

Income inequality in South Africa: Nature and prospects

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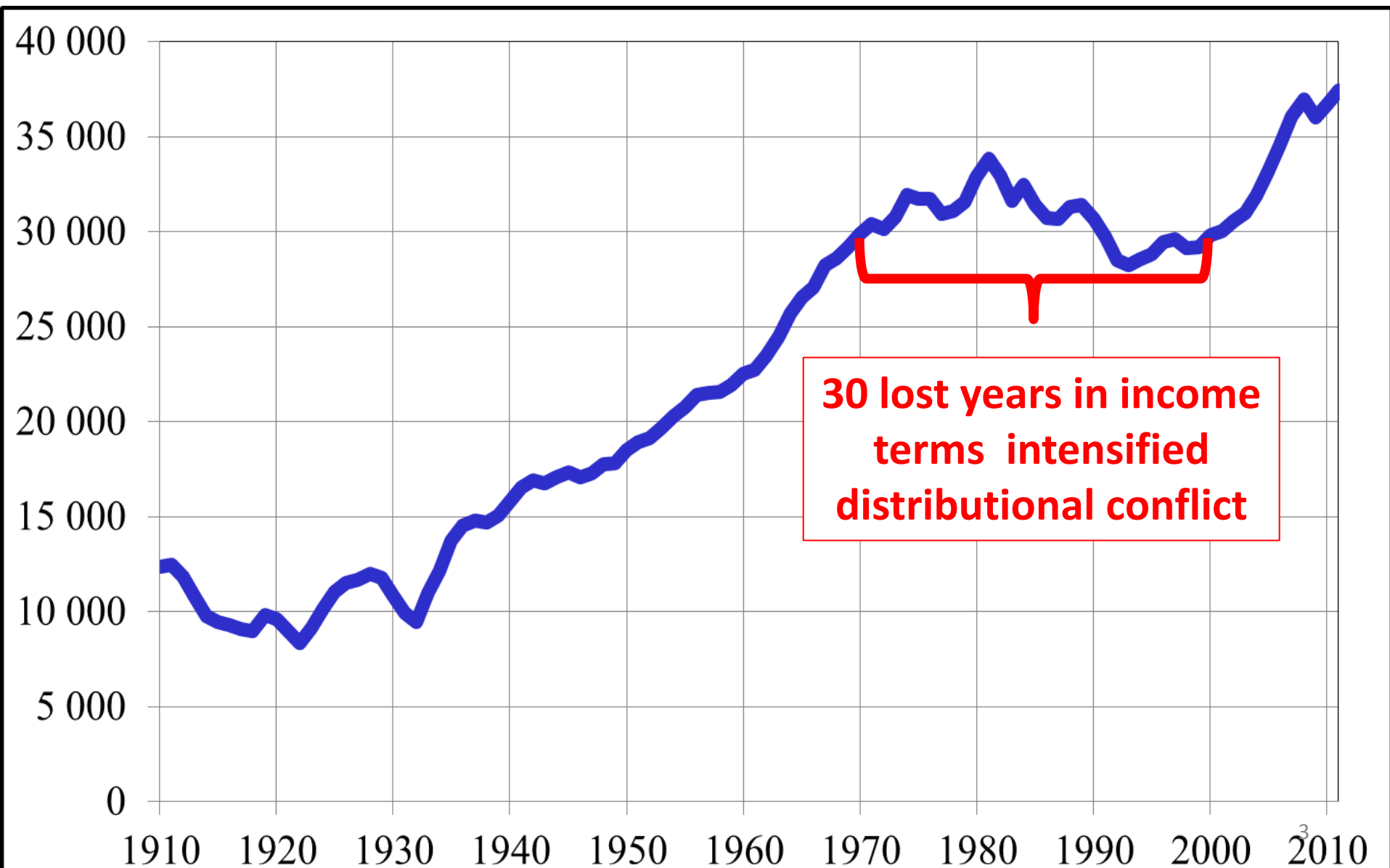


Overview

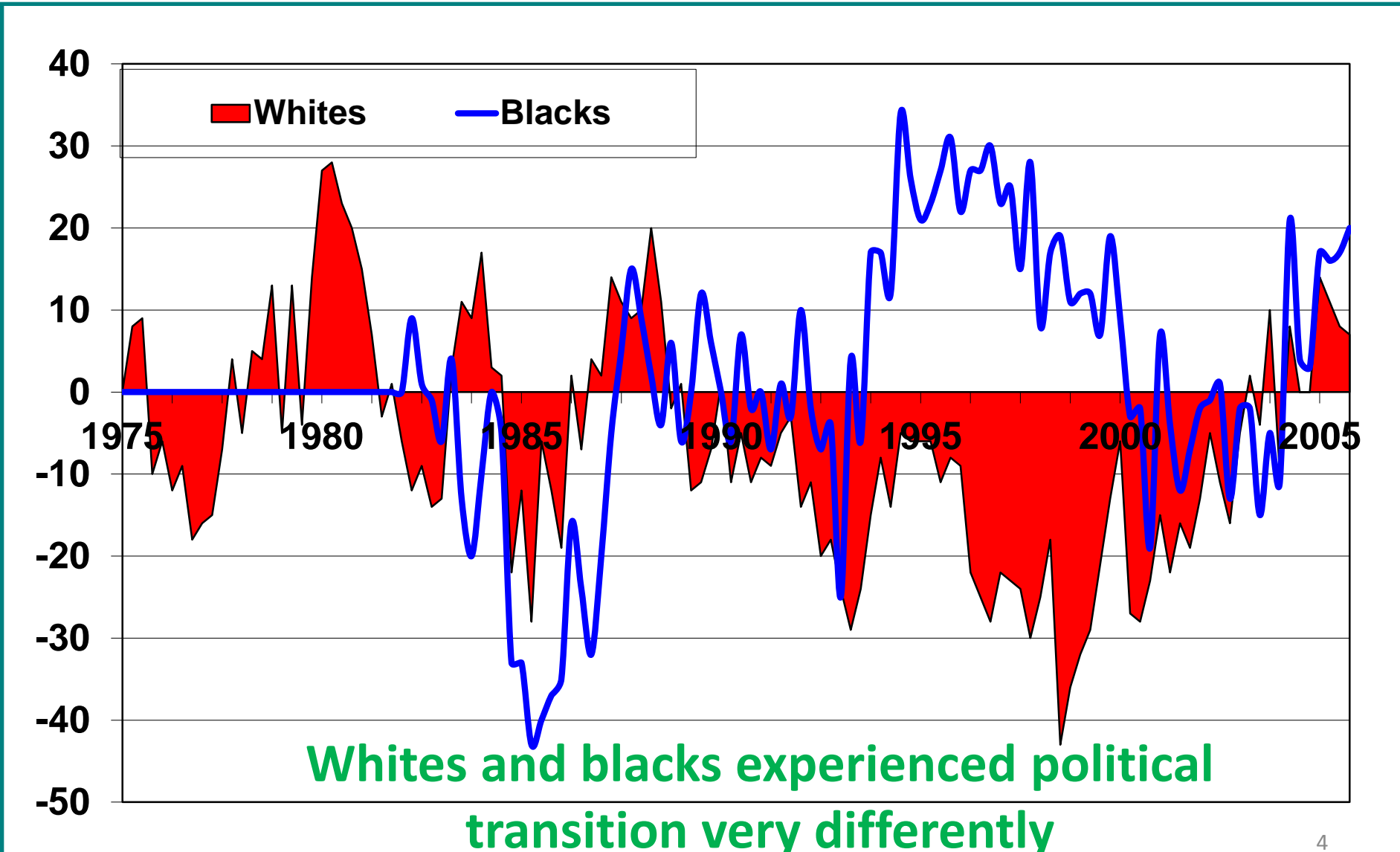
- **Income inequality and poverty**
- **Trends and levels:**
- **Decomposing inequality by income source:**

GDP per capita 1910-2011

(in 2005 Rand values)



BER consumer confidence by race



Unemployment rate by decile (%)

Decile	1993	2000	2008
1	49	44	69
2	34	44	46
3	27	41	47
4	22	39	37
5	23	34	30
6	19	33	26
7	15	26	20
8	9	21	16
9	4	13	9
10	2	4	5
Overall	13.7	25.7	24.4

Though economic conditions improved, unemployment became a growing problem for the poor

Overview

- **Income inequality and poverty**
 - **Inequality vs. poverty as welfare goal**

Poverty clearly is **more urgent & more appropriate as welfare goal**

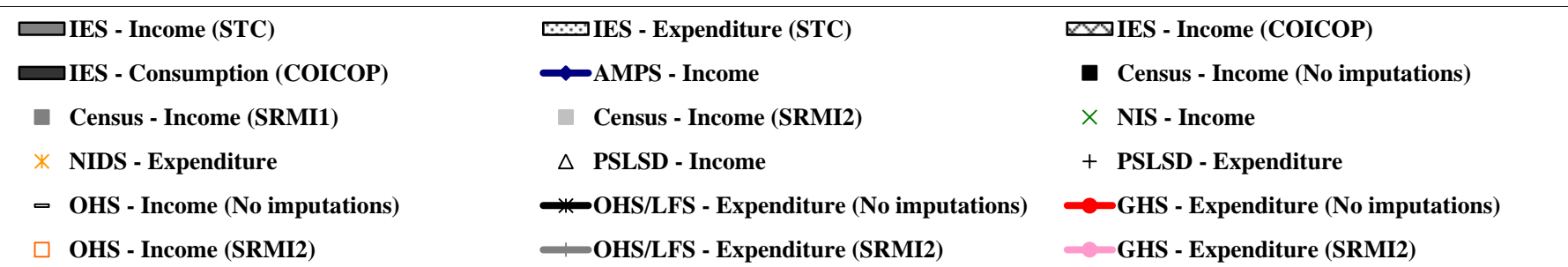
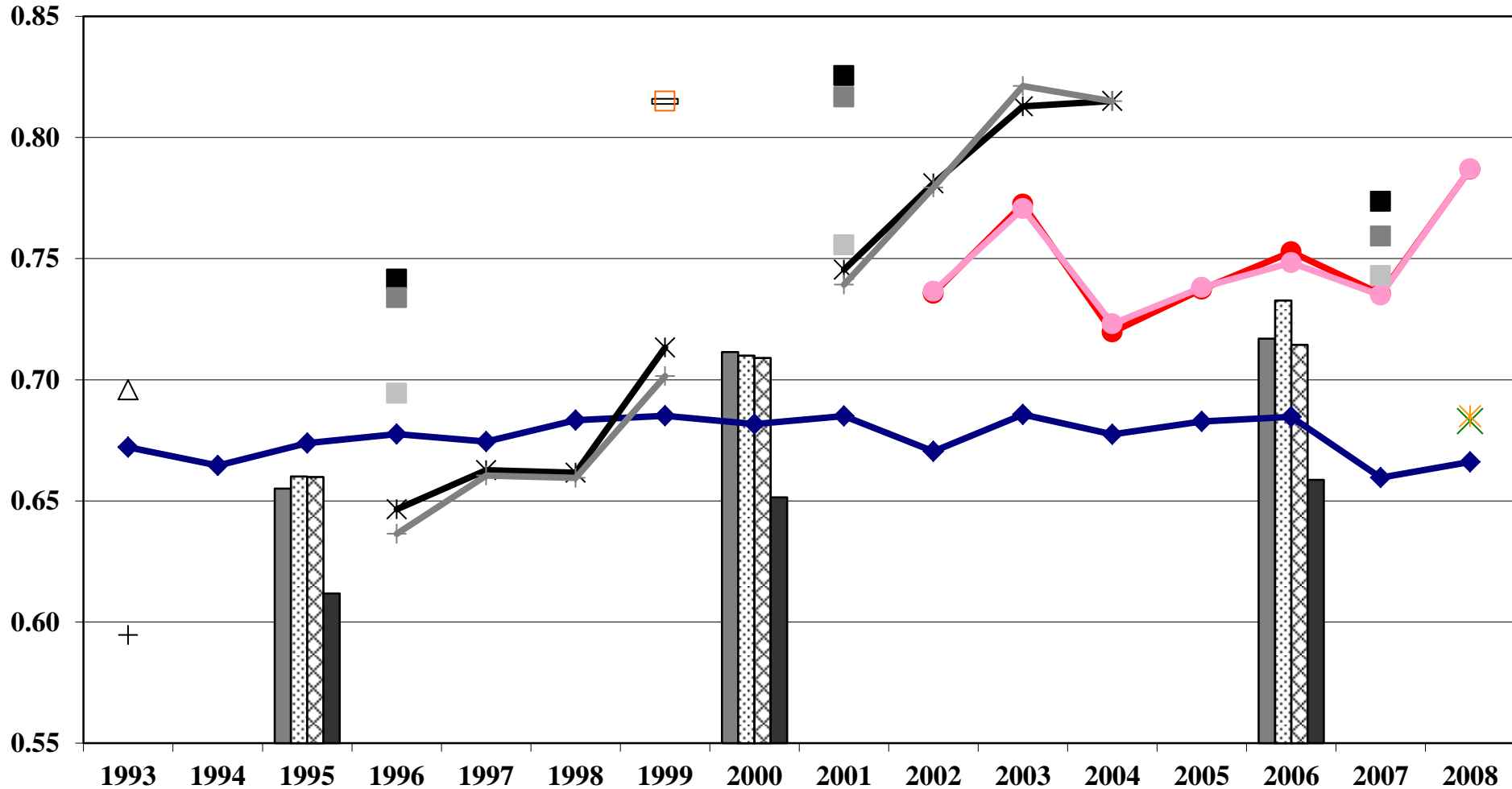
But Sen points out that all ethical systems cherish equality – though in different dimensions (spaces), e.g.

- *equality of opportunity*
- *equality of income*
- *equality before the law*

Overview

- **Income inequality and poverty**
 - Inequality vs. poverty as welfare goal
- **Trends and levels:**
 - Measured levels range between 0.58 & 0.83

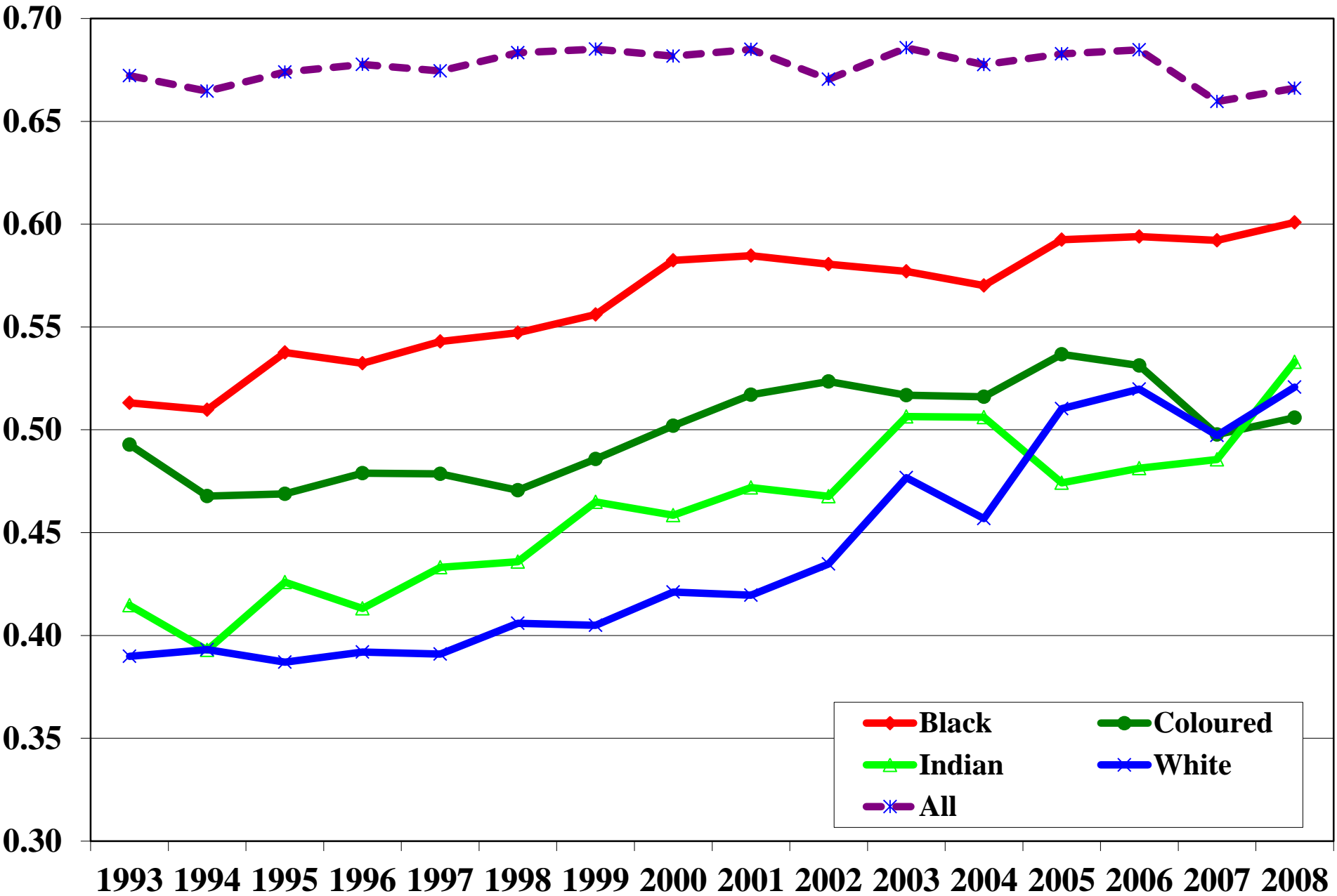
Various Gini-coefficients, 1993-2008



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Gini coefficients based on AMPS



Gini coefficients of per capita income by race

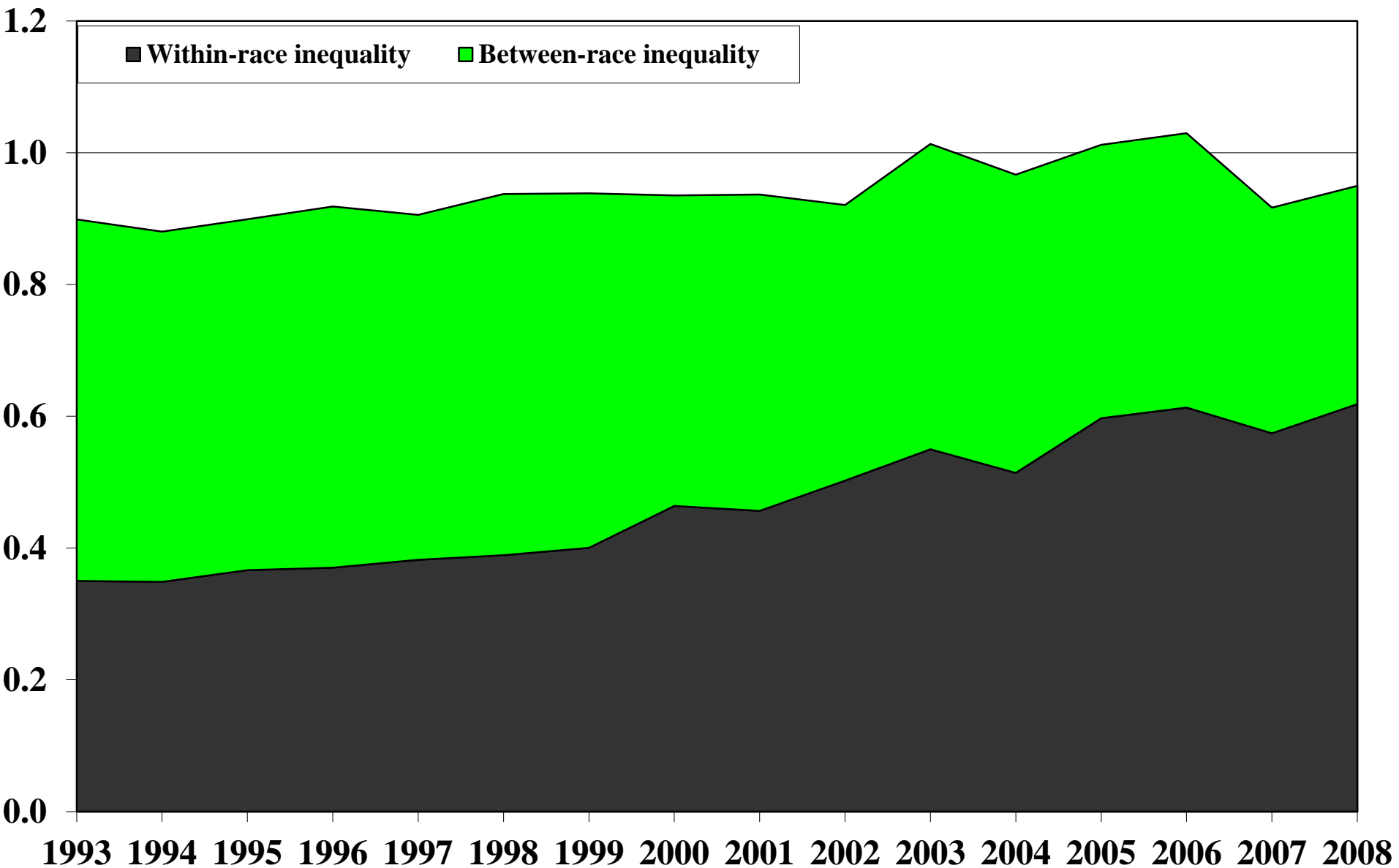
	1993	2000	2008
Black African	0.54	0.60	0.62
Coloured	0.44	0.53	0.54
Indian	0.47	0.51	0.61
White	0.43	0.47	0.50
Overall	0.66	0.68	0.70

Source: Leibbrandt, Woolard, Finn & Argent. (2010). Trends in South African Income Distribution and Poverty since the Fall of Apartheid

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Income inequality: Theil decomposition (AMPS)

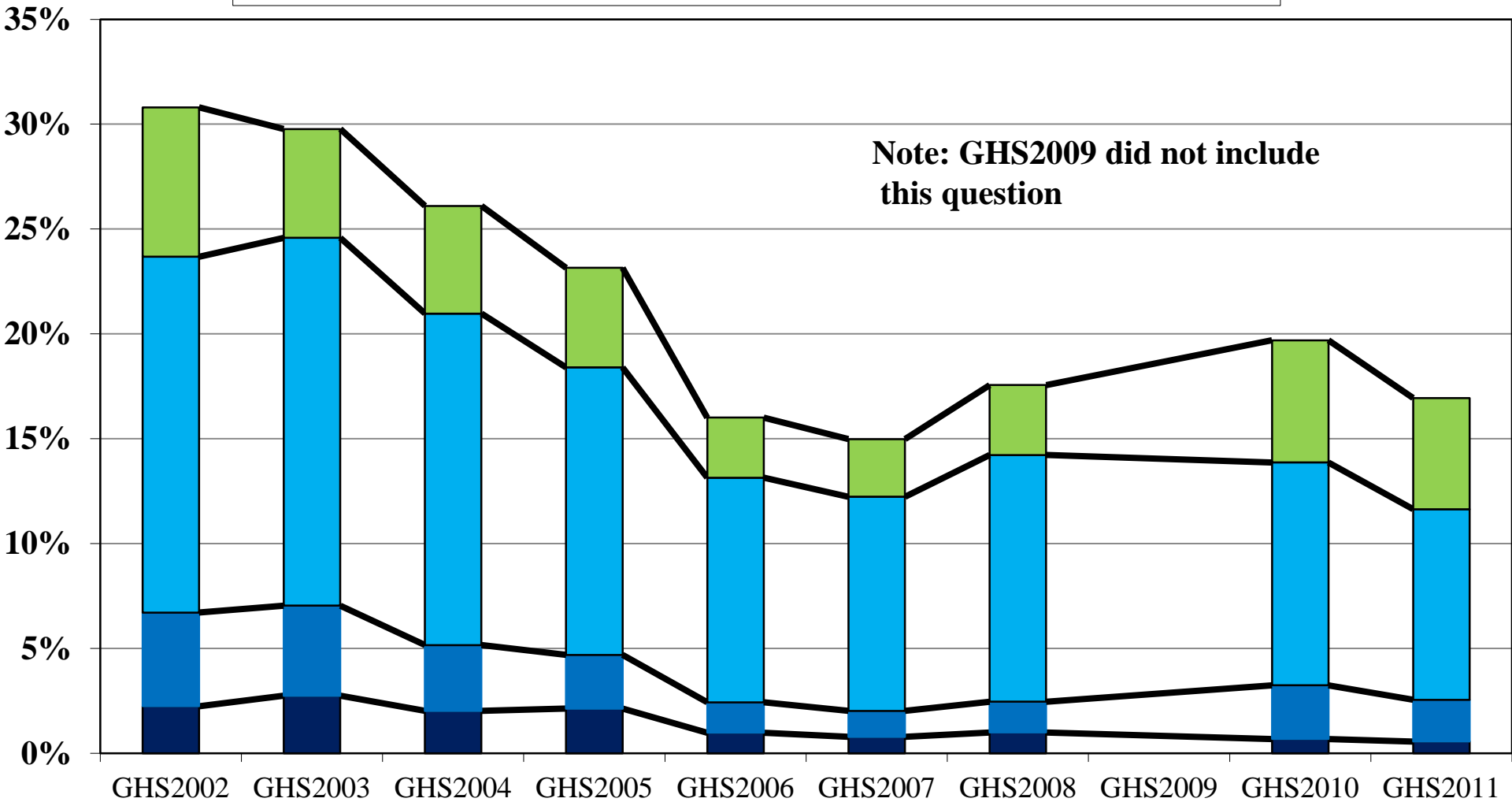


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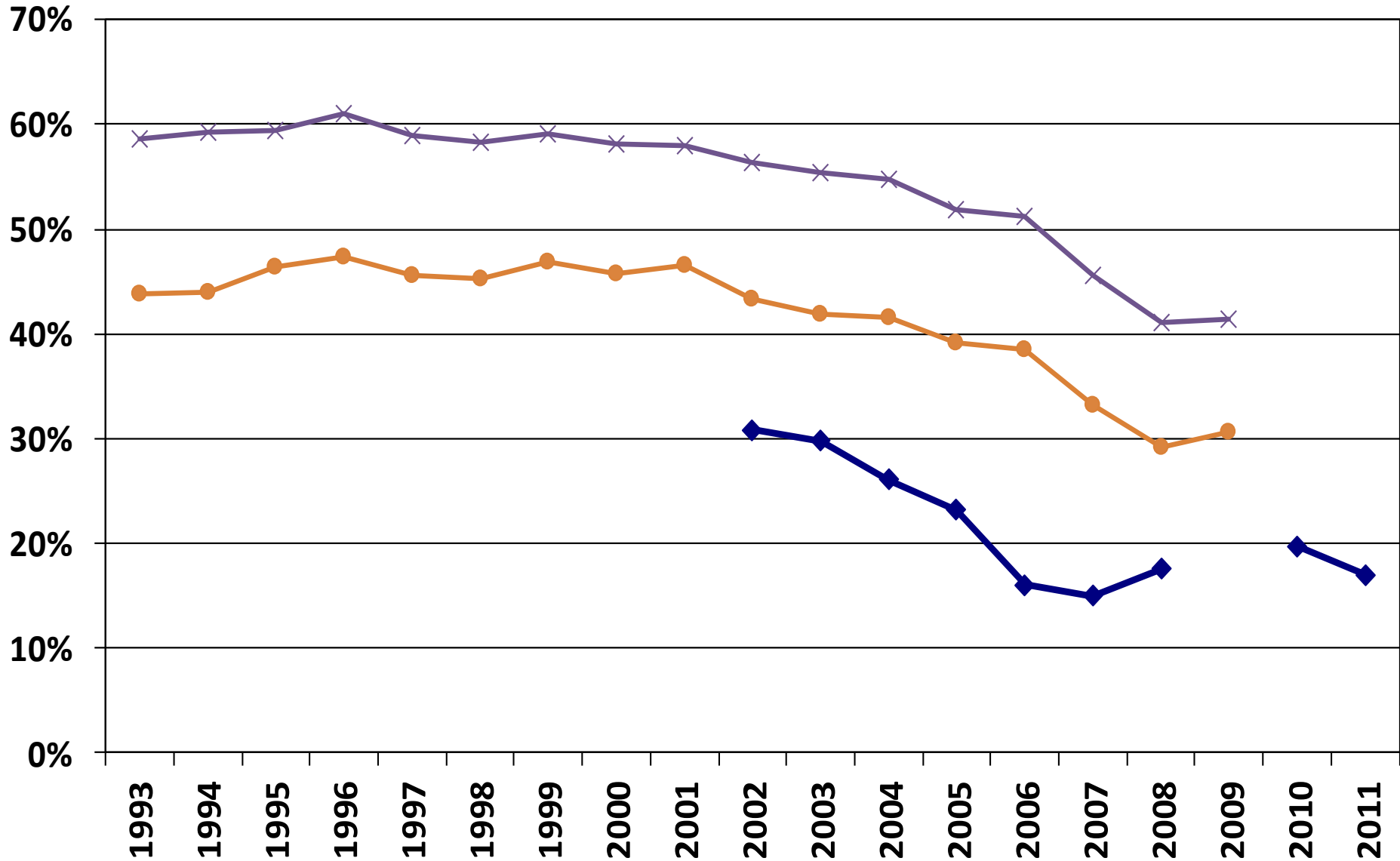
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 - Poverty declining, rising black middle class

Households that reported that children went hungry in the past year

Always Often Sometimes Seldom



Poverty and child hunger

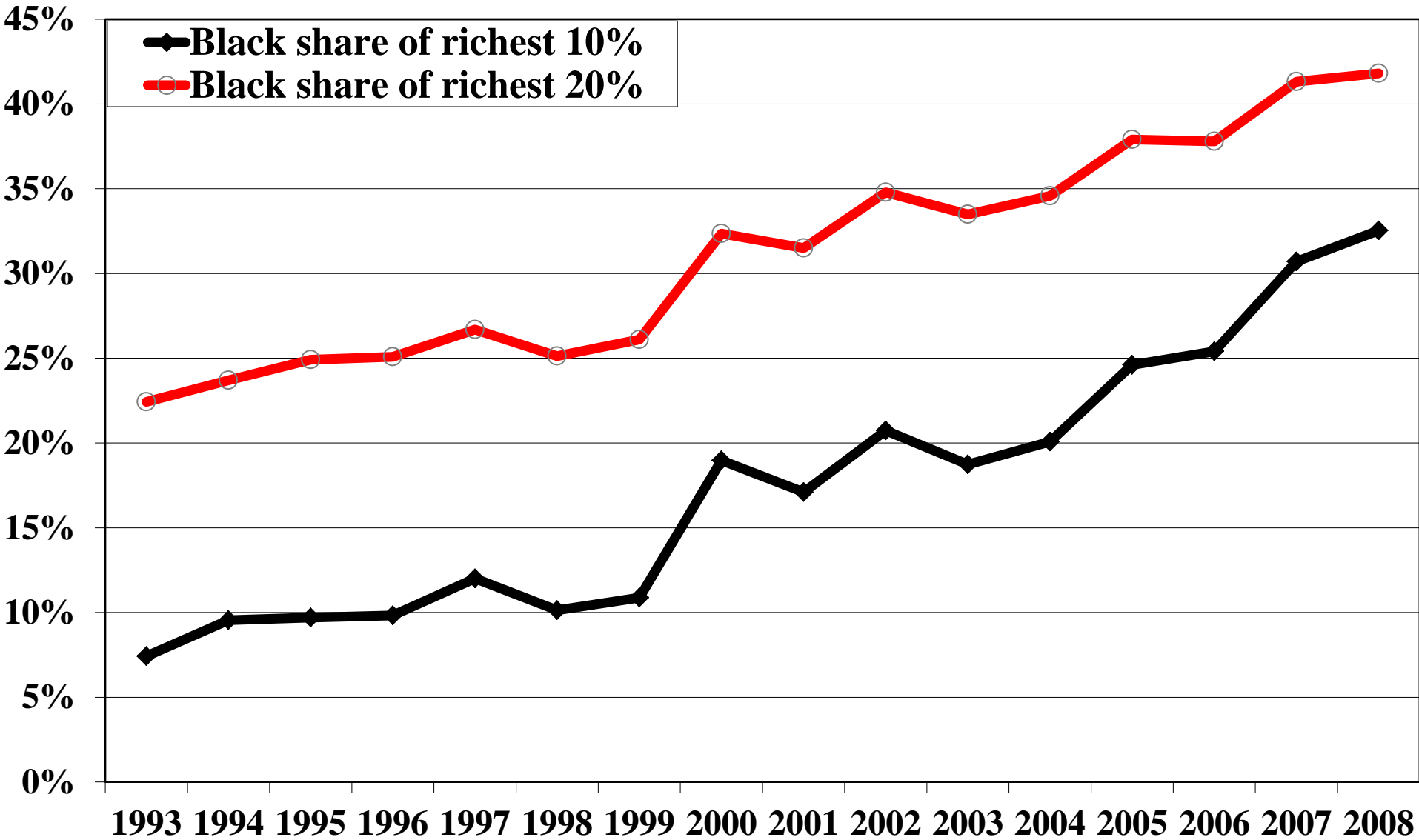


◆ Child hunger

● Poverty headcount (R211 p.c. in 2000)

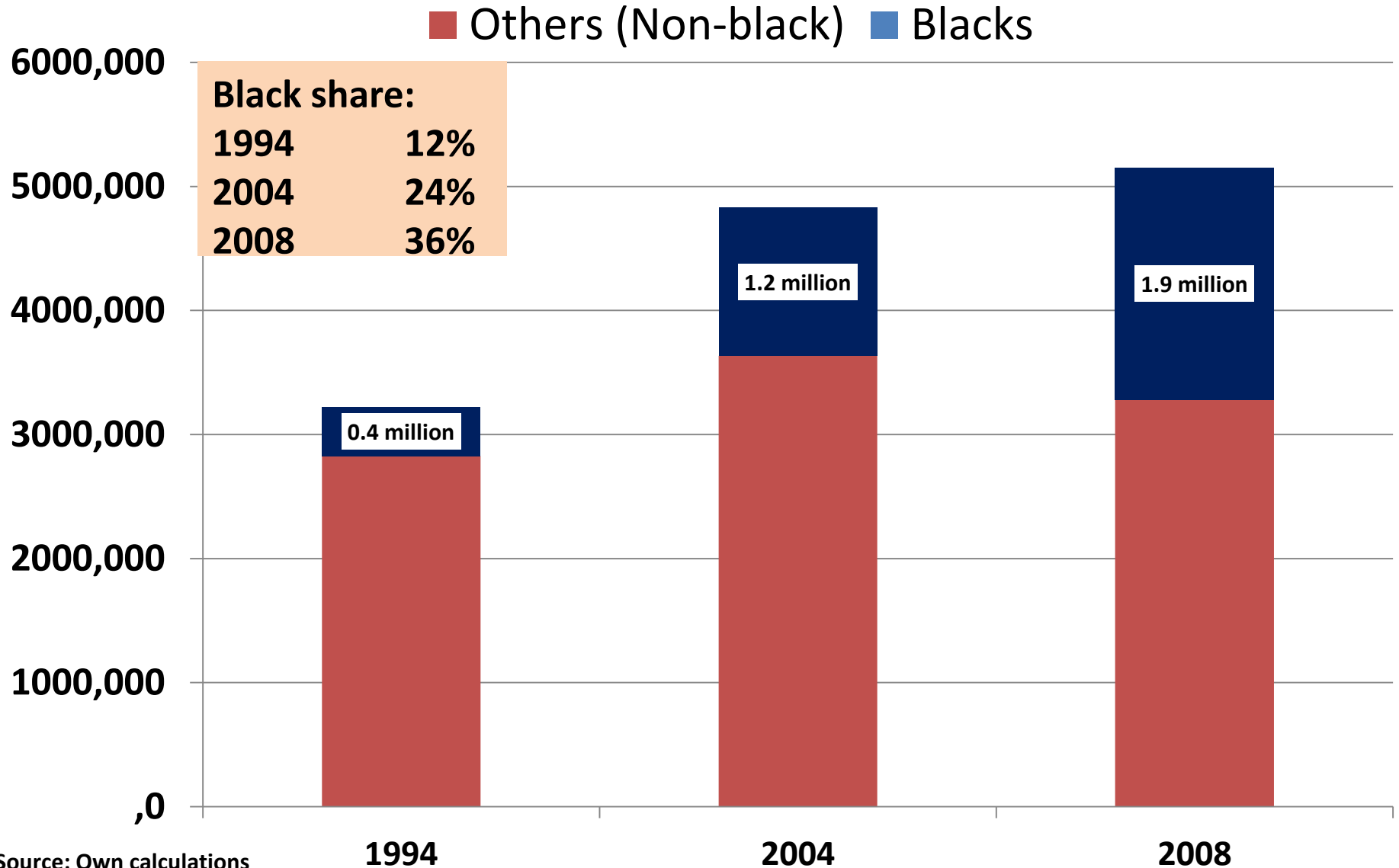
✕ Poverty headcount (R322 p.c. in 2000)

Black share of richest 10% and richest 20% of population (based on AMPS)

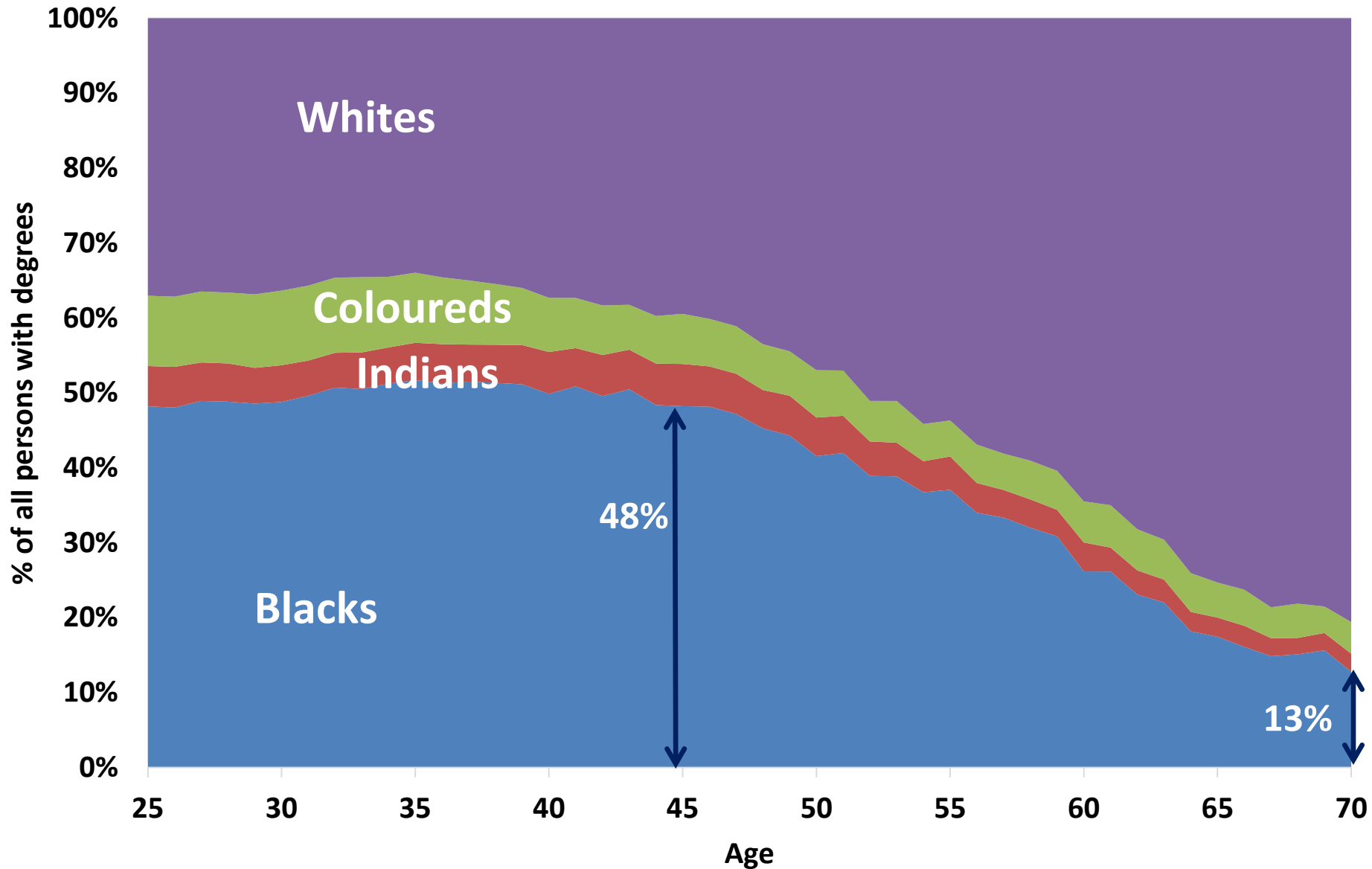


Size of the “middle class”

(per capita income above R40 000 in 2000 Rand)



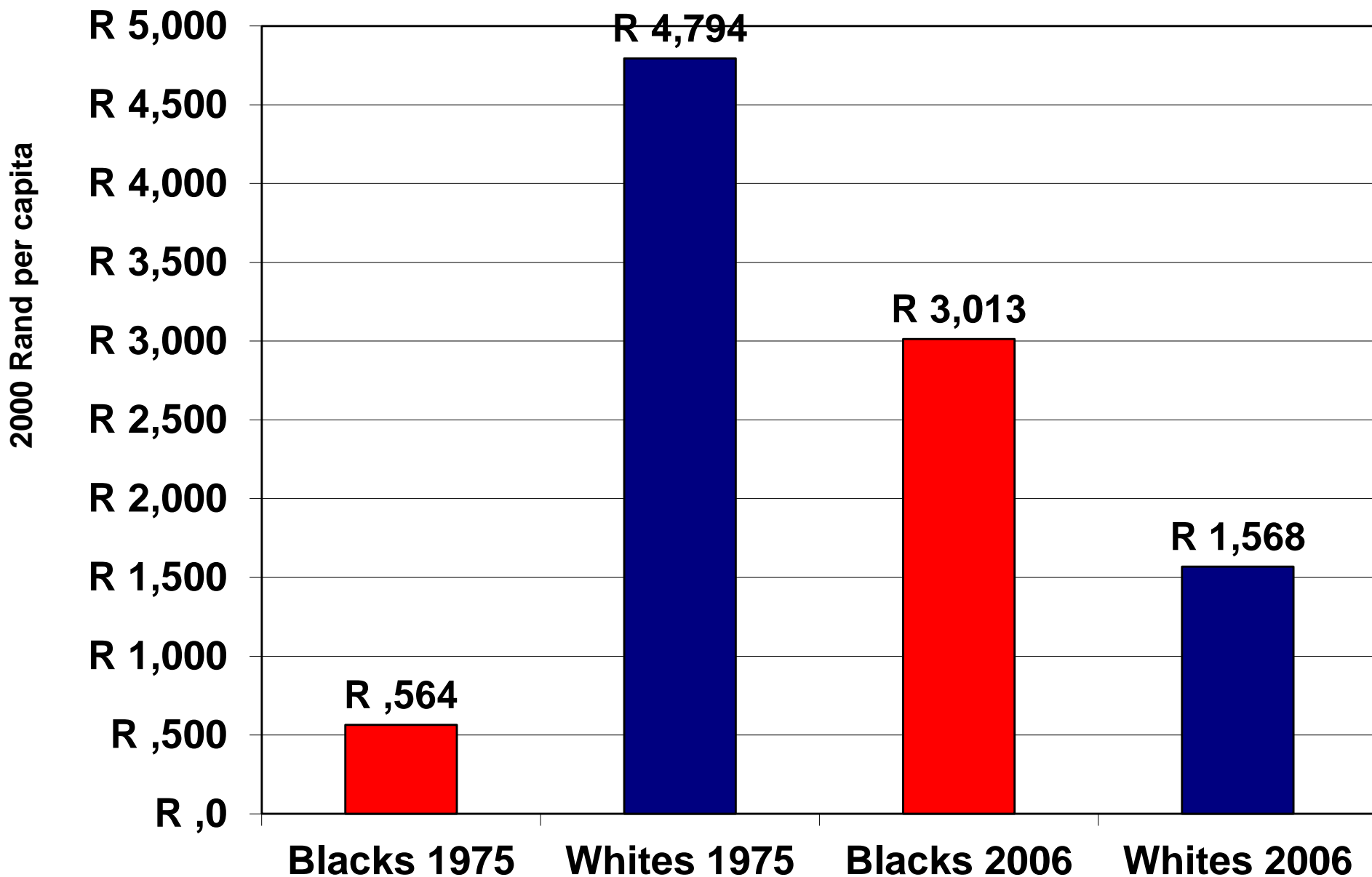
Changing race composition of graduate pool



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 - Public spending now very redistributive

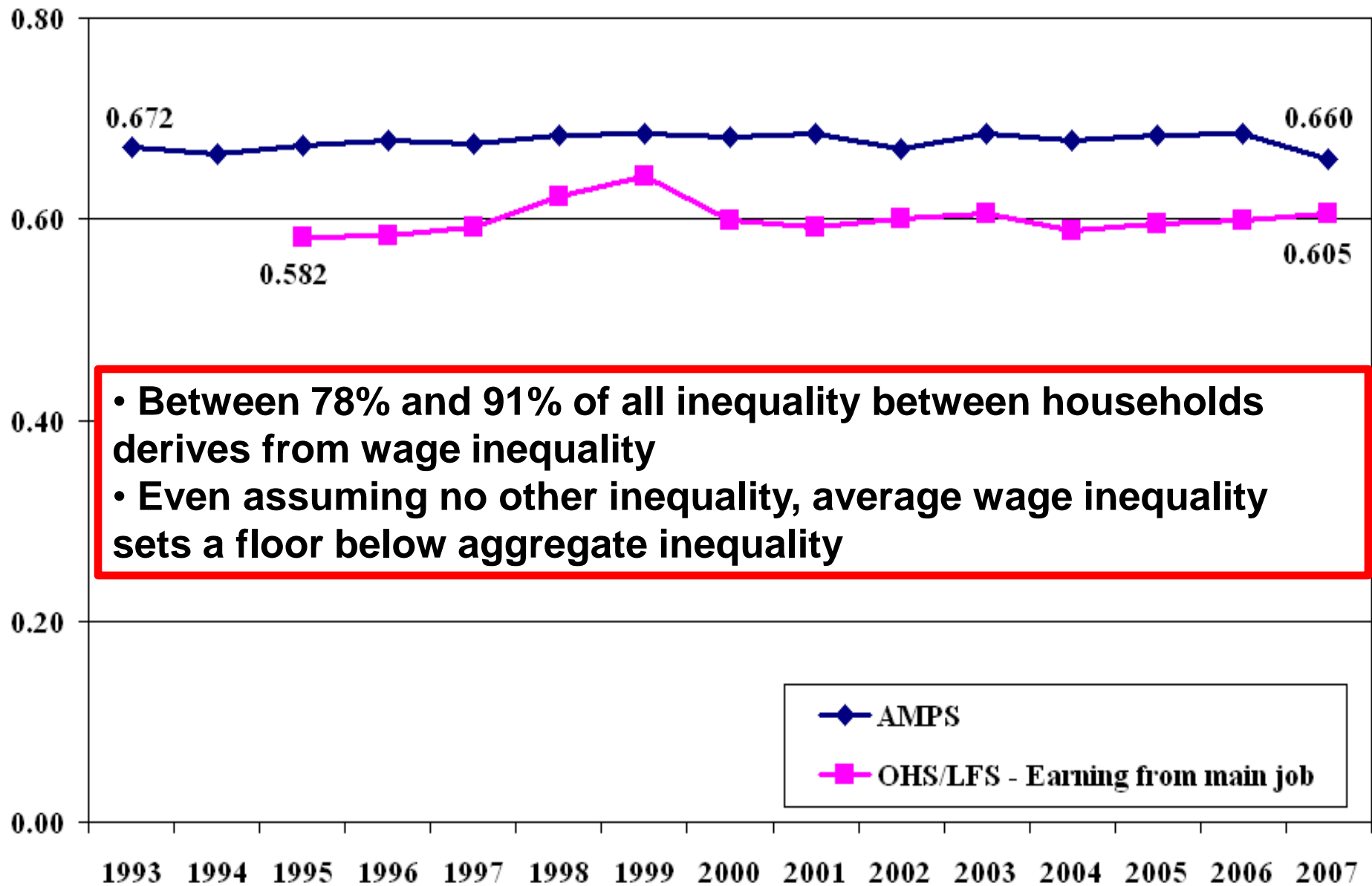
Change in social spending per capita, 1975 to 2006



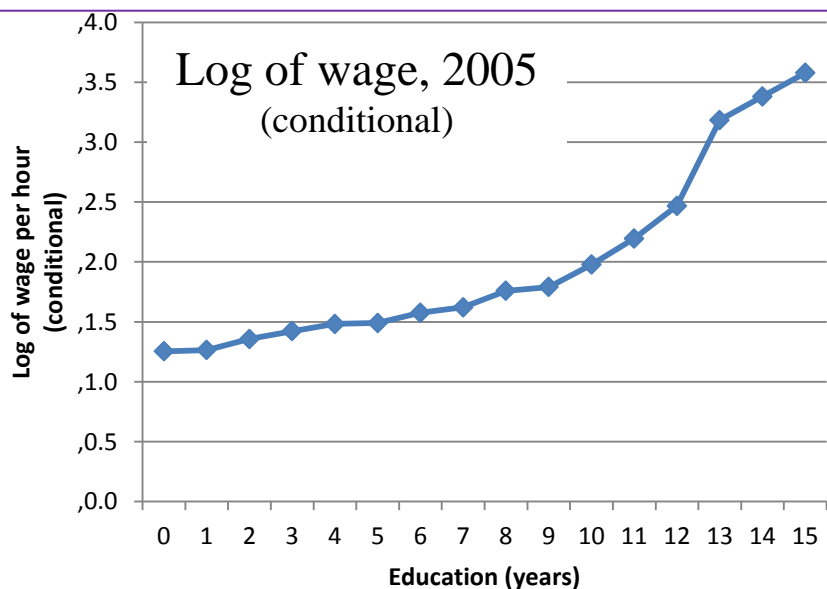
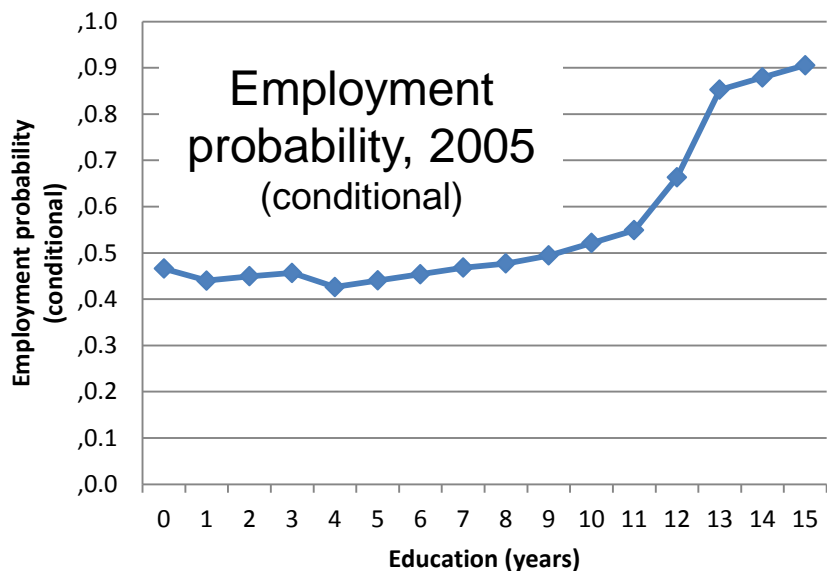
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- **Decomposing inequality by income source:**
 - Wage inequality dominant
 - More jobs would have little effect
 - Problem lies in convex returns to education – need better education quality

Gini coefficients for earnings from main job (OHS/LFS) and household income (AMPS)



Education's influence on labour market



- **Skills shortage** at top end causes a wage premium
- **Oversupply of unskilled** workers depresses wages at bottom end
- **Race between demand and supply of skills** determines size of skills premium
- Skills premium and distribution of educational attainment **central to SA income inequality**

Wage inequality & income distribution

Gini for wages amongst the employed is steady at ± 0.60

Other factors that could affect distribution:

- Household size – worsens Gini
- Household composition – worsens Gini
- Unemployment – worsens Gini
- Dividends, property income – worsen Gini
- Transfers – slightly improve Gini (reduces poverty more)

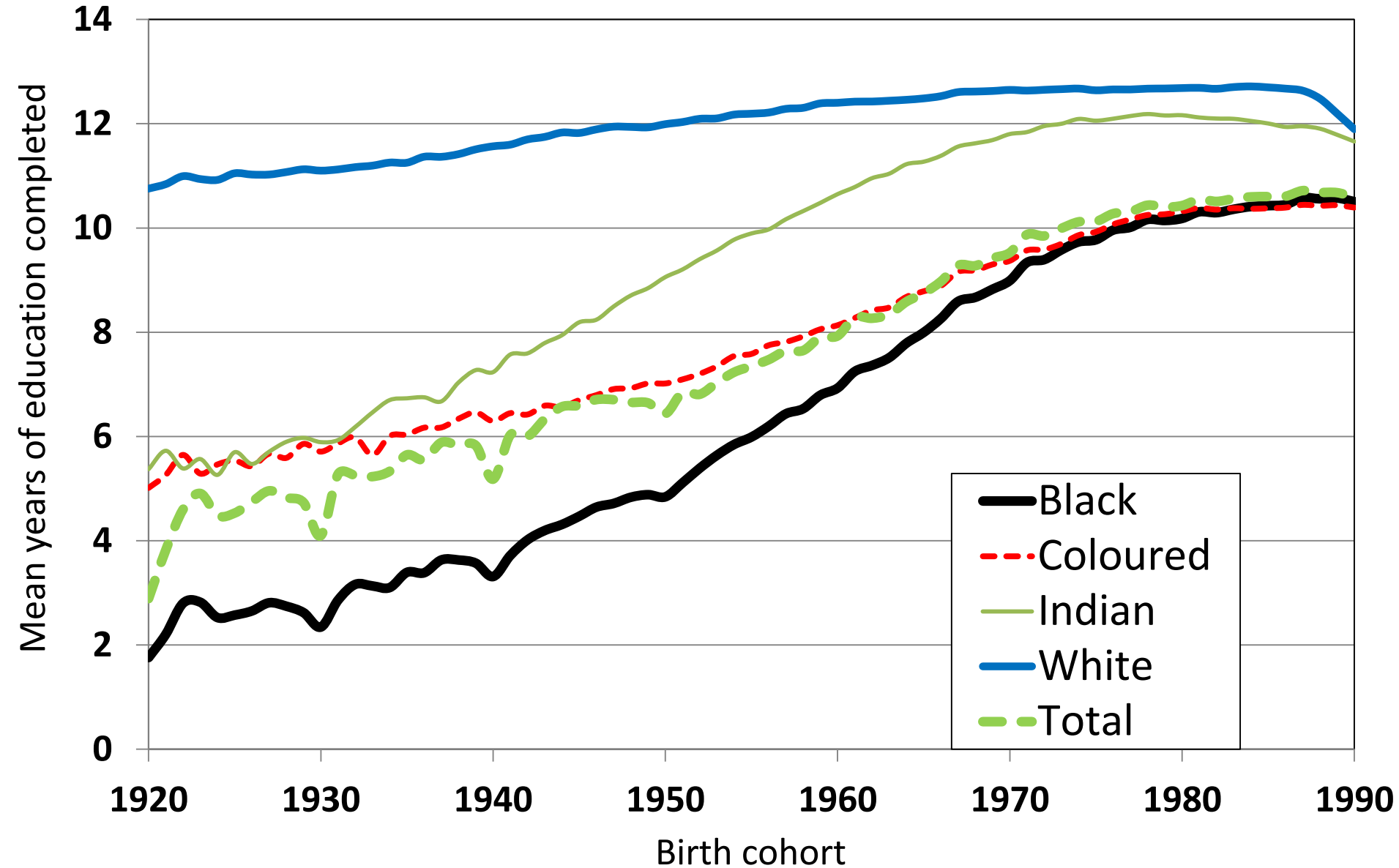
Thus wage inequality sets a floor below the Gini

Income distribution will not substantially improve before wage inequality is reduced through:

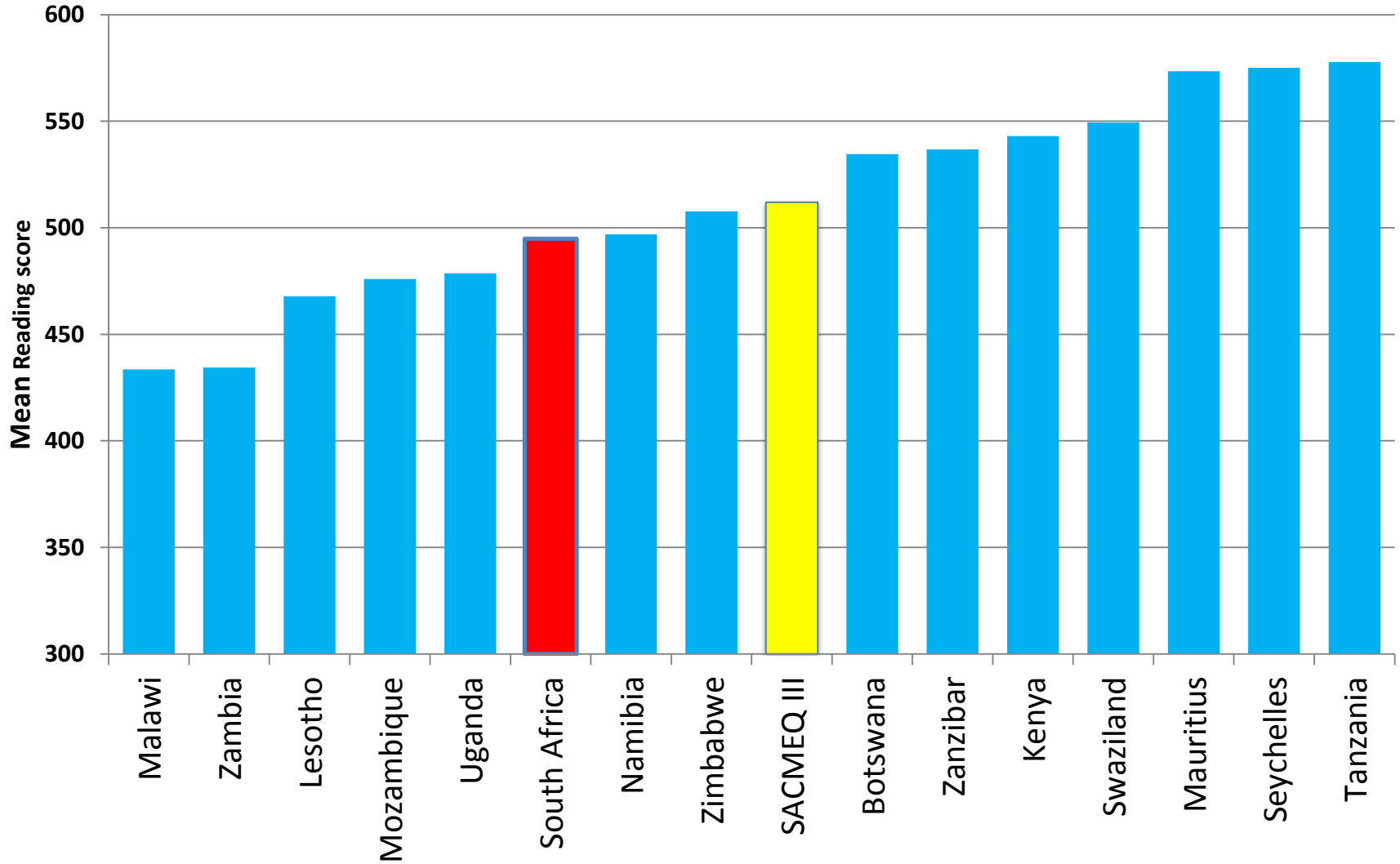
- Changes in educational attainment and quality, and
- Changes in returns to education

Mean years of education by race and birth cohort, 2011

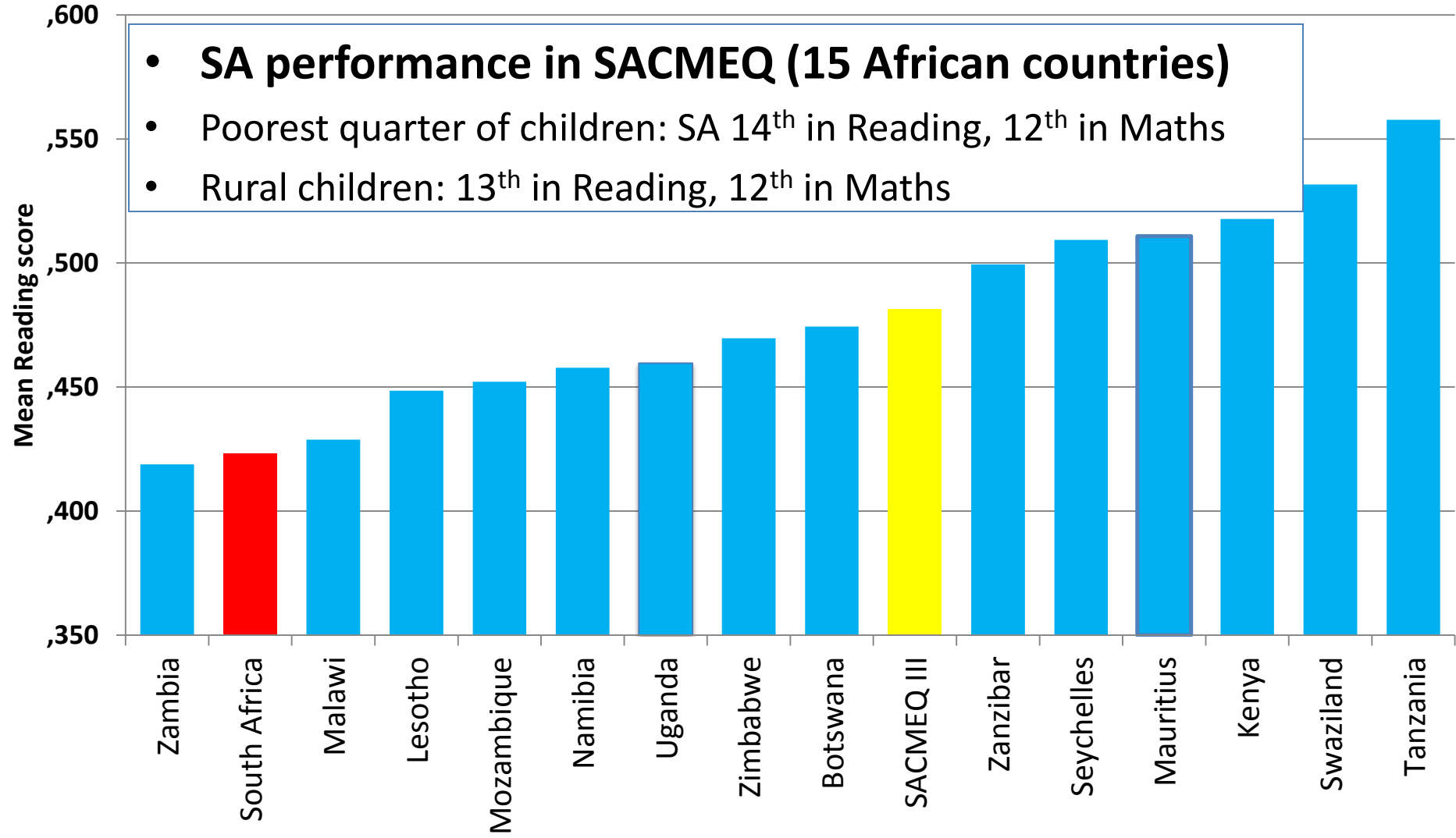
(Source: Own calculations from Census 2011 (Supercross))



Mean Reading scores (SACMEQ III)

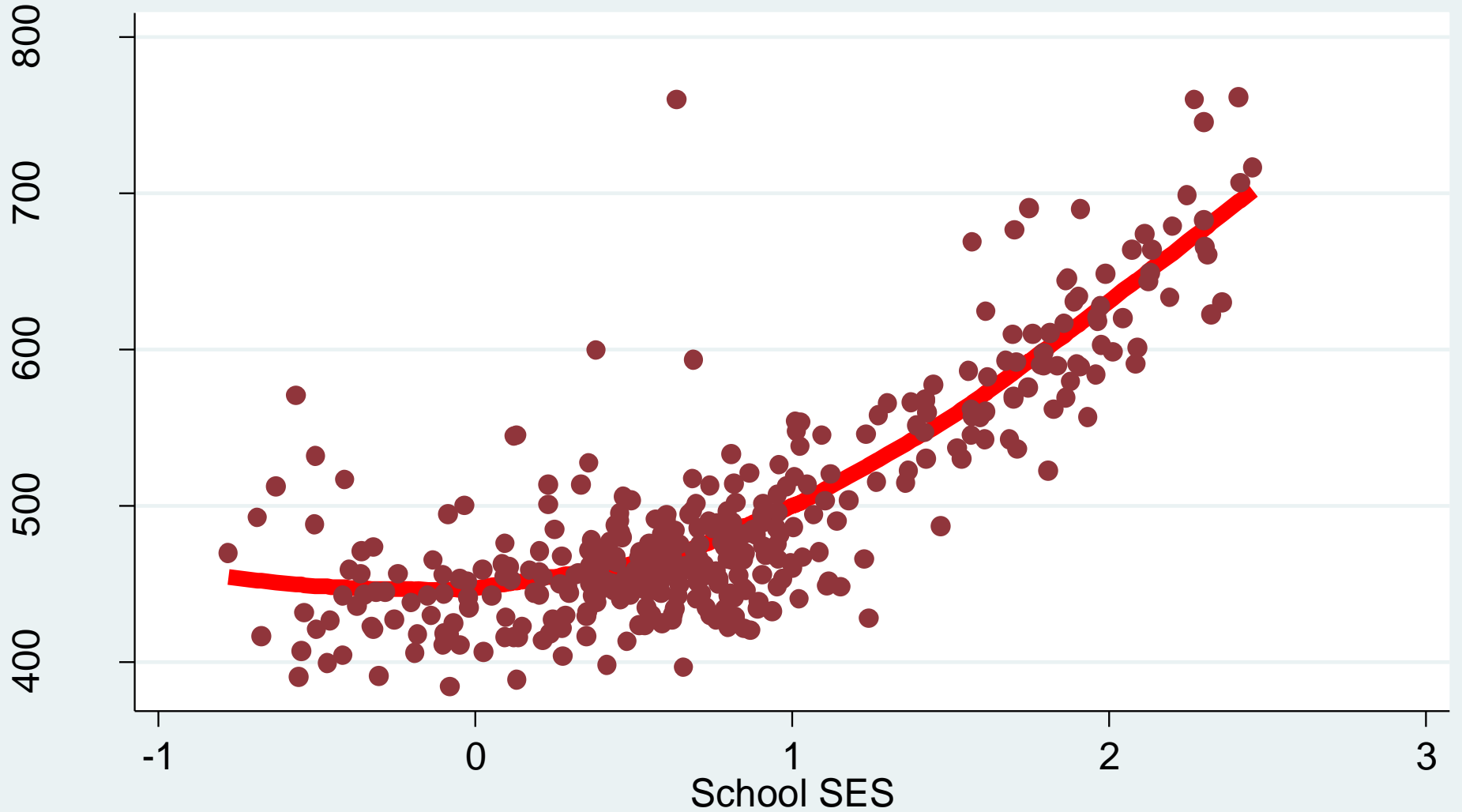


Mean Reading score for poorest 25% (SACMEQ III)



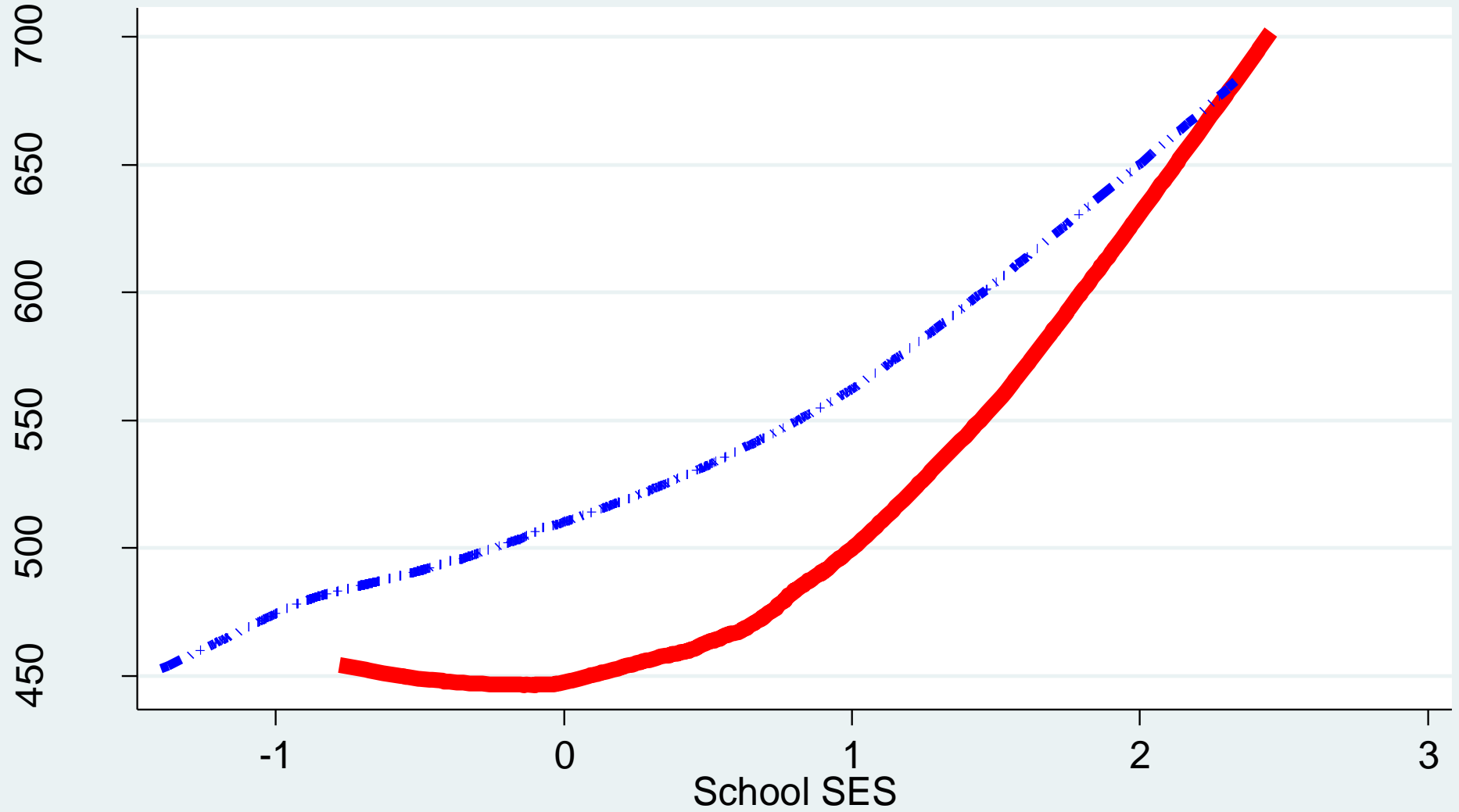
Maths Score and School SES

Individual schools and SA trendline



Maths Score and School SES

SA vs SACMEQ



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Long term prospects

Once employment expansion resumes, unemployment will gradually decline

- Labour force growth has slowed

Poverty is likely to decline gradually, given continued growth

Income distribution is unlikely to improve much

- More jobs & rising wages in a tightening job market will tend to improve distribution
- But education and skills shortages could further worsen wage inequality