candidate. The approach taken in the analyses here is to determine the cost of a reform, its impact on the poverty rate and poverty gap and the options for funding the reform, whilst taking into account the potential constraints imposed by the existing tax and transfer system. In order to contextualise the analyses in this chapter the following section considers the debates that have taken place in relation to the reform of social assistance in South Africa.

7.3 A comprehensive system of social security?

The focus of this thesis is the extent to which the tax and transfer system provides support for children. However, the analyses have indicated that it is not sufficient to consider the impacts of policies targeted specifically on children. Supporting children also requires providing support to adults who care for children, and indeed to adults who may become carers in the future, either through becoming parents themselves or through taking on the care of someone else's children. Thus, whilst children are the main interest, it is recognised that attention must be given to providing support for other age groups who have a direct influence on children's lives. This includes older adults, as well as working age parents, as a large number of children in South Africa are cared for by older relatives. In this sense, it is necessary to examine the extent to which tax and transfer policy provides comprehensive as well as child-targeted support.

The idea of a comprehensive scheme of social security is somewhat hard to define. In theory it implies that there is a safety net that provides at least a minimum level of income to everybody. However, income maintenance policies are not necessarily administered by the state, for example, social insurance schemes may often be privatised and support is often provided through voluntary and charitable organisations, even in the developed world. In addition, further issues such as whether an individual can afford to contribute to a social insurance scheme (assuming there is one available), whether or not a person decides (or is able) to apply for a benefit to which they are entitled, and even questions around who is eligible for support (for example, recent immigrants are often unable to access state support), can all limit the extent to which a social security scheme can be described as truly comprehensive. Social security schemes which can be thought of as providing near universal coverage tend to be found in more developed countries and are virtually non-existent in the developing world (van Ginneken, 2007). Despite that, the majority of countries (developed and developing) have at least some social security programmes (Dixon, 1999), although there is considerable variation in coverage and the level of protection provided.

Amongst developing and middle income countries comprehensive social security is much less common; however, it has been argued that such systems have a key role in tackling poverty (Townsend, 2009). Tabor (2002) estimates that around 80 per cent of the European workforce is covered by some form of income protection policy, but this drops to 10 per cent for the African workforce. There are examples of countries which provide a wide range of benefits (although not necessarily comprehensive coverage) in the developing world. In Africa both South Africa and Algeria have provision for old age, disability, survivors, sickness, maternity, work injury, unemployment and children (Social

Security Administration, 2009). In Latin America, Uruguay has begun to move towards a comprehensive model of social policy, including comprehensive social security (Filgueira *et al.*, 2009) and Costa Rica is also noted as having high levels of social security coverage (Barahona *et al.*, 2003). However, the fact that a wide range of risks are covered does not mean that each individual is protected against every risk. Thus, a consideration of programme coverage as well as the types of programmes that are available is important. As noted earlier, the effectiveness of any programme of social protection is dependent upon other factors. For example, social insurance programmes have the potential to provide near comprehensive coverage in countries that have high levels of formal sector employment for both men and women, but in South Africa a social security scheme based on social insurance would fail to reach many of those currently living in poverty who have never been in formal employment.

The concept of a comprehensive system of social security is well recognised in South Africa and indeed the Constitution is considered to have laid the foundations for such an approach through the implication that everyone has the right to access social security (The Taylor Committee, 2002). The notion of a comprehensive welfare system is referred to in the Reconstruction and Development Programme Base Document (African National Congress, 1994) and the subsequent Reconstruction and Development Programme White Paper (Republic of South Africa, 1994). The 1997 White Paper for Social Welfare also states that "[T]he Department of Welfare commits itself to the establishment of a comprehensive social security policy and legislation" (Department of Welfare, 1997:ch 7, sec 26, d) and further adds that "[A] comprehensive and integrated social security policy is needed to give effect to the Constitutional right to social security" (Department of Welfare, 1997:sec 45).

Although the idea of comprehensive social security was articulated in early policy documents post-1994, the method of providing comprehensive social security is given concrete expression for the first time in the 2002 Taylor Committee report (The Taylor Committee, 2002). The comprehensive social security package envisaged by the Taylor Committee included: a number of universal social grants aimed at reducing income poverty, including a basic income grant, child grant and old age grant; a number of social grants available to those in special circumstances, for example the disabled and carers of foster children; and a comprehensive social insurance package to cover unemployment, pensions, health care and disability. The first two of these strands are considered to constitute a basic platform whilst the latter is aimed at helping to provide protection from income shocks for those who can afford to make social insurance contributions.

Two key features of the reforms proposed in the Taylor Committee report are the idea of a basic level of income made available on a universal basis to all South Africans and additional universal grants for groups seen as deserving of additional support (for example, children, the disabled and old age adults). This moves beyond the idea of social assistance as a mechanism to address poverty, and hence as something that should be targeted on the poor, to the idea of social assistance as a right of the South African citizen regardless of income. The report proposes that a basic income grant should be introduced and that this should be financed through general taxation, implying that this would help to finance spending on the poorest whilst also allowing the claw-back of assistance paid out to the wealthiest. Acknowledging that implementation of this new grant will be costly, the committee recommended a phased in approach beginning with children and old age adults and incorporating working age adults from 2006.

As well as including children and the old age population in the first phase of implementation of a basic income grant, the Taylor Committee also suggested that additional income support already provided to these groups through the Child Support Grant and the Old Age Grant should remain. The Taylor Committee recommended the extension of the Child Support Grant up to the age of 18 and further that consideration should be given to making both the Child Support Grant and the Old Age Grant universal (i.e. not subject to an income test).

The idea of implementing a basic income grant as a policy to combat poverty in South Africa had been raised prior to the Taylor Committee report. A universal basic income grant, to form part of a comprehensive social security system, was first proposed during the Presidential Jobs Summit in 1998 and the idea was therefore well established in policy debates prior to the setting up of the Taylor Committee. By 2002 there was considerable support for a basic income grant from civil society, notably the Congress of South African Trade Unions, the Black Sash (a women's humanitarian organisation) and the Alliance for Children's Entitlement to Social Security. Proponents of the grant argued that it was a practical solution to the particular problem of poverty in South Africa. Given that the existing social security system was already based to a large extent on social assistance (as opposed to social insurance) adding a further social assistance grant would not require a complete overhaul of the administrative systems. Making the grant universal would reduce administrative costs and the potential for fraud and corruption. Finally, the basic income grant was seen as a strategy that avoided creating disincentives to work (as receipt of the grant was not dependent on income) and the amount at which the grant was paid

was too small to create dependency. Instead the grant was expected to encourage people to invest in activities such as job-seeking and training (Makino, 2004).

Despite strong support for a basic income grant from civil society organisations, the government responses to the proposals put forward in the Taylor Committee were mixed. There was initial disapproval from the Treasury but support from the Ministry of Social Development (Makino, 2004). Although the grant was never officially ruled out the government continued to postpone making any decision about whether or not to adopt the basic income grant and it has gradually faded from the policy agenda. The lack of government support has been argued to be more a question of ideological opposition rather than fiscal constraints. Standing and Samson (2003) argue that the basic income was viewed as a threat to macro-economic strategy and detailed arguments around the financing and administration of the grant were unlikely to succeed in it gaining acceptance without a broader shift in developmental strategy. Although a basic-income grant seems unlikely to be adopted in South Africa, a recent pilot of a basic-income grant in Nambia has provided evidence of positive impacts on various outcomes including child nutrition, school attendance, health, community cohesion, engagement in productive activities and crime levels (Haarmann *et al.*, 2008).

Although debates on the basic income grant have gradually slipped off the policy reform agenda the idea of a comprehensive system of social security remains. In 2007, a draft discussion document from the Department of Social Development entitled *"Gaps in the system of comprehensive social security and an assessment of the policy options"* states that the Government has attempted to frame its social security initiatives with reference to the Taylor Committee report (Department of Social Development, 2007). Although this

statement might be seen by proponents of the basic income grant and other groups who have campaigned for more comprehensive social security to be slightly generous in describing the Government's response to the Taylor Committee's recommendations, the document does still draw on the idea of comprehensive social security as a policy aim. Further, the document clearly considers social security as distinct from other measures aimed at alleviating poverty: "[T]he system of social security is necessarily the critical intervention preventing any country, no matter how wealthy, from becoming unbalanced such that some people are tolerated in a situation of social exclusion, indignity and impoverishment" (Department of Social Development, 2007:7). Social security is described as separate from, for example, employment strategies, although both may be part of a package aimed at reducing poverty.

In practical terms the actual design of a comprehensive social security system described in the "Gaps" document is similar to that put forward in the Taylor Committee report with support provided via a "basic endowment" pillar and a "social insurance" pillar. The basic endowment pillar includes social assistance and it is recommended that the existing system of grants be extended to cover children aged between 14 and 18 and men aged between 60 and 64 and that new grants should be added for caregivers (i.e. those caring for children) and adults with no alternative income sources. No recommendations are given on the exact eligibility conditions for these grants or the level of payment but it is suggested that expansion of the grant system should occur gradually and by prioritising the most vulnerable groups (which are again not defined).

A later document produced in 2008 *"Creating our shared future"* (Department of Social Development, 2008) also supports the two pillar approach, with a similar package of

social assistance including extensions to caregivers and the unemployed. Although the report is subtitled “Strategic considerations for a comprehensive system of social security” the term “comprehensive” is used little within the document. The overall aim is described as the establishment of a “coherent and integrated package of social protection” (Department of Social Development, 2008:7). The report recommends a minimum wage of R1000 per month and a continuation benefit, for those who have become unemployed but have used up their UIF entitlement, of R500 per month. For those who have never been employed an unemployment benefit of R200 per month is considered based on the condition that the recipients take part in skills development programmes. An additional R100 per month is proposed to be paid to people in this category who are under the age of 25 (ibid:30). In the final draft of the document the recommended amount of the unemployment grant is reduced to R150 for those under the age of 25 and R100 for those over the age of 25. Although, the amount of support is fairly minimal, and the exact conditions of eligibility are not clear, the recommended package does provide universal coverage for all those who are currently not entitled to social assistance.

In summary, policy debates in South Africa have centred on the current gaps in the system of social security and the need to address these gaps. Whilst certain strategies have proved politically unpopular (such as the basic income grant) the idea of comprehensive social security has remained a key driving force in policy debates. In 2007 and 2008 the Department of Social Development started to develop preliminary models of a comprehensive social security system (to which SAMOD has provided an analytical contribution), but the only recommended reform which has actually progressed through to legislation is an extension to the Child Support Grant to include all children up to the age of 17 (inclusive) by 2012 (Maseko, 2009).

7.4 Exploring alternative reforms

7.4.1 Outline of social assistance reform scenarios

In this section some of the policy reform options discussed in the previous section are modelled using SAMOD in order to determine the impact and cost of each reform. The reforms explored here are those which have received most attention in the policy debates and which most readily address the policy gaps already identified in Chapters 5 and 6. The main policy gaps are: the lack of support to older children; the lack of support to the working age with no or low incomes; and the lack of support to men aged between 60 and 64. This section considers some hypothetical policy reforms aimed at addressing these gaps. The focus is on reforms to social assistance rather than social insurance as the majority of those below the poverty line are not in formal employment and do not have sufficient income to make regular contributions to social insurance schemes, even if such schemes were to become available.

The aim of this section is to simply determine the cost of a number of different reforms to social assistance and examine each reform's impact on poverty. In most cases each of the social assistance reforms is not accompanied by any reforms to taxation. Some of the reforms explore the impact of implementing universal schemes of social assistance and, as these are made available to tax payers as well as non-tax payers, it is possible to recover any amount paid to tax payers directly through the income tax system. Therefore, in these instances the amount of social expenditure that could be recouped through the income tax system is also factored into the estimate of the total cost of the reform. Seven different

reform scenarios are considered to address the three policy gaps identified. These are described below.

Policy gap 1: Support for older children

Support for older children can be provided through an extension of the existing Child Support Grant so that it covers children until they reach the age of 17 (inclusive). Two scenarios are considered:

Scenario 1 'Extended CSG': The Child Support Grant is extended to cover children up to age of 17 (inclusive); the means test and other conditions are kept the same (this reform will have occurred by 2012).

Scenario 2 'Universal CSG': The Child Support Grant is extended to cover children up to age of 17 (inclusive); the means test is removed to make the grant available to all children regardless of family income.

Policy gap 2: Support for low and no income working age adults

As there is currently no social assistance available to working age adults, addressing the needs of this group would require the implementation of a new social assistance policy. The target group for this type of policy is working age adults with low incomes rather than those who are unemployed. This group will also include some adults who have previously worked and made contributions to the Unemployment Insurance Fund (UIF) but who are now out of work and have not made sufficient contributions to receive

support from the UIF[83]. Whilst unemployment is an additional issue, and many of those with low incomes will also be unemployed, a large number could also be classified as discouraged workseekers or under-employed (Bhorat and Oosthuizen, 2006). Thus, classifying people as 'unemployed' is not particularly helpful in terms of identifying those who are likely to be living in poverty. Three scenarios are considered for the working age group:

Scenario 3 'BIG': Implementing a basic income grant at a value of R180 per month for every person in South Africa who is currently not receiving any other form of social assistance. This includes children and old age adults who are not already receiving a grant. Although politically controversial, the idea of a basic income grant has received considerable attention in policy debates and is included here for that reason. In 2000, it was proposed that the grant should be paid at R100 and updating this figure to 2007 results in a monthly payment of approximately R180. As the basic income grant is paid to everybody who is not receiving any other form of social assistance it can be taxed back from tax payers. Thus, the amount of social expenditure that can be recouped by clawing back the grant from income tax is also calculated.

Scenario 4 'Fixed amount low-income grant': This scenario introduces a low-income grant targeted at working age adults (i.e. between the ages of 18 and 59). A universal low-income grant is tested here rather than two different grants aimed at different age groups as suggested in the 2008 report *"Creating our shared future"*. The grant is paid at the same rate as the basic income grant (i.e. R180 per month) and is means tested with the

[83] Estimating the number of individuals who might fall into this category is complex and requires more robust data on work and contributions history than is available in the SAMOD base data.

same means test used as for the Child Support Grant. This specification allows the low-income grant to be easily compared to a basic income grant paid at the same rate.

Scenario 5 'Variable low-income grant': The suggested reform is identical to that described above in terms of the eligibility criteria; however, in this scenario the amount of the grant that is paid is dependent upon the recipient's income and the grant is withdrawn at a rate of 100 per cent for every Rand earned over the income threshold. Designing a benefit in this way may be undesirable as the method of withdrawal could be argued to create disincentives to work (Rowlingson, 2003). However, the aim here is purely to test, in simple terms, how the impact of a variable-amount grant varies in comparison to a fixed-amount grant. The minimum payment that can be made is R100 per month and the maximum payment is increased to twice the amount of the flat rate grant (R360 per month). Whilst this type of grant would be administratively more costly and more complex to implement due to the need to obtain evidence of income, it is worthwhile exploring if a greater impact on poverty can be achieved through this type of approach.

Policy gap 3: Support for men aged between 60 and 64

This group represents a fairly small section of the population and poverty amongst this group can be reduced at a reasonably low cost simply by extending the Old Age Grant to men from the age of 60. However, there has also been much discussion around the possibility of making the Old Age Grant universally available given that the majority of the old age population are eligible for the Old Age Grant and it would be possible to recover payments made to the wealthy through the income tax system. Thus, two reforms

to old age support are considered, both of which would fill the gap that currently exists for support to men between the ages of 60 and 64.

Scenario 6 'Extended Old Age Grant': As described above, the Old Age Grant remains in its present form but is extended to cover both men and women from the age of 60. The existing income threshold remains.

Scenario 7 'Universal Old Age Grant': The Old Age Grant is paid at a fixed rate (currently the maximum amount of the grant) to all persons over the age of 60. The grant is recovered through the tax system from individuals over the age of 60 who are also tax payers.

Each of the above scenarios is programmed into SAMOD and the results are discussed in the following section.

7.4.2 Results from social assistance reform scenarios

In assessing the impact of each reform scenario, several factors are relevant. Whilst the effect that each reform has on the poverty headcount and poverty gap is important, these are not the only factors to take into consideration. The overall cost of the reform is also crucial, and this must be considered with respect to the impact on each poverty measure. It is also worthwhile analysing how well the reforms are targeted i.e. to what extent social assistance reaches the poor and the non-poor. There may be legitimate reasons for wishing to include those who are not poor within a social assistance scheme, for example to encourage solidarity (Tabor, 2002) or to retain support from wealthy individuals for social

assistance programs (Korpi and Palme, 1998), but it could also be argued that a poverty alleviation scheme is not very effective if it reaches more non-poor than poor individuals. Equally, in the context of fiscal constraints it is harder to justify a scheme which provides income to individuals who are already above the poverty line whilst many people below the poverty line remain ineligible for assistance.

The reform scenarios described above are assessed in Figures 7.1 to 7.5. Figure 7.1 shows the poverty rate for each age group following each reform scenario, and Figure 7.2 shows the poverty gap. Figure 7.3 presents data on the total annual cost of each reform and the cost per individual removed from poverty. Finally, Figures 7.4 and 7.5 show, respectively, how well each reform is targeted and the extent to which it reaches individuals in poor households.

Considering first the impact of the reform scenarios on poverty as presented in Figures 7.1 and 7.2, all reform scenarios reduce the poverty headcount and the poverty gap for all age groups. The lowest poverty headcount for all age groups is achieved through the Variable Low-Income grant scheme (where every working age person living in a household with a low income is provided with a grant which is dependent upon their income). The Fixed-rate Low-income grant and Basic Income Grant also perform well in terms of reducing the poverty rate and the poverty gap. Despite the reduction in poverty levels achieved in each reform scenario, it is noticeable that the poverty rate for children remains the highest of all age groups in every case. This finding is not surprising given that pre tax and transfer poverty rates are highest amongst children and the Child Support Grant is typically not sufficient to raise household income above the poverty line.

Figure 7.1: Percentage of each age group living in households with post tax and transfer equivalised incomes below the poverty line

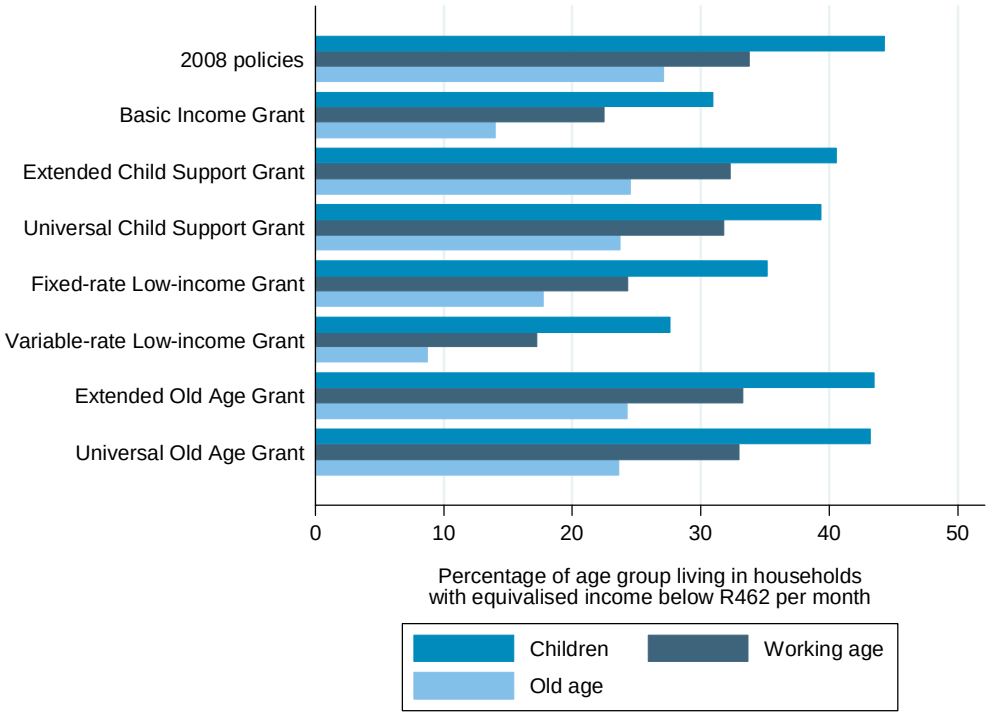


Figure 7.2: Average poverty gap for individuals in households with equivalised incomes below the poverty line

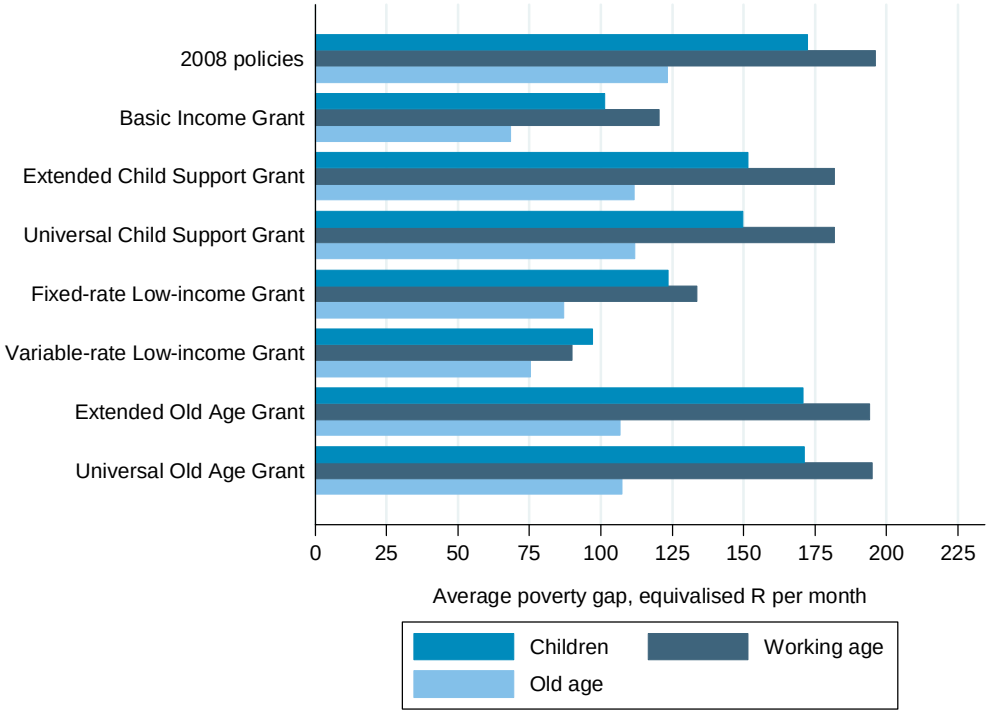
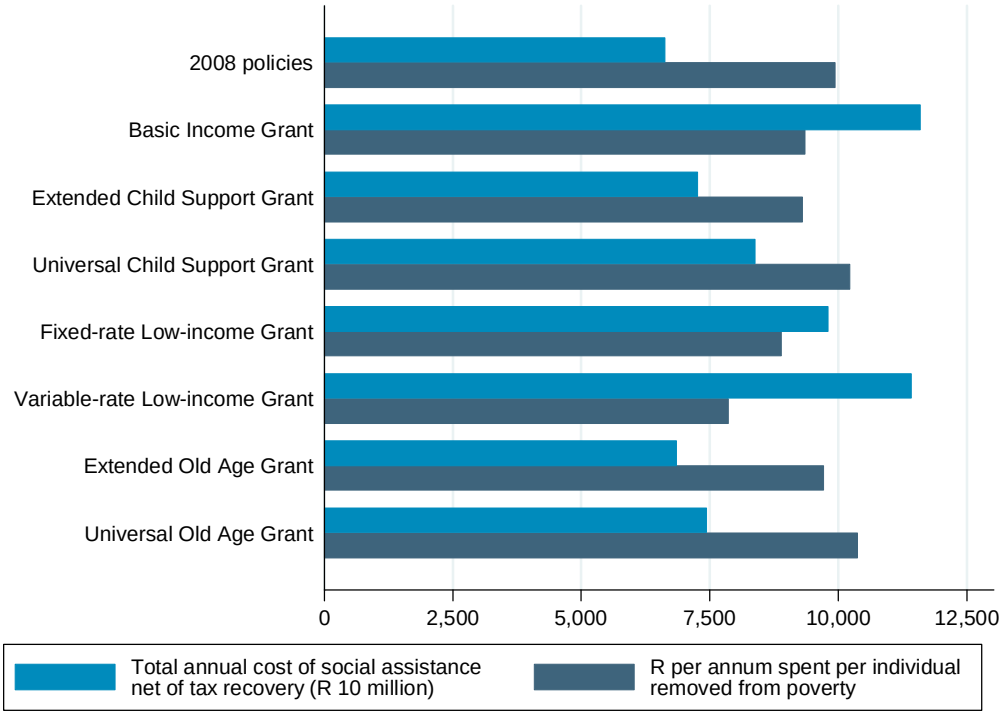


Figure 7.3 compares the total annual cost of each social assistance scenario with the average cost per individual removed from poverty. The latter figure is calculated by dividing the total annual cost of social assistance by the number of individuals whose incomes are raised above the poverty line following the receipt of social assistance. Figure 7.3 shows that reforms to the Old Age Grant and the Child Support Grant are relatively inexpensive (i.e. the cost of these reforms is not significantly greater than the cost of the existing 2008 system) but they have relatively high average costs compared to the low-income grants. The Basic Income Grant also has a relatively high average cost and is also the most expensive scheme to implement.

In terms of average cost, the low-income grants perform well with the variable rate grant having the lowest average cost. The Variable-rate Low-income Grant is the second most expensive scheme, but it also has the most impact on the poverty rate which results in a low average cost for this grant. Of course, the data in Figure 7.3 do not factor in the costs associated with administering a variable rate grant compared to a fixed rate grant, or a universal grant as opposed to a means tested grant. Adding in these administrative costs may change the conclusions arising from the data presented in Figures 7.1 to 7.3.

Figure 7.3: Total annual cost of reform and average cost per individual removed from poverty



As the Fixed-rate Low-income Grant is cheaper than the Variable-rate Low-income Grant and only has a slightly higher average cost, it is worth considering the relative merits of each of these policies. Under the variable-rate scheme there would be an additional administrative cost associated with verifying each recipient's income on a regular basis. There would also be an additional burden on recipients to request an additional allowance if their income decreases. Analysing the distribution of payments made under the Variable Low-income Grant shows that around 60 per cent of recipients would receive close to the maximum amount (i.e. they have no other sources of income). Thus, it would perhaps be more efficient (once administrative costs have been taken into account) to implement a

fixed amount grant, but paid at a higher rate. This will be explored further in Tables 7.3 and 7.4.

Analysing the data in Figures 7.1 to 7.3 (without further consideration of the targeting efficiency of the schemes which is shown in Table 7.4) suggests that a fixed amount low-income grant is potentially the most promising in terms of cost and impact on poverty (once administrative costs have also been taken into account). This scheme could be supplemented by extensions to the Child Support Grant and the Old Age Grant which reduce the poverty rate and the poverty gap for children and the elderly at relatively little additional cost.

Having considered the cost of each social assistance reform and the impact on poverty, Figure 7.4 shows how well each reform scenario is targeted and Figure 7.5 shows how well each reform scenario reaches the poor. Figure 7.4 displays the proportion of social assistance recipients in each age group with pre tax and transfer incomes below the poverty line.

Figure 7.4: Targeting efficiency – proportion of social assistance recipients with pre tax and transfer incomes below the poverty line

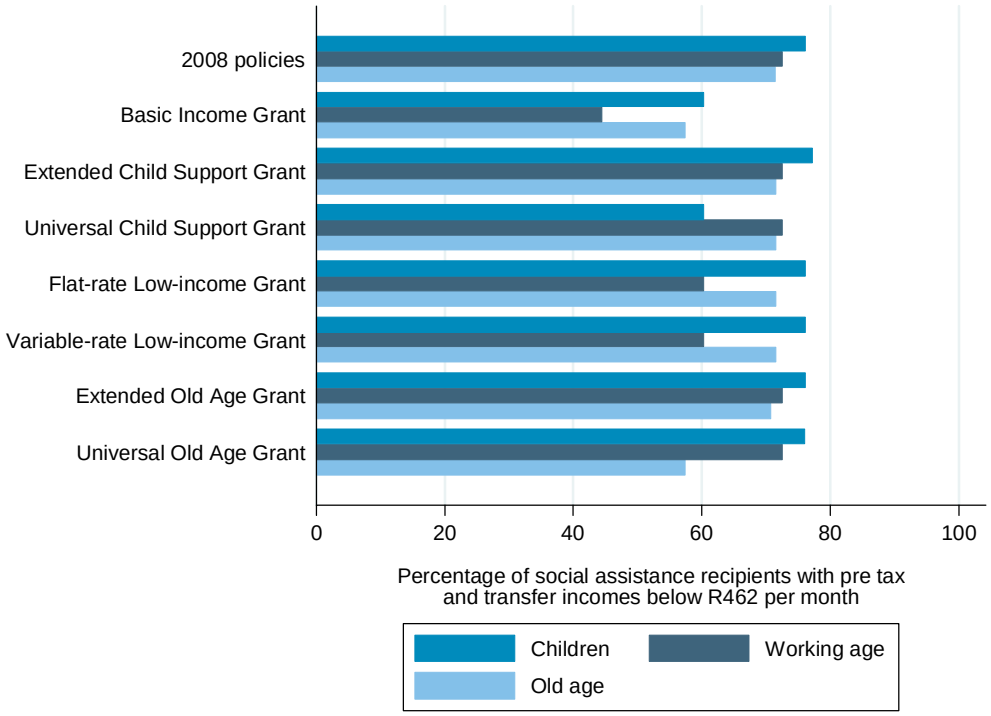
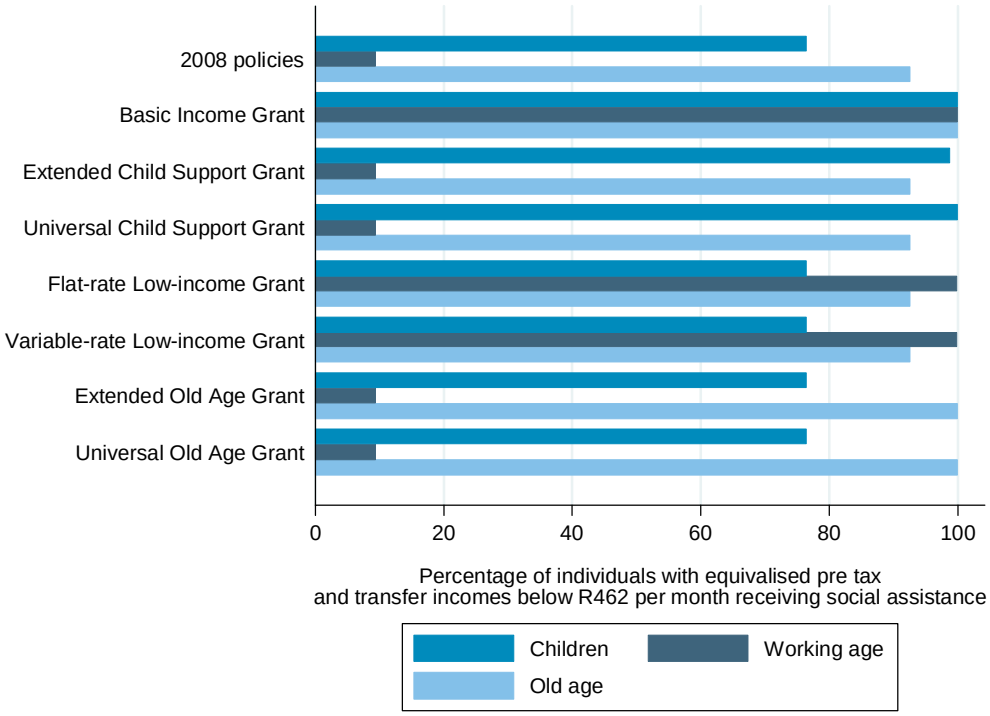


Figure 7.4 shows that in all the scenarios (including the existing 2008 system) there is some leakage of social assistance to individuals who are not poor (i.e. those living in households with pre tax and transfer incomes above the poverty line). The Basic Income Grant has the greatest amount of leakage to the 'non-poor', as might be expected as this grant is not means tested. Around 50 per cent of the recipients of the Basic Income Grant are not poor according to pre tax and transfer household income, whereas for most of the other reform scenarios between 60 and 80 per cent of the recipients are classified as poor. Children are particularly well targeted as around 75 per cent of children in receipt of social assistance are classified as poor under all schemes with the exception of the Basic Income Grant and the Universal Child Support Grant.

Figure 7.5: Coverage – proportion of individuals with pre tax and transfer incomes below the poverty line receiving social assistance



Finally, considering coverage of social assistance in Figure 7.5, the Basic Income Grant is clearly most effective as it reaches all individuals in both poor and non-poor households. However, both the low-income grants also perform well providing a high level of coverage to the old age population and comprehensive coverage to working age adults. These grants do have lower coverage rates for children but this could be rectified through extensions to the existing Child Support Grant. In fact combining a low-income grant with extensions to the Child Support Grant and the Old Age Grant would provide near universal coverage for all those with pre tax and transfer incomes below the poverty line. This represents a considerable increase in social assistance coverage from the 2008 system in which fewer than 50 per cent of people living in households with pre tax and transfer incomes below the poverty line receive social assistance.

The analyses in Figures 7.1 to 7.5 have suggested that the most promising approach to obtain the largest reduction in the poverty headcount at the lowest cost seems to be through a low-income grant combined with an extended Child Support Grant and Old Age Grant. The results from implementing this combination of policies are presented in Tables 7.3 and 7.4 where the reform scenario analysed combines a fixed amount low-income grant paid with an extended Child Support Grant and Old Age Grant. The means test for the low-income grant is the same as the means test used in 2008 for the Child Support Grant. The low-income grant is paid at a fixed amount of R360 per month. The Fixed-rate Low-income Grant has been increased to the upper level of the Variable-rate Low-income Grant in the previous scenarios as the majority of those eligible for this grant received the maximum amount, and it is likely that the additional administrative costs of implementing a variable rate grant would outweigh the savings in grant payments. The Child Support Grant and Old Age Grant have been extended to cover children up to the age of 18 and men between 60 and 64, respectively. In all other respects these grants remain as they were in 2008.

Table 7.3: Combining a low-income grant with an extended Child Support Grant and Old Age Grant – impact on poverty

	Poverty rate	Poverty headcount (thousands)	Poverty gap (R per month)	Cost of social assistance net of tax recovery (R million)	R per annum spent per individual removed from poverty
2008 Basline					
Total population	37.4%	17,493	181.3	66,210	-
Children	44.3%	8,061	172.6	29,320	-
Working age	33.8%	8,474	196.0	13,320	-
Old age	27.1%	958	123.4	23,580	-
Reform					
Total population	10.7%	5,026	82.4	137,900	5,750
Children	14.5%	2,639	79.7	35,930	1,219
Working age	9.1%	2,270	86.6	77,820	10,396
Old age	3.3%	118	64.0	24,150	678

Table 7.4: Combining a low-income grant with an extended Child Support Grant and Old Age Grant – targeting efficiency

	Total number of social assistance recipients (thousands)	Total number of poor receiving social assistance (thousands)	Total number of non-poor receiving social assistance (thousands)	% of social assistance recipients who are poor	% of poor who are receiving social assistance
2008 Basline					
Total population	15,108	11,333	3,776	75.0%	46.9%
Children	11,027	8,398	2,629	76.2%	76.5%
Working age	1,454	1,055	399	72.5%	9.5%
Old age	2,627	1,880	748	71.5%	92.6%
Reform					
Total population	35,160	23,876	11,284	67.9%	98.9%
Children	14,045	10,845	3,200	77.2%	98.8%
Working age	18,443	11,119	7,325	60.3%	99.8%
Old age	2,672	1,912	760	71.6%	94.2%

The reform system doubles the cost of social security in South Africa to R138 billion per annum but it does have a significant impact on the poverty headcount. The poverty rate drops to 11 per cent overall and poverty is virtually eliminated for the old age population. The vast majority of those in poverty receive social assistance, although there is a greater amount of leakage to the non-poor under the reform scenario.

Whilst the poverty rate does fall for all age groups, children still have the highest post tax and transfer poverty rate, post reform, at 14.5 per cent. However, this is in the context where the poverty rate under the baseline scenario was much higher for children than for any other age group. Even though the poverty rate is still highest for children, the poverty gap is fairly small for all age groups indicating that many people are moved closer to, although not always above, the poverty line. It would certainly be possible to reduce the child poverty rate further through increasing the value of the Child Support Grant and this could be done in addition to the reforms proposed here, or by reducing the amount paid through the low-income grant and increasing the Child Support Grant.

7.4.3 Funding social assistance reforms – are they realistic?

The analyses of the reform scenarios indicate that doubling social security expenditure is able to have a significant impact on the poverty headcount and the poverty gap for all age groups. This section considers how this revenue could be raised from general taxation (assuming no other sources of funding are available). As already discussed, reforms to tax policy may be limited to those which are considered politically acceptable i.e. it may be politically contentious to increase taxes through explicit reforms to tax policy. However, it might be more realistic to allow the effects of fiscal drag to operate thereby resulting in increased tax revenues (in real terms) in future years.

It has already been demonstrated that the revenue required to eliminate poverty could be generated by swapping 2008 tax policies for those applicable in 2000. However, given that tax reforms did take place it is more helpful to consider how current policies could be reformed in order to raise the additional revenue required to fund social assistance reforms similar to those discussed above. Two tax reform options are considered: the first involves estimating the potential for fiscal drag to generate sufficient tax revenue and the second considers the possibility of raising additional revenue from VAT. Of course, there are other potential sources of funding, for example corporation tax (which is not simulated in SAMOD), and other mechanisms of reforming direct and indirect tax which may also have the potential to generate additional revenue to fund social assistance reforms. The two cases analysed here are intended to illustrate the potential of two of the most obvious reform options.

Option 1: funding social security reform through income tax

In this scenario it is assumed that income tax policy is reformed so that tax bands and tax thresholds increase in line with inflation in future years so that if wages also increased in line with prices the amount of tax paid would remain the same in real terms. Typically, however, wages increase more rapidly than prices so a tax reform of this type is likely to result in an increase in real tax revenue over time as real wages increase. Real wage growth varies from year to year; however Burger and Yu (2006) estimate that real wage growth in South Africa averaged 5 per cent per year between 1996 and 2005. Real wages are therefore assumed to grow at a rate of 5 per cent per year from 2009 onwards: this means that wage growth is 5 per cent higher than price growth in each year. Inputting this scenario into the microsimulation model for five years produces the results displayed in Table 7.5.

Table 7.5: Year by year increase in real tax revenues assuming 5 per cent real wage growth

Year	Total real tax revenue per annum (R billion)	Increase in real tax revenue per annum compared to 2008 (R billion)
2008	146.4	-
2009	158	11.40
2010	170	23.40
2011	183	36.40
2012	196.6	50.2
2013	211.2	64.8

It should be noted that the results in Table 7.5 represent crude estimates of the potential of real wage growth to generate additional tax revenues. This type of calculation is best

undertaken using a microsimulation model which incorporates behavioural responses linked to a macro-economic model. However, given that the predictions span a relatively short time period, the influence of broader macro-economic effects and changes in, for example, labour supply, are likely to be negligible. However, despite these caveats, the data in Table 7.5 indicate that if real wage growth remained at 5 per cent and current employment rates remained stable, the income tax system does have the potential to generate substantial additional revenue. Funding the reforms presented in Tables 7.3 and 7.4 requires an additional R71.7 billion per year and Table 7.5 shows that by 2013 an additional R64.8 billion could potentially be generated through the utilising the effect of fiscal drag. Of course, the estimate of the additional cost of social assistance does not include the costs of any associated administrative systems which would further increase the cost of implementing social assistance reforms. However, it is clear that there is potential within the tax system to fund substantial reforms to social security in the short to medium term.

Option 2: funding social security reform through VAT

Chapter 5 demonstrated that VAT is regressive i.e. it impacts proportionally more on those with low incomes than those with high incomes. Thus, strategies which use VAT as a means of generating additional government revenue to fund social assistance transfers aimed at the poor may have little effect on the net incomes of the poor if they are funded through VAT. However, there is also variation in the types of goods consumed by rich and poor households. Thus, it may be possible to impose additional taxes on goods consumed mainly by the rich and hence to raise additional revenue without having a negative impact on the disposable incomes of those in poor households. The approach of

imposing taxes on goods which are considered to be luxuries or even unnecessary is common in most countries (Shah and Whalley, 1991), and additional taxes are generally levied on goods such as tobacco and alcohol. In these cases the logic of imposing additional taxes relates to the potentially harmful effects of excessive consumption of these goods as well as the fact that they are not necessary.

The current VAT system presents two main possibilities for reform. In both cases the aim of the VAT reform is to generate additional revenue to fund cash transfers. The first option is to increase the VAT rate for luxury items, where these are defined as items which are disproportionately consumed by the wealthy; the second option is to remove the zero-rating policy. This was analysed in Chapter 5 which showed that, although the policy of not collecting VAT on basic food and commodities is beneficial to low income households, it is also of considerable benefit to wealthy households as households across the income distribution consume zero-rated items. Removing this policy would increase the cost of living for poor households; however, it would be possible to counteract this through increasing social assistance payments.

Two VAT reforms are considered below. Firstly, a 'luxury goods tax' is implemented on items which are disproportionately consumed by rich households[84]. The items selected as luxury goods include holiday accommodation, motor vehicles, magazines and books,

[84] To identify these items the proportion of expenditure that is spent on each type of item is calculated for each household. The average proportion of expenditure on each item is then calculated for households with low and high expenditures. Households are placed in the low expenditure group if their total monthly expenditure is within the bottom 40 per cent of all household expenditures. Households are considered to be high expenditure households if their total monthly expenditure is in the top 40 per cent of household expenditures. Households in the middle 20 per cent are excluded from the analyses. The ratio of the proportion of expenditure on each item for high and low expenditure households is then calculated. Items which have the highest ratios (i.e. those items which represent a larger proportion of expenditure in high income households than in low income households) are added to a 'luxury good' list. A cut off point is selected so that items which high income households spend proportionally five or more times more than low income households are added to the luxury good list.

certain food items, medication, computer equipment and recreational and leisure goods. Other items which are currently not subject to VAT also appear on this list including domestic workers and petrol and diesel (which are subject to a separate fuel tax).

From the list of items identified as luxury goods a VAT rate of 20 per cent is applied to all items which are already subject to VAT at 14 per cent. The decision to fix the luxury VAT rate at 20 per cent is somewhat arbitrary and represents a moderate increase over the existing rate. The only items excluded are magazines, books and stationary as these are reasonably low cost items which are likely to be consumed by both high and low income households. It could be argued that the purchase of these items should not be discouraged by additional taxes as they could have positive benefits, for educational purposes for example. The same argument could also be applied to medication and computing equipment; however, it would be feasible with these items to provide these types of goods at a lower cost to poor households.

Implementing the two VAT reforms and running the microsimulation model generates the results presented in Table 7.6. Both scenarios involve imposing a VAT rate of 20 per cent to certain items which are purchased disproportionately by wealthier households and the second scenario also removes the zero-rating policy so that all other items subject to VAT are taxed at a rate of 14 per cent.

Table 7.6: Increase in VAT revenue under different reform scenarios

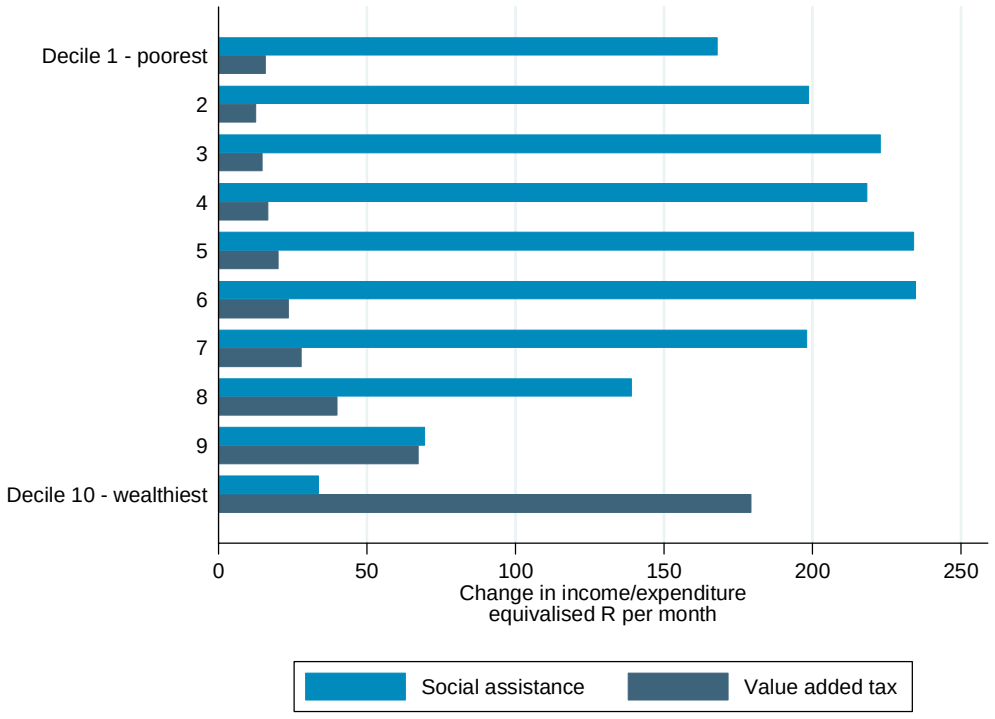
Scenario	Total revenue collected from VAT (R billion)	Increase in VAT revenue (compared to 2008) (R billion)
2008	61.72	-
With luxury rate 20%	64.87	3.15
With luxury rate and no zero rating	80.40	15.53

Table 7.6 shows the total revenue collected through the VAT system for each scenario. The 2008 VAT revenue is shown as a comparison. Adding the luxury VAT rate actually results in little overall increase in VAT revenue considering that nearly R70 billion is required to fund the social assistance reforms modelled in section 7.4.2. Removing the zero-rating policy as well as imposing a luxury VAT rate is more effective at generating VAT revenue but the overall increase in revenue is still fairly small. Chapter 5 demonstrated that the zero-rating policy does make the VAT system less regressive and benefits households with children in particular. Alderman and del Ninno (1999) also suggest that the zero-rating policy has a positive effect on nutrition so although removing this policy would allow revenue to be better targeted on poor households, this strategy may result in other undesired effects.

An important consideration in assessing the impact of removing the zero-rating policy is the net impact on household incomes. In Figure 7.6 the second VAT reform (i.e. combining a luxury VAT rate with the removal of the zero-rating policy) is combined with the comprehensive social security package presented in Table 7.3. Figure 7.6 shows data for the reformed tax and transfer system, and the existing 2008 tax and transfer

system, for households across the income distribution. Households are grouped into deciles according to their equivalised income prior to taxes and transfers. For each policy system the average increase in social assistance per month and the average increase in VAT (assuming consumption patterns remain unchanged) are shown. Whilst there is an increase in VAT payments across the income distribution, the concurrent increase in social assistance payments still results in a substantial net increase in household incomes in the poorest deciles. Thus, discounting any adverse affects on nutrition, it could be argued that removing the zero-rating policy (possibly in combination with a luxury goods tax) could be used as a method of transferring subsidies from wealthy to poor households.

Figure 7.6: Change in social assistance and VAT payments under a reformed tax and transfer scenario compared to the 2008 tax and transfer system



7.5 An end to child poverty? Conclusions from Chapter 7

In considering the extent to which the government has taken steps to support children it is equally important to consider what has not been done as well as the policy changes that have taken place. This chapter has extended the discussion beyond an analysis of what the government has done to support children to consider what they could have done and what could be done in the future.

The analyses in Chapter 6 indicated that expenditure on social assistance has increased in real terms between 2000 and 2008 and there has been small decline in poverty as a result. However, a tax cutting strategy implemented over the same time period has resulted in a considerable reduction in real tax revenue of comparable magnitude to the estimated cost of eradicating poverty in 2008.

Despite this, the issue of tackling poverty through expanded social assistance has received considerable attention on the policy agenda. Extending the range of the Child Support Grant has been a key part of these debates thus indicating that children are identified as a priority group for policy reform. However, these debates have also taken place in the context of the broader goal of providing a comprehensive system of social security. As it has been demonstrated in the empirical analyses that the situation of children is highly dependent upon the type of household they live in, and the presence of household members who are eligible for social assistance, a strategy of comprehensive support is one which is also highly supportive of children.

The idea of a comprehensive system of social security has been much debated in South Africa and still appears to be considered a goal of social assistance reform. Despite this, early proposals for a comprehensive system put forward by the Taylor Committee received only lukewarm government support. A key component of the package was a universal basic income grant which had strong support from civil society but proved to be politically unpopular. Later government proposals maintained the idea of comprehensive social security but provided through targeted rather than universal support.

The reform scenarios tested in this chapter include universal packages as well as targeted social assistance. Whichever route is employed, the costs of reducing the poverty headcount and poverty gap are inevitably substantial. Whilst there may be strong arguments for implementing universal social assistance, it is clear that means tested social assistance is more effective in terms of poverty reduction capacity per Rand spent, discounting any associated administrative costs or other advantages that may be linked to universal schemes. An approximate doubling the existing cost of social assistance (excluding associated administrative costs) would reduce poverty rates to around 10 per cent and provide near universal support through cash transfers to every person below the poverty line.

Possible mechanisms of funding reforms are also investigated. It has been demonstrated that the government could have pursued a less aggressive tax-cutting strategy and this would have potentially led to increases in tax revenue between 2000 and 2008 and hence an increase in the revenue available to fund social assistance. However, given that tax increases may be undesirable or unfeasible, there is still potential to recoup additional revenue from the tax system using the effects of fiscal drag if real wage growth surpasses

inflation in future years. Even within a five year period substantial additional revenue could be raised.

The VAT system has also been suggested as a vehicle to fund expanded social assistance. The analyses here suggest that its potential is more limited than that of direct taxation. However, imposing a luxury VAT rate and removing the zero-rating policy would generate nearly a quarter of the funds required to substantially reduce poverty. Such reforms should be carefully thought through as there may be undesirable effects on nutrition for poor households if the zero-rating policy is removed.

Overall, this chapter has demonstrated that increasing the level of support provided to children is not unrealistic and significant reductions in the child poverty rate could be achieved in the short to medium term.

Chapter 8 – Conclusions and implications for theory and policy

8.1 Introduction

The main focus of this thesis has been to understand the extent to which tax and transfer policies support children in South Africa. A government's tax and transfer policies have a direct impact on the income levels of all households and are thus an important factor in determining the level of resources available to families with children. Whilst historically children have been seen as part of the private domain of the family, and therefore shielded from government intervention, there is growing support for the view that governments should invest in children. This stems in part from arguments that children have a right to a certain standard of living, adequate care and protection and the opportunity to participate in society and also from a growing base of evidence which suggests that it is economically efficient to invest in children.

These justifications for investing in children have been used in the developed and developing world. In South Africa the case for supporting children has largely been argued from a rights perspective and the government has ratified a number of international treaties and conventions, including the United Nations Convention on the Rights of a Child and set out specific rights for children in the Bill of Rights within the South African Constitution. While the links between rights in theory and rights in practice are complex (Prior *et al.*, 1995; Turner, 1993), the concept of children's rights in South Africa has been influential in guiding policy debates and policy reforms and in setting out a vision for the way in which tax and transfer policy should support children.

Although the justifications for supporting children have global relevance, the actual mechanisms used tend to vary between the developing and the developed world. In the developed world a wide range of policies have been used to support children from services through to cash transfers. Such policies may also be specifically targeted towards children, for example investment in primary education or child benefits or more generally targeted towards families, for example tax credits for working families or childcare subsidies. In developing countries policies to support children also incorporate a mixture of cash benefits and services. The main difference between developed and developing countries is that developing countries typically place a heavier reliance on basic service provision (for example in health or education), benefits in-kind and conditional cash transfers. Whilst acknowledging that there are a wide range of policies that can be used to support children, this thesis has focussed specifically on taxes and transfers. It is demonstrated in this thesis that taxes and transfers do have a major influence on household incomes and therefore on the ability of a household to avoid income poverty (however that may be defined).

South Africa is considered to be a particularly good case study for examining the ways in which tax and transfer policies support children. A review of existing research on the situation of children in Chapter 1 indicated that child poverty rates have been high historically and remain so at the time of writing. Other indicators of child-wellbeing, for example in access to services and health, suggest that there is still some way to go to meet the basic standards set out, for example, in the Millennium Development Goals. The empirical analyses in this thesis also provide further evidence that child poverty levels are currently high in South Africa according to a ‘cost of basic needs’ poverty line. Thus, by

international standards, there is a clear need for investment in children to address, amongst other factors, the high levels of income poverty experienced by children. The South African government has also indicated that improving the situation of children is high on the policy agenda and the introduction of a new cash transfer for children (the Child Support Grant) in 1998 represented a major investment towards achieving this goal. In addition, the rights for children set out in the South African Constitution have been shown to be justiciable. It could therefore also be argued that the government is legally obliged to act to improve the situation of children.

Overall, the analyses in this thesis have made a valuable contribution to the study of tax and transfer policy and the extent to which it supports children in a country in which, whilst child poverty is a major concern, there is nevertheless some indication that the government is taking steps to improve the situation of children. The findings are clearly relevant to the development of tax and transfer policy in South Africa; however, this thesis also has broader implications for theory and policy which are discussed below in relation to the main research questions set out in Chapter 1.

As answering the main research question is also dependent on addressing a number of related sub-questions, the following sections of this chapter will consider each of these in turn before synthesising the main conclusions in order to address the main research question: to what extent do taxes and transfers in South Africa support children?

8.2 How can the extent to which tax and transfer policy supports children be measured?

8.2.1 Implications for conceptualising 'support for children'

Understanding the extent to which tax and transfer policies support children raises both conceptual and measurement issues. The approach taken in this thesis is to draw out these issues using the comparative literature on welfare states reviewed in Chapter 2. This literature explores alternative theoretical and analytical approaches to examining the similarities and differences between welfare states and therefore provides a helpful analytical framework for the study of tax and transfer policies in South Africa. Even though the welfare state literature generally relates to the analysis of welfare states in industrialised countries, it is argued that this literature is both applicable and insightful in the South African case.

The literature review in Chapter 2 indicates that an appropriate analytical framework should focus the analyses around four distinct dimensions: welfare ideology; policy aims; policy instruments; and welfare outcomes. Separating the analyses into these distinct dimensions acknowledges the fact that each dimension may give a different impression of the extent to which tax and transfer policy supports children. Whilst this framework has specific relevance to this thesis, it also has a broader conceptual value. By providing a helpful, generalised method of thinking through the different elements that relate to the level of support provided by tax and transfer policies the analytical framework used in this thesis could be transferred to other research projects and would be equally applicable if used to evaluate different types of policies or a different group of individuals.

In terms of the implications of the analytical framework for understanding what is meant by policy support for children (or indeed any age group), this thesis demonstrates that there is value in considering the different components of the package of support for children separately as, although there are linkages between ideology, aims and instruments, each dimension may provide a different answer in relation to the level of support provided to children. In an ideal world there would be clear and explicit links between political ideology, the development of policy aims, the selection of policy instruments and the final resultant impact on welfare outcomes. Such links have, in many cases, been assumed or taken for granted in much of the welfare state literature (Kasza, 2002). To some extent this may be true, but it is not guaranteed, as this study of South Africa illustrates.

The separation of 'support' into four dimensions is naturally debatable, and others may argue for different dimensions to be used. However, in broad terms these four dimensions encompass the main analytical strands of relevance to a consideration of the extent to which tax and transfer policy supports children. First, welfare ideology encompasses broad visions of the sort of society that South Africa aims to become. This vision might be expected to guide the design and development of policy and can give an indication of the likely future trajectory of policy support for children. Second, policy aims are argued to represent more explicit objectives than welfare ideology, although both aims and ideology are strongly orientated towards a future vision of society. Finally, policy instruments and welfare outcomes represent the current tangible aspects of tax and transfer policy. Analysing these two dimensions is critical in order to asses the current design and impact of policies. However, this must also include a consideration of the

direction of policy reforms as the links between welfare ideology, policy aims, policy instruments and welfare outcomes are made more explicit through time-series analyses.

8.2.2 Implications for the empirical measurement of support for children

A key implication of this thesis for theory and empirical analysis is that measuring support for children should consider all policies, not just those directed at children. Underlying any evaluation of the impact of social policies on children is the broad issue of which policies should be included in the analyses and how to ensure that the analyses are relevant to children. In measurement terms, it is difficult to define exactly which policies are targeted at children and which are not. Previous studies have focussed on 'child-targeted' or 'child-contingent' benefits (Bjornberg, 2006; Hodgkin and Newell, 2002; Lynch, 2001), but many authors have found that focussing on a narrow subset of policies in this way provides an incomplete picture of the actual impact of policy on the incomes of households containing children (Corak *et al.*, 2005; Figari *et al.*, 2009).

A distinction must also be made between total household income and the resources within the household that are used for the benefit of children as the two are not necessarily the same thing. Previous research evidence on the way in which income from social grants is used in South Africa is able to provide some insight into the extent of intra-household income pooling. For example, income received from the Old Age Grant has been shown to be beneficial to children (see for example Duflo (2000)). The analyses here cannot provide any indication of the extent to which the transfer of income between different household members happens in practice but two factors are clear: first, some degree of income pooling must occur in the large number of households who rely almost entirely on

social assistance income received on behalf of a child or an elderly member of the household; and, second, income pooling has the potential to significantly reduce poverty rates. In relation to children, the findings from the empirical chapters of the thesis show that child poverty rates can be substantially reduced if children also benefit from cash transfers not explicitly directed towards them. By contrast, the fact that cash transfers directed towards children are, by necessity, often providing income to other individuals within the household lessens the impact that changes in the level of support to children has on the child poverty rate. Thus, there is a complex relationship between the extent of household income pooling and the effect of policies on child poverty. Further qualitative analysis is needed to explore these relationships in greater detail; however, it is recommended that household income pooling is an important factor to take into account in any policy evaluation.

Acknowledging that all tax and transfer policies have the potential to impact upon children has further implications for the method used to analyse welfare outcomes. Methodological approaches that consider aggregate welfare expenditure to compare the amount of support provided to different groups must make decisions about which policies are targeted at which groups. Once it is acknowledged that identifying child-targeted policies is problematic and that a more fruitful approach is to consider all types of tax and transfer policies, aggregate levels of expenditure are no longer helpful in drawing out the differences in the level of support provided to different age groups. The analyses therefore call for a method which is capable of producing output at the household and individual level and microsimulation modelling was therefore selected as an analytical technique that satisfied these requirements. The development of the microsimulation model SAMOD allowed the overall impact of tax and transfer policies on children to be compared with

the impact on other groups without having to distinguish expenditure targeted on children from expenditure targeted on other age groups.

Finally, tax and transfer policies are not static. Many policy evaluations only look at a single point in time and whilst this is valuable it is difficult to fully understand the extent to which tax and transfer policies support children without considering how policies change over time. This is particularly true in the context of fiscal constraints where the trajectory of tax and transfer policy is arguably more important than the actual design of policy at any particular point in time. Comparing the results from Chapter 5 and Chapter 6 illustrates this point. Chapter 5 showed how social grants reduce poverty considerably for the elderly population whilst the Child Support Grant has relatively little impact on child poverty rates. However, considering the reforms to social transfers that have taken place since 2000 indicates that what little change has occurred has mostly resulted in an improvement in the situation of children, whilst social grants aimed at other age groups have done very little to reduce poverty amongst these age groups. Thus, a time-series analysis of tax and transfer policies, which is the approach taken in this thesis, adds further depth and understanding to the extent to which policy supports children.

8.3 How does the level of support for children compare to the level of support provided to other age groups?

This section considers how the level of support for children compares to the level of support provided to other age groups across each one of the analytical dimensions and

compares and contrasts the findings from each dimension in relation to answering this research question.

8.3.1 Welfare ideology

One of the major differentiating factors in support provided to children compared to other age groups is in the distinction between the rights set out for children and those set out for adults within the South African Constitution. This difference is drawn out in Chapter 3 through an analysis of the Constitution using child-inclusive models of social citizenship within an analysis of welfare ideology. The fact that children's rights are not budget constrained within the Constitution, whilst adults' rights are to be realised progressively and subject to available resources, has been taken by a number of authors to imply that children have a first (and more legitimate) claim on state resources and should be prioritised in policy reforms (Berry and Guthrie, 2003; Casseim and Streak, 2002; Goldblatt and Liebenberg, 2004; Guthrie, 2002; Leatt *et al.*, 2005; Liebenberg, 2001; Rosa and Mpokotho, 2004; Seekings, 2002; Sloth-Nielsen, 2001; Streak, 2000; Streak and Wehner, 2004; Triegaardt, 2005b; van Rensburg, 2005).

Analysing the Constitution using the concept of social citizenship highlights that the differences in the concept of children's and adults' rights is in conflict with child-inclusive notions of social citizenship. Child-inclusive notions of social citizenship stress the need to give children the opportunity to participate and to recognise the interconnectedness between children and adults. Whilst there is a strong ideological commitment to children embedded within the Constitution, this is considerably weakened by the lesser commitments both to the involvement of children in the policy-making

process and, of particular relevance for this thesis, the weaker commitments to adults' rights. Whilst the model of social citizenship embodied within the Constitution has the potential to be fully inclusive of children, this has little weight in practice whilst there are no specific goals or timetable for the progressive realisation of adult's rights. Despite this, it is important to note that the Constitution does legitimise redistribution in general and does provide strong support for calls to improve the situation of children in South Africa.

8.3.2 Policy aims

The difference between the ideological commitment to children expressed in the Constitution and the reality of the policy response provides one example of mismatch between the dimensions of welfare ideology and policy aims. Whilst the Constitution does prioritise children, the policy aims of the government expressed in key speeches and policy documents have not indicated that increasing the level of support provided to children has been viewed as a key objective. The early policy documents of the Reconstruction and Development Program cite children as a group requiring priority action; however, addressing the issue of poverty amongst any vulnerable group became a secondary concern in the later strategies of GEAR and ASGISA. Here poverty reduction was viewed as a result of encouraging economic growth, but economic growth was viewed as the primary aim rather than as a parallel activity to poverty reduction. From 2003 there has been some evidence that using policy to support children has become a more central aim of government policy; however, this is seen as a consequence of pursuing an earlier focus on economic growth and fiscal restraint rather than as a fundamental shift in policy towards supporting children.

Thus, policy aims have suggested some level of support for children (as opposed to other age groups) but this has not always been viewed as a priority. The primary focus on economic growth has no specific age-orientation but one of the mechanisms through which this has been pursued is through tax cuts which have provided more support to working age and old age adults than to children. Children are the least likely of all age groups to be living in tax-paying households and benefit least from the system of tax subsidies and tax concessions as these tend to be advantageous to wealthier tax-paying households. In addition, as children are found to be concentrated at the bottom of the income distribution and to have the highest poverty rates of all age groups, any strategies that do not aim to address the issue of poverty (for example, cutting taxes or failing to increase social assistance) cannot be argued to provide support to children.

8.3.3. Policy instruments

Historically, the system of taxes and transfers in South Africa has sought to address the needs and social risks faced by the white population. Under the assumptions of a low risk of unemployment (for the white population) and traditional nuclear families, children were not considered as a group requiring special policy focus. Whilst racial disparities in social security were gradually eroded for the old age population and the disabled, the system of social security in place prior to 1994 was notably lacking in terms of provision for children and low income working age adults. Thus, as an age group, children were already highly disadvantaged prior to any post-1994 reforms.

Whilst support for children has not always been cited as an explicit policy aim, the introduction of the Child Support Grant in 1998 represented a major development.

Coupled with the ideological commitment to children laid out in the Constitution, the Child Support Grant set a precedent for expanding the level of support provided to children over time. Whilst, the introduction of the Child Support Grant did represent a significant policy reform the government has often been criticised for the slow rate at which further expansion of support for children has occurred. For example the income threshold for receipt of the Child Support Grant was not updated for 10 years and it will have taken 14 years for the grant to become available to all children under the age of 18. As discussed above, the slow expansion of the Child Support Grant has taken place in parallel with a number of reforms to income tax policy whereby tax brackets have been increased as have a number of the tax subsidies. Thus, although it could be argued that children have been prioritised amongst the policy reforms directed towards assisting poor households, it is harder to argue that children have been prioritised over other age groups in general. Moreover, the continued absence of income support to low income working age adults has a significant impact on families. Child poverty will remain high whilst unemployment is high, there is limited social assistance for those of working age and the Child Support Grant is not provided at a level sufficient to meet the needs of both children *and* their working age carers.

8.3.4 Welfare outcomes

Analysis of welfare outcomes at the household and individual level provides a picture of the actual incidence of tax and transfer policies and their impact on household incomes. This thesis also shows that household composition, income pooling and private transfers are important additional factors that have a significant impact on the resources available

to different age groups and therefore should be taken into account within any future policy evaluations.

The system of taxes and transfers in South Africa does reduce poverty for all age groups but it has a much larger impact on the old age population than on working age adults and children. The type of household that a child lives in is extremely important in determining the level of resources that the child potentially has access to and this is an example of one problem that may be aggravated by the lack of coherence between children's and adults' rights in the Constitution. There is no evidence that the government takes into account household structures when planning reforms to social grants. Each grant is thought of as being targeted on, and of benefit to, the recipient, but in the context of high rates of poverty it might be expected that there are complex patterns of income sharing between and within households that have a large impact on the coverage and level of support provided by social assistance.

The majority of children live in households with other children and working age adults and the lack of support provided to working age adults impacts heavily on children in the context of high rates of unemployment and the relatively low value of the Child Support Grant. Children are often able to avoid poverty if they live in a household where there is also an older person who is eligible to receive the Old Age Grant. However, as the elderly population is relatively small, the vast majority of children will never be able to benefit from support via the Old Age Grant. In addition, the majority of older people live in households containing children, so the elderly generally live in households in receipt of at least two social grants. Thus, support directed towards children is often also beneficial to

the old age population, whilst support directed towards the elderly does not tend to have significant benefits for children.

The findings from this thesis suggest that household structures should be factored in to any evaluation of policy impacts and more research should be done to understand patterns of income sharing within and between households. To the author's knowledge no other research to date has considered the impact of household income pooling and private transfers on the aggregate poverty rate. The analyses in Chapter 5 show that these decisions can have a significant impact on the poverty rate for all age groups. In particular, the poverty rate for children is substantially reduced if it is assumed that full income pooling takes place within households. Thus, the actions of households can be of equal importance to the impact of government policy in affecting poverty levels but have so far received relatively little research attention.

Finally, these analyses are also unique in their examination of both taxes and transfers in South Africa. To date very little research has considered the South African government's approach to taxation policy as part of discussions around the government's approach to tackling poverty. As decisions regarding taxes and transfers relate to overall budget allocations, and thus a decision to direct spending towards particular age and / or income groups, an evaluation of taxation policy is highly relevant to an analysis of poverty reduction strategies both within South Africa and elsewhere. The analysis of tax policy in South Africa is a significantly greater challenge than the analysis of social assistance due to the complexity of the tax rules and the need for robust and detailed data with respect to different components of income and expenditure. Thus the analyses here make an important contribution to understanding the distributional effects of taxation.

The analysis of the distributional impact of tax subsidies in Chapter 5 is able to show for the first time how the income received by the wealthiest 10 per cent of households from tax subsidies is of comparable size to the income received by the poorest 10 per cent of households from social assistance. Thus, the policy of providing tax subsidies is effectively a cash transfer to the wealthy, and is therefore providing very little support to children as the majority of children live in poor households. Furthermore, even amongst tax-paying households, tax subsidies are of most benefit to the working age and old age population and provide little support to low-income tax-paying households which are more likely to contain children.

Finally this thesis demonstrates that indirect taxes do have a significant impact on poor households. Whilst the zero-rating VAT policy is of some benefit to children in low-income households it also acts to subsidise the consumption of wealthier households and is therefore not an efficient mechanism for targeting resources on children. Therefore, in contrast to social assistance, both direct and indirect taxes are shown to provide little support for children.

8.4 How has the level of support provided to children changed over time?

Conducting the analyses within the different dimensions of welfare ideology, policy aims, policy instruments and welfare outcomes highlights the differences in the way in which the level of support for children has changed over time. The setting out of children's rights in the Constitution provides a fixed long-term vision and a benchmark against which policy reforms can be judged and the government can be challenged. However,

against this background the other dimensions show evidence of greater fluctuation in the extent to which children are supported.

Changes in the level of support for children are most explicitly identified and measured in the analyses in Chapter 6 which focuses on the impact of policy reforms on household income whilst keeping all other factors constant. This approach is helpful in isolating the impact of policy from other factors such as changes in income levels or the employment rate.

The findings are mixed in relation to the extent to which the level of support provided to children by tax and transfer policies has changed over time. Between 2000 and 2008 the absolute reduction in the poverty rate is larger for children than for any other age group. Despite this, children still experience the highest poverty rate of all age groups in 2008 and, at the current rate of decline, it would take more than 20 years for the gap between child and old age poverty rates to be eliminated.

The reduction in the child poverty rate between 2000 and 2008 has largely been driven by reforms to the Child Support Grant. In particular, the extension of the grant to a broader age group and an increase in the income threshold have resulted in a larger number of children becoming eligible for the Child Support Grant and this had led to a decline in the child poverty rate. However, there are two factors which have prevented reforms to the Child Support Grant having a more noticeable impact on the child poverty rate: first, the grant remains at a relatively low level (approximately half the poverty line) and as a main source of income is therefore insufficient to remove a household from poverty; and second, the increased level of support provided by the Child Support Grant has also

benefited other age groups. Even assuming that income is only shared within the immediate family, the Child Support Grant will be supporting many working age people as well as children and this has the effect of lessening the impact of reforms to the grant on the child poverty rate. Thus, the fact that there have been no policy reforms to provide increased support to the working age poor also impacts heavily on children.

It is recommended that any future studies examining the impact of government policy on poor groups in South Africa should aim to take into account tax *and* transfer policy as a focus on social transfers neglects the wide policy priorities that can be exposed through an analysis of taxation policy. In broad terms, the analysis of reforms to social assistance between 2000 and 2008 suggest that the level of support for children has increased to a greater extent than the level of support provided to other age groups. Thus, amongst those living in low income households children have been prioritised. However, an examination of reforms to the tax system between 2000 and 2008 indicate that the burden of taxation on wealthier households has been reduced considerably. In addition, there has also been little attempt to reduce the level of tax subsidies. Combining the changes to both taxes and transfers by looking at the overall impact of all policy reforms on disposable income shows that, whilst there has been an increase in household incomes across the income distribution, cuts in income tax have returned more to high income groups (in absolute terms) than reforms to social assistance have provided to low income groups. This finding suggests that the government could have done more to support the poor. As children are disproportionately concentrated in poor households, this therefore implies that the government could have done more to support children, but has opted not to do so.

The analyses in Chapter 6 could also be complemented with an analysis that takes into account changes in the underlying level of need (for example, changes in child poverty rates that are not related to policy reforms). The historical lack of time-series survey data suitable for a detailed analysis of the impact of tax and transfer policy on household incomes makes such analyses difficult at present. It is envisaged that the new National Income Dynamics Study[85], first released in 2009, will fill this gap and it is recommended that future analyses attempt to examine the effects of both policy reforms and changes in other factors (such as employment levels) on the situation of children in South Africa. Nevertheless the present study is still of substantial value even with its more limited focus on policy rather than demographic change.

8.5 To what extent could the South African government do more to provide support to children?

Few policy evaluations ask 'what if?' questions but these can be extremely valuable in order to contextualise and fully evaluate existing policy systems. In this case it is helpful to understand what the government could have done, as well as to explore possible future reforms to tax and transfer policy.

Chapter 7 explores the costs of ending child poverty and the potential of a number of recently discussed policy reforms to provide better support for children. The policy debates that have taken place within South Africa since the transition to democracy in 1994 have been strongly influenced by the notion of a comprehensive system of social

[85] See http://www.nids.uct.ac.za/home/.

security, for which the right for all to social security set out within the Constitution is considered to have provided the foundations. Thus, although the actual policy reforms have been somewhat detached from the ideological approach to welfare set out in the Constitution, this vision of welfare has still exerted an influence on policy planning and policy debates.

A key factor in many of these policy debates has been the benefits of universal versus targeted schemes and both of these are evaluated in Chapter 7. As it is not possible to evaluate the costs associated with the administration of a particular tax and transfer system – and these will vary according to the design of the system – the analyses in Chapter 7 are partially incomplete. However, excluding administration costs, targeted schemes are shown to be more efficient at reducing poverty for all age groups, as measured by the cost per individual raised above the poverty line. Whilst there may be good arguments for pursuing universal schemes, and all costs and benefits associated with a particular system of social security should be evaluated in detail prior to undertaking policy reforms, the evaluation here indicates that targeted social assistance seems to be the most cost effective route to reduce poverty in the short term and in the context of fiscal constraints.

As South Africa already has in place a system of means tested social assistance, the additional costs of extending this to reach a larger number of individuals may be relatively small. However, this is not to say that administrative costs could not be substantially reduced through implementing a universal social assistance scheme. As around 75 per cent of the population would be eligible for social assistance under the combined reform scenario analysed in Chapter 7 it could be argued that the cost of implementing an income

test is not worthwhile. If such reforms were to be considered it is recommended that ways of reducing the administrative costs should be explored. For example, in some areas of South Africa virtually all of the residents would be eligible for social assistance and so there would be little value in attempting to seek proof of income in these cases.

The cost of implementing a comprehensive system of social security is substantial. It is estimated that an approximate doubling of social assistance payments (leaving aside any additional administrative costs) would reduce overall poverty rates to 11 per cent, child poverty rates to 15 per cent and reduce the poverty gap by around two thirds. However, the analyses in this thesis have shown that these policy reforms are affordable as the cost of implementing comprehensive social security is of comparable size with the reduction in real tax revenue between 2000 and 2008. Thus, it can be concluded that the government could have chosen to allocate more resources towards the reduction of poverty by reducing the size of tax cuts. Indeed, an estimate of the potential of future reforms to VAT and income tax policy to generate the revenue require to fund extended social assistance indicates that a significant amount of additional revenue could be raised over the medium term.

8.6 To what extent do taxes and transfer in South Africa support children? Summary of findings

The findings of this thesis show that taxes and transfers in South Africa do support children to some extent but a lot more could be done. The current system of taxes and transfers is effective at reducing poverty in old age but the impact on the child poverty

rate is less significant. This is in part due to the low value of the Child Support Grant in relation to the Old Age Grant and the poverty line used in the analyses, and in part due to the fact that the majority of children in South Africa live with working age adults who are currently not eligible for social assistance.

This thesis has made key contributions to the empirical and theoretical analysis of the impact of tax and transfer policies on children. Some of these contributions, such as the four-dimensional analytical framework, could be of relevance to other groups and to analyse different types of social policies. The empirical analyses have also demonstrated the importance of household structures and the potential for intra and inter-household income pooling in determining the impact of policy on household income. This is an area in which further research would be highly beneficial.

Comparing the impact of taxes and transfers across the income distribution highlights that both indirect and direct taxes do very little to support children in general, and the income tax system provides subsidies which benefit wealthier households. As the majority of children live in poor households, the decision to use tax policy to increase the incomes of wealthier households indicates that the government could provide more support to children.

Considering the direction of change over time, children do appear to be prioritised in social assistance reforms – i.e. they have been prioritised amongst poor groups – but there is also strong evidence to suggest that the government could have done more to address poverty in general. In particular, the lack of a strategy to address income poverty amongst the working age population has reduced the impact of policy reforms targeted on children.

Thus, a major policy implication arising from this work is the need for future policy reforms to recognise the inter-dependence of children and adults. A strategy to address income poverty amongst parents and carers is necessary in order to fully tackle child poverty.

In addition, it is also recommended that any future analyses of the impact of government policy on poverty should take into account both social assistance and taxation, and that as wide a range of policies as possible should be analysed rather than focussing on policies targeted at particular groups. Considering the impact of social assistance reforms in isolation paints a more favourable picture of the government's efforts to reduce child poverty. When the additional revenue directed towards social assistance is compared to the amount of revenue foregone through pursuing tax cuts, it is clear that child poverty rates in South Africa could now be lower than they are at present. However, the lack of research and analysis of tax policy has meant that the government is not often held to account in relation to taxation policy. SAMOD provides the means to do this and it is hoped that debates on future policy reforms will contain an increased focus on taxation as well as transfers.

8.7 Research following from this study

The ideological commitment to children's rights and the right of all citizens to social security in the Constitution legitimises redistributive policies and also provides a means of holding the government to account and a focus for discussions on policy reform. However, one major difficulty is that it is hard to asses whether the government is doing

enough to meet the commitments made within the Constitution. This thesis does not attempt to make a judgement on that issue but it is clear that, until now, there has been insufficient information about the impact of budget allocations on different age and income groups to inform these debates. The development of the microsimulation model SAMOD represents a major contribution to the provision of a set of tools to enable robust and timely policy evaluation. However, there are other factors which could contribute to the monitoring and evaluation of future policy reforms in relation to the extent to which they support children. The two major areas which should be explored by future research are inter and intra-household income transfers and the development of better quality and more up to date data on incomes and expenditures.

Perhaps one of the most obvious criticisms of this study is that it is not known whether the data used are an accurate representation of incomes and expenditures in South Africa in 2007. As described in Chapter 4, considerable effort has gone into improving the quality of the data and the dataset used represents the best data available at the time of writing. However, microsimulation models rely on having up to date data, and the 2007 dataset created for this study will become increasingly less relevant to policy evaluation in future years. The ability to undertake studies similar to the analyses carried out for this thesis is therefore heavily reliant upon the collection of suitable data at a national level, and at frequent time intervals, and the regular updating of SAMOD.

The need for such data has long been recognised in South Africa and 2008 saw the first wave of a new longitudinal household survey – the National Income Dynamics Study. This survey has the specific intention of providing data to track changes in poverty, income and spending patterns over time and will provide a valuable source of data for

SAMOD in the coming years. In 2009 a project was commissioned to update the SAMOD dataset using the National Income Dynamics Study and it is hoped that the process of updating and improving the dataset and the model itself will become embedded into the research culture and will help to encourage the use of SAMOD in future policy evaluations.

This study has focussed on children, but there are also strong arguments for analysing the position of other historically disadvantaged groups, for example, women or the black African population. As in the analysis of the position of children, the citizenship rights set out within the South African Constitution provides a precedent for the expected direction of policy change towards improving and equalising the situation of disadvantaged groups in South Africa. The analysis of the position of different groups is outside of the scope of this thesis but the analytical approach could be successfully applied in future studies focussing on other disadvantaged groups.

Finally, this study has contributed significantly to the ongoing debates on policy reform in South Africa. It has not attempted to address the question of what the government should do or whether it has done enough, rather it has sought to generate a clear evidence base upon which the extent to which taxes and transfers support children can be assessed. The findings here, the general approach, and the development of SAMOD itself provide both robust empirical evidence and a methodological approach that is of relevance to policy analysis and debates both at present and in the future. However, it should be noted that there are some areas which require further research should the findings reported here be used in designing future policy reforms. In particular, greater knowledge about the potential for inter and intra-household income transfers to reduce aggregate poverty levels

and a thorough analysis of *all* the costs and benefits of a particular system of taxes and transfers are two key areas in which further work is needed.

Appendix A – Taxes and transfers in South Africa, 2008

Child Support Grant

The Child Support Grant is a flat rate means tested benefit paid monthly to the primary care-giver of a child who is under the age of 14 years. The primary care-giver is defined as "a person older than 16 years, whether or not related to a child who takes primary responsibility for meeting the daily care needs of that child" (Republic of South Africa, 2004:3). Thus, the primary care-giver may not, in all cases, be a biological parent of the child even if a biological parent resides in the same household. There is no limit on the number of biological children that a person can claim the grant for; however, a maximum of six grants can be claimed for children who are neither legally adopted nor biological children.

Aside from the means test, there are a number of other conditions that must be satisfied: the care-giver must not receive remuneration for the child concerned; the child and the care-giver must be South African citizens or permanent residents; the child must have a valid birth certificate; the care-giver must have a valid identity document; and the applicant must provide proof of income and proof of primary care-giver status. Finally, there are a number of conditions that a recipient of the grant must comply with in order to continue to receive the grant: the applicant must continue to be the primary care-giver of the child concerned; the child must be fed and clothed, must receive immunisation and other health services and must have accommodation; the grant must be used for the benefit of the child; and the South African Social Security Agency must have reasonable access to the child.

An applicant satisfying the eligibility criteria for the Child Support Grant with an income below R25,200 per annum (R50,400 for a married couple) receives a monthly payment of R210 (as at December 2008) for each eligible child.

Foster Child Grant

The Foster Child Grant is a flat rate monthly benefit paid to the carer of a foster child. A foster parent is eligible for a Foster Child Grant if they care for a foster child who is placed under their custody in terms of the Child Care Act no. 74 of 1983 (Republic of South Africa, 1983). There is no means test for the foster parent or the child. Normally, the grant is paid until the end of the year in which the child turns 18; however, in certain cases the Foster Child Grant can be paid until the end of the year in which the child reaches the age of 21 if the child is completing full-time education or training. Similar to the Child Support Grant, the 2004 Social Assistance Act (Republic of South Africa, 2004) also specifies that a Foster Child Grant recipient must satisfy further conditions in order to continue to claim the grant. These conditions are that: the foster child must remain in the custody of the foster parent; the foster child must attend school regularly; the child must have adequate accommodation, be properly fed and clothed and receive medical and dental care; an official authorised in terms of the Child Care Act (no. 74 of 1983) must be allowed access to the child; and the grant must be used for the benefit of the child. The benefit paid to recipients of the Foster Child Grant is R650 per month as at December 2008.

Care Dependency Grant

The Care Dependency Grant is a flat rate grant paid to the primary care-giver, parent or foster parent of a child who requires permanent care due to a severe mental or physical disability. The Care Dependency Grant is paid until the child reaches the age of 18 (at which point the child may be eligible to claim a Disability Grant). For the Care Dependency Grant the income of the applicant (and their spouse) is subject to a means test. The benefit paid to recipients of the Care Dependency Grant was R940 per month as at December 2008.

As for the Child Support Grant and the Foster Child Grant, continuation of the Care Dependency Grant is dependent upon the carer of the child satisfying a number of additional conditions. The additional conditions for the Care Dependency Grant are that: the child must remain in the care of the recipient of the grant; the child must have accommodation and be fed and clothed; authorised persons may be allowed reasonable access to the child; the child must not be cared for in a state institution; the child must receive treatment as recommended by a medical practitioner unless such treatment is considered life threatening; and, the child must be evaluated by an education authority for attendance at a specialised school at the age of six years (Republic of South Africa, 2004).

Old Age Grant

The Old Age Grant is a means tested grant paid to women aged 60 and over and men aged 65 and over[86]. Further eligibility conditions for the Old Age Grant are: that the individual is not already receiving another grant; that they are not cared for in a state institution; that the beneficiary is a South African citizen or permanent resident; and, that they have a

[86] The 2008 budget announced that the minimum age of eligibility for the Old Age Grant would be set at 60 for men and women by 2010.

valid identification document and can provide proof of income and marital status. The grant is paid to individuals who have an income less than R26,928 per annum (or R53,856 for married couples).

For all eligible individuals the Old Age Grant is paid according to a formula which takes into account the existing income of the applicant. The amount of grant paid ranged from R100 to R940 per month in December 2008.

Disability Grant

The Disability Grant is provided for a disabled person on reaching the age of 18 until the person becomes eligible for an Old Age Grant. The disability must be such that it prevents the individual from entering the labour market and must be confirmed by a medical report from a medical officer. Further conditions related to the Disability Grant are that the recipient does not refuse to accept employment which is within their capabilities and which can generate income and that the recipient does not refuse to undergo medical treatment. The income test and the amount of the grant are the same as for the Old Age Grant.

Grant-In-Aid

Grant-In-Aid is a top up to the Old Age Grant or the Disability Grant for persons receiving those grants who, because of their physical or medical condition, require full time care. The grant is paid at a flat rate of R210 per month.

Unemployment Insurance Fund

There is currently no social assistance (except for the temporary assistance provided through food parcels or short-term cash benefits) available for a working-age individual

who does not meet the eligibility criteria for any of the social grants already described. The Unemployment Insurance Fund provides unemployment, illness, maternity, adoption and death benefits to certain categories of formal sector workers. All employees in the formal sector (excluding public servants) who work more than 24 hours per month must contribute 1 per cent of their salary to the UIF. A further 1 per cent is provided by the employer (Republic of South Africa, 2003).

The amount of benefit that can be claimed is related to the time period over which contributions have been made; one day of benefit can be claimed for 6 days of contribution (up to a maximum of 238 days benefit). The value of benefits is calculated using a formula and is related to previous income, as of December 2008 the maximum benefit that can be earned is R4,742 per month for those with incomes greater than or equal to R12,478 per month.

Personal income tax

Personal income tax liability in South Africa is calculated for income and capital accounts, the taxable income on the income account plus the taxable income on the capital account gives the overall tax liability to which the income tax rates in Table A.1 are applied:

Table A.1: Income tax schedule in 2007/2008

Income exceeds R	Income does not exceed R	Rate of Tax
0	112,500	18%
112,500	180,000	25%
180,000	250,000	30%
250,000	350,000	35%
350,000	450,000	38%
450,000	-	40%

The basic formula for calculating an individual's tax liability is as follows:

Gross income from world-wide sources (e.g remuneration, interest, dividends, royalties, rental income, annuities, farming income, income from controlled foreign companies, any fringe benefits arising from being an employee or holding of an office that are provided at a cost below their actual cost) for the individual and any minor children

Less – *untaxed capital receipts or accruals*
Less – *exemptions* (income that is tax-free)
Less – *deductions* (expenditure on certain items by the individual or an employer that is deducted from the tax liability)

= taxable income on income account

Plus - *taxable income on capital account*

= total taxable income

The tax payable is then calculated by applying the tax rate to the total taxable income and subtracting personal rebates and any amount paid as foreign income taxes.

For the year 2007/08 the personal rebate is R7,740, an additional rebate of R4,680 is available to those aged over 65.

Various sources of income are not included when calculating gross income that is subject to taxation on the individual's income account. Some of the main exemptions are detailed below:

- Dividend income: All domestic dividend income (with minor exceptions).

- Interest income: Income derived from interest and certain foreign dividends (up to R18,000 under 65 and R26,000 over 65).

- Alimony and maintenance: Income received from alimony, allowances or maintenance payments following divorce (provided the divorce occurred after 1962).

- Annuities: Capital element of an annuity policy

- Educational bursaries and scholarships

- Lump-sum benefits from funds: A certain proportion of lump-sum benefits from approved pension, provident and retirement annuity funds (up to the greater of R120,00 or R4,500 multiplied by number of year of service – currently under review). Different limits apply for early withdrawal, winding up of a fund and death in service.

- Employer contributions to UIF and pension funds: Contributions made *by an employer* to the Unemployment Insurance Fund (UIF) or a pension or provident fund

are considered to be ‘for the benefit of the employee’ but are not considered as taxable benefits.

- Unemployment benefits: Any benefits or allowances payable under the Unemployment Insurance Act (i.e. benefits attained as a result of making contributions to the UIF.

- Farming income: Any state subsidies used for farming operations.

- Lump-sum payments from employers: A certain proportion of lump-sum benefits received from an employer on resignation, retirement or redundancy if the individual is over 55, was made redundant (under certain conditions) or retired due to ill health (currently R30,000 is tax free but this is under review).

- Pensions: A disability pension paid under the Social Assistance Act (1992), compensation paid under the Workmen’s Compensation Act (1941), compensation paid under the Compensation for Occupational Injuries and Diseases Act (1993) or war pensions.

After calculating gross income certain types of expenditure may be deducted from the total thereby reducing the individual’s taxable income. These include:

- Medical costs: Medical, dental and physical disability expenses (including contributions to medical schemes):
    - Over 65 and handicapped persons, no limit

- Under 65, R530 for the individual each month, R1,060 for the individual and one dependent plus R320 for each additional dependent
- Any other non-deductible medical expenses that are not paid for by a medical scheme that exceed 7.5 per cent of taxable income may be deducted

Note: where the employer contributes to a medical scheme on behalf of an employee it is deemed to be the employee's own contribution. The implication being that if an employer contributes more than the total amount that may be deducted then the employee must pay tax on the difference between the employer's contribution and the maximum deduction.

- Pension funds: A proportion of contributions to pension funds (if contributions are made because the individual is an employee) are tax deductible, the maximum deduction allowed is the greater of R1,750 or 7.5 per cent of the remuneration derived from 'retirement-finding employment'.

- Retirement annuity funds: Contributions to a retirement annuity fund up to a certain maximum may be deducted. The maximum deduction allowed is the greatest of: 15 per cent of taxable income other than from retirement-funding employment after deduction of other deductions but not those related to retirement fund annuities; R3,500 less deduction for current contributions made to a pension fund; or, R1,750.

- Interest: Any expenditure incurred to earn taxable income from interest (for example, interest paid on a bank overdraft taken out to invest in order to earn a higher rate of interest).

- Letting property: Income from letting property is not tax deductible; however, any non-capital expenditure required to earn income from letting property is tax deductible (for example, cost of drawing up tenancy agreements).

- Donations: Donations made to a Public Benefit Organisation are tax deductible up to 10 per cent of taxable income. There is an annual exemption for any type of donation made of R10,000.

- Costs associated with farming: Some costs associated with farming are tax deductible, the rules are fairly complex but the main deductions are related to differences between the value of stock at the beginning and end of the tax year and costs associated with making certain improvements to facilities.

- Travelling allowances: Self-employed professionals are allowed to deduct costs associated with travelling which are incurred to produce income that is not of a capital nature. These can be calculated using a schedule of rates per km dependent upon the value of the vehicle.

Value-added tax

VAT is levied on most goods sold at a rate of 14 per cent. Certain goods are VAT exempt. These include some goods used for agricultural purposes and certain basic foodstuffs. Revenue from VAT on goods and services was around R114 million in 2005/2006[87].

[87] Budget 2007/08, Estimates of National Revenue, National Treasury: available from: www.sars.gov.za/

Customs and excise duties

Customs and excise duties can be applied at an add valorem rate or at a fixed price per unit of the good (fixed price duties are generally applied to alcohol and tobacco products). The total tax burden (excise duties + VAT) on alcohol varies between 20-40 per cent and is around 52 per cent for tobacco.

Fuel levies

Fuel levies include a general fuel levy, a customs and excise levy and a Road Accident Fund levy. The current (2008) total levy is R166.5 per litre of petrol and R150.5 per litre of diesel. Fuel levies accounted for around R20 million of government revenue in 2005/066.

Appendix B - Sensitivity of the results to measures of price inflation

A key factor in all of the analyses presented in Chapter 6 is the method used to compare policy systems in different years. As it is necessary to consider, for example, how the amount paid per month for the Child Support Grant varies between 2000 and 2004, a method must be adopted to compare a nominal monetary amount in two different time periods. As discussed in Section 4.6.4, this is often done by comparing what can be bought with a specific monetary amount in each time period. The real value of a grant can then be calculated by adjusting for differences in the cost of living in each time period. Whilst this is simple enough, the choice of measure used to compare monetary values in different time periods is of crucial importance. The prices of different goods change at different rates and each household makes different consumption decisions. Prices also vary by area and according to the type of retail outlet used. For example, the local market or small local shop in a rural area may have very differing price changes from the urban supermarket. Because of these factors the actual rate of price inflation faced by each household will vary considerably and will therefore have an impact on the level of welfare that each household experiences and whether or not each household is able to meet the basic costs of living.

One way of accounting for such differences is to adjust the poverty line based on the changes in the price of a specific basket of goods considered necessary to satisfy a basic standard of living. Rather than trying to adjust for changes in the individual consumption patterns of households this approach focuses on the change in the cost of meeting a pre-defined minimally acceptable standard (Statistics South Africa, 2007c; Woolard and Leibbrandt, 2006). This approach can be very helpful in updating poverty thresholds over

time; however, it is not possible to use this type of method in these analyses for two reasons. First, if only the poverty line is adjusted then it is necessary to know actual amounts of income from each income source in each year. For example, to measure poverty in 2004 it would be necessary to know the nominal income of each person in 2004 as well as the 2004 poverty threshold. As only the 2007 income amounts are known in the data used here it would not be possible to use an adjusted poverty line. Second, this method would allow changes in poverty measures to be compared over time but would not allow other factors such as changes in the value of a social grant and changes in income tax policy to be evaluated. Again, this means that an adjusted-poverty-line approach is not suitable for these analyses.

An alternative method is to use a series of price inflation factors to account for the differences in price inflation faced by different types of households. This may, for example, by done by applying different price inflation factors to households in urban and rural areas or by level of household expenditure. Oosthuizen (2007) has carried out a study of how the price changes faced by households vary across the income distribution. He finds that the weights used to calculate the total country consumer price index (as used in the analyses here) do not accurately reflect the spending patterns of consumers across the majority of the income distribution. In fact they do not even represent the spending patterns of an average household being more akin to those of a household in the top 5 per cent of the expenditure distribution. Despite this Oosthuizen does find that neither rich nor poor households have experienced rates of inflation consistently higher than normal in the long term. However, short term changes in prices can have a significant effect on poor households. Price changes in the cost of certain items were found to be particularly significant for poor households; these included staple food items, water, rent, paraffin and

electricity. However, rather than attempting to adjust the consumer price index to take this into account Oosthuizen advocates that government subsidies should be used to help keep the prices of these commodities stable in times of high inflation.

Statistics South Africa publishes a consumer price index figure for each expenditure quintile for a weighted list of typical household consumption items which excludes interest rates on mortgage bonds. Thus, this index can be used to roughly estimate how the cost of living changes over time for rich and poor households. Rather than attempt to construct a price inflation figure specific to each household, which would be very time consuming, the analysis of the impact of social transfers on the poverty rate (Figure 6.6 and 6.7) is repeated after applying the consumer price index applicable to the lowest expenditure quintile. The lowest expenditure quintile price index is chosen as (Statistics South Africa, 2004, 2008a) this group is of most interest when considering changes in poverty measures.

Table B.1 shows the consumer price index figures used for the total country (including interest rates on mortgage bonds) which have been used in the analyses throughout this chapter and the consumer prices indices for typical household consumption items (excluding interest on mortgage bonds) for the lowest expenditure quintile. There is actually little variation in the consumer price index for the low expenditure group and the whole country. The cost of living for the low expenditure group is estimated to be marginally lower in 2000 and 2004 and marginally higher in 2008.

Table B.1: Consumer Price Indices – total country compared with lowest expenditure quintile

Year	CPI for total country (including interest on mortgage bonds) (2000=1)	CPI for lowest income quintile (excluding interest on mortgage bonds)
2000	1	0.93
2004	1.26	1.24
2008	1.66	1.67

Although the changes in the consumer price indices are small it is worth considering the impact these have on the findings in this chapter. As an example, the analysis of the impact of poverty on social grants is repeated using the low expenditure consumer price indices to compare policies at different time points. To do this it is also necessary to alter the poverty line as this has also been updated from 2000 and 2007 values using the consumer price index. The poverty line is therefore adjusted using the index for the lowest expenditure quintile, this results in a new poverty line of R509 per month (compared to the poverty line of R462 which has been used in the analyses thus far).

Figures B.1 and B.2 repeat the analyses in Figures 6.6 and 6.7. The results from Figures 6.6 and 6.7 are included in the right panel of the charts to aid comparison with the results after using the new consumer price indices for the low expenditure group. Overall there is very little difference in the impact that each social grant has on the poverty rate under each scenario. The major difference is that the poverty reduction between 2000 and 2004 caused by the Old Age Grant is lessened due to the increase in the poverty line. The fact that there is generally little difference in the results is encouraging as it suggests that the results are not especially sensitive to the choice of index used to compare monetary values

in different years and are therefore unlikely to be biased towards low or income expenditure groups.

Figure B.1: Impact of 2004 policy reforms for each grant on the poverty rate between 2000 and 2004 for different CPI measures

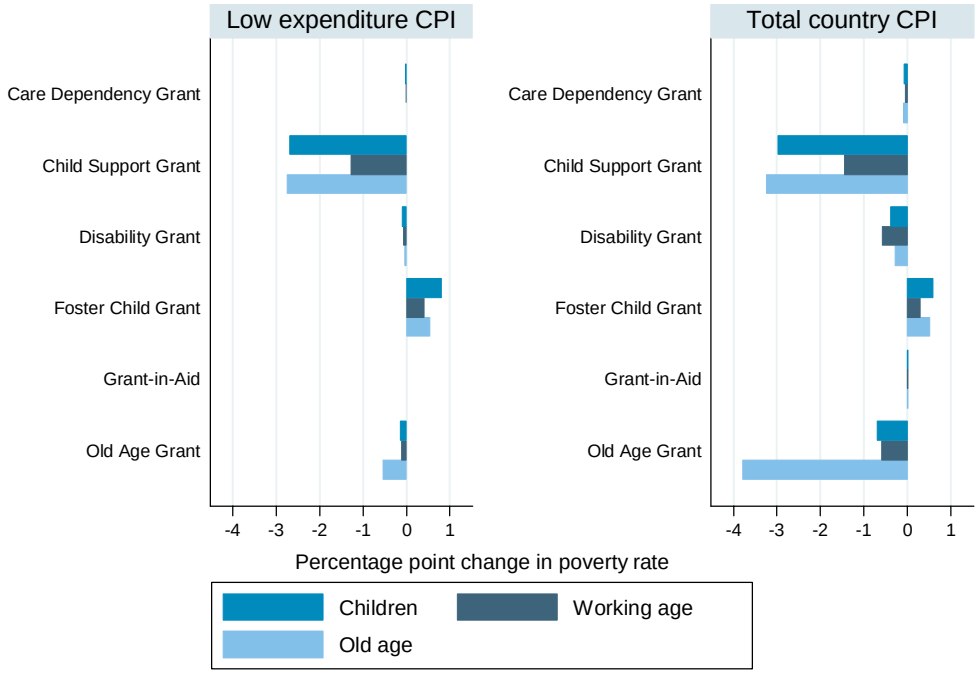
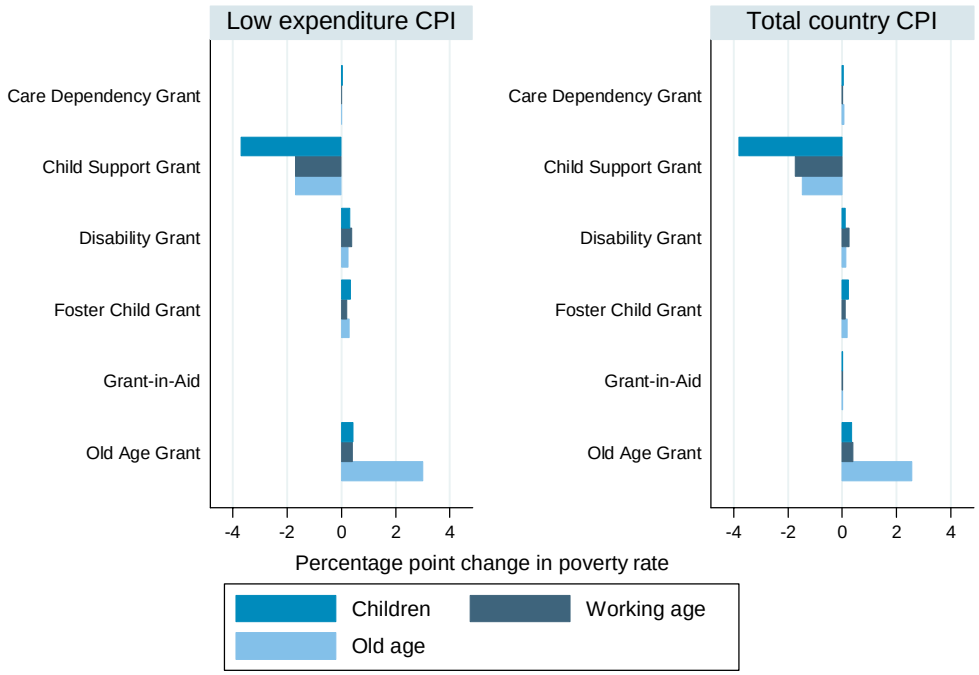


Figure B.2: Impact of 2008 policy reforms for each grant on the poverty rate between 2004 and 2008



Appendix C – Relationship between the work undertaken for this thesis and wider CASASP research projects

In 2007 the Centre for the Analysis of the South African Social Policy (CASASP) at the Department of Social Policy and Social Work at the University of Oxford was commissioned to build a microsimulation model for South Africa, which could be used by analysts in the National Government Department of Social Development in the Republic of South Africa. This two-year project was funded by the UK Department for International Development Southern Africa as part of its Strengthening Analytical Capacity for Evidence-based Decision-making programme (SACED). The project ran from 1st April 2007 to 31st March 2009 and the project outputs, including: the working microsimulation model (SAMOD); a user guide; and a training programme, were completed in March 2009.

The microsimulation project team included: Michael Noble (Director of CASASP) as principal investigator; Gemma Wright (Deputy-Director of CASASP); and myself (Research Fellow in CASASP). The project also involved a number of external consultants: Holly Sutherland (University of Essex), Martin Evans (University of Oxford), Ingrid Woolard (University of Cape Town) and Charles Meth (in a personal capacity). SAMOD is jointly owned by the University of Oxford, the Department of Social Development of the Government of the Republic of South Africa and the University of Essex. SAMOD was developed using the EUROMOD framework (based on Version D17 of EUROMOD). The author and all other members of the SAMOD team are grateful to Professor Sutherland and her team at the University of Essex for granting

access to EUROMOD and allowing it to be modified to build SAMOD, and for their help and support during the project.

I was the principal researcher on the project and conducted the vast majority of the work involved in constructing the microsimulation model. Whilst the entire project team contributed to the main SACED-funded project, all of the analyses conducted for this thesis are my own work.

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