

Inequality: Trends, impacts, options

Input to 2E Strategy Conference

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a personal perspective

Overview



Trends in inequality



Factors behind inequality

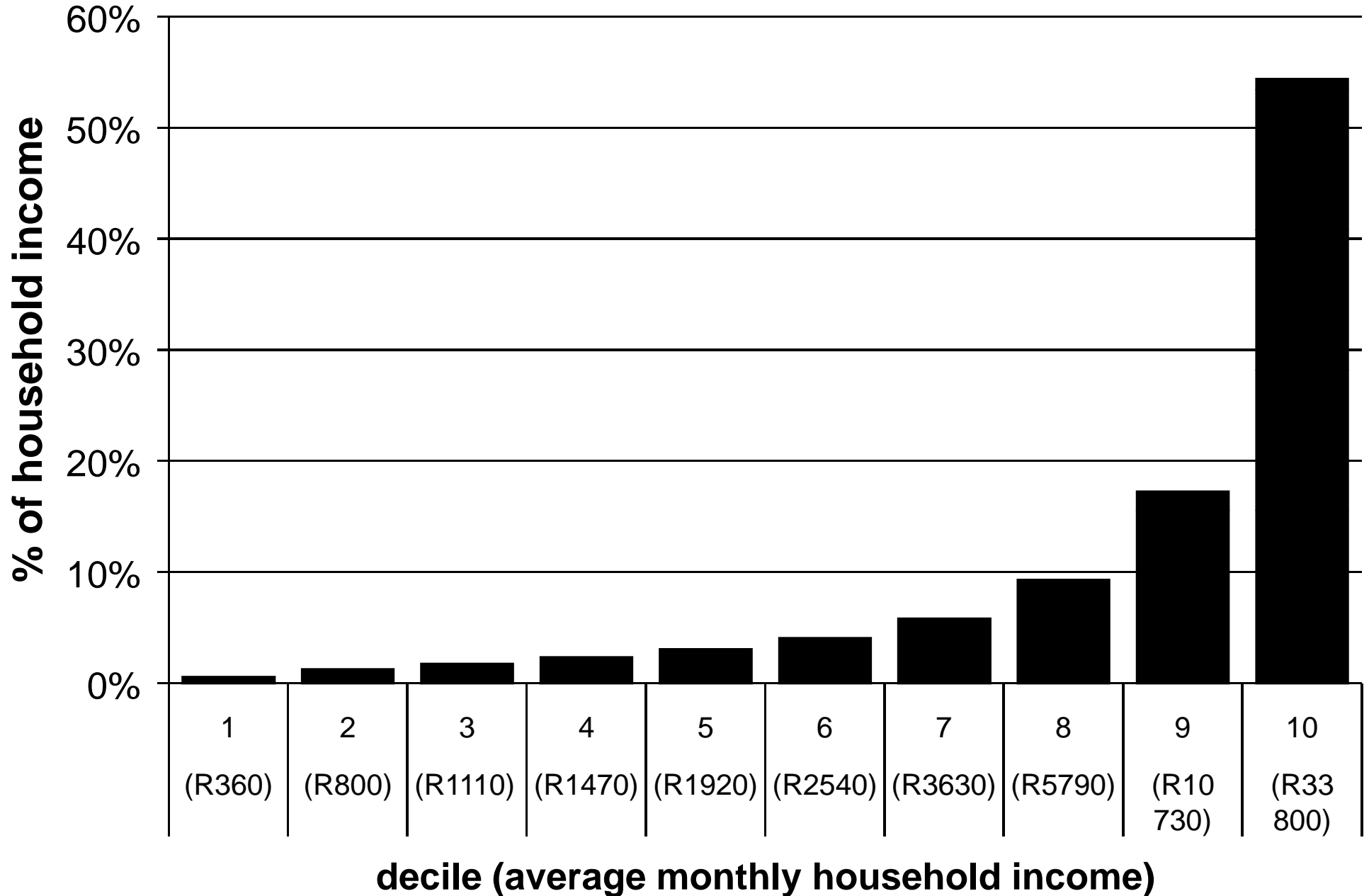


Policy options

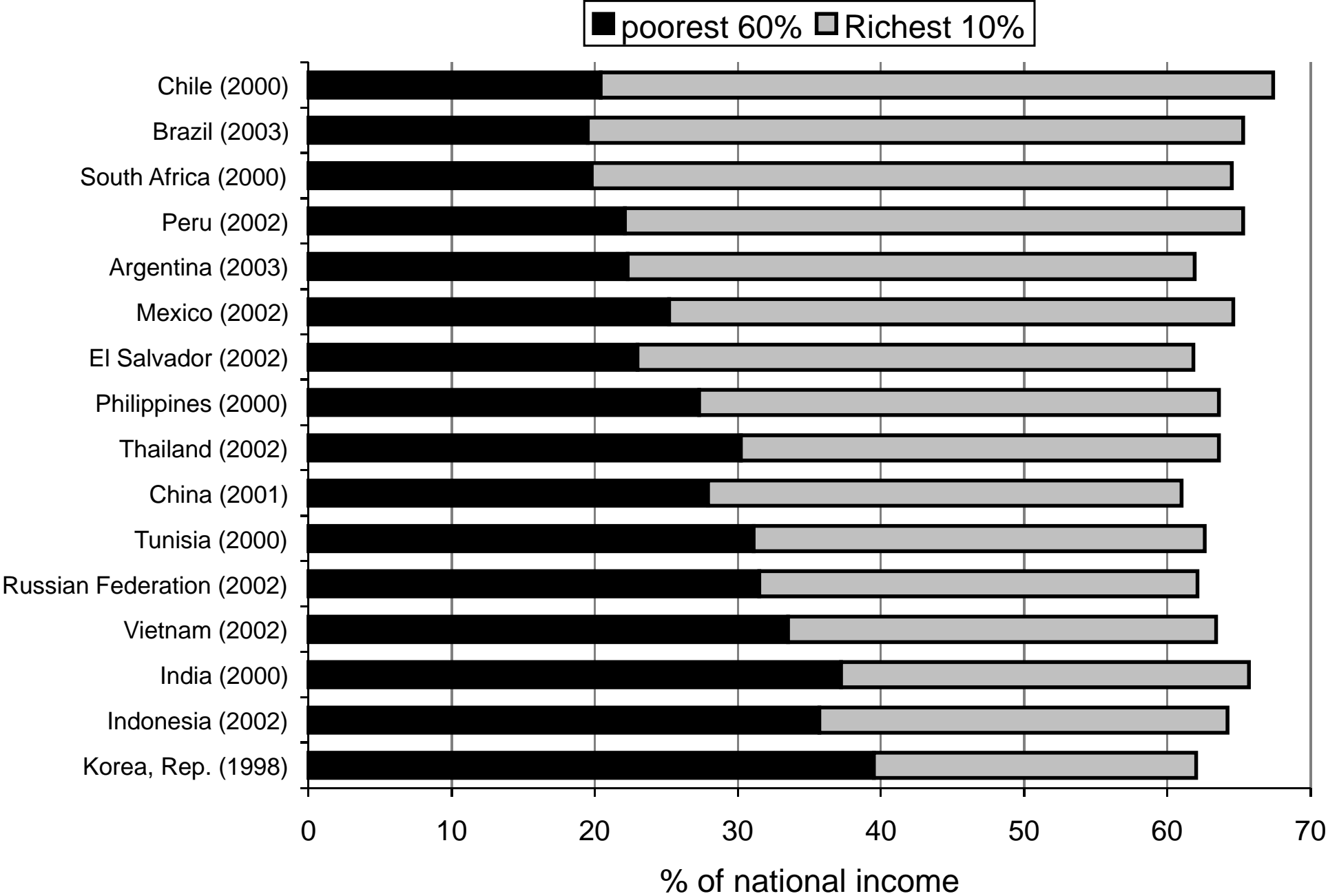
Inequality in SA

- ★ Income inequality in SA remains extraordinarily high by international standards
- ★ Almost certainly no improvement, and possibly some worsening since 1994 – despite a clear reduction in absolute poverty

Income distribution in 2005/6



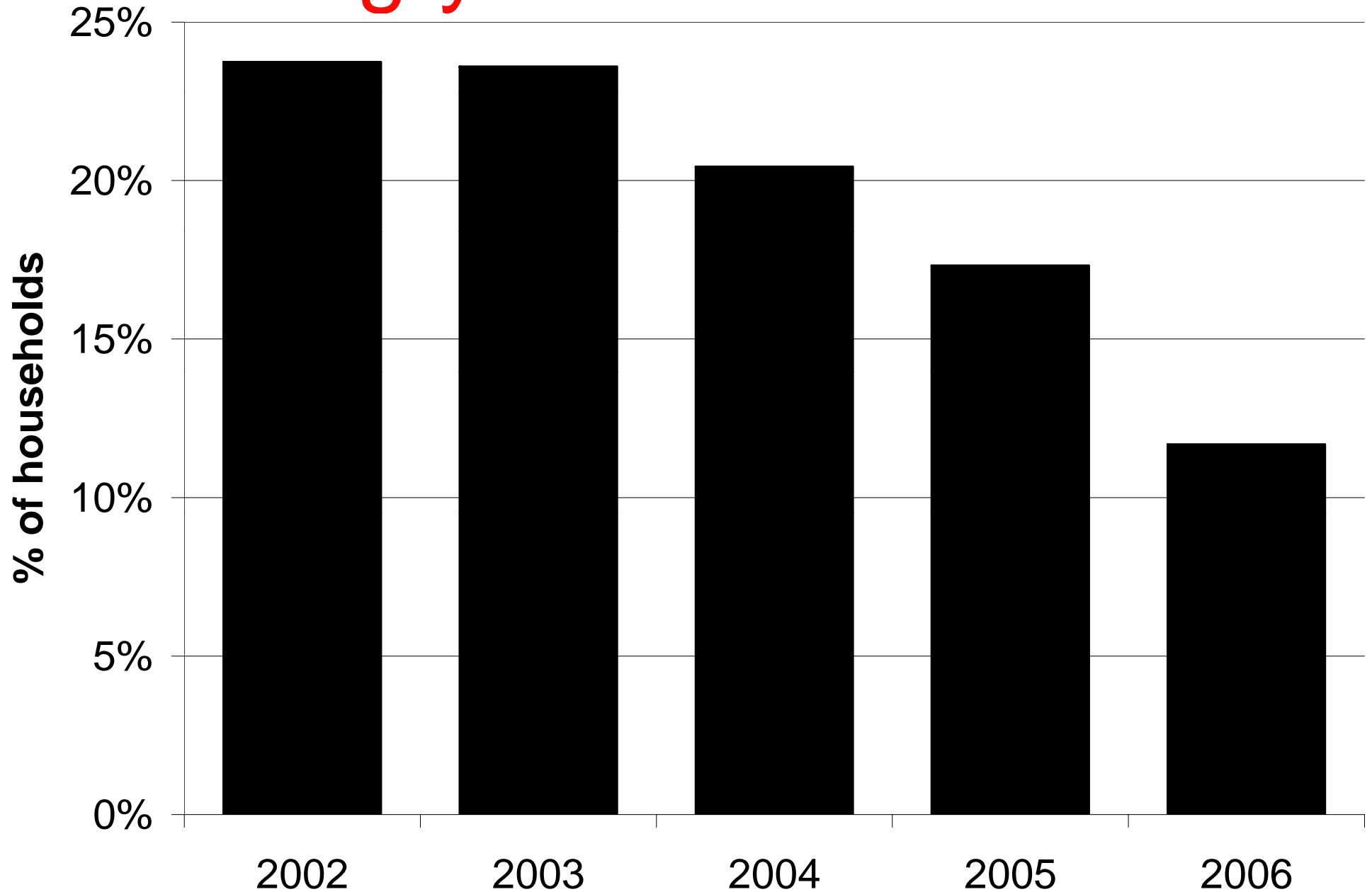
International comparisons



Trends

- ★ Surveys seem contradictory
 - ★ OHS not reliable
 - ★ LFS suggests some modest improvements since 2002
 - ★ IES suggests worsening in the same period – but not clear if surveys are really comparable
 - ★ AMPS shows virtually no change
- ★ Clear evidence that absolute poverty has declined, as reflected in figures on hunger, probably due higher employment and social grants
- ★ But that doesn't necessarily mean **distribution** has improved

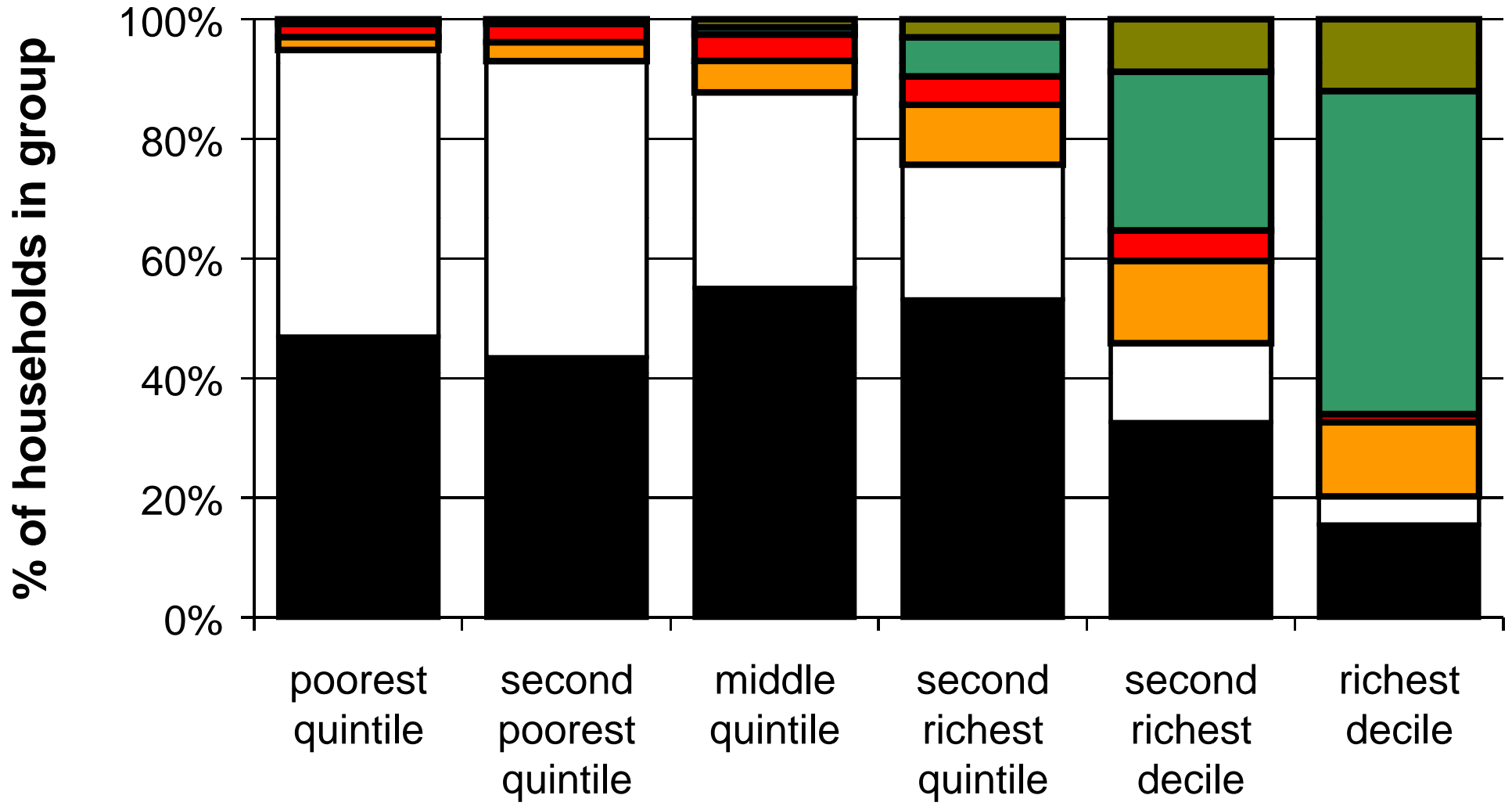
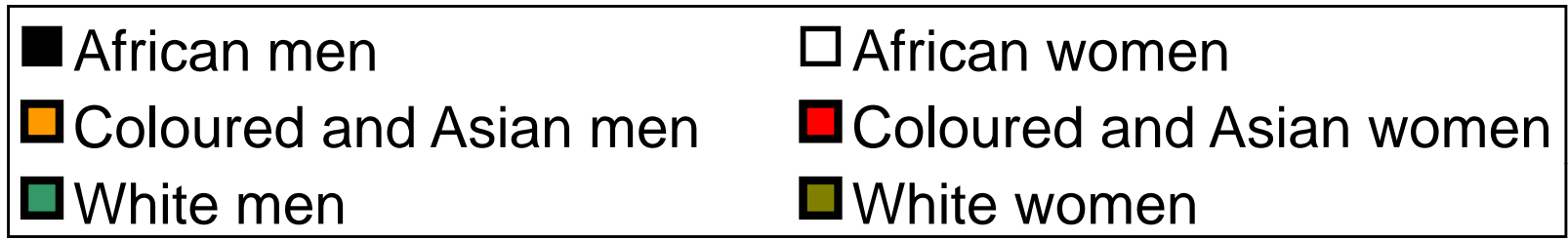
% of households where children went hungry at least sometimes



Economic significance

- ★ Highly inequitable countries typically grow more slowly – which in turn entrenches inequality
- ★ Why?
 - ★ Insecurity for capital
 - ★ Lower productivity in working communities
 - ★ Harder to mobilise around economic imperatives
- ★ In SA, worsened by coincidence between race and income distribution, despite modest improvements since 1994

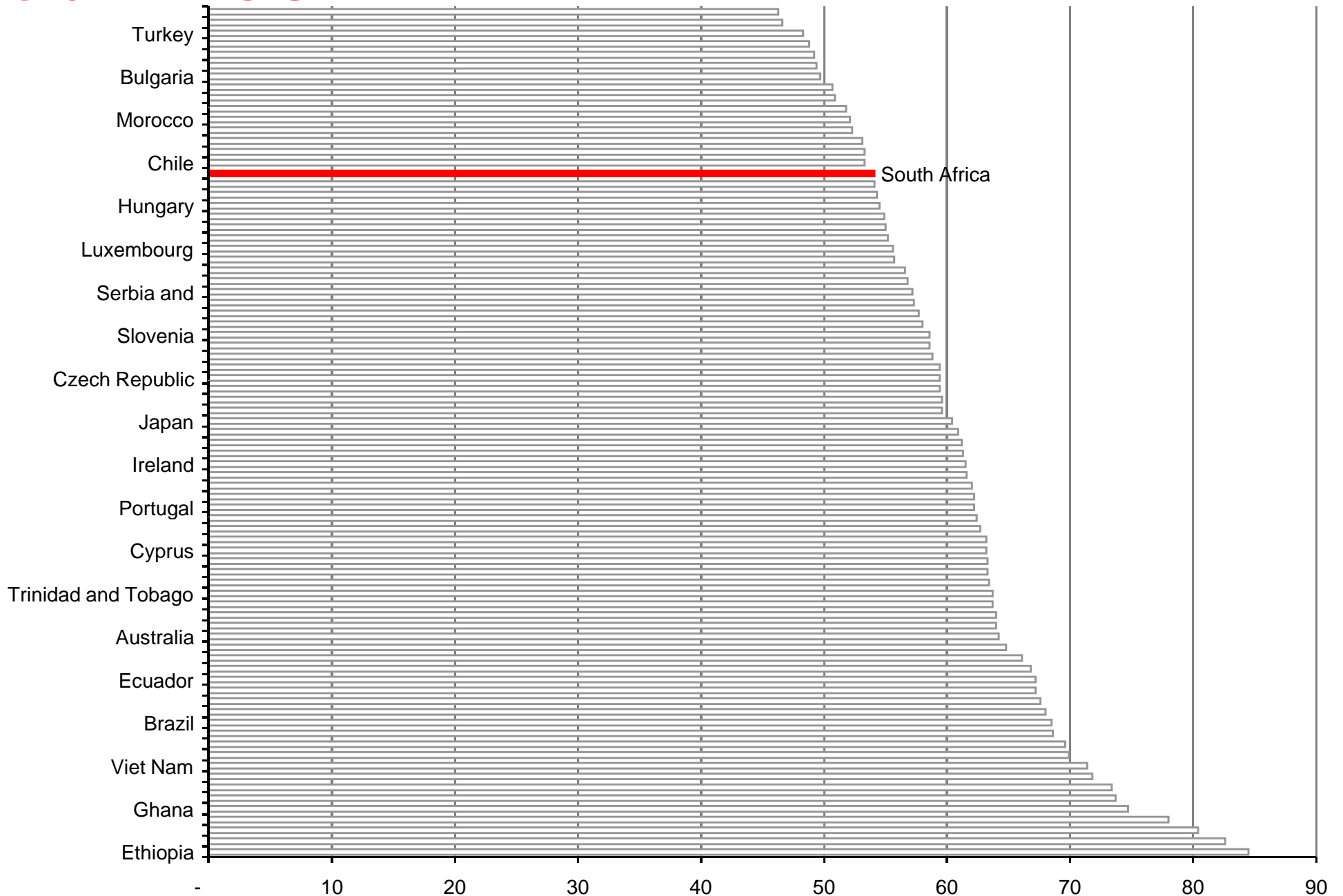
Income distribution by race



What entrenches inequality?

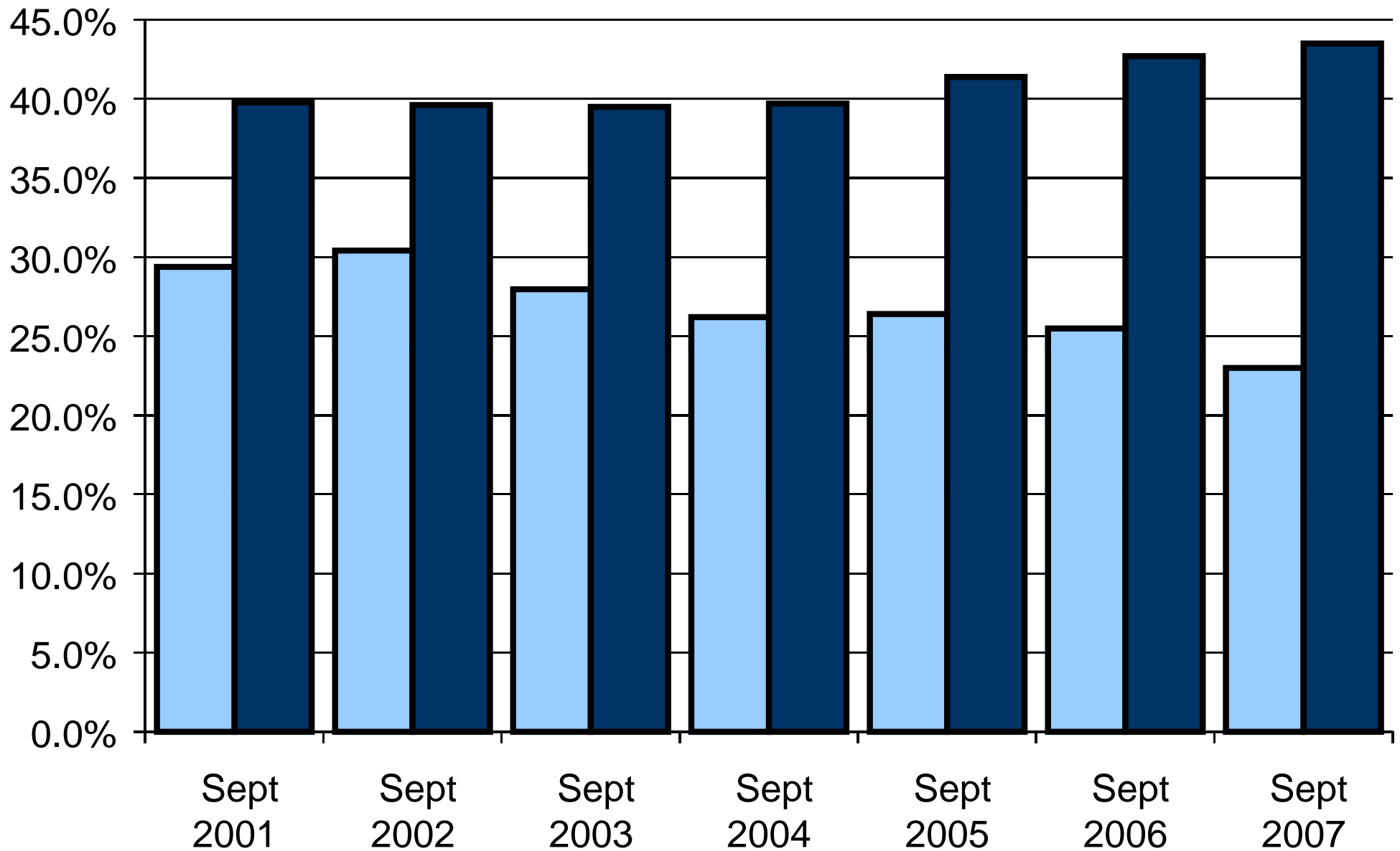
- ★ Rooted in historic marginalisation of the majority
- ★ Appears today in
 - ★ Very low employment levels, especially in the former Bantustans
 - ★ Social grants inevitably lower and less reliable than earned income
 - ★ Majority of the poor are able to work – most are able bodied, under 35 and have an average of over ten years of education
 - ★ Persistence of low-wage industries
 - ★ Well over half of workers in agriculture, informal sector and domestic service earn under R1000/month
 - ★ Growth in employment since 2000 mostly in retail, construction, security services, where poor pay also dominates
 - ★ Shrinking share of remuneration in total income
- ★ Reinforced by persistence of relatively poor households to government services and infrastructure

Absorption rate compared to other countries

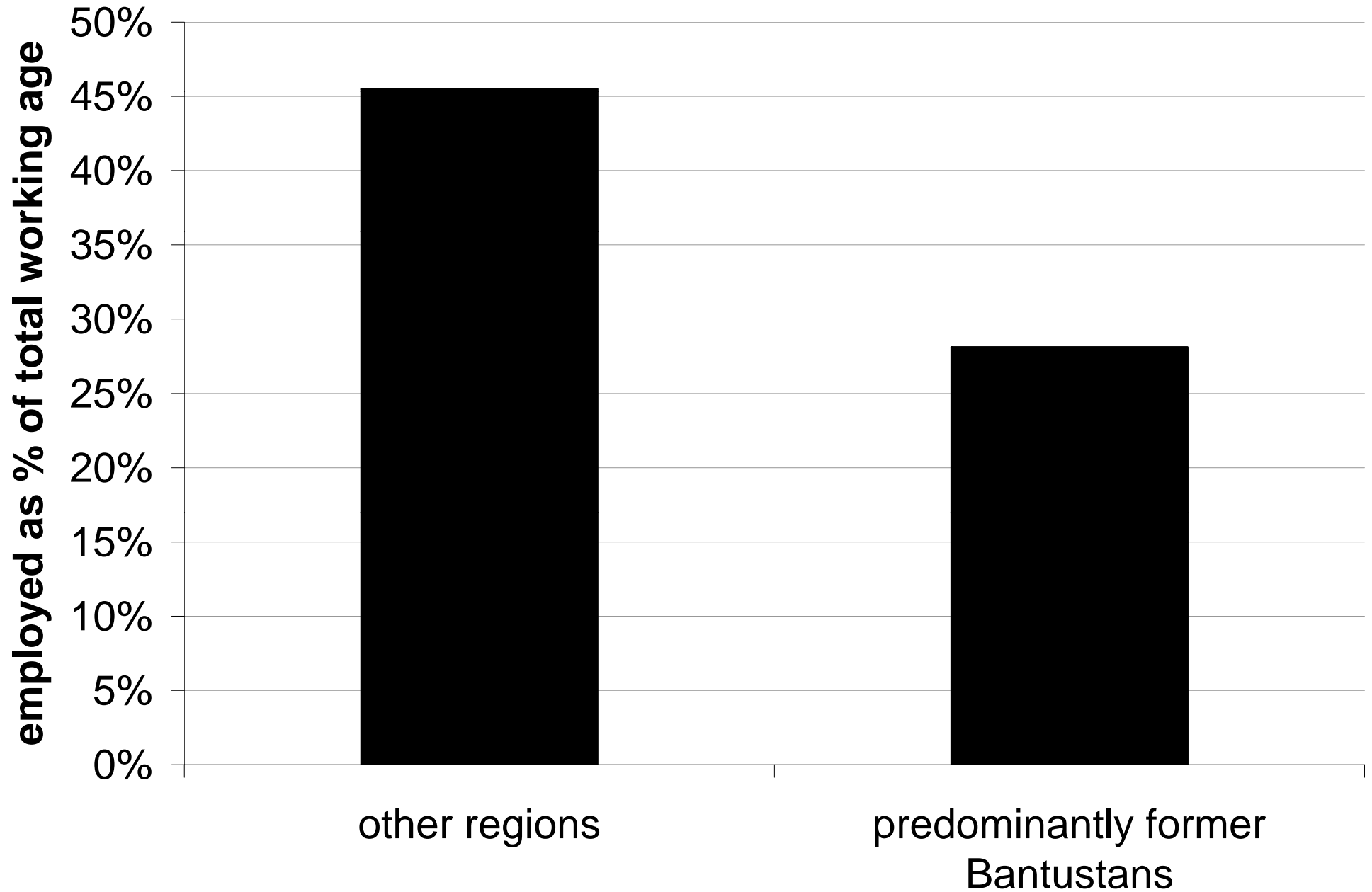


Absorption and unemployment rate

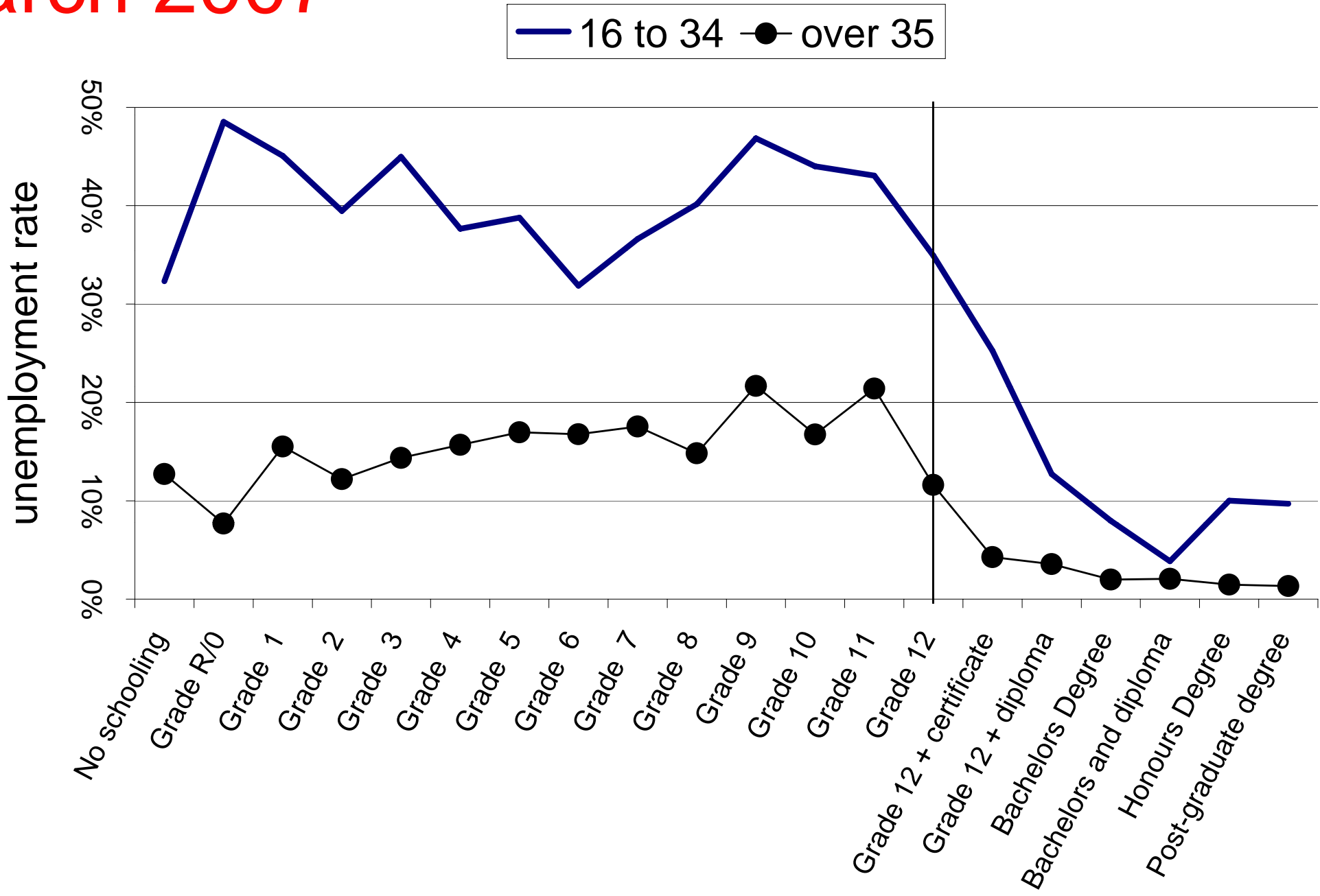
■ unemployment rate ■ absorption rate (employed as % of working age population)



Absorption rate by region, March 2007

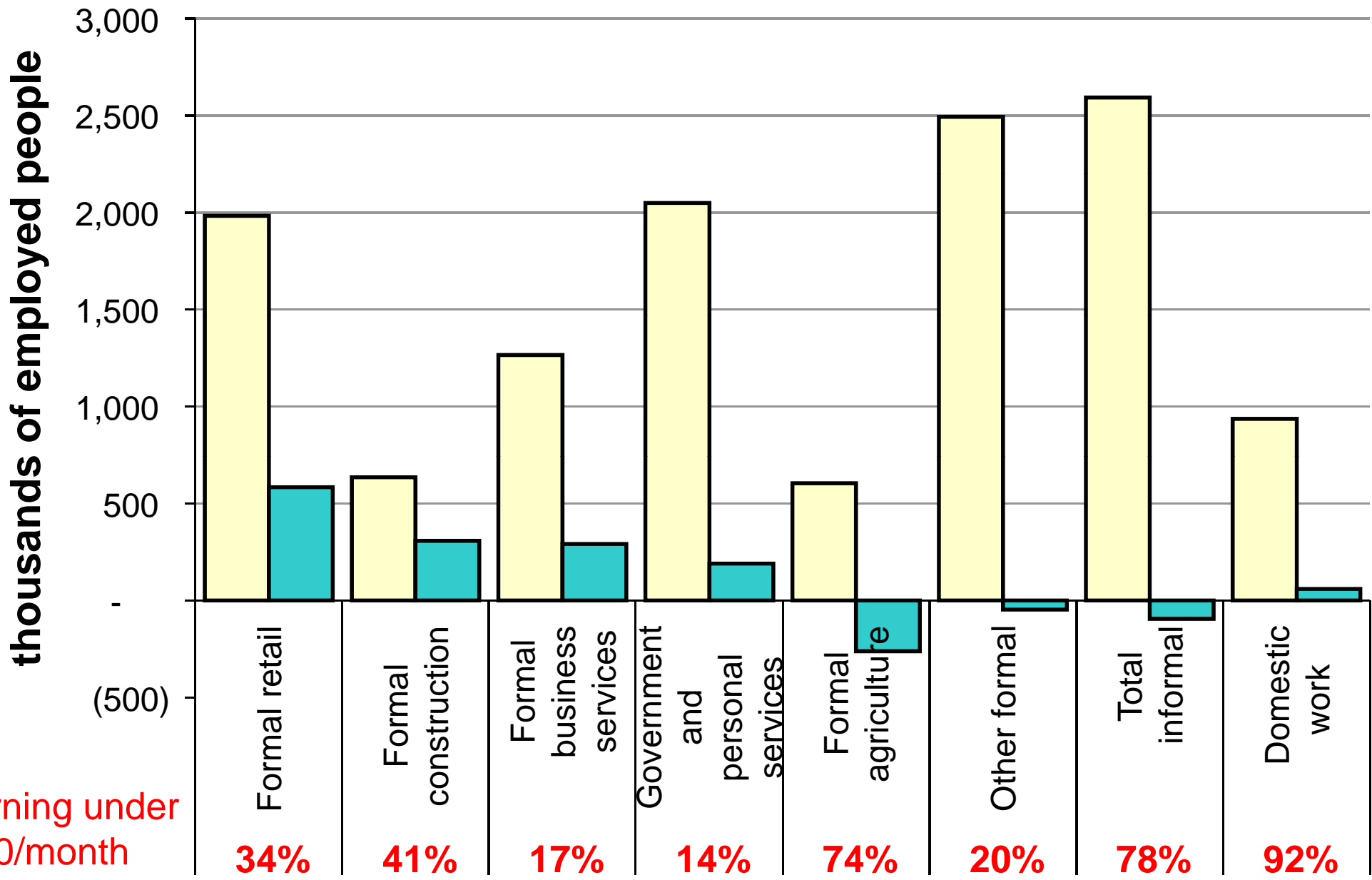


Unemployment rate by education level, March 2007



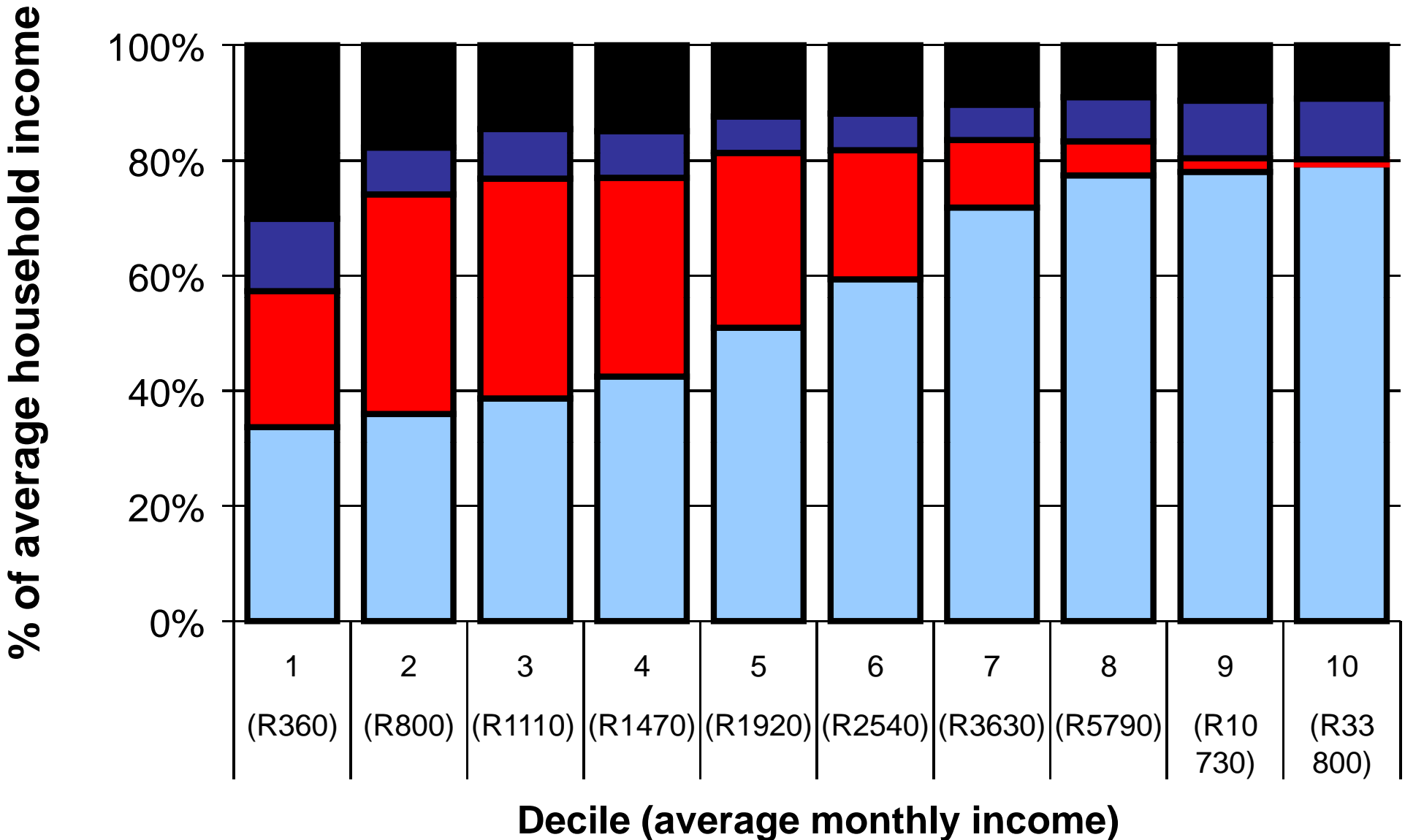
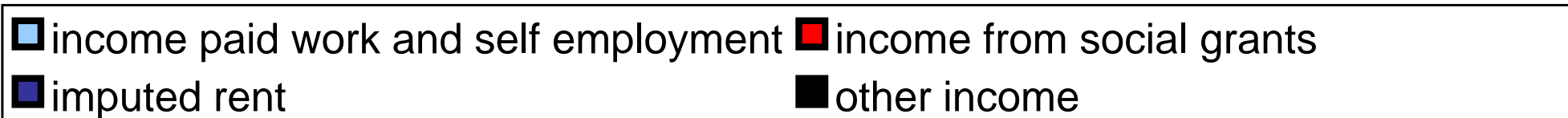
Employment creation and wages by industry

Employment in March 2007
 Change from March 2002

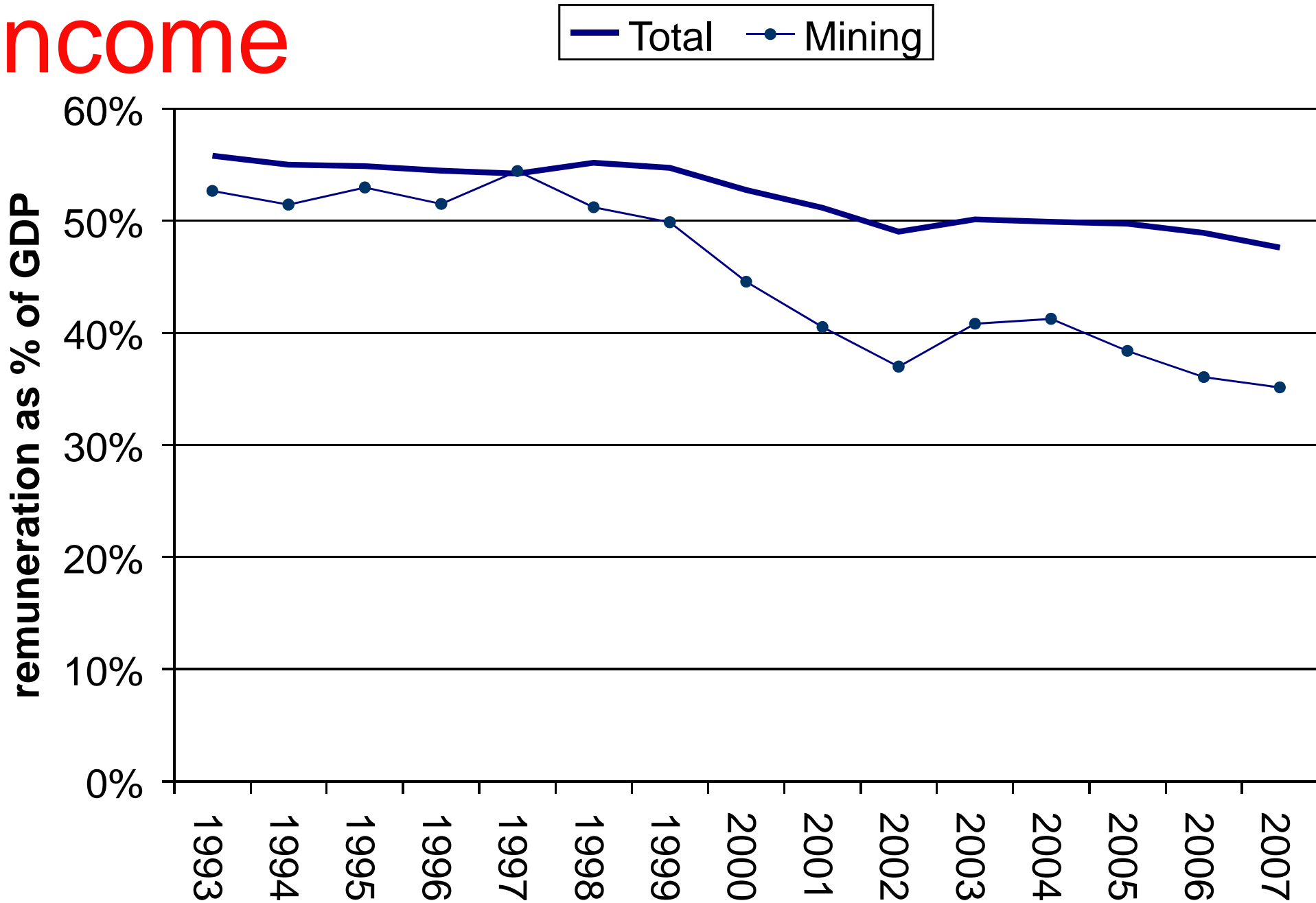


% earning under R1500/month

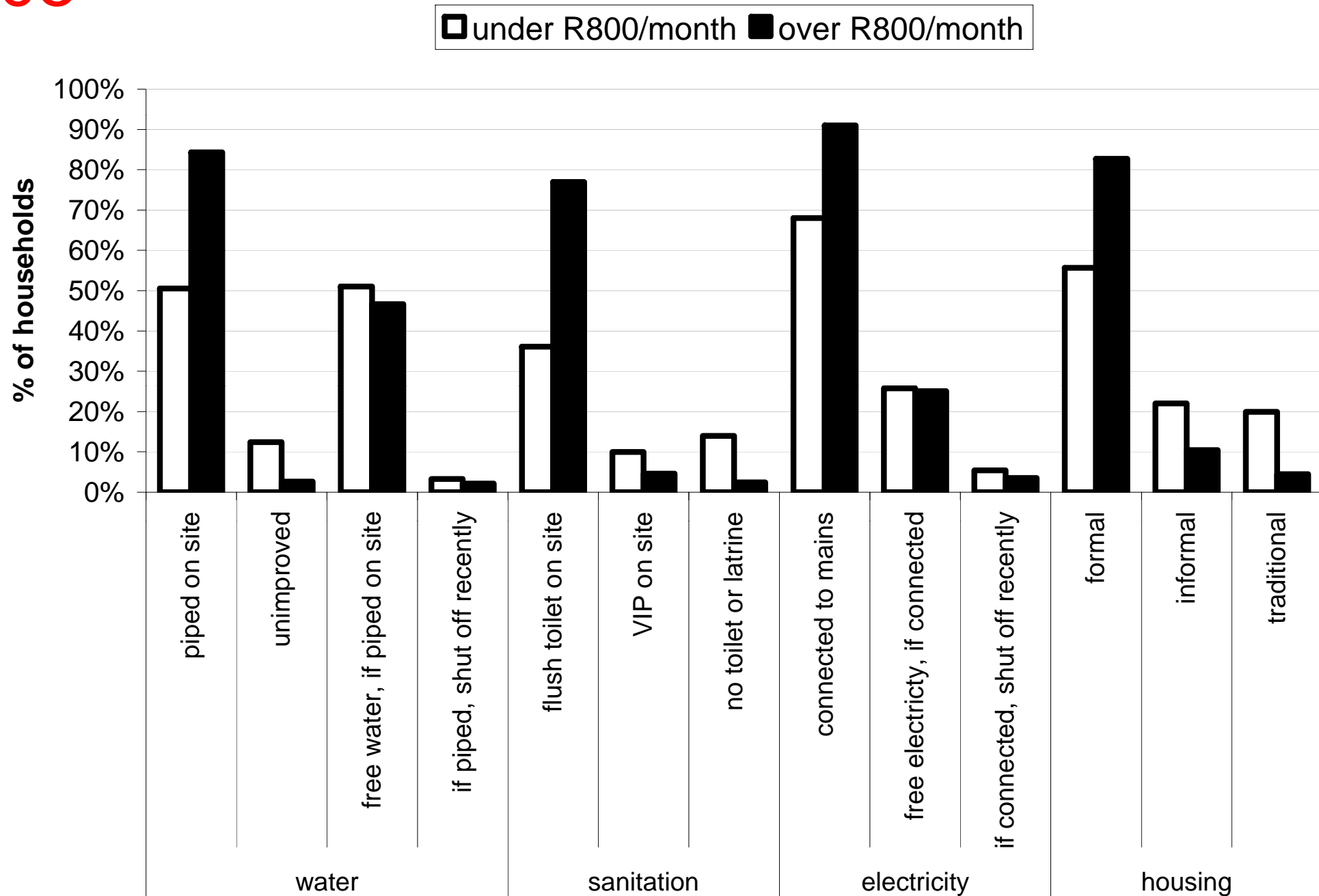
Source of income by quintile



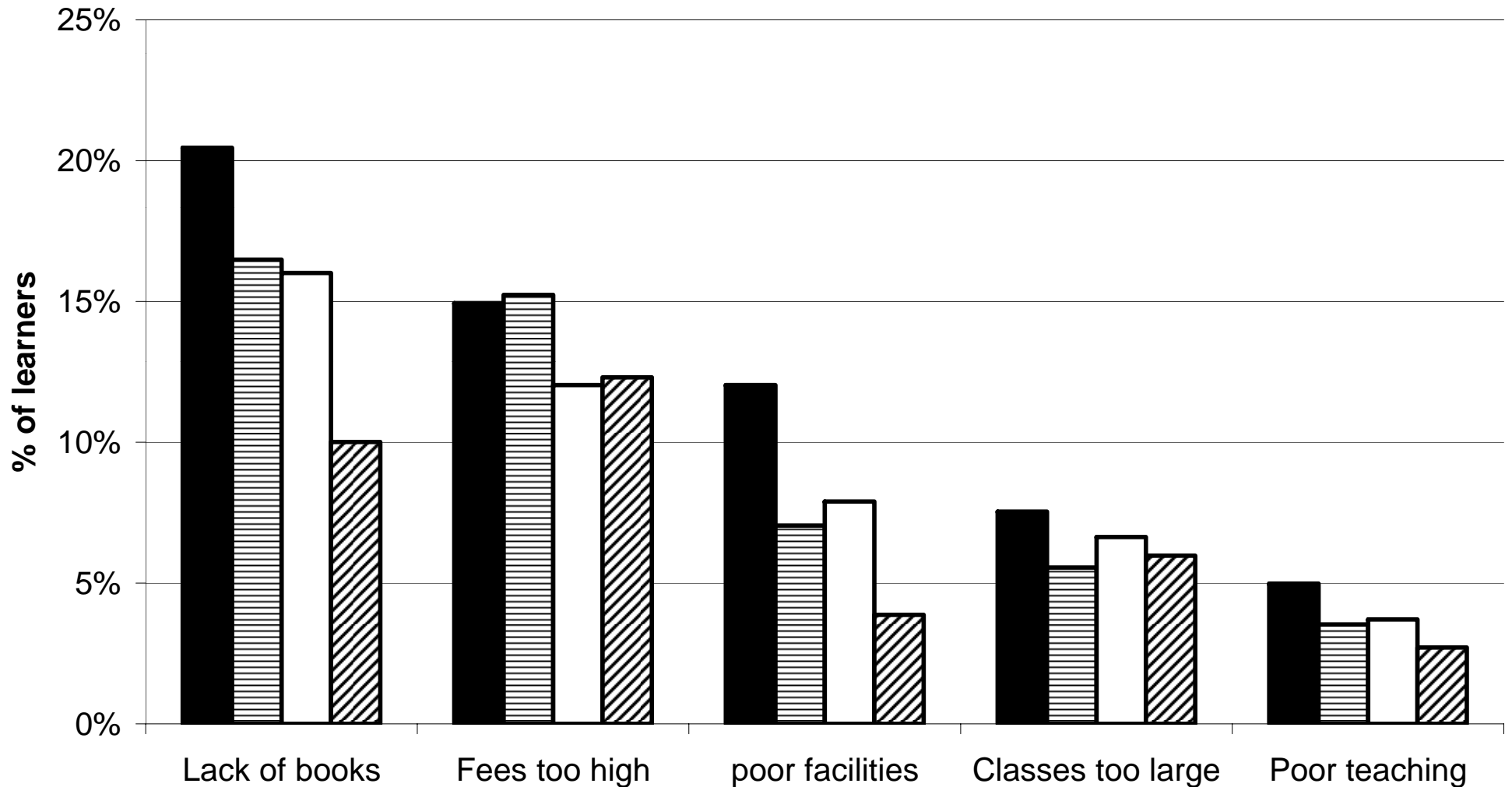
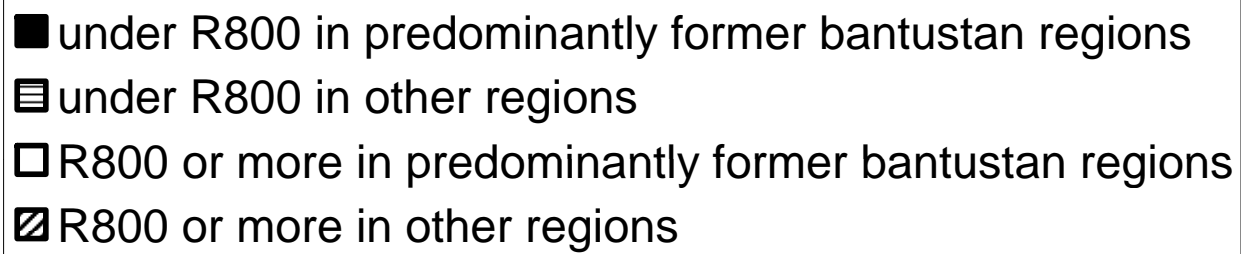
Remuneration as % of total income



Infrastructure by household expenditure, 2005



Education by expenditure level, 2005



Different paradigms

The RDP project

- ★ Massive transfers to communities through the state would overcome historic social and economic marginalisation
- ★ Why didn't it work:
 - ★ Conventional government services would have to be massively funded to break cycle of poverty
 - ★ Especially as only social grants targeted strongly at the poor

Supporting micro enterprise

- ★ Encourage small-scale entrepreneurship in order to improve incomes for poor households
- ★ Contrast to conclusions of 2E project!
- ★ Why it hasn't worked:
 - ★ Outside of agriculture and retail, not much scope for small-scale production in an open economy
 - ★ Lack of a systematic effort to establish the requisite access to assets, infrastructure, skills and institutions where it might be possible
 - ★ Lack of a common vision for land reform

Employment-creating growth

- ★ Encourage relatively labour-intensive industries plus massive expansion in public employment
- ★ Why it hasn't worked:
 - ★ Economic departments do not see employment creation as central priority (although AsgiSA helped)
 - ★ Blame for high unemployment put on low education levels, rather than failure to generate appropriate jobs
 - ★ State as a whole does not agree on direction of growth that could create employment
 - ★ Disjunctures between infrastructure provision, DFIs and economic departments
 - ★ Inability to address specific obstacles to employment creation, especially unreliable and expensive transport, inadequate education and healthcare for working people, expensive and overworked economic infrastructure, and problems with land reform

The real challenge...

- ★ All three paradigmatic approaches need to be combined
- ★ But redirecting growth to create employment on a mass scale is critical
- ★ ***Why is it so hard for the SA state to prioritise employment creation?***