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Special COVID-19 grants not only provided income relief – they also improved labour market outcomes

The Social Relief of Distress (SRD) grant was the first in South Africa to target unemployed adults. Its main aim was to provide income support in a time of the crisis precipitated by the COVID-19 pandemic and lockdown. But for the first time, new research has shown that it also played a key role in improving labour market outcomes for recipients.

Titled "Can Cash Transfers to the Unemployed Support Economic Activity? Evidence from South Africa", the research was conducted by Professor Haroon Bhorat, Timothy Köhler and David de Villiers in the Development Policy Research Unit (DPRU) based in the School of Economics at the University of Cape Town (UCT).

The authors discussed how, although South Africa has a relatively far-reaching and progressive social grants system, prior to the pandemic there was a dearth of support to the working-aged unemployed population. This is despite the persistence of extreme, structural unemployment in the country. In this light, the government's introduction of the SRD grant – targeted at the unemployed – played an important role in addressing this hole in the country's safety net. The grant quickly provided income support to millions of vulnerable, previously unreached individuals.

Köhler, a junior research fellow at the DPRU and PhD candidate in UCT's School of Economics, shared that while the grant's primary aim was to provide income support, it is plausible that it also played a role in aiding the recovery of the labour market. "Anti-poverty programmes and economic recovery policy need not be mutually exclusive," he said.

Until now, there has been no causal evidence on the effects of the grant on any outcome. There's a reason for this, said Köhler. "Without a randomised control trial, establishing a causal effect is difficult. Simply comparing outcomes between grant recipients and non-recipients and attributing any difference to grant receipt is not a credible way of conducting causal inference, primarily because recipients and non-recipients differ in many ways other than just receipt". As such, these differences in characteristics themselves may explain any difference in outcomes between recipients and non-recipients, rather than receipt itself.

In their new paper, the authors overcome this problem by using one of the most popular causal inference methods used by quantitative social scientists. By doing so, they used a "natural experiment" to estimate what would have happened to SRD grant recipients had the

SRD not been introduced, and then compared actual outcomes to these "counterfactuals" to arrive at the causal effects of the grant during 2020 and the beginning of 2021.

Despite the relatively small size of the SRD, they found that the grant had notable, albeit small, labour market effects. Their modelling showed that receipt of the grant increased the probability of employment by just under three percentage points. President Cyril Ramaphosa cited this key finding in his weekly newsletter. "These results make it clear that receipt of the grant did not deter participation in the labour market, but instead enabled it, which is contrary to what many believe," Köhler said. They also found that these employment effects were driven by effects on wage employment (that is, working for someone for pay) in the formal sector.

"Notably, these positive effects took place in the context of the pandemic and lockdown regulations in 2020 and 2021. Effects very well may be larger in the 'non-lockdown' environment, however further work first needs to be done to confirm this," he noted.

The authors also analysed how these effects vary by how long an individual has received the grant. "Examining effect dynamics allowed us to understand whether the grant is seen as a temporary or more permanent change in income," he said. They found that employment effects were larger when individuals first received the grant, but steadily reduce to zero with additional periods of receipt. This is suggestive of stronger labour market effects of the grant in the short-term.

The research also considered outcomes other than finding a job. The authors found smaller but positive effects on the probability of trying to start a business, but no evidence of an effect on engaging in job search. "Coupled with the employment effect, this lack of an effect on job search does not imply that it increased chances of finding work without looking for it," Köhler noted. "Instead, the grant may have affected job search behaviour on the intensive margin (for instance, how one looks for work) which we are analysing in ongoing work."

It can thus be said that the grant served a multipurpose role in both providing income relief as well as enabling a path towards jobs, despite not being explicitly designed to do so. The authors argued that "while other factors such as broader macroeconomic effects and fiscal sustainability also need to be considered, our results suggested that grants may be one avenue to improving the functioning of the South African labour market, possibly in combination with other more traditional active labour market policy interventions."

The research was supported by the Agence Française de Développement, the Presidency of South Africa, and the European Union Delegation in South Africa as part of a project which sought to measure the externalities of the government's stimulus policies.

Note: This media release is based on a summary version of the research paper on Econ3x3.

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