What has happened to inequality and poverty in post-apartheid South Africa

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Vice Chancellor
University of Cape Town
Examine trends post-apartheid (since 1994)

- Income inequality
  - Overall, by race, by gender
- Poverty
  - Overall, by race, by gender
- Composition of income and impact of social grants
- Trends in social spending and welfare
  - Impact on Asset distribution
  - Impact on health and education

Some explanations for trends
Some options for the future
Shares of Total Income By Decile

## Income Gini Coefficients

<table>
<thead>
<tr>
<th></th>
<th>1993</th>
<th>2000</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>African</td>
<td>0.54</td>
<td>0.60</td>
<td>0.62</td>
</tr>
<tr>
<td>Coloured</td>
<td>0.44</td>
<td>0.53</td>
<td>0.54</td>
</tr>
<tr>
<td>Asian/Indian</td>
<td>0.47</td>
<td>0.51</td>
<td>0.61</td>
</tr>
<tr>
<td>White</td>
<td>0.43</td>
<td>0.47</td>
<td>0.50</td>
</tr>
<tr>
<td>Overall</td>
<td>0.66</td>
<td>0.68</td>
<td>0.70</td>
</tr>
</tbody>
</table>

Employment Shares by Gender

56% of all new jobs filled by women

Real Monthly Average Earnings by Gender

Racial and gender breakdown of those in the top earnings decile, 1995 and 2007

Income Inequality

• Real GDP growth 1994 to 2009 = 3.5%pa = 68%
• Income inequality increased – one of highest Gini Coeff in the world
• Increase is mainly intra-racial
• Inter-racial inequality reduced - considerable fall in the share of Whites among top earners
• Gender inequality reduced
  – More women in employment (but more unemployed)
  – Average earnings of women increased relative to men
  – Percent of women in top earnings decile increased from 20% in 1995 to 33% in 2007
### Poverty Indices for a line of R515 per month (US $4 per day)

<table>
<thead>
<tr>
<th>Year</th>
<th>P₀</th>
<th>P₁</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td>0.56</td>
<td>0.32</td>
</tr>
<tr>
<td>2000</td>
<td>0.54</td>
<td>0.29</td>
</tr>
<tr>
<td>2008</td>
<td>0.54</td>
<td>0.28</td>
</tr>
</tbody>
</table>

Foster-Greer-Thorbecke (FGT) poverty indices:

- P₀ – the poverty headcount ratio
- P₁ - the mean poverty gap

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Composition of Household Income

Composition of Household Income - 1993

Source: SALDRU 1993 PSLSD data. Own calculations.
Unemployment

Increased inequality d/t relative access to jobs and increase in salaries for scarce skills

Economic growth not been jobless but less than increase in those in labour force

1995 to 2007:

- 3.1 million increase in jobs
- But: 3.6 million increase in those who want employment but who are unemployed.
- Although women’s share of employment has risen, women have also been more vulnerable to unemployment than men.
Composition of Household Income - 1993

Source: SALDRU 1993 PSLSD data. Own calculations.
Composition of Household Income - 2008

Source: 2008 NIDS data. Own calculations.
Growth of Per Capita Social Spending

Source: South African National Treasury and Statistics South Africa. Own Calculations.
Expansion of Grants to Children

Source: South African Social Security Agency SOCPEN data.
## Main Government Grants

<table>
<thead>
<tr>
<th>Grant Type</th>
<th>2010 value in Rands (and PPP$) per month</th>
<th>Value as a % of median monthly per capita income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Old Age Pension</td>
<td>R1080 (PPP$230)</td>
<td>175</td>
</tr>
<tr>
<td>Disability Grant</td>
<td>R1080 (PPP$230)</td>
<td>175</td>
</tr>
<tr>
<td>Child Support Grant</td>
<td>R250 (PPP$53)</td>
<td>40</td>
</tr>
<tr>
<td>Foster Care Grant</td>
<td>R710 (PPP$150)</td>
<td>115</td>
</tr>
</tbody>
</table>

Composition of Household Income - 2008

Source: 2008 NIDS data. Own calculations.
Lorenz Curves 2008

Source: 2008 NIDS data. Own calculations.
## Gini Coefficients With and Without Grant Income

<table>
<thead>
<tr>
<th></th>
<th>1995</th>
<th>2005</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>With grants</td>
<td>Without grants</td>
<td>Difference</td>
</tr>
<tr>
<td>African</td>
<td>0.56</td>
<td>0.59</td>
<td>0.03</td>
</tr>
<tr>
<td>Coloured</td>
<td>0.49</td>
<td>0.52</td>
<td>0.03</td>
</tr>
<tr>
<td>Asian/Indian</td>
<td>0.46</td>
<td>0.47</td>
<td>0.01</td>
</tr>
<tr>
<td>White</td>
<td>0.44</td>
<td>0.44</td>
<td>0.00</td>
</tr>
<tr>
<td>Overall</td>
<td>0.64</td>
<td>0.66</td>
<td>0.02</td>
</tr>
</tbody>
</table>

### Poverty Including and Excluding Grants

<table>
<thead>
<tr>
<th>Year</th>
<th>Including grants</th>
<th>Excluding grants</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>P(0)</td>
<td>P(1)</td>
</tr>
<tr>
<td>1993</td>
<td>0.56</td>
<td>0.32</td>
</tr>
<tr>
<td>2000</td>
<td>0.54</td>
<td>0.29</td>
</tr>
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Distributions Including and Excluding Grants, 2008

Poverty Line: PPP$121/month

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• Some options for the future
Access to Public Assets and Services

Average Years of Education by Expenditure Decile

2009 Enrolment Rates by Age

Child Mortality Trends

HIV Prevalence in Children Under 15

Concentration Curves for Total Social Spending

Source: van der Berg (2009).
## Concentration Ratios

<table>
<thead>
<tr>
<th>Service</th>
<th>2000</th>
<th>2006</th>
<th>Pro poor?</th>
</tr>
</thead>
<tbody>
<tr>
<td>School education</td>
<td>-0.121</td>
<td>-0.128</td>
<td>✓</td>
</tr>
<tr>
<td>Tertiary education</td>
<td>0.528</td>
<td>0.641</td>
<td>✗</td>
</tr>
<tr>
<td>All social grants</td>
<td>-0.371</td>
<td>-0.359</td>
<td>✓</td>
</tr>
<tr>
<td>- Child support</td>
<td>-0.247</td>
<td>-0.318</td>
<td>✓</td>
</tr>
<tr>
<td>- Disability</td>
<td>-0.291</td>
<td>-0.288</td>
<td>✓</td>
</tr>
<tr>
<td>- Old-age pension</td>
<td>-0.412</td>
<td>-0.436</td>
<td>✓</td>
</tr>
<tr>
<td>Health</td>
<td>-0.118</td>
<td>-0.137</td>
<td>✓</td>
</tr>
<tr>
<td>- Public clinics</td>
<td>-0.177</td>
<td>-0.257</td>
<td>✓</td>
</tr>
<tr>
<td>- Public hospitals</td>
<td>-0.105</td>
<td>-0.103</td>
<td>✓</td>
</tr>
<tr>
<td>Housing</td>
<td>0.160</td>
<td>0.070</td>
<td>✓</td>
</tr>
<tr>
<td>Total across services</td>
<td>-0.112</td>
<td>-0.152</td>
<td>✓</td>
</tr>
</tbody>
</table>

Source: van der Berg (2009).
Kernel Densities of Asset Indices

Summary re Inequality

- Analysis of ‘Asset’ inequality tells a different story from income inequality. Income Gini has worsened, asset Gini coeffs improved
- No attempts yet to put a value on assets so cannot calculate social wage and therefore impact on poverty levels – but highlights danger of ignoring
- Question: why decreasing asset inequality has not been translated into decreased income inequality?
  - Most should have increased productivity
  - Yet very low returns to improvements in absolute and relative investment in assets
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- Some explanations for trends
- Some options for the future
Reasons for persistent poverty and inequality

Multi-causal, debated, beyond this paper. Some e.g.

• Opening economy, global competition and slow restructuring of industry
• Strong labour movement, unions in government, high wages (esp. public sector, sets benchmark)
• V. progressive labour legislation – perhaps country not ready (hire and fire)
• Strong affirmative action policy – impact on wages and productivity
• Corruption in public and private sectors
Reasons for persistent poverty and inequality

• Low skills, poor education system – low productivity

• Health – AIDS and TB, productivity and turnover
Educational Attainment of 25-59 Year Olds by Birth Cohort

Kernel Densities of Literacy and Numeracy Scores – Grade 8 to 12

South Africa’s HDI Indices

Source: United Nations Human Development Reports.

Global HDI rank
1990: 59th
2010: 110th
CONCLUSIONS 1

• Income inequality rose, especially within race, reduced between whites and others
• Income inequality between men and women reduced
• Nature of inequality changing dramatically – due to social grants
• Headcount poverty slightly decreased, while mean poverty gap substantially reduced
• Asset inequality improved – reflecting pro-poor social spending
• Risk!!! Fiscal sustainability of grants and social spending
CONCLUSIONS 2

Desperate debates: Nationalisation debate! Wealth tax! Land grabs!

• Key problem is human resources capability
  – Health
  – NB Education – fix schooling
  – Post-school system
  – But … long term

• Public works and state investment in economy

• Uncompetitive wages in relation to productivity
  – Do social grants aggravate this?
  – Youth wage subsidy?
  – Clothing sector deal
  – Conditional grants (e.g. Brazil) may not be possible
UCT-LSE partnership

Challenges are there – come help us address them