

CONFRONTING INEQUALITY

FORTHCOMING IFAA CONFERENCE, THURSDAY,
28 SEPTEMBER 2017, JOHANNESBURG

“We know from historical experience that if inequality is not addressed through peaceful means and peaceful democratic institutions it’s always potentially a source of violence.” Thomas Piketty

It is not often that Christine Lagarde, managing director of the IMF, complains about being ignored. Yet she did so in strong terms at the World Economic Forum in Davos. Lagarde lamented on the fierce backlash she received from leading economists when she first warned about the possible political consequences of rising inequality four years previously. She went on to suggest that what is required for economic stability and prosperity will probably include more redistribution. Since then, the World Bank has joined the chorus about rising global inequality. A major report on South Africa titled *Fiscal Distribution in an Unequal Society* raises the question “How do taxes and spending redistribute between rich and poor?” It concludes that “the level of inequality in South Africa after taxes and spending remains unacceptably high (World Bank, 2014).”

Thomas Piketty addressed these issues more directly than we are accustomed to in a Nelson Mandela Annual lecture in Johannesburg on 3 October 2015. Piketty noted, “...the share of total income to the top 10% of income earners in South Africa is between 60% and 65% of total income.”



**wealth is much more
unequally distributed
than incomes: 10 % of
the population own
at least 90-95% of all
wealth.**

This is higher than in the United States. He went on to suggest that South Africa has a relatively large group, around 10%, which is very far away from the rest of the population. He was less clear on wealth since data is vague, but he supported an annual tax on wealth at least in part to determine more about who owns what in South Africa (UJ, 2015).

Fortunately, Anna Orthofer, a macroeconomics PhD candidate at Stellenbosch University, has recently done a detailed study of wealth distribution in South Africa. Orthofer found that wealth is much more unequally distributed than incomes: 10% of the population own at least 90-95% of all wealth. This compares with 75% in the US, 50% in France, 59% in Germany (Orthofer, 2016). Inequality is thus a worldwide problem but is particularly acute in South Africa. What is also striking about the South African case is that the wealthy elite is extraordinarily rich in the context of substantial

poverty. This disparity may also be more extensive than official data indicates.

IFAA will be hosting a conference “Confronting Inequality” in September 2017 that will focus on this but we hasten to say our conference will not lead to the simplistic solution of “tax the rich.” Rather, we intend to address the fact that research on incomes and wealth has been badly neglected. The conference” aims to address this gap.

THE STATISTICAL PICTURE

StatsSA have been invited to the conference to make a presentation on the broad outlines of income and wealth inequality in South Africa. Analysis of non-material inequality is more difficult but we shall endeavour to cover this contentious area. Moreover, the data available does not seem to reflect the huge disparities in lifestyles, especially the extraordinary opulence in some exclusive suburbs in our cities and the taste for luxury goods we find there. The statistics also do not reflect the many undisclosed and unanalysed benefits that the rich enjoy which are seldom considered in our public discourse, or by researchers. Yet the material signs of extensive wealth, including in holiday towns, second homes and other instances, is impossible to ignore.

Evidence of significant incomes and wealth is also to be found in company reports on remuneration for top executives. This is generally given as fixed remuneration and separately for variable remuneration, with the

latter much larger than conventional salaries. The issue of bonuses and share allocations which dwarf ordinary salaries is an area that also needs more attention.

CURRENT STUDIES ON INEQUALITY.

As mentioned above, there has been a great deal of research and analysis of inequality in South Africa. The conference will be able to assess the significance of available research and perhaps come to some conclusions on whether it is providing appropriate tools for understanding inequality. However, much of its focus has been on the scale of poverty and its alleviation with an extraordinary reticence on confronting wealth and the mechanisms of wealth creation.

The Sunday Times has gone some way to make up for this deficiency by publishing The Rich List which reveals the huge incomes and wealth accumulation at the top of our society. The 2016 edition showed that the top ten earners received R292 million in salaries but R339 million in bonuses, totalling R631 million in 2015. Interestingly the next decile received R453 million in salaries and bonuses showing that benefits lower down the list are still substantial.

To emphasise, one of the central objectives of this conference is to stimulate conversation and research on incomes and wealth in the upper tiers of our society. We also need to understand how income and wealth are related. It is evident by spending patterns that considerable sums of finance are available to some people that are not reported or are obtained in ways that our tax systems and other reporting systems do not capture.

Inequality distorts our society and has potentially devastating consequences for social and political stability. The paucity of data and analysis of the local wealthy elite

hampers the development of appropriate policies to confront inequality in a manner beyond the palliatives proposed in current research.

DIMENSIONS OF INEQUALITY

Although the focus of the conference is on wealth, presentations will be made on inequality in employment, in job opportunities, and in business, in residential arrangements, health provision, education and other factors affecting wellbeing. It is our aim to present a balanced all round picture of inequality as it applies to real people. We will also consider how and why these inequalities remain racially defined.



the top ten earners received R292 million in salaries but R339 million in bonuses, totalling R631 million in 2015.

Employment Equity

In terms of racial composition, South Africa's workforce continues to reflect patterns of old at both lower and upper levels. About 40% of male African workers are temporarily employed and an equal percentage permanently employed. Of female African workers almost three times more are temporary than are permanent. Of male white workers, three times more are permanent than temporary. Of female white workers, 2 times as many are permanent as are temporary. Of unskilled male workers, 51% are African and 2.9% white. In top management,

only 9.9% are male African and 56.2% male white. Only 4.5% of top management are African females and 12.6% are white. Of female workers, 4.5% in top management are African and 12.6% are white.

Health Inequality

75.5% of Africans and more than half of coloured people rely on the public health sector – about 74% of the total population. In contrast, 83.4% of whites and 65.5% of Indians have access to the well-resourced private health sector (van Rensburg, 2014).

The HIV crisis and its devastating impact on our communities has been well documented. Yet extending quality healthcare in general to all South Africans in the post-apartheid era has proved to be incredibly difficult. For example, a survey of children's weight and height – key indicators of nutritional health – maintains that there has been very little improvement in the 20 years since the transition to democracy. One in four children is stunted and the rate of chronic malnutrition remains at 20% or above. There can be no doubt that this effects the poor in a disproportionate way (Farber, 2017).

Wealth inequality

We have already emphasised the paucity of data on wealth. But what is known about the racial distribution of wealth in South Africa?

In relative terms, black households only hold about 1% of the wealth held by white households. This adds up to a racial gap of R1 063 230. Further estimates of household median wealth suggest that for every 1 rand held by a typical black household a white household will hold R84.80. (Mbewe and Woolard, 2016)

The Growth-Redistribution Debate

When it comes to considering >>



We are perhaps the country most at risk of inequality-induced social instability and conflict.

solutions to our inequality problem, it is impossible to avoid reference to the longstanding debate about growth and redistribution. This sometimes takes the form of supply side versus demand side economics. We do not expect the conference to resolve these debates. However, we believe that it is necessary to accept that current mechanisms of welfare grants and public spending are not doing enough to confront inequality in our economy. Other more ambitious solutions may be needed to resolve the structural constraints that continue to frustrate inclusive development. Understanding how wealth is accumulated, its size and distribution, is a necessary first step.

CAN ANYTHING BE DONE?

This leads us to the question: can South Africa afford to continue with the present inequalities for another decade or more? The issues raised by Piketty and Lagarde above resonate strongly among many in our country today. We are perhaps the country most at risk of inequality-induced social instability and conflict. Deprivation has sparked many service delivery protests and the general population is aware of the pressing need to achieve substantive economic transformation. The latter seems to be frustrated by the current political turmoil and associated policy stasis in the state.

It is our hope that the conference will provide greater clarity about the



distribution of our national wealth in all its forms and give us a much better understanding of why only so few benefit from it, as well as the ways in which they do and why. Raising the level of discussion from descriptions of inequality to palliative measures to confronting it could, we believe, lead to a shift in how all stakeholders see inequality and what should be done to address it.

REFERENCES

Farber, T. 2017. Years of social grants fail to uplift stunted children. Sunday Times. Available: <https://www.pressreader.com/south-africa/sunday-times/20170423/281754154205464>

Orthofer, A. 2016. Wealth inequality in South Africa: evidence from survey and tax data. REDI 3*3 Working Paper 15. Cape Town: SALDRU

Samson, M., Woolard, I. 2016. Cross-sectional Features of Wealth Inequality in South Africa: Evidence from the National Income Dynamics Study. SALDRU Working Paper 2016/185. Cape Town: SALDRU

UJ, 2015. UJ students intermingle with world renowned Thomas Piketty at conferral of honorary degree. University of Johannesburg. Available: <https://www.uj.ac.za/newandevents/Pages/UJ-students-intermingle-with-world-renowned-Thomas-Piketty-at-conferral-of-honorary-degree.aspx>

Van Rensburg, H. 2014. South Africa's protracted struggle for equal distribution and equitable access – still not there. Human Resources for Health. Available: <https://human-resources-health.biomedcentral.com/articles/10.1186/1478-4491-12-26>

World Bank. 2014. South Africa economic update: fiscal policy and redistribution in an unequal society. South Africa economic update; issue no. 6. Washington, DC: World Bank Group. <http://documents.worldbank.org/curated/en/933231468101334970/South-Africa-economic-update-fiscal-policy-and-redistribution-in-an-unequal-society>

“CONFRONTING INEQUALITY” CONFERENCE

Thursday 28 September 2017

Sandton Holiday Inn, Johannesburg

Please RSVP to newagenda01@gmail.com