Inequality matters:
South African trends and interventions

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The dynamics of inequality in South Africa have evinced various trends since the advent of democracy. While income inequality between the races may have somewhat declined, this is not necessarily the case with regard to the income gap among various social strata within the population as a whole. Rising income inequality is not unique to South Africa; it finds expression in most OECD countries, and even in countries such as China, where poverty has been reduced. Yet Brazil seems to have succeeded in the past few years to buck the trend. What are reasons behind these global trends, and what are the lessons that South Africa can draw from these experiences?

The burden of inequality falls inordinately on the poor and the marginalised. Yet, as Wilkinson and Pickett (2010) demonstrate in their book, *The Spirit Level: Why Equality is Better for Everyone*, inequality has a negative impact even on the rich. Social inequality affects such issues as violent crime, educational performance and even teenage pregnancies among both the rich and the poor. It also affects the magnitude and quality of economic growth. It is therefore in the interests of all sectors of society that inequality is addressed.

In trying to identify holistic approaches to do so, it is necessary to look beyond income inequality and interrogate indicators such as assets, access to services and opportunity, and social capital. These indicators articulate with one another in virtuous or adverse ways, depending on the effectiveness or otherwise of the interventions applied. How does South Africa fare in this regard?

Measures required to deal with inequality include the absorption of more people into economic activity, quality education, efficient public services, progressive taxation and appropriate spatial settlement patterns. While economic growth is critical to dealing with inequality, such growth should be pro-poor, and pro-poor economic and social interventions should be pro-growth.

It is appropriate that public policy should target both the reduction of poverty and inequality, proceeding from the understanding that the reduction of poverty may not necessarily result in the reduction of inequality.

SOUTH AFRICA: DISTILLING 19 YEARS' EXPERIENCE

Since 1995, real economic growth in South Africa has averaged just over 3 percent per year. In this period, about 3.4 million net new jobs were created. During the phase of rapid economic growth from 2003 to 2008, "the number of jobs created started to outstrip the growth in the labour force. The official unemployment rate – which peaked at 31.2 percent in March 2003 – dropped to 23 percent in 2007, despite the fact that the economic upturn had encouraged more people to look for work" (NPC, 2011: 14). Since the advent of the global economic downturn, the unemployment rate has ticked to just above 25 percent. Between 1996 and 2011, growth in per capita income was roughly 1.16 percent per annum (extrapolated from StatsSA, 2012b).

All things being equal, South Africans have got richer in real terms over 15 years. But the functional distribution of national income – i.e. how such income is shared among various strata in society – is critical for understanding trends in any society. In the words of David Ricardo, it is the fundamental question of political economy.

Justin Visagie (2013b) finds that 79.6 percent of the population received income of less than R1 400 per person per month in 1993 (after tax in 2008 prices) and that this income group had declined to 75.9 percent of the population by 2008. Those earning between R1 400 and R10 000 had increased from 19.3 percent of the population to 21.3 percent, while the proportion of the population earning above R10 000 had increased from 1.1 percent to 2.8 percent.

It is when we examine the share of total income among these groups that the stark trends in income inequality come out in bold relief. The income share of those earning over R10 000 increased from 17 percent to 32 percent, while that of the rest decreased from 83 percent to 68 percent (Visagie, 2013b).

Disaggregated in racial terms, the number of Africans earning above R10 000 grew by over 10 times, from 19 000 to 257 000, while their share of the "middle class" (between R1 400 and R10 000) increased by some 2.4 times to become the majority in this segment. Whites earning above R10 000 doubled to about 888 000 (Visagie, 2013a).

What messages do these and related data communicate?

First, *income poverty has been declining* since the advent of democracy. Poverty headcount (at R524 per person per month) decreased from 53 percent of the population in 1995 to 49 percent in 2008. This is a consequence both of larger numbers of employed people and access to social grants, the take-up of which has increased from 2.4 million in 1996 to 15.5 million in 2012 (Presidency, 2011and 2012).

Second, *functional distribution of national income has worsened*. The share of national income of the richest has grown massively. Today, just over 50 percent of national income goes to the richest 10 percent of households, "while the poorest 40 percent received just over 5 percent of income" (Presidency, 2012).

Third, *the change in the share of national income has not favoured the "middle class"*. Despite the fact that their proportion of the population increased by some two percentage points, their share declined from 56 percent in 1993 to 47 percent in 2007 (Visagie, 2013b). The per capita expenditure "growth incidence curve" has a U-shape, reflecting the impact of social grants among the poorest sections of society and greater share of income among the highest earners.

Fourth, according to StatsSA's *Labour Market Dynamics in South Africa (2012a), being employed does not, on its own, guarantee an escape from poverty*. The bottom 5 percent of those employed earned about R600 per month and half earned R3 033 or less, while the top 5 percent earned R21 666 per month. As with rates of employment, these figures show a bias against low educational attainment, rural location and women.

Fifth, *these trends account for high levels of income inequality* in South African society. The Gini co-efficient has been hovering in the mid-to-high 0.60s over the past 20 years. By this measure, South Africa is currently placed at the second-highest level of income inequality in the world.

Sixth, using AMPS data, *the inequality measures show a declining trend between races, while it has shown a rising trend within races*. Further, even between race groups, inequality "has tended to increase during the... period of high economic growth. In other words, after the base changes with the elimination of apartheid, it seems that those historically well off, in terms of income and assets, have taken better advantage of the benefits of growth" (Presidency, 2008: 102).

Seventh, inequality in South Africa's labour market is *aggravated by skills shortages,* which add a premium to salaries while the oversupply of unskilled workers pushes wages down at the lower end (Van der Berg, 2013).

GLOBAL TRENDS

Rising income inequality is not unique to South Africa. The International Labour Organisation summarises these trends thus:

> During much of the past century, a stable labour income share was accepted as a natural corollary or "stylised fact" of economic growth. As industrialised countries became more prosperous, the total incomes both of workers and of capital owners grew at almost exactly the same rate, and the division of national income between labour and capital therefore remained constant over a long period of time, with only minor fluctuations... An outpouring of literature has provided consistent new empirical evidence indicating that recent decades have seen a downward trend for the labour share in a majority of countries for which data are available. (ILO, 2012: Part II 4)

This trend has been much in evidence in most of the developed countries. The Gini co-efficient among members of the Organisation for Economic Co-operation and Development (OECD) has increased on average from 0.28 in the mid-1980s to 0.31 by the late 2000s (OECD, 2011). This "trickle-up effect" is illustrated by the relative magnitude of executive pay. In 1998, the chief executive pay of FTSE 100 companies "was 47 times that of average employees... but had risen to 120 times by 2010" (Groom, 2011).

Combined with these trends are also issues of gender, age and location. A 2012 ITUC report called "Frozen in time: Gender pay gap unchanged for 10 years", found that "worldwide, women are paid 18 percent on average less than their male counterparts at work". Commenting on the worldwide "youth unemployment bomb", Peter Coy (2011) writes:

> [A]n economy that can't generate enough jobs to absorb its young people has created a lost generation of the disaffected, unemployed, or underemployed... While the details differ from one nation to the next, the common element is failure – not just of young people to find a place in society, but of society itself to harness the energy, intelligence, and enthusiasm of the next generation.

EXPLANATORY HYPOTHESES

A number of hypotheses have been proffered to explain these trends. Each has an element of truth, but none alone would clarify the issues:

- globalisation and trade manufacturing shifted to low-wage countries
- union density: as inequality worsens, worker organisation declines
- skills-biased technological change
- global financialisation
- "superstars" in economic competition are richly rewarded.

Paul Krugman (2002) fells some of these hypotheses:

> [A]s more evidence has accumulated, each of the hypotheses has seemed increasingly inadequate. Globalisation can explain part of the relative decline in blue-collar wages, but it can't explain the 2 500 percent rise in CEO incomes. Technology may explain why the salary premium associated with a college education has risen, but it's hard to match up with the huge increase in inequality among the college-educated, with little progress for many, but gigantic gains at the top. The superstar theory works for Jay Leno, but not for the thousands of people who have become awesomely rich without going on TV...

[I]t's a matter of corporate culture. For a generation after World War II, fear of outrage kept executive salaries in check. Now the outrage is gone. That is, the explosion of executive pay represents a social change rather than the purely economic forces of supply and demand. We should think of it not as a market trend, like the rising value of waterfront property, but as something more like the sexual revolution of the 1960s – a relaxation of old strictures, a new permissiveness, but in this case the permissiveness is financial rather than sexual.

Another hypothesis, one not unrelated to union density, should be added to the mix. The growing permissiveness of inequality coincided with the weakening and collapse of the Soviet Union and other 'socialist' countries that, at least at the level of social policy, pursued a more equitable sharing of the benefits of economic activity. Whatever their other weaknesses, competition between them and the market-based economies served as a restraining influence on profligacy. Related to this, the political left in the advanced countries, including social democratic parties, lost their focus on social equity and their organisational power and appeal as a counter-balance to the rapacious licence of unbridled market economics.

LESSONS FROM THREE COUNTRIES

The experiences of three countries reflect instructive nuances, one of which is surprisingly and helpfully counter-intuitive.

CHINA: Poverty reduction and rising inequality

Among the major global advances of the past 30 years has been the lifting of some 200 million people from abject poverty in China. However, this has been accompanied by growing inequality, with the Gini co-efficient having risen from near zero to 0.474 in 2012. Last year, it was estimated at 0.61, which would place China at the top end of income inequality across the globe. The government has introduced an income distribution plan to lift more people from poverty, including ratcheting-up the minimum wage to 40 percent of average salaries (Rabinovitch, 2014).

GERMANY: Low unemployment and rising inequality

Germany's low unemployment rate is the envy of most of its OECD peers. The *jobwunder* is a product of its youth training programmes and labour market flexibility designed to absorb as many of the unemployed as possible. However, this obscures another reality: the country "now has the highest proportion of low-wage workers relative to the national median income in Western Europe" (Posen, 2013). Temporary workers have increased almost threefold in the past 10 years. At the same time, real monthly wages remained flat, while productivity increased by about 22.6 percent (ILO, 2012: 46). Income inequality has been ticking up, and it's little wonder that a minimum wage was a central issue in the 2013 elections.

BRAZIL: The counter-intuition

Unlike most countries, Brazil has managed to reduce income inequality from an estimated Gini co-efficient above 0.60 in the early 1990s to the mid 0.50s by the late 2000s. In the 2000s, the income of the poorest 20 percent increased at about 6.3 percent per year, while that of the richest 20 percent increased by only 1.7 percent. By comparison: China increased 8.5 percent and 15 percent respectively; India had 1 percent and 2.8 percent; and South Africa, 5.8 percent and 7.6 percent (Vieira, 2011).

In Brazil, a combination of factors played a central role, including the expansion of job opportunities and the introduction of a minimum wage, expanded access to social grants, regional economic interventions and increased consumption demand. Whether such interventions are sustainable over a long period of time is subject to debate, given the economic and social difficulties that Brazil is currently experiencing. Or are other factors responsible for those difficulties: creaking infrastructure, heightened expectations, corruption, and such specific issues as fiscal allocations for transport and education?

DOES INEQUALITY MATTER?

Common sense has it that inequality is bad for social cohesion. Extreme inequality is morally reprehensible. But it goes far beyond issues of taste, sensibility and morality.

Wilkinson and Pickett (2010) demonstrate the impact of inequality on various measures of human development and wellbeing. They find that drug use, mental illness, life expectancy, educational attainment, teenage births, violence and prison population are worse in countries with higher levels of income inequality – even in instances where these countries are at the same level of development. They come to the startling conclusion that:

> the relationships between inequality and poor health and social problems are too strong to be attributable to chance; they occur independently in both our test-beds; those between inequality and both violence and health have been demonstrated a large number of times in quite different settings, using data from different sources. (Wilkinson and Pickett, 2010: 190)

Moreover, they showed

> that it was people at almost all income levels, not just the poor, who do worse in more unequal societies. Even when you compare groups of people with the same income, you find that those in more unequal societies do worse than those on the same income in more equal societies. (ibid: 192)

Beyond social indicators, inequality can constrain economic growth:

> many of even the poorest countries have succeeded in initiating growth at high rates for few years. What is rarer… is the ability to sustain growth. The question then becomes: what determines the length of growth spells, and what is the role of income inequality in duration? We find that longer growth spells are robustly associated with more equality in the income distribution. (Berg and Ostry, 2011: 3)

The World Bank (Perry et al, 2006) similarly asserts the correlation between poverty and economic growth, arguing that Latin America's pedestrian average economic growth may be a consequence of high levels of poverty. Among other reasons, this is because poor people have limited access to financial services, attend low-quality schools, and are more risk averse. Inversely, the poor have a high propensity to consume, which has many positive spin-offs for various sectors of the economy. They suggest that a 10-percent increase in income poverty lowers the growth rate by about one percent in an average country and "reduces investment by 6 to 8 percent of gross domestic product (GDP) in countries with underdeveloped financial systems".

South Africa's macrosocial indicators – such as violent crime, poor educational performance, teenage pregnancies, low levels of social trust and the large prison population per capita – do correspond with trends in the more unequal societies, particularly Latin America. Before venturing into the panoply of policies and programmes, let us briefly examine other manifestations of inequality – not income-related – in South Africa's experience over the past 19 years.

INEQUALITY AND THE SOCIAL WAGE

[W]e have to recognise that deprivation with which we have reason to be concerned is not just the absolute lowness of income, but various "unfreedoms", varying from hunger and prevalence of preventable or curable illness (and even premature mortality) to social exclusion ... Income is but one determining influence among many others in dealing with deprivation. (Amartya Sen, "Endemic insecurity and deprivation", 2002)

Indeed, poverty and inequality cannot be measured merely by income. Thus, any interrogation of inequality should also assess the provision of a "social wage", which addresses, in the words of Sen, the various "unfreedoms" that the poor experience. How does South Africa fare in this?

To begin with income redistribution: besides progressive taxation, the government has massively expanded access to social grants. The process of racial equalisation has meant that state expenditure on social grants has hovered around 3.4 percent of GDP, which has ensured the sustainability of the expenditure. Combined with inflation-based increases and the fact that the categories of beneficiaries have now reached saturation, this should be sustainable going forward.

Assistance to the poorest households has included reprioritisation of educational expenditure, such as the introduction of no-fee-paying schools, now at 60 percent of public schools; local-level indigence programmes that include a basic minimum of water and electricity free of charge, and free access to public health facilities (for households with income of less than R50 000 per annum), to which will be added a form of national health "insurance" in the medium-term.

Besides these interventions, the following improvements have been made to community assets:

- the number of households in formal dwellings has increased from 64 percent in 1996 to 77.7 percent in 2012, with some 3.4 million subsidised houses built since 1995/6
- access to potable water ("RDP standard": a pipe within 500 metres of dwellings) has improved from around 65 percent in 1995/6 to 95.5 percent
- provision of sanitation has improved from about 52 percent of households having such access in 1995/6 to 83.4 percent in 2012

- access to electricity has increased from around 52 percent to 76.5 percent in the same period (these administrative data record a lower figure than Census 2011) (Presidency, 2011 and 2012).

The redistribution of land has been a major failure in this period, with just over one-tenth of the 2009 target of 30 percent redistribution of agricultural land having been achieved by 2012. In addition are such outstanding issues as transferring legal title to new and old housing stock in poor areas, as well as the woeful quality of health services, education infrastructure and teaching, and the intermittent flow of water in many disadvantaged communities.

Overall, though, there have been discernible improvements in non-income welfare since 1994. Pro-poor service provision has resulted in a decline in non-income poverty as well as in non-income inequality (Bhorat et al, 2006). That study shows that the Gini co-efficient based on the asset index declined from 0.32 in 1993 to 0.24 in 2004. However, with regard to housing, for instance, one must take account of the fact that the wealth effect during years of high growth tended to favour the well-off.

A COMBINATION OF INTERVENTIONS

The dynamics outlined above, which are manifest in South Africa and other parts of the world, already suggest the variety of interventions required to deal with inequality. A few are listed below, as indications of the combination of measures that would start to address the challenge.

Economic growth. Addressing inequality does not suggest an equal sharing of poverty. It needs to be tackled with high rates of sustainable economic growth, but the issue is what kind of growth, and how the benefits are shared while improving productivity. As the World Bank study referred to above argues, it is possible to achieve pro-poor growth and pro-growth poverty reduction. This should entail a focus on economic sectors in which a country has comparative advantages, but with emphasis on labour-intensive sectors that are able to absorb the mass of the unemployed in the short- to medium-term. There may be instances where short-term pro-growth policies have a negative impact on the poor – in such cases, there should be direct assistance to the poor and SMMEs. Fiscal measures such as a youth employment incentive and business set-asides for youth and women can help launch the marginalised into meaningful economic activity.

Education and skills training. These are among the most effective measures to tackle inequality. However, as the global phenomenon of youth marginalisation shows, such interventions should be combined with other policies to ensure economic growth and the opening of economic opportunities. Improving quality in the areas of most need – among the poor – should be emphasised. (Ironically, the current poor performance and disruptions conspire to reproduce poverty and marginalisation in South Africa.) This should be combined with vocational guidance and improved formal and informal networks (social capital), which are critical for accessing opportunities. This will help break the cycle in which the poor experience lower, late and uncertain returns on education.

Employee stock ownership plans. Attention should be given to the weighting of this element in the context of the broad-based black economic empowerment programme (BBBEE). Many of the complications can be addressed through appropriate representation in decision-making structures, financial education, and the building of trust between workers and their representatives and between these and the company boards and executives. This should also be considered in a more systematic way in relation to communities where enterprises in sectors such as mining and farming are located.

Incomes policy and minimum wage. Given that one of the critical drivers of inequality across the globe is the "trickle-up effect" of executive remuneration, this issue has to be addressed, whether either through appropriate regulations or taxation or both, in a manner that does not undermine incentivisation for management performance. With regard to taxation, the legitimacy of the state – informed by its efficiency and ethical conduct – is critical. A national wage policy should seek to regulate the gaps between ordinary workers and the middle strata on the one hand, and the senior executives on the other. It should include a liveable minimum wage, as distinct from the current sectoral wage determinations. While there may be instances where mass absorption of the marginalised may dictate lower entry thresholds, such interventions should be temporary. Research has shown that reasonable increases to the minimum wage do not necessarily lead to job losses but that compliance in vulnerable sectors is often poor (Bhorat and Mayet, 2013). Policy should seek to progressively minimise atypical work and the introduction of a minimum wage should be combined with requisite monitoring capacity to obviate breaches.

Reducing the cost of living of the poor. The issue of the cost of living is fundamentally important. The inflation rate experienced by workers and the poor is often much higher and more volatile than that of the rich. This applies to such basic needs as food, transport and administered prices (e.g. electricity, water, municipal rates, education and healthcare) on which the poor spend the bulk of their income. Many of these elements can be managed through appropriate interventions such as volume-based sliding-scale pricing and adjusting the floor of free services. While complex, the issue of food pricing can be tackled through value chain management, taxation, incentives, household food production and other measures. Changing the spatial settlement patterns is also fundamental to reducing the cost of transport for the poor.

Social wage. Added to these measures should be the panoply of social wage interventions identified above, with the necessary quality and efficiency.

Public discourse. South African society should also raise its level of policy and political discourse, and ensure that it takes place around matters of substance rather than a huckster's paradise where obfuscation – whether thinly veiled attempts to defend the status quo or shadow-boxing with leftist slogans – confounds the real issues. The maladies that attach to the conduct of politics, such as reliance on the state for rapid personal accumulation, cannot be divorced from the reality of income inequality. Combined with this is the level of indebtedness of the new elites as they seek to emulate the lifestyles of the established white economic elite – without the benefit of their historical assets. The "fear of falling" in a highly unequal society generates conduct that can imperil the polity overall.

At the same time, template-based economic responses to the global economic crisis (especially in developed countries), which ignore the impact of these policies on working people, demand a coherent articulation of alternatives. The role of the media in this is also quite critical.

Social compact. Finally, dealing with inequality is a responsibility of the political leadership through public policy, but it is a task that requires the involvement of all sectors of society. Government, business, labour and civil society all need leaders with the strategic acumen to identify the common interest and forge a social compact for mutually beneficial economic programmes and humane social relations.

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