TRADE & INDUSTRIAL POLICY STRATEGIES

info@tips.org.za
+27 12 433 9340
www.tips.org.za

Neva Makgetla
TIPS Senior Economist

WORKING PAPER

INEQUALITY IN SOUTH AFRICA: AN OVERVIEW

Neva Makgetla

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CONTENTS

ABBREVIATIONS

BEE	Black Economic Empowerment
COICOP	Classification of Individual Consumption According to Purpose
CPI	Consumer Price Index
DRC	Democratic Republic of Congo
DRDLR	Department of Rural Development and Land Reform
DSBD	Department of Small Business Development
dti (the)	Department of Trade and Industry
GDP	Gross Domestic Product
ILO	International Labour Organization
JSE	Johannesburg Stock Exchange
SA	South Africa
sefa	Small enterprise Finance Agency
UK	United Kingdom
UNCTAD	United Nations Conference on Trade and Development
US	United States

1 INTRODUCTION

A quarter of a century after apartheid ended, South Africa remained one of the most unequal countries in the world, by class, race and gender. Inequality emerged in unusually stark differences in household incomes; asset ownership, including both concentrated business ownership and household resources; access to quality education, which still largely reflected family wealth and race; and municipal infrastructure. In general, the historic labour-sending regions continued to lag far behind the rest of the country.

The core question becomes why inequality persisted in these different areas long after overtly racial laws were eliminated. This paper first reviews the extent of inequality along each dimension. It then analyses how and why these persisted, including the effects of government policies. On this basis, it proposes strategic responses that, if carried out rigorously and on a large enough scale, could go further towards overcoming the deep inequalities that have effectively blocked both social development and economic growth in South Africa.

2 WHY IS INEQUALITY A PROBLEM?

South Africa has long ranked among the most unequal countries in the world. Economic inequality is understood here primarily as differences in incomes and wealth between groups that cannot be justified as part of the framework of economic incentives. It can be analysed in terms of the distribution of economic benefits across the population as a whole, or through differences that align with social markers such as gender, ethnicity or religion.

The economic, social and political effects of economic inequality differ qualitatively from those of poverty alone, and especially from poverty in relatively equitable countries. In particular, inequality leads to social conflict, especially where the advantaged group is disproportionately from a demographic minority. The political and social effects of profound economic inequality take the following forms. (See Berg and Ostry 2011; Erhart 2009)

- In deeply unequal societies, governments find it difficult to develop strong coalitions to support development strategies. Moreover, populist proposals that promise easy but unrealistic solutions for the majority often find fertile ground. This is particularly true in democracies like South Africa, where the marginalised have political strength but the rich control key economic decisions, setting up a continually contested balance of power.
- A central area of contestation in unequal societies emerges around property rights, often causing investor uncertainty. The result is that deeply unequal societies like South Africa typically experience slower growth. In contrast, for the normal range of inequality the Gini coefficient and growth are not strongly correlated.
- There is evidence that poor people in unequal societies face much greater stress than in more equal societies, even if they are well off by the standards of less developed economies.
- Unequal societies suffer from higher levels of individual crime and violence, which is often accompanied by state violence against poor and marginalised communities in order to suppress both crime and protests.

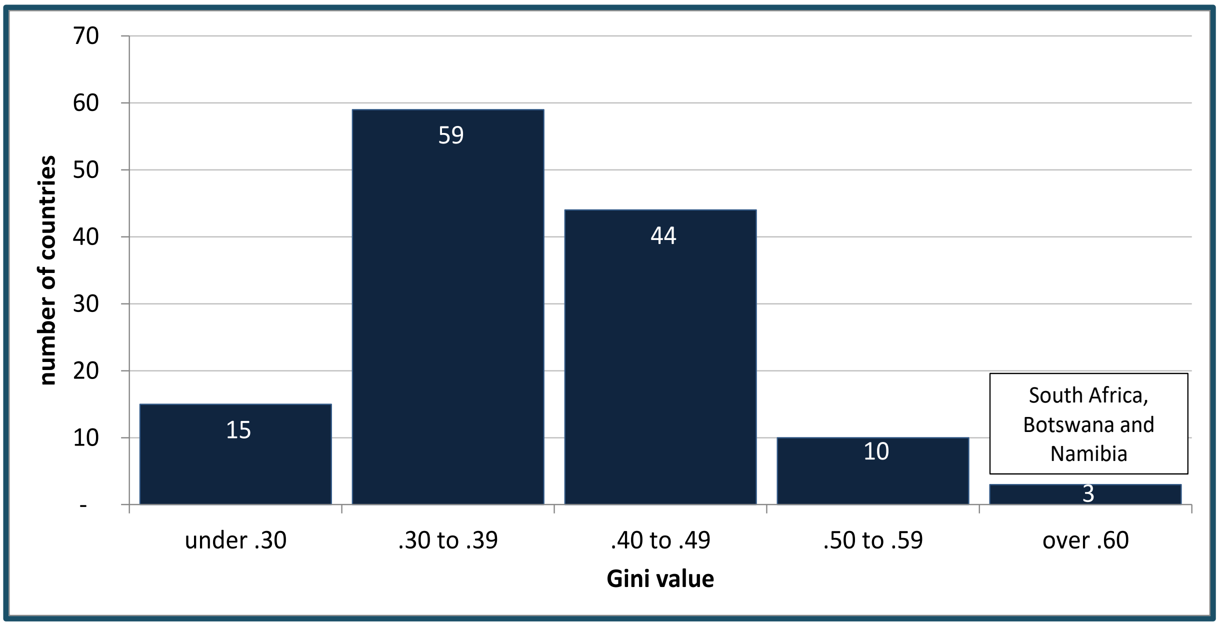
3 MEASURING INEQUALITY IN SOUTH AFRICA

This section assesses five dimensions of inequality in South Africa: the distribution of income between households; corporate and household assets; education; household infrastructure; and the position of the historic labour-sending regions (that is, the former "homelands" or "Bantustans"). In each case, it focuses on overall economic inequality, while providing some information by race and gender.

3.1 Income distribution

The standard measure of inequality is the Gini coefficient, which reflects the relative share of rich and poor households in total household income. The coefficient ranges from 0 to 1, with a higher Gini indicating greater inequality. In the mid-2010s, South Africa was among three countries that reported Gini coefficients over .60; the majority were between .30 and .49, as Graph 1 shows. That said, only around 130 countries reported a Gini at all between 2006 and 2015, and some countries significantly understated the extent of inequality.[1]

Graph 1. Distribution of countries by Gini coefficient ranges (a)

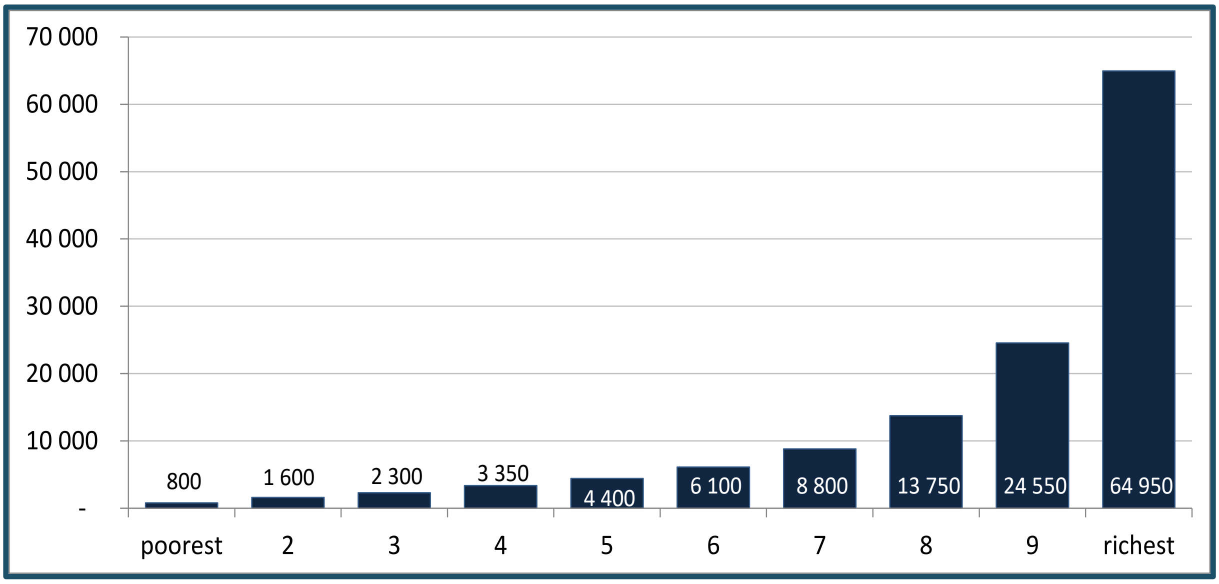


Notes: (a) Based on latest World Bank estimate of Gini coefficients for individual countries from 2006 to 2015. Estimates are provided for 131 countries out of 217. Countries that do not report a Gini include Saudi Arabia, Qatar, Iraq, both Koreas, Myanmar, Algeria, Kenya, Ghana and Egypt as well as most very small economies and island states such as Palau and the Virgin Islands. *Source:* Calculated from World Bank. World Development Indicators. Electronic database. Series on Gini coefficient. Downloaded in March 2018.

[1] Angola, for instance, claimed a Gini of .3 in the mid-2010s, which would make it more equitable than France, the United Kingdom, Germany and a host of other countries, and only slightly more unequal than Sweden, Denmark and Norway.

The following graph shows the median income per household[2] in 2015, updated to 2017 rand. The richest decile, with incomes of over R26 000 a month in 2017 terms, controlled around half of total household income, over three times the share of the poorest 60%.[3]

Graph 2. Median monthly household income in 2015, reflated to 2017 rand (a)



Note: (a) Reflated using average annual inflation rate for 2015 and 2017. *Source:* Calculated from Statistics South Africa. Living Conditions Survey 2014/5. Series on household income and household income deciles. Electronic database. Downloaded from Nesstar facility at www.statssa.gov.za in August 2018.

The distribution of income was associated with broad economic roles. As Figure 1 shows in schematic terms:

- The poorest 30% of households, with incomes under R2 500 or so a month, was largely excluded from the formal sector. In this group, three out of five households reported no employed or self-employed people at all. Almost half of adults in these households survived principally on social grants. For another tenth, remittances from people living outside of the household formed the main source of income.
- The next 30% of households had monthly incomes ranging from R2 500 to R6 000. They were largely supported by informal work and low-level formal employment – mostly as farm and domestic workers, as well as in other low-paid services, light industry and retail. Still, a fifth of households in this group had no employed people, and social grants constituted the main source of income for 45% of adults.

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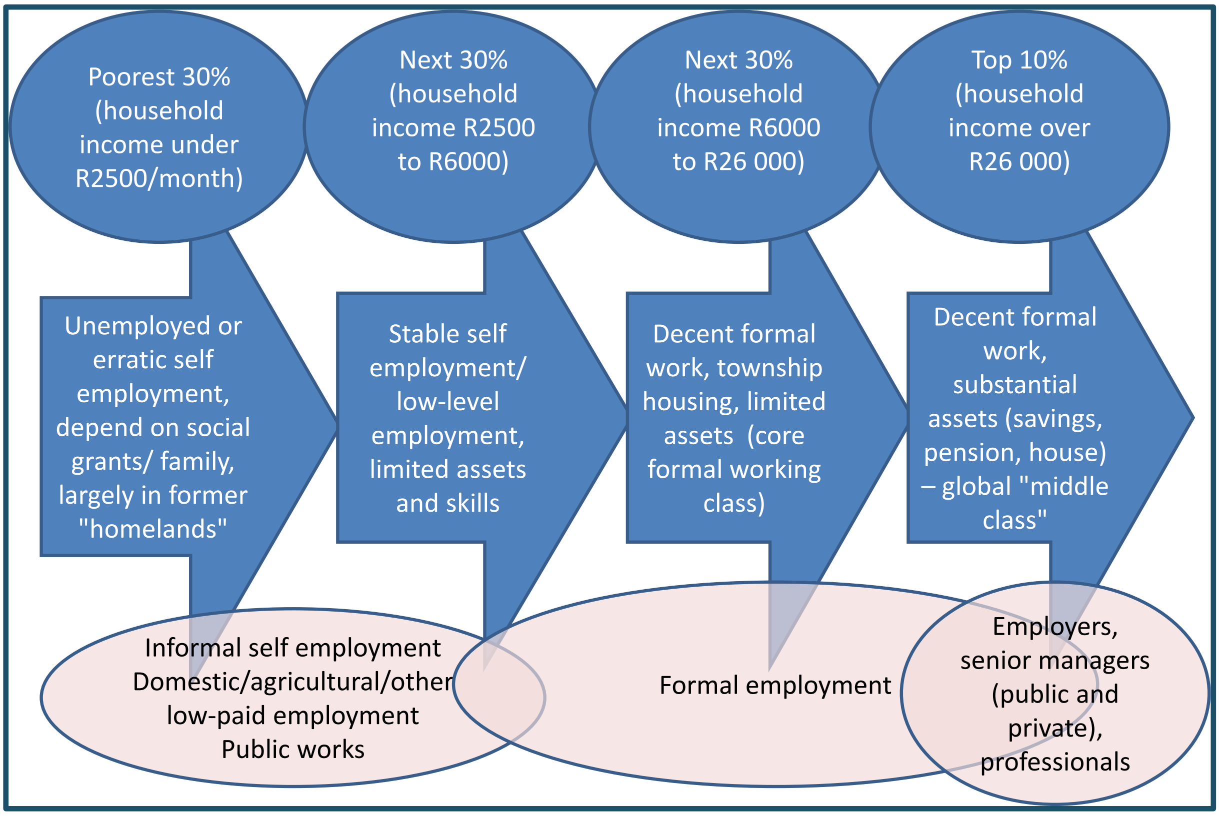
[2] This document uses income per household, rather than per person, throughout. For purposes of calculating the distribution of household incomes, households can be ranked in terms of the income of reporting households as units, or in terms of per-person income within households. Given the same household income, larger households have lower per-person incomes. In practice, using per-person household income means that households in the lowest deciles are relatively large, while using complete households as reporting units the poorest households are smaller than average. Arguably figures on government programmes should use income per person, since the aim is to improve living conditions, while figures on earnings from the economy use income per households, to reflect the returns to employment and business ownership for households. The different methods do not substantially affect findings on overall inequality, but the per-person approach reveals higher dependence on social grants in the poorest quintile in particular.

[3] Calculated from Statistics South Africa. Living Conditions Survey 2014/5. Electronic database. Series on household income. Downloaded from Nesstar facility at www.statssa.gov.za in August 2018.

- The sixth through ninth deciles comprised the core formal working class, with incomes ranging from R6 000 to R26 000 a month and an average of almost 1,5 employed people in each household. This group consisted largely of employees in heavy industry and mining; health, education and other skill-intensive services; and formal small and medium business owners.
- Finally, in the top decile of households, with earnings above R26 000 a month, most families had at least two income earners, with most employed as managers and high-level professionals. A quarter of adults got the bulk of their income from capital, mostly from business ownership. In the poorest 60% of households, in contrast, only 10% of adults got the bulk of their income from capital; for the fourth to seventh decile, the figure was 16%.

Figure 1. The distribution of income and economic roles

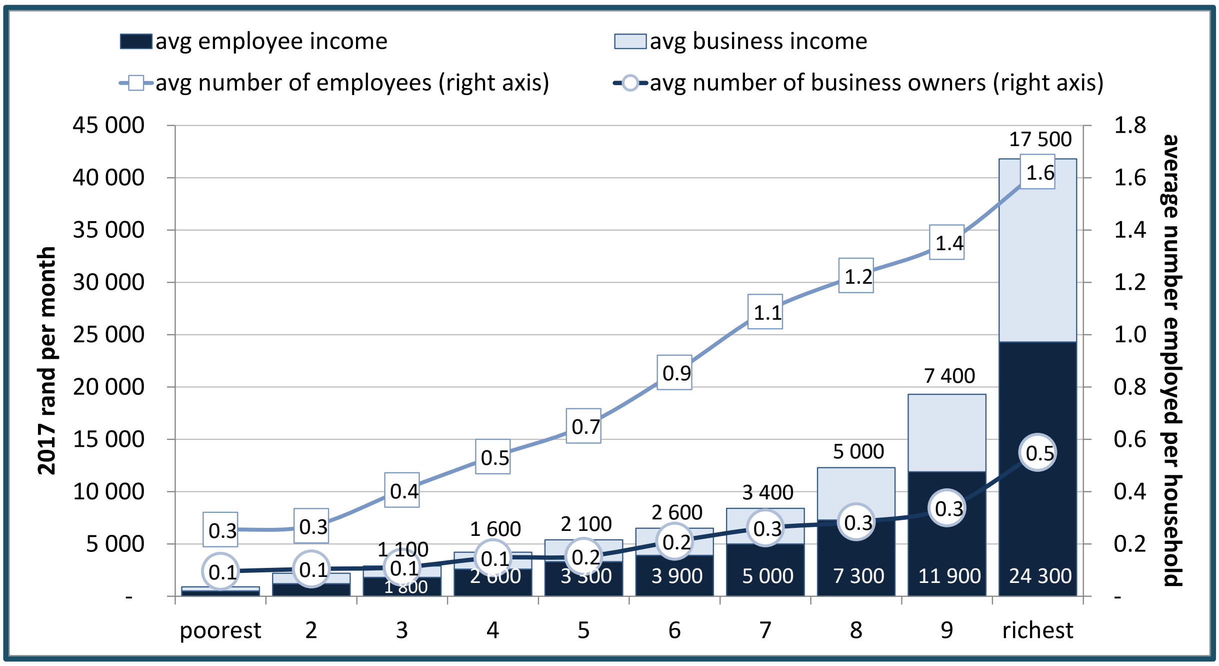


The distribution of household income largely reflected:

- Employment rates, as lower-income households typically have few or even no employed people;
- Differences in income from work, whether wages or business income; and
- Unequal ownership and control of assets, including businesses, financial investments and housing.

As Graph 3 shows, both the average number of people employed and earnings per employed person were higher in better-off households. In addition, the richest decile received a comparatively large share of its income from business ownership.

Graph 3. Average income per earner from wages and business (in 2017 rand) (a) and average number of people employed as employees or business owners, by decile, 2015



Note: (a) Reflated using average annual inflation rate for 2015 and 2017. *Source:* Statistics South Africa. Living Conditions Survey 2014/5. Electronic database. Series on household income by COICOP code and household income decile. Downloaded from Nesstar facility at www.statssa.gov.za in August 2018.

In a static sense, the difference in incomes from work across deciles was more important for income inequality than employment levels. If levels of employment were equalised across deciles without changing differentials in average earnings, the overall income distribution would be more unequal than if earnings differentials were eliminated without changing employment levels. This is a purely illustrative theoretical exercise, since in practice higher employment levels in themselves would bid up wages for lower level workers. Still, the finding indicates that addressing income inequality requires both job creation and measures to address South Africa's unusually large wage gap among the employed.

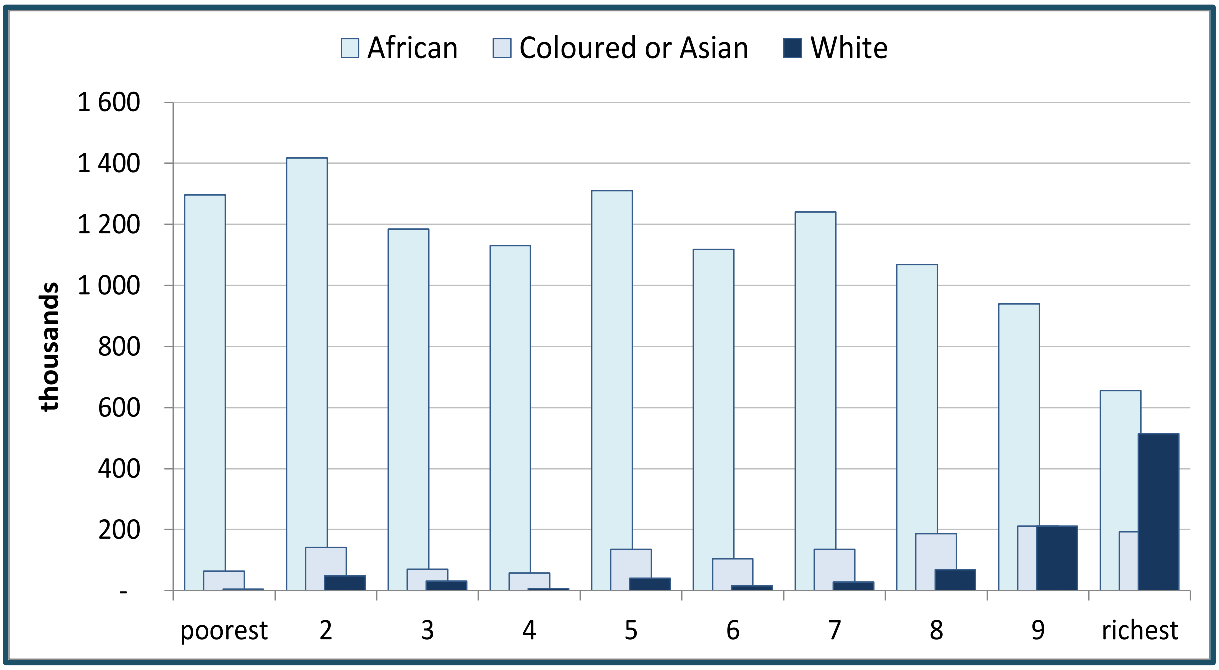
In 2017, the median household income still varied sharply with race. For Africans it was R3 050 month, compared to almost R6 000 for Coloureds and Asians and R25 000 for whites. Three out of 10 Coloureds and Asians and around one in eight white households lived on less than R3 000 a month, compared to half of Africans.[4]

While economic inequality continued largely to track race, the richest group became somewhat more representative from 1994. In 2017, in the richest 5% of households, 42% were African, 13% were Coloured or Asian, and 45% were white. In contrast, in the other 95% of households, 86% were African, 9% Coloured or Asian, and 5% white. In the poorest 60%, 91% of households were African and 2% white.[5]

[4] Calculated from Statistics South Africa. General Household Survey 2017. Electronic database. Series on population group of household head and household income. Downloaded from Nesstar facility at www.statssa.gov.za in March 2018.

[5] Calculated from Statistics South Africa. General Household Survey 2017. Electronic database. Series on population group of household head and household income. Downloaded from Nesstar facility at www.statssa.gov.za in March 2018.

Graph 4. Number of households in each income decile by race (thousands of households), 2017



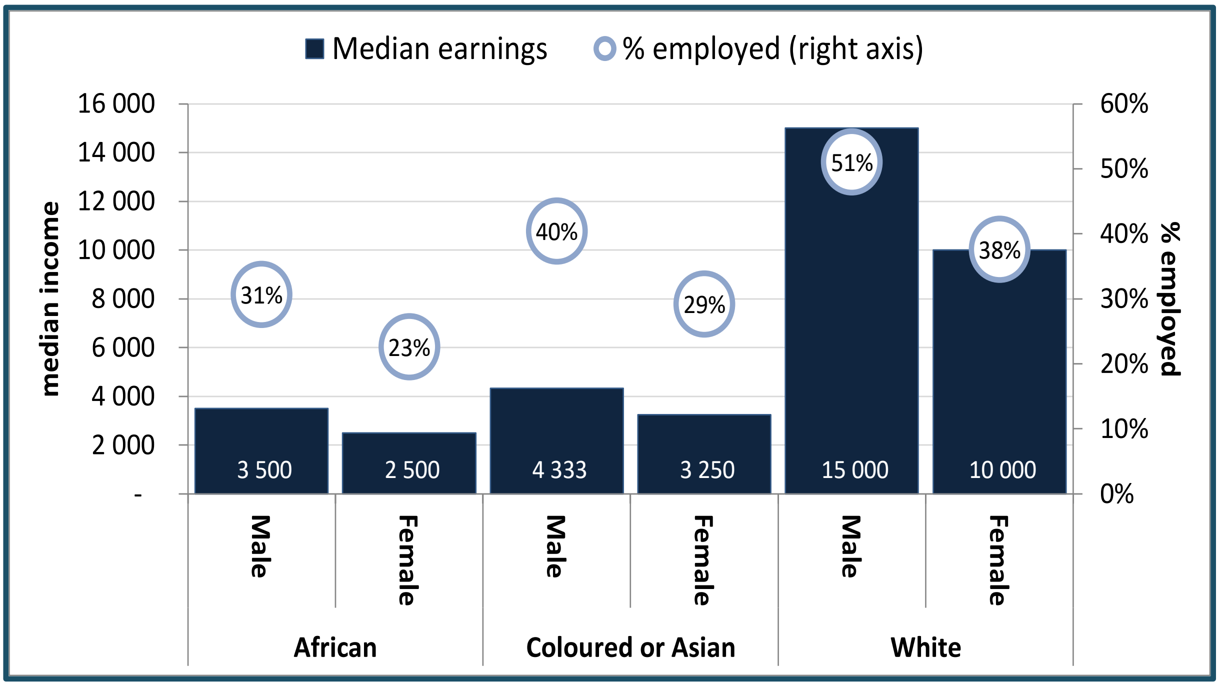
Source: Calculated from Statistics South Africa. General Household Survey 2015. Electronic database. Series on household income. Downloaded from Nesstar facility at www.statssa.gov.za in November 2016.

The available information suggests a significant improvement in representivity among rich households, without a reduction in overall income inequality. The earliest reliable data on household income by race come from the 2001 Census. It found that in the top 6% of households, 26% were African and 17% were Coloured or Asian, while 57% were white. These findings are not fully comparable with the 2017 figures, but indicate some improvements in representivity.[6]

Gender inequality was also significant, but harder to measure at household level. Most households had both adult women and men members, and the data do not indicate how resources were allocated between them. At an individual level, women generally were more likely to be jobless and to earn less than men. The proportional difference in income and unemployment between men and women of the same race was, however, less than the differences by race, as Graph 5 shows.

[6] The Census used income categories rather than actual incomes and did not probe responses. The General Household data, used for the 2017 findings, estimated income for households based on responses around separate income categories, including wages, profits and social grants.

Graph 5. Median earnings and employment ratio by gender and race, 2016



Source: Calculated from Statistics South Africa. Labour Market Dynamics 2016. Electronic database. Series on main work, earnings of employers and employees, and occupation. Downloaded from Nesstar facility at www.statssa.gov.za in December 2017.

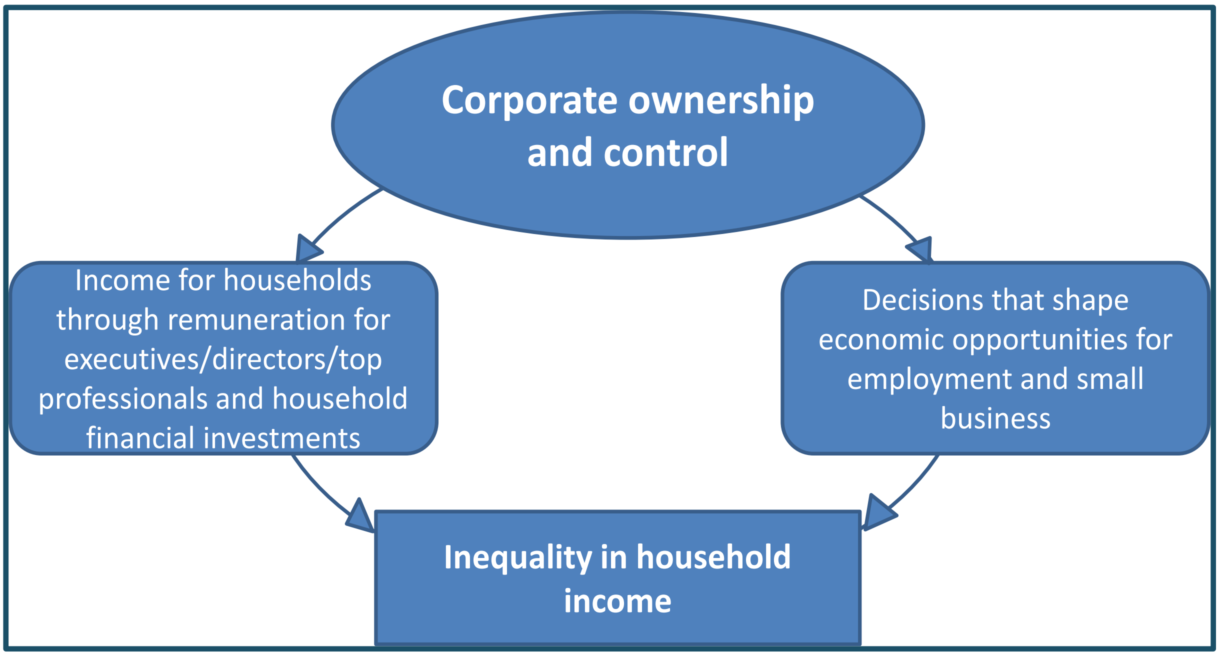
Overall, the unusually deep income inequalities in South Africa were driven by a combination of high joblessness and deep differentials in earnings from wages and business ownership. In the democratic era, representivity in terms of race and gender improved without reducing the deep gap between rich and poor.

3.2 Ownership and control of assets

Unequal ownership and control of assets contributes to inequalities in both household incomes and economic power. At the household level, ownership of assets cushions families against crises and enables them to take advantage of new opportunities. The large-scale control exercised by major corporations affects inequality even more. On the one hand, it lays the basis for differentials in earnings from both work and financial assets. On the other, it empowers managers and shareholders to make crucial decisions around investment, employment and procurement that in turn affect inequality in the workplace, regionally and across households.

Figure 2 illustrates how dominant businesses impact on economic inequality through both household earnings and economic decisions.

Figure 2. The impact of corporate ownership and control on economic inequality



We can distinguish three main kinds of ownership and control over economic assets.

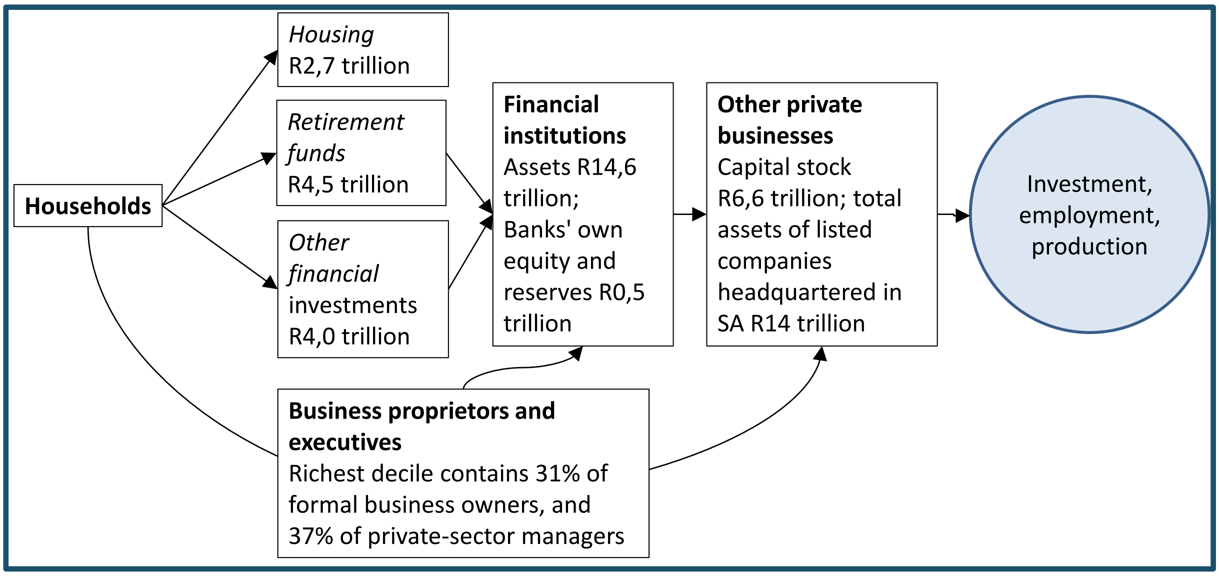
- Direct owners of businesses both control key decisions and benefit directly from any profits.
- Through financial holdings, households and companies get a share in profits in return for investing or lending funds, but exercise only limited and usually indirect control over management decisions.
- In large companies, high-level executives and managers have power without direct ownership, largely determining the use of economic resources that they do not themselves legally own.

As large institutions, big business has complex systems of ownership, control, and access to resources. Legally, listed companies are owned by shareholders, and therefore ultimately by households. The vast majority of shareholders, however, exercise no direct control, although they enjoy a share in profits. In large companies, in practice, managers make most decisions, while the extent of influence exercised by shareholders and their representatives on the board of directors varies by company.

Economic power and ownership is further complicated by the role of the financial sector, which in South Africa is unusually large. Financial companies' loans and investments to households and businesses count as their assets, and far exceed their own capital. In practice, however, they provide these assets as investments and loans to other companies and to households, which in turn effectively decide how to use them on a day-to-day basis. Decisions by lenders and investors constrain but, in most cases, do not fully determine choices by producers.

In these circumstances, the direction of investment, job creation and growth results from an opaque system of engagements between financial and other companies in the context of regulations and contracts that shape ownership and control. Figure 3 provides a schematic illustration of the complex structure of ownership and control over assets. For each kind of assets, the type of control varies, as noted. For instance, households typically only get returns on their financial investments, without gaining control. In contrast, the value of assets that financial institutions manage on behalf of households and businesses far exceeds their own equity and reserves.

Figure 3. The structure of ownership and control of major assets (a)



Note: (a) Figures on assets for 2017; figures on employment for 2016. *Source:* Figures on assets from Reserve Bank. Interactive data set. Series on fixed capital stock, assets and liabilities of bank and non-bank financial institutions, secondary market capitalisation of the Johannesburg Stock Exchange, and household balance sheet. Downloaded from www.resbank.co.za in August 2018. Figures on business owners and private-sector managers calculated from Statistics South Africa. Labour Market Dynamics 2016. Electronic database. Series on main work, earnings of employers and employees, and occupation. Downloaded from Nesstar facility at www.statssa.gov.za in August 2018; assets of listed companies with primary listing in South Africa from Who Owns Whom. Report Generator. Interactive database. Series on assets of listed companies with primary listing in South Africa. Downloaded from www.woweb.co.za in August 2018.

As Figure 3 indicates, the different forms of ownership and control had the following magnitudes in in 2017.

- There are no figures on the total value of private businesses, including unlisted enterprises. As a group, private business had total capital stock worth around R6,5 trillion, comprised principally of machinery and equipment plus buildings. But they also owned substantial intangible assets, essentially various forms of knowledge and branding, as well as financial holdings that did not show up as capital stock. For instance, businesses' bank deposits totalled R1,8 trillion. Companies with their main listing on the Johannesburg Stock Exchange (JSE) had a total of R14 trillion in reported assets in 2017. That figure excludes non-listed businesses as well as the companies listed in Johannesburg but domiciled abroad, including for instance South African Breweries and some top mining firms.

- Banks and other financial institutions managed assets worth R14,5 trillion. Bank assets alone equalled R5,1 trillion. They were financed by deposits of R1,8 trillion from business and R1,1 trillion from households, as well as R0,5 trillion in the banks' own capital and various other forms of managed funds. Non-bank financial institutions, including pensions, managed assets equal to R9,4 billion, with 57% in shares and 29% in bonds. These holdings were managed by a variety of companies but funded principally by reserves for retirement and insurance funds. Retirement savings contributed around 40% of the holdings of non-bank financial institutions.

- The richest 10% of households owned well over half of household assets of all kinds. As a group, households held R8,5 trillion in financial assets, of which R4,5 trillion was in retirement funds plus long-term insurance, and R4,0 trillion in other investments (including R1,1 trillion in bank deposits). These holdings entitled some households, almost exclusively in the richest 20%, to a share in profits from companies, as well as reaping capital gains when asset prices rose. Still, most households had no control over decisions by businesses in which they owned shares, except very broadly through investment policies adopted by fund managers and or retirement-fund trustees. In addition to financial investments, households held R4,3 trillion in non-financial assets (excluding consumer durable such as cars). Of that total, R2,7 billion or almost two thirds took the form of housing. Households, however, owed almost R1 trillion in mortgage bonds on housing.
- The richest households also gained a degree of economic power as well as disproportionately high remuneration from positions as executives and managers in the formal sector. In most cases the individuals concerned did not legally own companies, but they often exercised effective control as managers and executives. In the largest companies, pay for executives competed with multinationals in Europe and the United States (US) and often included vested shares in addition. These pay inequalities formed a central factor behind wage inequalities in South Africa, as discussed below.
- Finally, public enterprises owned fixed capital stock worth R2,2 trillion in 2017 (in constant 2017 rand)[7], mostly in Transnet, Eskom and Sanral. That was almost a fifth of total fixed capital stock, up from a seventh a decade earlier. Government departments and municipalities had assets worth another R2,1 trillion in economic and social infrastructure, or around a fifth of total capital stock. In theory, in a democracy, the state owns its assets on behalf of the public. In practice, day-to-day control reflected engagements between managers and the government executive, who in turn were constrained by economic realities; the (often conflicting) demands of creditors and political constituencies; and roleplayers' personal interests in keeping their jobs and the associated remuneration (which was typically competitive with the largest private companies).

The next two subsections analyse the direct and indirect impact of concentration in corporate ownership on household incomes. They are followed by a review of the distribution of household assets.

3.2.1 Business ownership and household inequality

Ownership in South Africa was concentrated by international standards. On the one hand, a relatively small number of large companies dominated the economy. On the other, self-employment contributed less to employment than the norm for upper-middle-income economies, with a particularly large backlog in agriculture.

A tiny fraction of companies accounted for the bulk of profits and income. In 2015, over 700 000 companies registered for personal income tax; just 630 of them, with taxable income of over R100 million apiece, accounted for two thirds of total company tax paid.

[7] Reflated with the deflator for gross fixed capital formation, rebased to 2017.

(Calculated from SARS 2018a Worksheet 3.6) Twenty companies listed on the Johannesburg Stock Exchange had four fifths of the assets and profits of all listed companies, as Table 1 shows, with a significant share of their assets listed outside of South Africa. If only companies with a primary listing in South Africa are included, the top 20 companies accounted for three quarters of assets. With four exceptions – Anheuser Busch, British American Tobacco, MTN and Naspers – the largest companies were all in the mining value chain or finance.

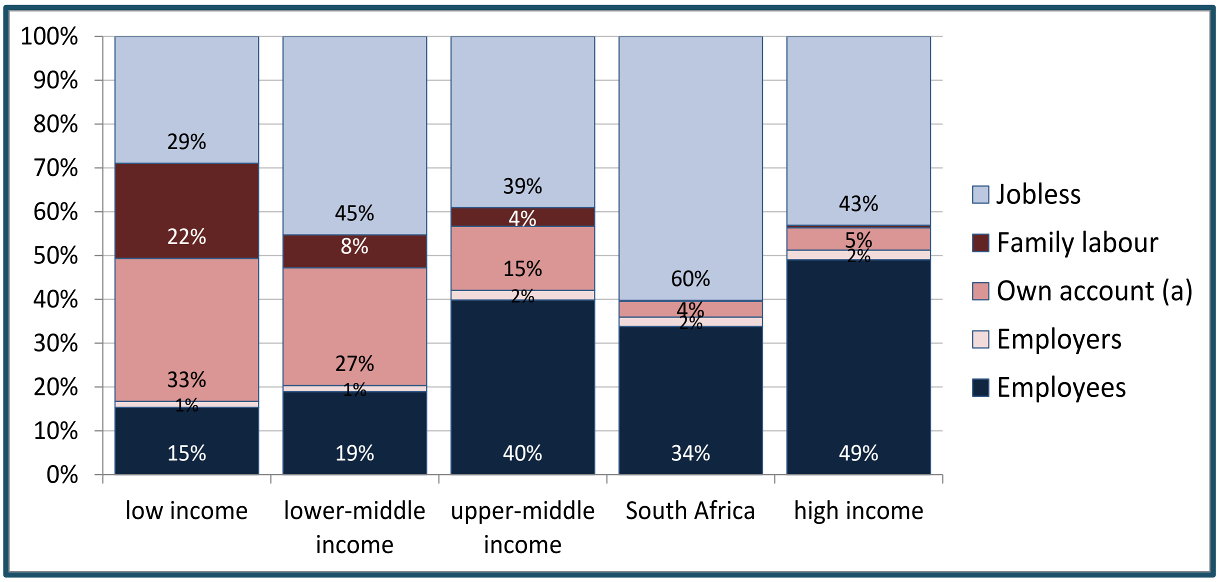
Table 1. Companies listed on the Johannesburg Stock Exchange, 2018

COMPANY	GLOBAL ASSETS (Rbn)	CUMULATIVE % OF ASSETS	GLOBAL EMPLOYEES	OPERATING COUNTRIES
Anheuser-Busch InBev SA/NV	3,3	12%	200 000	Belgium; SA
British American Tobacco Plc	2,4	21%	49 817	SA; UK
Old Mutual Plc	3,1	32%	68 527	SA; UK
Standard Bank Group Ltd	2,0	39%	35 148	SA
Glencore Plc	1,8	46%	154 832	Burkina Faso; DRC; Jersey; Mauritania; SA; Tanzania; Zambia
FirstRand Ltd	1,2	50%	44 916	SA
Absa Group Ltd	1,2	54%	41 241	SA
Investec Ltd	1,0	58%	9 029	SA
Investec Plc	1,0	61%	9 029	SA; UK
Nedbank Group Ltd	1,0	65%	31 887	SA
Sanlam Ltd	0,7	68%	15 856	SA
Anglo American Plc	0,7	70%	80 000	SA; UK
Naspers Ltd	0,5	72%	25 000	SA
MMI Holdings Ltd	0,5	74%	17 230	SA
Liberty Holdings Ltd	0,4	75%	9 792	SA
Sasol Ltd	0,4	77%	30 900	Mozambique; SA
Richemont	0,4	78%	28 580	SA; Switzerland
Alexander Forbes Group	0,3	79%	3 554	SA
MTN Group Ltd	0,2	80%	15 901	SA

Source: Who Owns Whom. Report Generator. Series on listed companies, assets and employment. Downloaded from www.woweb.co.za in August 2018.

At the other end of the scale, as Graph 6 shows, in 2017 only 6% of employed South Africans were employers, self-employed people and workers in family enterprise. That was 15% lower than the norm for upper-middle-income economies. Meanwhile, 60% of all South African adults were unemployed, or about 20% more than in peer economies.

Graph 6. Employment and self-employment in South Africa compared to international averages by country income level, 2017



Source: ILO. Key Indicators of the Labour Market. Interactive database. Standardised ILO estimates of status in employment and employment-to-population ratio, 15+. Downloaded from ILOSTAT at www.ilo.org in August 2018.

South Africa's backlog in self-employment was particularly stark for agriculture. In other upper-middle-income economies, in 2017 agriculture contributed 16% of total employment, largely through smallholder production; in South Africa, its share was just 6%, using figures standardised by the International Labour Organization (ILO) to facilitate comparison. (ILOSTAT 2018, page on employment by sector) The nature of ownership and control in agriculture is analysed in more detail section 3.2 below.

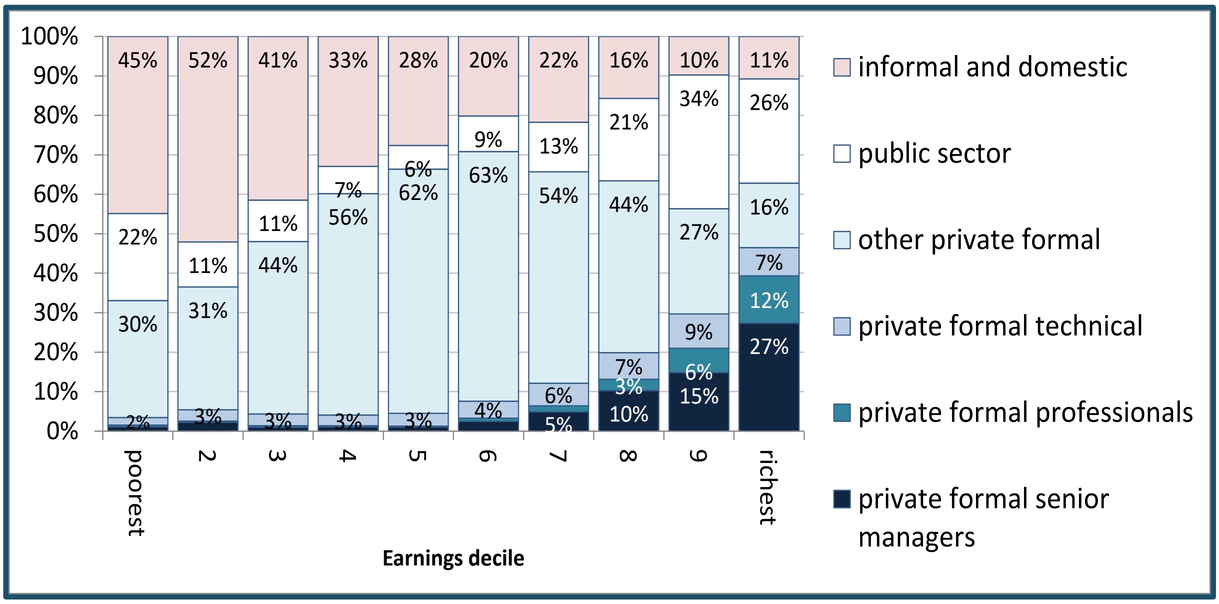
Concentrated ownership laid the basis for substantial inequalities in pay. At the top of the pay scale, listed companies typically benchmarked remuneration against Europe and the US. In contrast, pay for unskilled and semi-skilled workers in major firms fell into the middle of South Africa's wage distribution. In 2017, the median pay for chief executives on the Johannesburg Stock Exchange came to R5,2 million a year (PwC 2018, p. 62). For comparison, the median pay for a formal employee was about R50 000 a year, and for a formal employer, R130 000.[8]

In the mid-2010s, the ILO found that South Africa had among the most unequal system of wages in the world. In 2016, it analysed a sample of large upper-middle-income economies that included South Africa. (ILO 2016, p. 42) In the other economies, the lowest-paid 50% of workers earned around a quarter of all wage and salaries. In South Africa, they got half that. Outside of South Africa, the best-paid 1% received less than 10% of all wage income; in South Africa, their share was close to 20%.

High-level employment in large companies was a major reason for the relatively high incomes of the richest households. For all employed people, almost 40% of the top-paid decile were managers or professionals in formal private business. In the worst-paid 50%, virtually none were in these occupations.

[8] Calculated from Statistics South Africa. Labour Market Dynamics 2017. Electronic database. Series on earnings for employers and employees and sector 2. Downloaded from Nesstar facility at www.statssa.gov.za in December 2017.

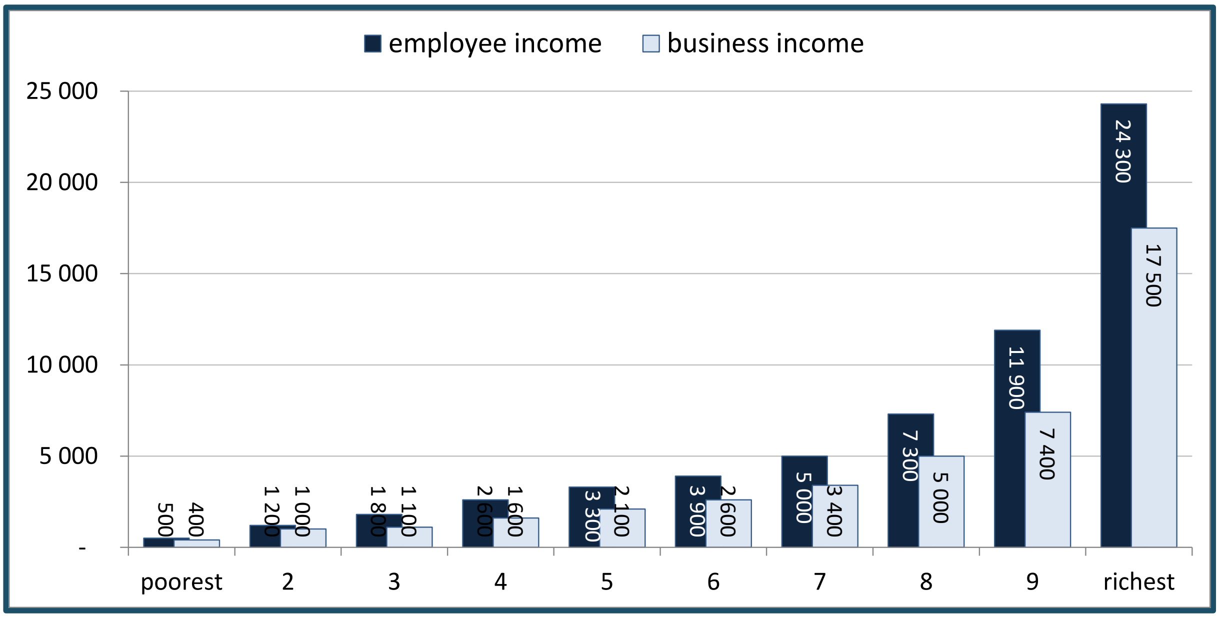
Graph 7. Occupation by earnings decile, 2016



Source: Calculated from Statistics South Africa. Labour Market Dynamics 2016. Electronic database. Series on main occupation, sector, earnings and type of work. Downloaded from Nesstar facility at www.statssa.gov.za in December 2017.

In the richest decile of households, managers and professionals in large companies generally earned more than small and medium business owners. Across household income levels, the average income was higher for employees than the average income from direct business ownership. As most higher-income households had more than one employed person, whether on a salary or as a business owner, their earned incomes were substantially higher than the average shown for individuals.

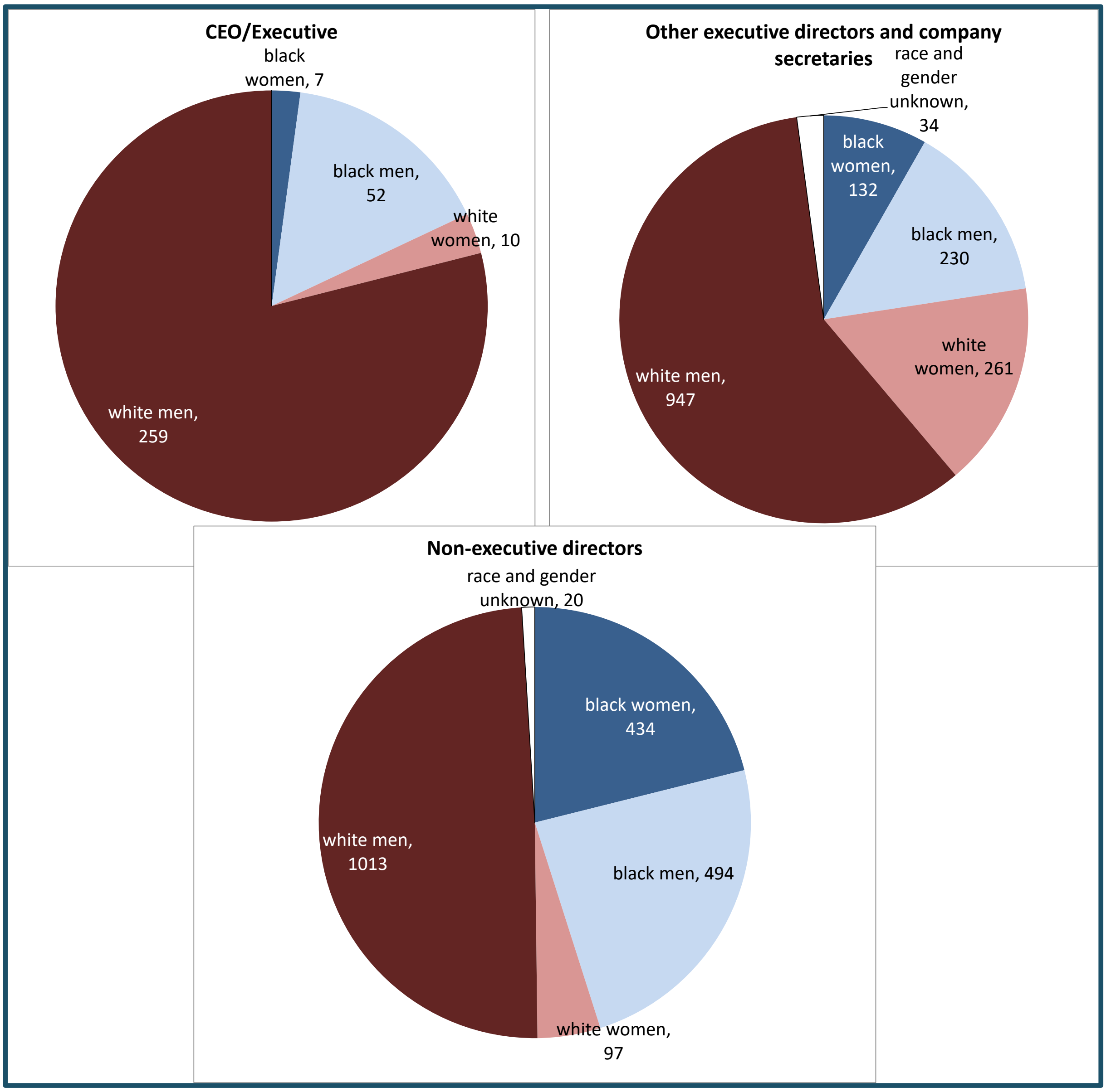
Graph 8. Average wage or salary in 2017 rand (a) compared to average income from business per employed person by household income decile, 2015



Note: (a) Reflated using average annual inflation rate for 2015 and 2017. *Source:* Statistics South Africa. Living Conditions Survey 2014/5. Electronic database. Series on household income by the Classification of Individual Consumption According to Purpose (COICOP) code and household income decile. Downloaded from Nesstar facility at www.statssa.gov.za in August 2018.

Ownership and control of large-scale business remained disproportionately white, although representivity improved after 1994. In 2017, a sample of 306 listed companies domiciled in South Africa (out of a total of 375 listed on the JSE) had almost 4 000 directors. Of that total, 56% were white men and only 15% black women. Almost four out of five listed chief executives were white men, compared to half of non-executive directors. Just 2% of chief executives of the listed companies were black women.

Graph 9. Boards of director of 306 listed companies by race and gender, 2017



Source: Calculated from Who Owns Whom. Report generator. Electronic database. Series on listed companies domiciled in South Africa, board members by race and gender. Downloaded from www.woweb.co.za in September 2018.

Small business was somewhat more representative. In mid-2018, 46% of formal employers and self-employed people were white men, down from 62% in 2002. The number of white-owned firms fell from 420 000 in 2008 to 335 000 in mid-2018. In the informal sector, there were around 1,5 million businesses, which were 95% black owned. Four out of five informal businesses had no employees. (Ndlovu and Makgetla 2017, p 14; Statistics South Africa 2018c).

In short, concentrated ownership and control of businesses was central to income inequality in South Africa. It shaped both economic power and earnings. On the one hand, it meant that a relatively small number of managers and owners had a disproportionate impact on decisions around investment, employment and growth. On the other, it contributed to both depressed levels of employment and to unusually unequal pay scales and overall wage distribution.

3.2.2 Agricultural businesses

The limited extent of small business in South Africa arose largely from the suppression of African agriculture before 1994. Farm incomes flowed to a comparatively small number of producers, of whom around a third were black. The industry accounted for only 3% of gross domestic product (GDP), however, although it was a substantial employer, mostly at comparatively low wages. In the historic labour-sending regions, most households could not survive from farming due to lack of land, irrigation, infrastructure and supportive market and training institutions.

Over 90% of agricultural products sold in South Africa's formal retail outlets came from around 50 000 commercial farms, which had around 800 000 employees in 2017. In the mid-2010s, 10 agribusinesses with turnover in excess of R100 million a year accounted for between 70% and 80% of company income tax paid in agriculture, forestry and fishing (SARS 2018a). A third of formal employers in agriculture fell into the highest-earning decile of employed people and half into the highest-earning 30%. Of all formal farm employers, a quarter were black, but the figure dropped to a fifth for those in the best-off 30%.[9]

The destruction of African farms in most of the country meant that the bulk of smallholder production took place in the historic labour-sending areas. Most families that undertook any farming had less than half a hectare, and viewed it as a supplementary activity rather than a central source of income or food. Around a third held their land through traditional authorities, rather than owning it outright. The 50 000 commercial farms, in contrast, mostly owned far more land; the median appeared to be around 1 000 hectares.

In 2016, around 20% of the poorest 60% of households undertook some farming, with the vast majority living in historic labour-sending areas. But less than a tenth of low-income farming households saw it as their main source of income or food. In the richest decile, in contrast, just 10% of households undertook any farming, but one in five saw it as their main economic activity.

The vast majority of farming households had very small plots, at less than half a hectare. The exception, again, was in the richest decile: it contained relatively few farmers, but around a third of them had larger plots. Poor households were also far more likely to use backyard plots, rather than separate farms, and to lack irrigation. Households that farmed small plots in urban and labour-sending regions generally had an income comparable to or lower than households without land. In contrast, where households held over 10 hectares, the median income came to over R40 000 a month, placing them in the richest decile of households.

Two thirds of households with access to agricultural land said they owned it. Most of the remaining third was in the historic labour-sending regions, where virtually all land use was

[9] Calculated from Statistics South Africa. Labour Market Dynamics 2016. Electronic database. Series on main work, earnings of employers and employees, and industry. Downloaded from Nesstar facility at www.statssa.gov.za in December 2017.

determined by "traditional" authorities. As a result, farmers in these areas could not sell their land, and often found it harder to obtain loans against their property. Arguably they were less likely to invest in improvements, since they could not be sure they would retain control of the land over the long term.

Many more people earned a living as farmworkers rather than as farmers, but their wages were low compared to the rest of the economy. Remuneration accounted for just a quarter of sectoral value added in agriculture, compared to half in the rest of the economy. In 2016, formal farmworker constituted 6% of total employment, but 15% of formal employees earning under R3000 a month.[10] (Calculated from Statistics South Africa 2018d, Tables 5 and 6).

3.2.3 Household assets

Unequal household wealth bolsters income inequality in two ways.

- Returns from wealth contribute to household incomes in the form of incomes from business ownership, returns on assets and savings on rent from home ownership.
- Household assets underpin families' economic stability over generations, making it possible to take advantage of economic and educational opportunities as well as weathering crises such as illness or job loss. Inequalities in household wealth are therefore central to the inheritance of privilege and disadvantage by families over time.

As a rule, the distribution of wealth among households is more unequal than the distribution of income. It is, however, harder to analyse. In part, the difficulty arises because household assets are diverse, ranging from financial investments to houses to businesses. In addition, the statistical system does not generate comprehensive, consistent and reliable information on asset ownership by income level.

The distribution of returns from assets, including business ownership, financial investments and housing, reflected the inequalities in the distribution of wealth. As following graph shows, the bulk of household income from capital and assets accrued to the richest decile. Assuming that income from assets reflected the distribution of underlying property, in 2015 the top decile of households, with earnings of over R26 000 a month in 2017 rand, owned 61% of the assets of businesses owned by households; 50% of the value of housing; and 58% of other assets, mostly financial investments including pensions. The poorest 60% of households held just 7% of business assets and 5% of financial assets. For comparison, they received 14% of income from social grants and wages.[11]

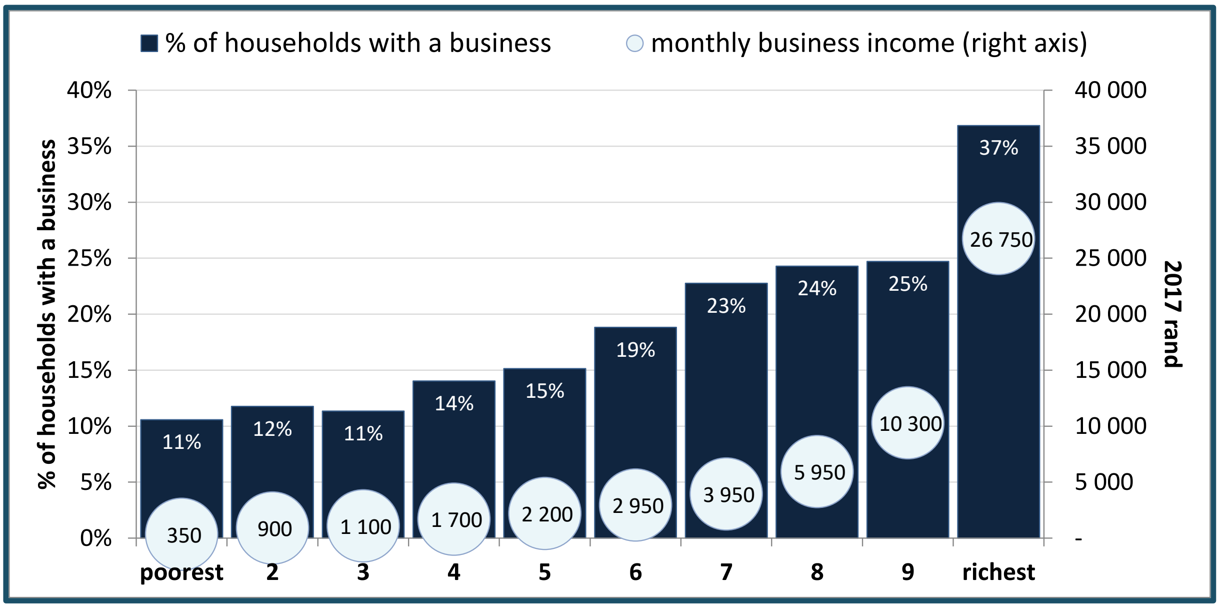
As noted, wealth had a crucial indirect impact on income inequality by enabling richer families to sustain adversity and take advantage of new economic opportunities. It also contributed directly to household income inequality. The richest 10% of households earned 19% of their income from the ownership of businesses and other assets, excluding homeownership. For the poorest 60%, the figure was 7,5%. In 2017 rand, the average household in the top decile

[10] Calculated from Statistics South Africa. Labour Market Dynamics 2016. Electronic database. Series on earnings of employees, formal sector including agriculture, and main industry. Downloaded from Nesstar facility at www.statssa.gov.za in December 2017.

[11] Calculated from Statistics South Africa. Living Conditions Survey 2014/5. Electronic database. Series on COICOP categories, household income deciles and annual adjusted value. Downloaded from Nesstar facility at www.statssa.gov.za in August 2018. The World Bank, using a different dataset, finds even more unequal ownership of financial assets. See World Bank 2018, p. 51 ff.

earned R145 000 a year from assets and business ownership; in the poorest 30%, the average annual return on wealth came to R1 320. In the worst-off 30% of households, business income alone – that is, profits and remuneration accruing to the business owner – averaged R800 a month, compared to over R25 000 in the richest decile. The gap reflected the difference between formal enterprises, which had modern technologies, access to advanced markets and services, and often highly skilled workers even if they were small, and the precarious informal enterprises owned by low-income households.

Graph 10. Average monthly household income from business (in 2017 rand) (a) and percentage of households with a business by income decile, 2015



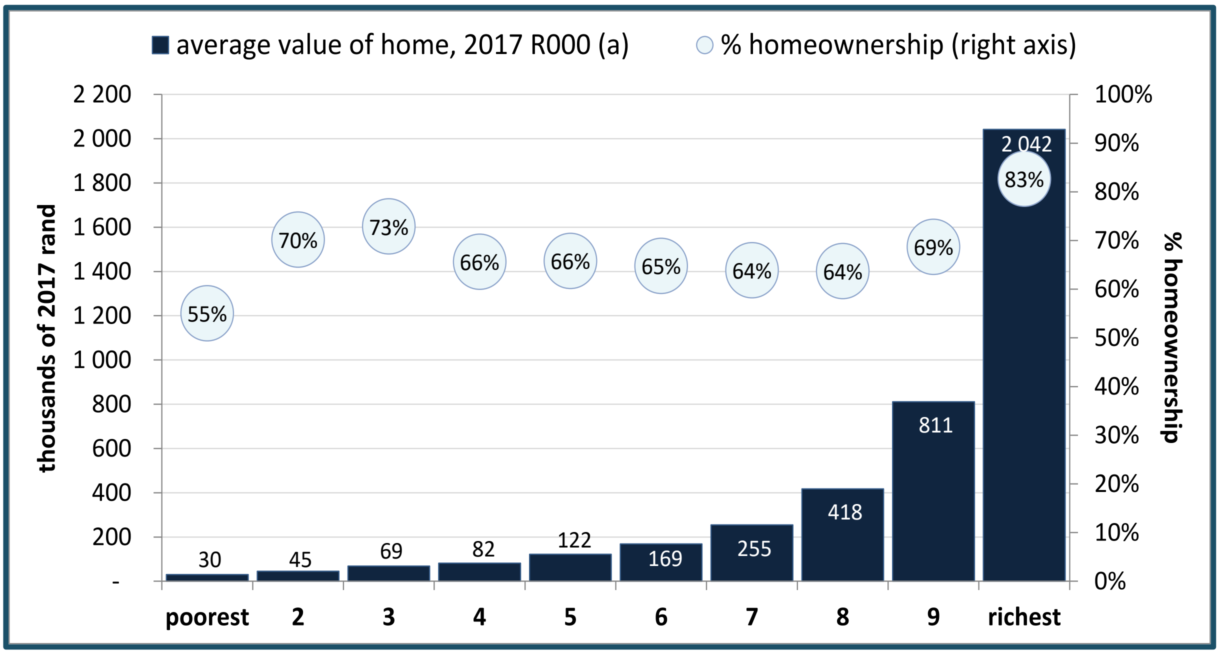
Note: (a) Reflated with average annual Consumer Price Index (CPI) rebased to 2017. *Source:* Calculated from Statistics South Africa. Living Conditions Survey 2014/5. Electronic database. Series on COICOP categories, household income deciles and annual adjusted value. Downloaded from Nesstar facility at www.statssa.gov.za in August 2018.

Outside of retirement funds, financial assets were almost as unequally distributed as business ownership. The richest decile of households got over two thirds of all household income from these investments. Pensions were only slightly more equitable because they largely reflect earned incomes. Households in the sixth to ninth decile accounted for just over half of pension savings, while the richest decile held over a third. For all forms of household financial holdings, the poorest 30% of households received under 2,5% of the returns.

Homeownership in South Africa was high across all income levels, ranging from just over half for the poorest decile to over 80% in the richest. The value of housing was highly unequal, however, and in many townships, informal settlements and rural areas there was effectively no housing market. As a result, most homeowners could not raise cash from their houses for economic purposes.

As Graph 11 shows, the estimated average value of homes owned ranged from R30 000 for the poorest 30% to R2 million for the richest 10%. The figures derive from the imputed rent in the Living Conditions Survey, which captures the benefits of homeownership by including 7,3% of the value of a home owned by a household as income.

Graph 11. Homeownership and average value of homes in 2017 rand by household income decile, 2015 (a)



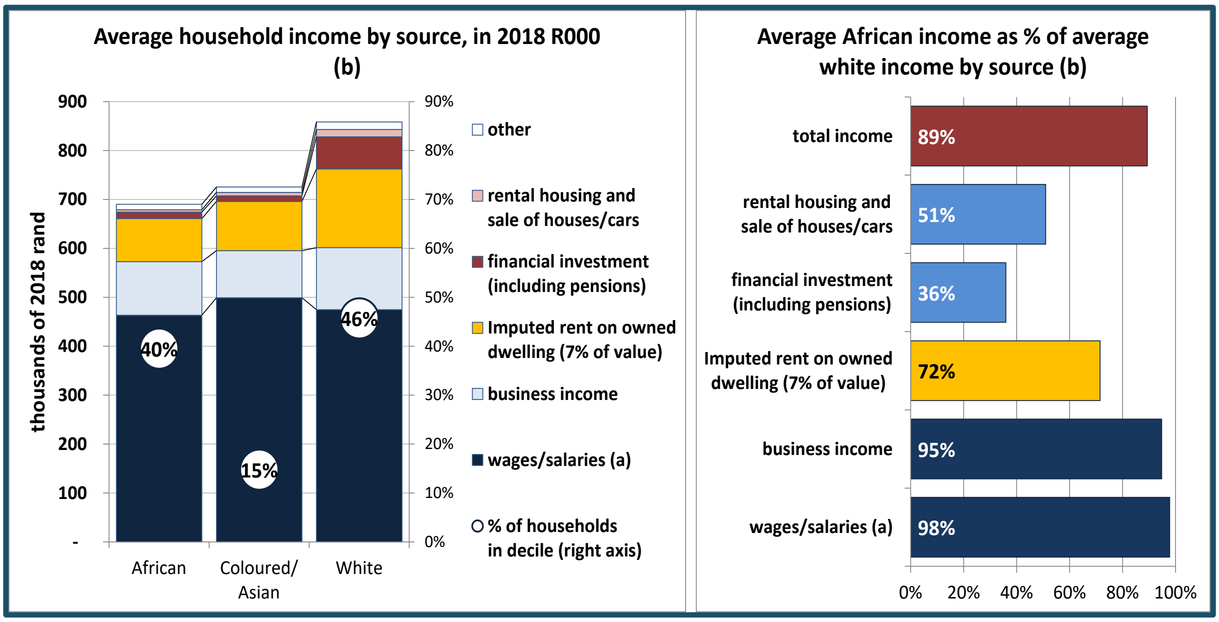
Note: (a) Average values of homes owned by households in the decile. This is not the average value of homes spread across all households in the decile. Reflated with average annual CPI for 2017 and 2015. *Source:* Calculated from Statistics South Africa. Living Conditions Survey 2014/5. Electronic database. Series on COICOP categories, household income deciles and annual adjusted value. Downloaded from Nesstar facility at www.statssa.gov.za in August 2018.

Inequalities in asset ownership by race were more pronounced than for earned income alone; there are no comparable data for ownership by gender. Because black households were unable to accumulate assets under apartheid, at every income level they held, on average, fewer assets than white households. Comparatively limited inherited wealth made even relatively well-off African households more vulnerable to economic shocks than their white counterparts, and less able to start a business or pay for quality education.

As the following graph shows, even in the richest decile, earnings from assets outside of business income contributed just 17% of income for African households, compared to 30% for white households.

Africans constituted 40% of the highest-income decile in 2015. But for African households in this group, incomes were 11% lower than white incomes overall. Some 80% of that income differential resulted from lower income from property and assets other than business – that is, it resulted because African households had less accumulated, largely initially inherited, wealth.

Graph 12. Average income in the highest-income decile of households by source and race



Notes: (a) Highest-income decile only. Salaries and wages include royalties. (b) Reflated from 2015 figures using average CPI. *Source:* Calculated from Statistics South Africa. Living Conditions Survey 2014/5. Electronic database. Series on COICOP categories, household income deciles, population group and annual adjusted value. Downloaded from Nesstar facility at www.statssa.gov.za in August 2018.

At every income level, whites were substantially more likely than blacks to be business owners. In 2015, three quarters of all employed people were African, but only just over half of employers. Almost a fifth of white men were employers, compared to just one in 50 black women. Moreover, the median income for white business owners exceeded R14 000 a month, while for African businesspeople it was under R4 000.[12]

In sum, personal assets were more unequally distributed than income, both overall and by race and gender. In the rural areas, only a small minority had access to farmland, and while the majority of families owned their dwellings at every income level, very few could actually use these assets to take advantage of economic or educational opportunities.

3.3 Education

As with physical wealth, the distribution of human capital was profoundly inequitable. Lower income households had limited access to quality schools, which in turn constrained their members' ability to obtain decent work and incomes.

As the following graph shows, in the poorest 30% of households, 29% of adults over the age of 21 had matric or more, compared to 83% in the richest decile. Of all adults with a university degree, two thirds were in the top decile and only a tenth were in the poorest 60%.

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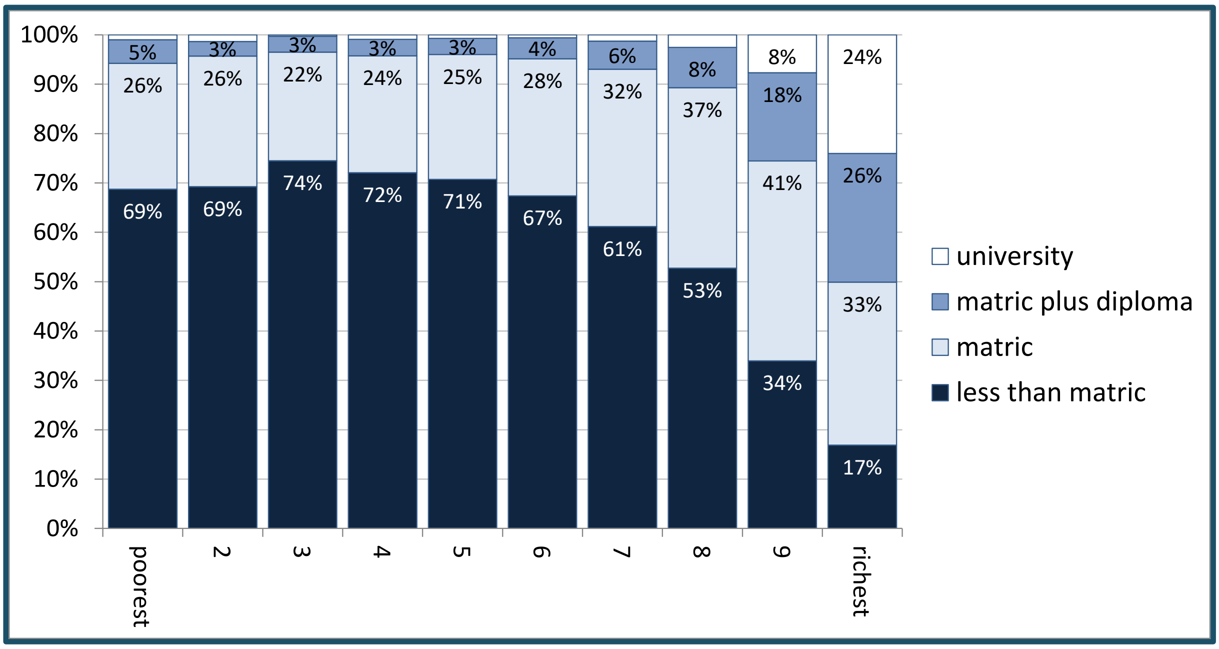
[12] Calculated from Statistics South Africa. Labour Market Dynamics 2016. Electronic database. Series on nature of employment and earnings of employers and the self-employed. Downloaded from Nesstar facility at www.statssa.gov.za in December 2017.

Graph 13. Education level of adults aged 21 to 64 by household income decile, 2016



Source: Calculated from Statistics South Africa. General Household Survey 2016. Series on highest education level, age and household income. Downloaded from Nesstar facility at www.statssa.gov.za in 2017.

A similar pattern emerged for school leavers. Most people who left school before matric were in the poorest 60% of households. Some 7,7% of young people aged 13 to 18 in the poorest 60% had left school before completing 12th grade, compared to 1,6% in the richest decile.[13]

The lingering effects of apartheid emerged in differentials in education by race, despite substantial progress after 1994. The poorest communities, which were almost entirely black, continued to have inadequate educational facilities, although most of the relatively small number of historically white and well-resourced educational institutions became more representative.

The share of people with education past matric rose for all South Africans after 1994, with the total climbing from 1,4 million to 4,1 million. The share of Africans with a diploma or a degree almost tripled from 3% in 1996 to 11% in 2017. In the same period, the share of whites with post-secondary education climbed from 25% to 42%. Still, the share of whites in all adults with post-secondary education dropped from half in 1996 to just over a quarter in 2017.[14]

Substantial racial differentials by subject persisted at the universities, mainly due to the inequality of general education. In 2016, of public university graduates in engineering, science and technology, 64% were African. That compared to 77% in education and 69% in commerce and the humanities. (CHE 2018, p. 23)

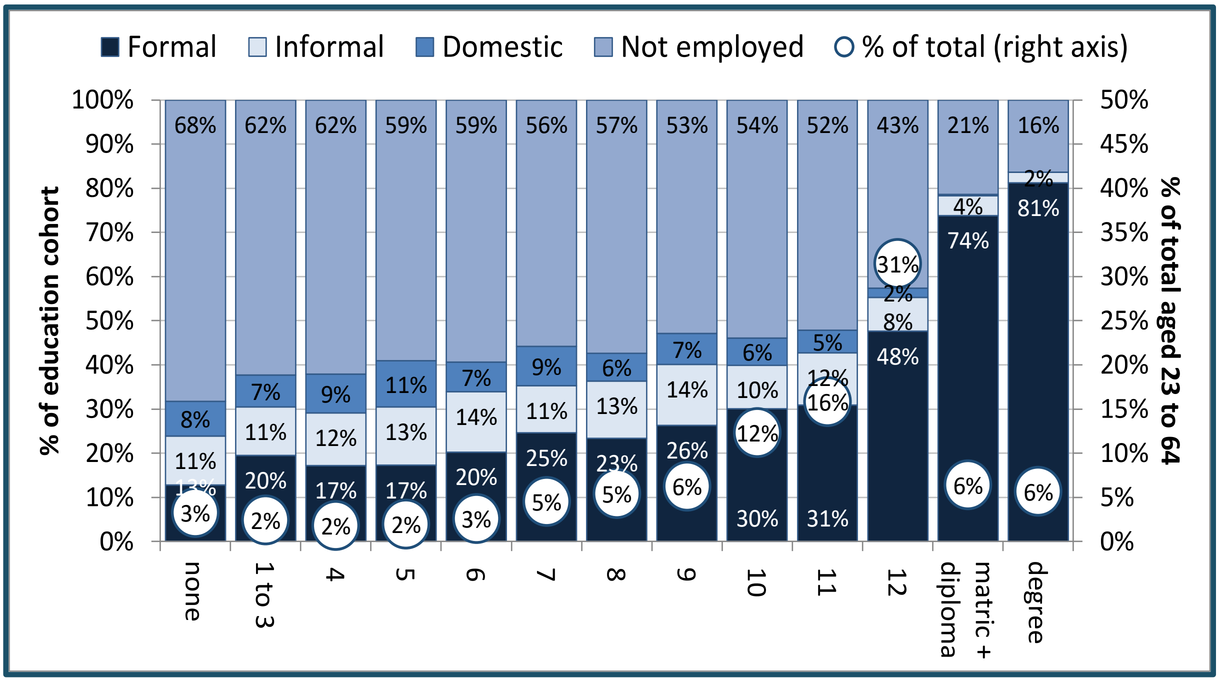
Compared to race, gender had relatively little impact on educational outcomes in South Africa. In 2017, 45% of women over 21 had matric and 5,4% had a university degree; among men, 47% had matric and 5,5% had a degree. The subjects for post-secondary education

[13] Calculated from Statistics South Africa. General Household Survey 2016. Series on highest education level, age, attending school and household income. Downloaded from Nesstar facility at www.statssa.gov.za in 2017.
[14] Calculated from Statistics South Africa. 1996 Census data. Series on education, age and population group. Downloaded from Superweb facility at www.statssa.gov.za in March 2018; and Statistics South Africa. Quarterly Labour Force Survey. Fourth Quarter 2017. Series on education, age and population group. Downloaded from Nesstar facility at www.statssa.gov.za in March 2018.

varied substantially by gender, however. In 2016, 51% of public-university graduates in engineering, science and technology were women, compared to 76% in education and 61% in commerce and the humanities. (CHE 2018, p. 29)

As the following graph shows, more years of formal education generally led to greater chances of formal employment. Fewer years saw both higher employment in informal and domestic work and higher joblessness. In 2018, 60% of adults aged over 23 and under 64 with only primary education were jobless, compared to 40% of those with matric and just 16% of people with a university degree. Four out of five university graduates had formal employment, as did almost half of matriculants, but just a fifth of people with only primary education.

Graph 14. Employment status by years of education for people aged 23 to 64, 2018



Source: Calculated from Statistics South Africa. Quarterly Labour Force Survey, Second Quarter 2018. Electronic database. Series on highest education, employment status and sector. Downloaded from Nesstar facility at www.statssa.gov.za in August 2018.

For the employed, earnings also aligned with education levels. In 2016, the median income for a university graduate was R19 000 a month; for someone with matric plus a diploma, R12 000; with matric alone, R4 000; and for a person with less than matric, R2 600.

The unequal education system perpetuated the skills shortage, which in turn contributed to the unequal pay system. According ILO data, for 37 upper-middle-income countries providing data, 25% had advanced education, compared to 19% in South Africa.[15] The relatively small number of educated people in South Africa meant that their pay was bid up by employers.

The impact of the skills shortage was aggravated by restrictive immigration rules that effectively let professional groups limit inflows of foreign skills. Before allowing skilled migrants, the Department of Labour generally asked professional groups if it would put downward pressure on pay. That in itself worked to entrench highly inequitable pay by restricting the supply of high-level skills.

[15] Calculated from ILO. ILOSTAT. Electronic database. Series on education and employment. Downloaded from www.ilo.org in October 2018.

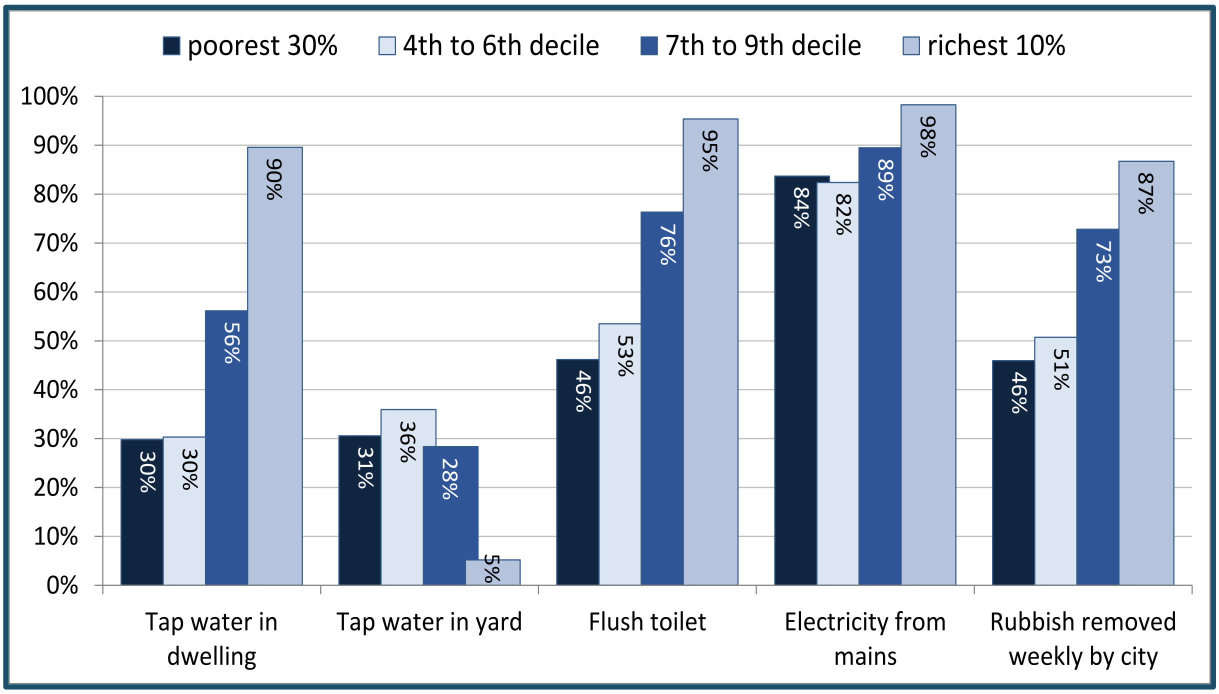
Ultimately, the persistence of deep inequalities in the education system both reproduced privilege and sustained deeply unequal wages. They also left many young people from low-income communities ill-equipped to find employment at all.

3.4 Infrastructure

Infrastructure also constituted an important dimension of inequality in South Africa. Deep inequalities by class and race remained in municipal services despite substantial improvements from 1994. They affected both the quality of life and productivity of poor households, as well as fuelling resentment over continued disparities between the townships and leafy suburbs. In addition, low-income housing was generally distant from city centres and amenities, raising the cost of accessing economic, educational and social opportunities.

As Graph 15 shows, in 2017 under two thirds of households in the poorest 60% had running water on site, half had flush toilets and municipal refuse removal, and just over four out of five had electricity. In contrast, the richest 10% of households had virtually full access to these amenities.

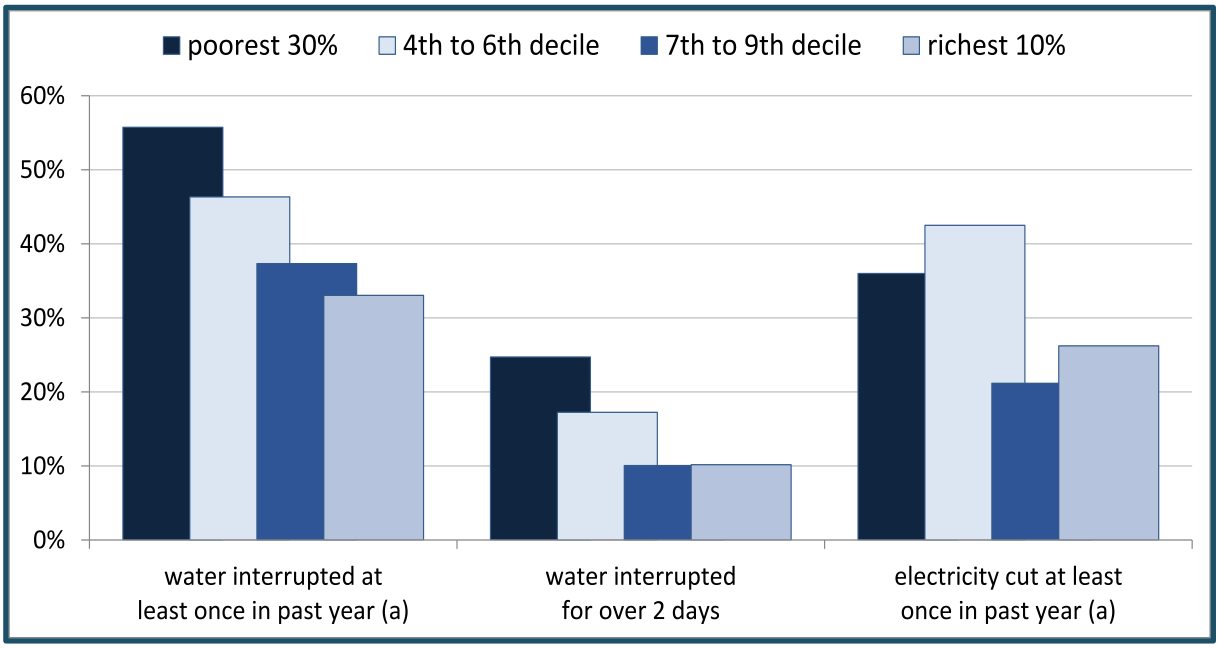
Graph 15. Share of households in income group with amenities, 2017



Source: Calculated from Statistics South Africa. General Household Survey 2017. Series on mains electricity, water source, toilet, rubbish removal and household income. Downloaded from Nesstar facility at www.statssa.gov.za in March 2018.

Even where low-income households had formal household infrastructure, the quality was often worse. For instance, as Graph 16 shows, households in the poorest 60% were far more likely to suffer from interruptions in water and electricity.

Graph 16. Interruptions to water and electricity supply by income group, 2017



Source: Calculated from Statistics South Africa. General Household Survey 2017. Series on interruptions to water and electricity, duration of water interruption, and household income. Downloaded from Nesstar facility at www.statssa.gov.za in March 2018.

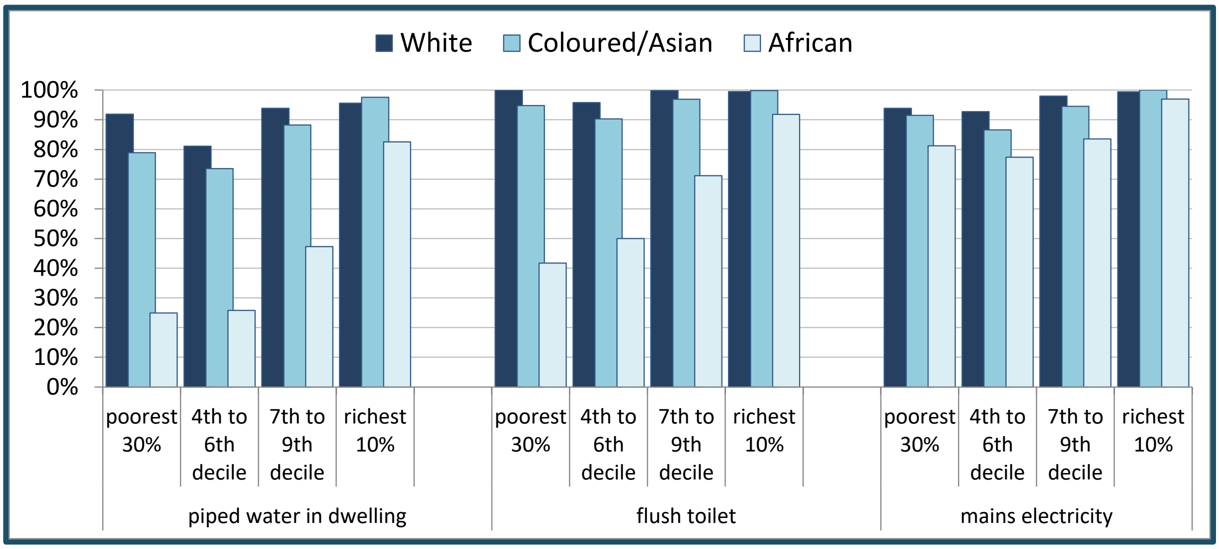
Inequalities in infrastructure also emerged in the relative distance of rich and poor households from amenities.

In 2015, more than two out of five households in the poorest 60% were more than 10 kilometres from a hospital, compared to under one in five for the richest decile. For economic amenities, the discrepancies were larger. A third of the poorest 60% of households was more than 10 kilometres from a bank, compared to a tenth of the richest decile.[16]

Racial inequalities persisted in access to infrastructure, especially within the formal working class. As Graph 17 shows, at every income level white households were more likely to have access to infrastructure than black ones. The greatest discrepancy emerged in the poorest deciles, but it persisted even for the richest 10%. That said, only one in five white households fell into the poorest 60%.

[16] Calculated from Statistics South Africa. Living Conditions Survey 2014/5. Electronic database. Series on household income and distance from hospitals and banks. Downloaded from Nesstar facility at www.statssa.gov.za in August 2018.

Graph 17. Access to infrastructure by race and income group, 2017



Source: Calculated from Statistics South Africa. General Household Survey 2017. Series on mains electricity, water source, toilet, race and household income. Downloaded from Nesstar facility at www.statssa.gov.za in March 2018.

There is no good measure of access to infrastructure by gender. Most households include both adult women and men, and their access depends in part on dynamics within households that the statistics do not capture.

Inequalities in infrastructure and location directly affected the quality of life for rich and poor households. They also influenced perceptions of social fairness and solidarity, as most infrastructure services were the responsibility of the democratic government. Anger over shortcomings in poor areas compared to rich ones was intensified because inequalities continued to align with race. That led, on the one hand, to demands for improved services from the state, and on the other to the perception that too little had changed from apartheid inequities, despite improvements in services in low-income communities after 1994.

In addition, access to infrastructure largely shaped the ability of households to engage economically in a variety of ways. People in low-income households ended up spending more time on family work; found it harder to run businesses from home; and generally had a lower quality of life. In addition, the separation of low-income households from economic and social centres set up a barrier to their ability to take advantage of opportunities of all kinds.

3.5 The historic labour-sending regions

Apartheid laws on land and residence led to profound spatial inequalities that were qualitatively different from the rural-urban differentials in other developing economies. Under apartheid, many Africans, particularly women and children, were permitted to live legally only in designated regions. The labour-sending areas were mostly designated far from economic centres, usually with borders drawn to exclude key resources, including agricultural land and water. Before 1994, the state largely excluded them from infrastructure investment of all kinds, including household amenities, social services, transport and communications.

When residential restrictions on Africans ended, a mass out-migration from the historic labour-sending areas began. The huge shift of people meant that the share of the historic labour-sending regions in the national population dropped from around half in the early 1990s to just over a quarter in the late 2010s. The households that remained behind, however, still experienced extremely limited economic opportunities, lower incomes and worse education and infrastructure than the rest of the country.

In 2017, the median household income in the historic labour-sending regions was R2 420, compared to R6 660 in urban areas outside of these regions. In mid-2018, only 25% of working-aged adults were employed in the historic labour-sending areas, compared to 46% in the rest of the country. These areas accounted for 29% of the working-age population, but just 18% of the employed. They held 24% of active workseekers; 54% of people who wanted work but had given up looking; and 38% of working-age adults who were not economically active.[17]

The labour-sending regions were contained almost entirely in five provinces. KwaZulu-Natal held 28% of this population; Limpopo, another 25%; the Eastern Cape, 18%; Mpumalanga 14%; and the Northwest, 10%. In contrast, the two most prosperous provinces – Gauteng and the Western Cape – contained almost no historic labour-sending regions. The alignment of provinces with the former "homelands" reflected how apartheid geography shaped democratic governance.

Labour-sending regions in different parts of the country varied significantly in the depth of deprivation and potential for growth. In labour-sending areas of the North West, the median household income came to R3 000, compared to R2 030 in the Eastern Cape. In Mpumalanga, the share of working-aged adults with employment in the historic labour-sending regions was 32%; it was just 18% in the Eastern Cape.

The labour-sending regions fell particularly far behind in business and asset ownership. In 2018, 40 000 formal private business owners lived in these areas, or around 5% of the national total. That compared to the regions' 29% share in the national working-age population. As a result, only around 1% of all employed people in the former labour-sending regions was a formal business owner, compared to 5% in the rest of the country. Moreover, virtually all of the formal business owners living in the labour-sending areas were small or medium sized. Most of the large companies operating in these regions were in mining and belonged to companies headquartered in the metros or overseas.

The labour-sending areas also held a third of all informal business owners. A fifth of employed people there were informal sector employers or self-employed, compared to just a tenth in the rest of the country.[18]

As noted in section 3.2 above, at every income level farming was not a major source of income or food in the historic labour-sending regions. Less than half of households worked the land at all, with the share falling to under 15% in the North West. Of the minority that farmed, almost all gardened in their backyards. Only 3% said they had access to farmland.

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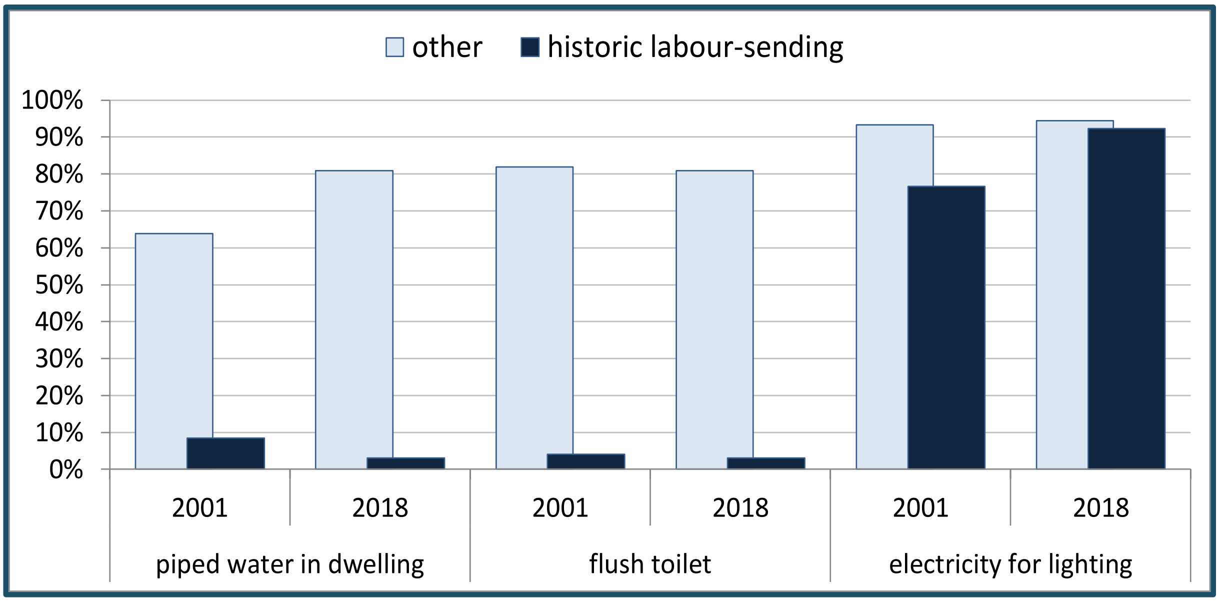
[17] Employment data calculated from Statistics South Africa. Quarterly Labour Force Survey, Second Quarter 2018. Electronic database. Series on geography and employment. Downloaded from Nesstar facility at www.statssa.gov.za in August 2018. Household income data calculated from Statistic South Africa. General Household Survey 2017. Series on geography and household income. Downloaded from Nesstar facility at www.statssa.gov.za in March 2018.

[18] Calculated from Statistics South Africa. Quarterly Labour Force Survey, Second Quarter 2018. Electronic database. Series on geography, province and main work. Downloaded from Nesstar facility at www.statssa.gov.za in August 2018.

Education levels in the historic labour-sending regions were substantially lower than in the rest of the country. In those areas, 70% of working-age people did not have matric, compared to 50% in the rest of the country. Only 1% had a degree, compared to 6% in other areas. In part, the lower education levels reflected the fact that people with higher education were more likely to migrate out of the labour-sending areas.

In infrastructure, despite some advances, the historic labour-sending areas continued to see substantial shortfalls compared to the rest of the country. Progress was particularly slow with water and sanitation. In contrast, access to electricity for lighting had largely caught up by 2018. By region, the shortfall in municipal services was deepest in the historic labour-sending regions of the Eastern Cape.

Graph 18. Share of households with access to water in dwelling, flush toilet and electricity for lighting in 2001 and 2017 by type of region



Source: For 2001, Statistics South Africa. Census data. Electronic database. Series on geography type, water source, type of toilet and electricity for lighting. Downloaded from Superweb facility in October 2018. For 2017, Statistics South Africa. General Household Survey 2017. Electronic database. Series on geography type, water source, type of toilet and electricity for lighting. Downloaded from Nesstar facility at www.statssa.gov.za in August 2018.

In 2017, women constituted 56% of the population over 21 years old in the historic labour-sending regions, compared to 50% in the rest of the country. Some 53% of households were considered "woman headed", compared to 38% in other regions.[19] As a result, women were disproportionately affected by the poverty of these areas.

In short, two decades after the elimination of apartheid laws on residence and land ownership, the historic labour-sending regions continued to fall behind the rest of the country in incomes, business capacity and household assets as well as education and infrastructure. Their share in the national population, however, dropped from half to a quarter due to mass out-migration.

[19] The term "woman headed" is somewhat misleading, since it is generally not applied to households with an adult man present, irrespective of the actual power relations within the home.

4 THE REPRODUCTION OF INEQUALITY

Why did South Africa remain among the most unequal countries in the world, more than a quarter century after the end of apartheid? Two systemic factors explain this paradox.

- Apartheid entrenched exclusionary systems that ultimately ensured inequitable access to employment as well as deeply unequal earnings. Measures to this end related above all to access to assets, education, infrastructure and markets as well as work organisation in formal enterprise.
- The production structure both reflected and reinforced these systems. It centred on mining, heavy industry and financial services. All of these industries tended to concentrate economic power and perpetuate deeply unequal pay scales, while generating only limited direct employment.

Restructuring fundamental economic systems entails high levels of risk, costs and often fierce political contestation and social conflict. That in itself militated against large-scale interventions to bring about a more equitable and inclusive economy. In practice, the state focused more on ameliorating poverty and ending overt racism in access to public services than on addressing inequality, which would require restructuring economic systems and formal workplaces. In that context, its largest programmes aimed to address shortfalls in infrastructure within the limits set by conventional fiscal strategy and to provide social grants to ameliorate poverty.

This section provides a brief review of how apartheid entrenched inequality in the workplace, business ownership, education, the historic labour-sending areas, and infrastructure. It then reviews how these systems largely continued to reproduce inequality despite the elimination of legal racial and gender privilege after 1994. In each case, it outlines the nature and extent of government responding strategies. A final section considers the effects of social grants on inequality.

4.1 The apartheid workplace

Apartheid policies intentionally shaped formal workplaces to promote pay inequalities in order to enable higher incomes for white workers. These policies established unusually large wage gaps between skilled and unskilled workers, with work organisation balancing a few highly skilled positions against largely deskilled work for the majority. The system was buttressed by unequal education systems and limits on skilled in-migration, specifically to sustain higher pay for organised professionals.

We can understand the results in terms of the segmentation of the labour market.

High-level formal: In 2016, there were 1,2 million managers and 500 000 professionals in the private formal sector, and 155 000 managers in the public sector. Their position was largely shaped by laws and systems established under apartheid to create a separate labour market for managers, professionals and highly skilled production workers, who enjoyed "European" pay and benefits combined with strong legal job security. Through 1994, this segment was almost exclusively white; after democracy, the share of black people increased but remained less than fully representative. Of the private sector managers and professionals, 28% were employers or self-employed. In business, some 46% of managers and professionals were white; in the public sector, excluding professionals (who were mostly in education and healthcare), the figure was 15%. The median pay for managers and private-sector professionals came to R18 000 a month. In the national and provincial public service, the 10 000 members of the senior management service (out of a total of 1,4 million public servants) earned packages over R750 000, putting them in the top 2% of all income earners.

Lower-level formal employment: In 2016, there were 8,6 million formal workers in manufacturing and the services excluding managers and senior professionals – around half of total employment. For much of South Africa's history, black workers in manufacturing and services were denied normal labour rights. Their position improved, however, as they unionised and fought for the kinds of legal protections historically developed for white employees. After 1994, the new labour laws and jurisprudence effectively extended strong legal protections to these workers. (See Cheadle 2007). In the private sector in 2016, their median formal wage came to R4000 a month. In the public services, where over half of all employees had a post-secondary degree or diploma – mostly as teachers and healthcare workers – the median pay came to R10 000 a month.

Colonial: Mining, agriculture, domestic work and low-end public sector jobs (mainly in cleaning, infrastructure maintenance and agriculture) gained full labour rights and protections only after 1994. In practice, however, outside of mining most workers in the group still experienced largely colonial labour relations, with low pay, limited union membership, and deeply hierarchical power relations. The median pay for the 2,5 million domestic, farm and low-level public sector workers was only R1 950 a month in 2016. Domestic and farmworkers saw substantial gains from the introduction of minimum wages in the early 2000s. In mining, in contrast, unionisation in the 1980s meant that workers could take advantage of full labour rights after 1994 to substantially improve earnings. The median pay for the 450 000 miners, excluding management and the professions, came to R8 000 a month in 2016. Still, while union density in mining was higher than in any other industry, work organisation remained largely commandist. This mixed result fuelled continual conflict in the democratic era. (See Makgetla and Levin 2016).

Informal: In 2016, there were 2,8 million informal sector workers, equal to around a seventh of total employment. Some 57% of informal workers were business owners, mostly self-employed. The self-employed were not covered by labour laws, while labour laws were not generally enforced for informal employees. According to the 2016 survey, the median income for informal business owners came to R3 000 and, for informal employees, to R2 200 a month.

Unpaid labour: In 2016, 3,7 million people said they were either full-time homeworkers, worked without pay in a family business, or spent at least seven hours a week gardening, fetching wood and water, catching food, in construction, or producing goods. Of the total, some 2,8 million said they did not seek or have paid work because of household work, and 78 000 said they worked without pay in a family business. A million were engaged in the other kinds of unpaid labour for at least an hour a day, and a fifth of them had paid work in addition. With the end of apartheid, many women were able to leave the former labour-sending areas and find paid work. Still, whether women were employed outside the home or not, they ended up doing the bulk of unpaid work.

Table 2 outlines the segmentation of the South African labour market and indicates how it changed with the transition to democracy.

Table 2. Segmentation of the South African labour market

CHARACTERISTIC	FORMAL TOP	FORMAL LOWER	COLONIAL	INFORMAL	UNPAID
Occupations	Management, professional outside major social services	Production and service workers, including big public service professions but excluding colonial segment	Mining, low-level public sector, domestic, commercial agriculture	Micro enterprise – predominantly hawking and gardening in the historic labour-sending regions	Mostly domestic
Number	1,8 million	8,6 million	450 000 in mining; 70 000 in formal agriculture; 1,3 million domestic and 500 000 low-level public service	2,7 million	2,8 million
% of paid employment[1]	10%	55%	18%	17%	n.a.
Under matric	13%	41%	Mining: 56% Other: 83%	85%	68%
Matric	30%	39%	Mining: 36% Other: 15%	12%	25%
Post-secondary	56%	20%	Mining: 8% Other: 2%	2%	6%
Skills	Professional level	Semi-professional, clerical, skilled and semi-skilled production, elementary	Skills historically not formally recognised	Skills typically not formally recognised	Skills not recognised
Median pay	R18 000	R4 000	Mining: R8 000 Other: R1 900	R2500	n.a.
Employment-based medical aid	44,7%	32%	Mining: 80% Other: 8%	0,2%	n.a.
Historic labour laws	Very strong protection for white employees	Formally differentiated, initially by race and gender; from 1980s by permanence and skills	Special dispensations linked to broader institutions of control (pass laws, criminal laws, etc.) and foreign migrants in agriculture and mining	No applicable labour laws. Shaped largely by apartheid laws on access to urban jobs, training and infrastructure	No applicable labour laws. Shaped largely by apartheid residential laws and family practices
Current labour laws	Implemented for all	Generally implemented	Implemented in public sector and mining, but weak in agriculture and domestic	Mostly ignored	Do not apply

CHARACTERISTIC	FORMAL TOP	FORMAL LOWER	COLONIAL	INFORMAL	UNPAID
Union density	25%	34%	Mining: 84% Other: 10% (35% for public servants)	Non-existent	Does not apply
Wage bargaining	19%	35%	Mining: 84% Other: 14%	2%	Does not apply
% black	53%	88%	Mining: 89% Other: 86%	95%	93%
% women	35%	44%	Mining: 13% Other: 61%	36%	81%
Citizenship	Relatively few foreigners	Relatively few foreigners	Significant foreign presence outside of public sector	Significant foreign presence in informal retail	??

Notes: (a) Statistics South Africa defines informal employment as self-employment or employment for an employer who is not registered to pay value added tax. (b) Unpaid labour is defined as full-time housework; unpaid work in a family enterprise; or at least seven hours a week spent fetching wood or water, catching food, gardening, working on construction or producing goods, undertaken by people with or without a paying jobs. *Source:* Except for the number of people employed in mining, calculated from Statistics South Africa, Labour Market Dynamics 2016. Electronic database. Series on occupation, industry, formal vs informal employment, reason for inactivity, fetching wood or water, catching food, farming activity, working on construction or producing goods, and type of employer. Downloaded from Nesstar facility at www.statssa.gov.za in December 2017. Employment in mining from Statistics South Africa, Quarterly Employment Statistics, second quarter 2018. Excel spreadsheet. Downloaded from www.statssa.gov.za in August 2018.

The segmented labour market explains South Africa's unusually deep inequalities in remuneration. The pay of formal managers and professionals was typically benchmarked against the high end of the global North. In contrast, wages in domestic, agricultural, low-level public-sector and informal employment were depressed by high joblessness and low union membership.

The labour-market segmentation instituted under apartheid reproduced inequalities in pay by race and gender despite laws requiring a single rate for the job. In 2016, the median wage for an African woman employee was R2 500, compared to R3 500 for an African man, R10 000 for a white woman and R15 000 for a white man. These inequalities appeared even when controlling for age and education. The median pay for an African woman employee with a degree came to R18 000; for an African man, R20 000; for a white woman, R16 000; and for a white man, R24 000. These differentials had diminished significantly from 1994, however.[20]

In short, the persistence of deeply inequitable workplaces combined with labour-market segmentation maintained unusually sharp differentials in pay both within and between enterprises. These factors meant remuneration systems in South Africa remained among the most unequal in the world.

The democratic state did not directly address overall inequality in the workplace or pay scales. Instead, it focused on extending labour rights – to organise, bargain and strike without employer punishment – to all workers, and set minimum conditions of service, including minimum wages for some industries. In 2018, it agreed to introduce a national minimum

[20] Calculated from, Statistics South Africa. Labour Market Dynamics 2016. Electronic database. Series on earnings, race, gender, age and education level. Downloaded from www.statssa.gov.za in November 2016.

wage at R3 500 a month, more or less equal to the median until then, but with longer phasing in for farm and domestic workers. The government also banned discrimination based on race and gender and sought to promote greater representivity in more skilled positions through employment equity requirements.

The labour laws, adapted largely from European models, essentially assumed that workers would belong to unions, which in turn would both win higher pay and monitor workplace protections. In practice, however, high levels of joblessness, the difficulty of organising small workplaces and the challenge of conceptualising alternative workplace systems meant that the labour laws did little to transform pay scales and workplaces. As noted, unions remained essentially limited to large formal companies and the public sector. The government did not, however, see its role as promoting worker organisation, but only as a fair mediator between employers and workers.

Through the Basic Conditions of Employment Act No. 75 of 1997, the government set minimum standards primarily around working time, leave and for some industries minimum wages for all workers. As part of the Act, from the early 2000s it set minimum wages for domestic and agricultural workers, who together constituted around a third of all workers earning under R2 500 a month in 2016. The result was a significant increase in pay in these industries in the early 2000s.

In contrast, the government made no attempt to limit compensation for senior managers and executives in the private sector. Moreover, it used private sector pay to benchmark public-sector remuneration for senior personnel, which effectively meant that government agencies, and especially state-owned companies, replicated the inequalities found in the private sector.

4.2 Business ownership

Under apartheid, the state effectively closed down African farmers and urban businesses on a large scale through a combination of land expropriation, residential restrictions, and limits on operating licenses and access to credit. Market institutions – from providers of inputs to retailers to financial and skills providers – consequently evolved primarily to meet the needs of formal, mostly larger enterprises. They developed limited or no services suited to small and informal producers. The result was a business environment that favoured large, formal businesses and heavy industry, while making it difficult to sustain and expand the small business sector.

Repealing the laws that blocked small business did not in itself remedy the backlogs small business faced in terms of assets, experience and appropriate market institutions. As a result, most new small businesses were informal, with survivalist technologies, high turnover and virtually no chance of growth or permanence. (See SALDRU 2005)

The elimination of legal discrimination did not bring about a resurgence in small business primarily for the following reasons.

To start with, in contrast to other upper-middle income countries, most small entrepreneurs were the first in their families to have a business. They did not inherit, even on a limited scale, business assets, experience, customer or supplier networks, or support from appropriate market institutions. In other developing countries, new entrepreneurs often would inherit at least some property – although often only a corner shop or a small farm – and the associated networks and skills.

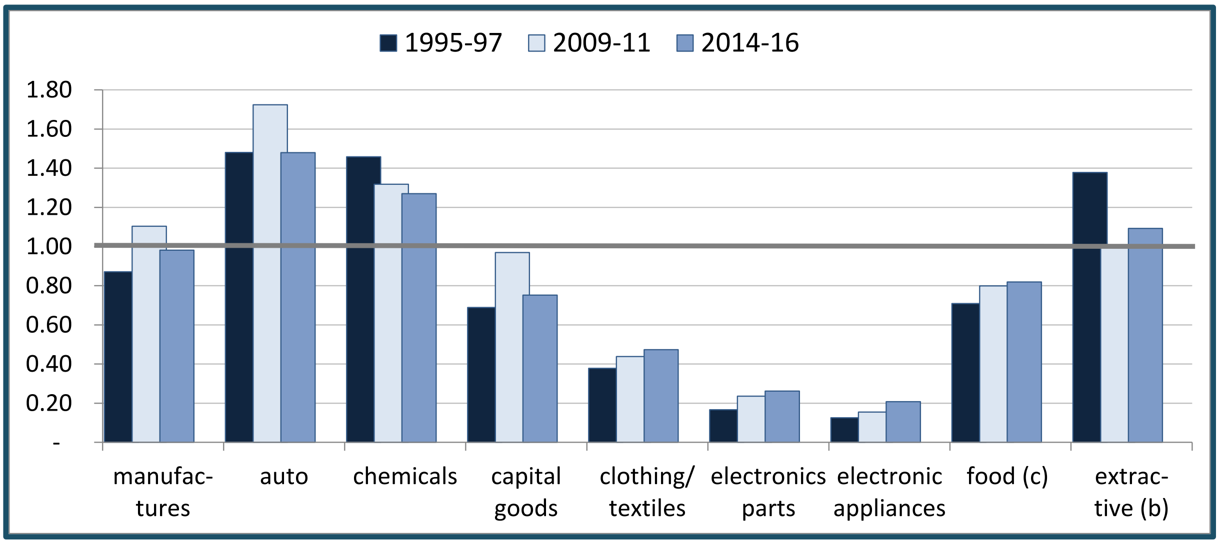
Limited small business went hand in hand with limited market systems. In other developing economies, sales outlets, financial institutions, training centres, suppliers, municipal licensing and extension services evolved over centuries to serve small business. In South Africa, most new enterprises had virtually no access to these kinds of institutions. In 2015, for instance, only two thirds of business owners paid bank charges; presumably the rest did not have a bank account.

In addition, after 1994 the economy remained largely dominated by the mining value chain, although the auto industry, the financial sector and tourism also saw rapid growth. Except for tourism, these activities mostly rely on large-scale production and by extension on large-scale companies. In these conditions, opportunities for small business as well as direct job creation generally remained limited.

The pattern of industrial growth in South Africa was notably hostile to job creation and small business ownership. As the following graph shows, South Africa performed well in the capital-intensive mining value chain and auto assembly, but lagged behind peer economies in exports of clothing and appliances.

Graph 19. Revealed comparative advantage (a) for South Africa compared to other upper middle income economies excluding China, averages for 1995 to 1997, 2009 to 2011, and 2014 to 2016

Note: Where a ratio in the graph is above one, the share of the product in South Africa's exports is higher than in other upper-middle-income economies. Where the ratio is below one, the share of the product in South Africa's exports is lower than in the benchmark economies.



Notes: (a) Defined as the share in South African exports of a product as a ratio to the share of the same product in total exports by the benchmark economies. The charts here rely on United Nations Conference on Trade and Development (UNCTAD) data, which do not fully report South Africa's gold exports before 2010. As a result, they somewhat overstate South Africa's revealed comparative advantage for manufactures compared to raw materials. (b) Ores, metals, precious stones and fuels. (c) Excluding coffee, tea and spices. *Source:* Calculated from UNCTAD. Merchandise trade matrix – product groups, exports in thousands of dollars, annual, 1995-2016. Electronic database. Series on relevant export groups and groups of country by World Bank income level. Downloaded from www.unctad.org in April 2018.

In contrast to its extensive transfers to households in cash and kind, discussed in sections 3.4 and 3.5, the democratic state undertook very limited programmes to promote employment and self-employment or provide productive assets such as land and industrial or trading sites. State support for livelihood strategies based on self-employment remained particularly limited – in part because voters generally demanded better-paying and more secure formal employment.

Land reform was the most obvious response to the dispossession imposed by apartheid on rural communities. It remained relatively small, however. It centred on restitution for people pushed off their land after 2013. From the early 2000s, it added land redistribution primarily to ensure a more representative class of commercial farmers. Only a relatively small share of land redistribution went to improve incomes for the poorest rural people. (See Aliber, 2018). In effect, then, land reform primarily ended up addressing inequality by race, without substantially affecting economic and regional inequalities.

The Department of Rural Development and Land Reform (DRDLR) estimated that it had allocated around seven million hectares of land, equal to over 5% of total agricultural land, to fewer than 150 000 households. In the decade to 2017/8, it spent a total of R28 billion on land for redistribution in constant 2017 rand terms (DRDLR 2018, p. 5 and 15; National Treasury 2014, p. 551). The DRDLR used the bulk of redistributed land to establish around 6 000 small farmers. For comparison, there were around 30 000 commercial farmers in all, and around 750 000 households in the poorest 30% did some gardening but did not have access to farmland.

In sum, the land reform programme had only very limited impact on overall economic inequality (and poverty) as of 2018. Three reasons lay behind this failure.

- First, at least from the early 2000s land redistribution and restitution did not aim to reduce overall economic inequality, but rather to make land ownership more representative and to address historic injustices. Replacing existing commercial farmers with a more diverse group of smaller farms could, in theory, promote a more dynamic farm economy and ultimately generate more jobs. Still, in the short to medium term it seemed unlikely to affect South Africa's overall inequalities in wealth and income.
- Second, land reform was small compared to the backlog in small business. The DRDLR share came to around 1% of national expenditure over the decade to March 2018, and land redistribution accounted for just a quarter of its total expenditure in this period.
- Finally, a survey of the available (limited) studies by Aliber (2018) found that around half of people who accessed farms through restitution or redistribution ended up not using them for production. This resulted in part from changing directives and burdensome requirements imposed by the DRDLR and in part from inadequate infrastructure, irrigation, market systems and extension services. The DRDLR itself was not well aligned with key departments and agencies for farms, notably the Department of Agriculture, Forestry and Fishing and its Land Bank, as well as the Department of Trade and Industry (the dti). Moreover, it lacked integral links to either provincial or municipal authorities. Internally, land distribution was delinked from the acquisition of land. As a result, the DRDLR ended up acquiring land that was not easy to farm, for instance because of a lack of water and infrastructure (See DRDLR 2015).

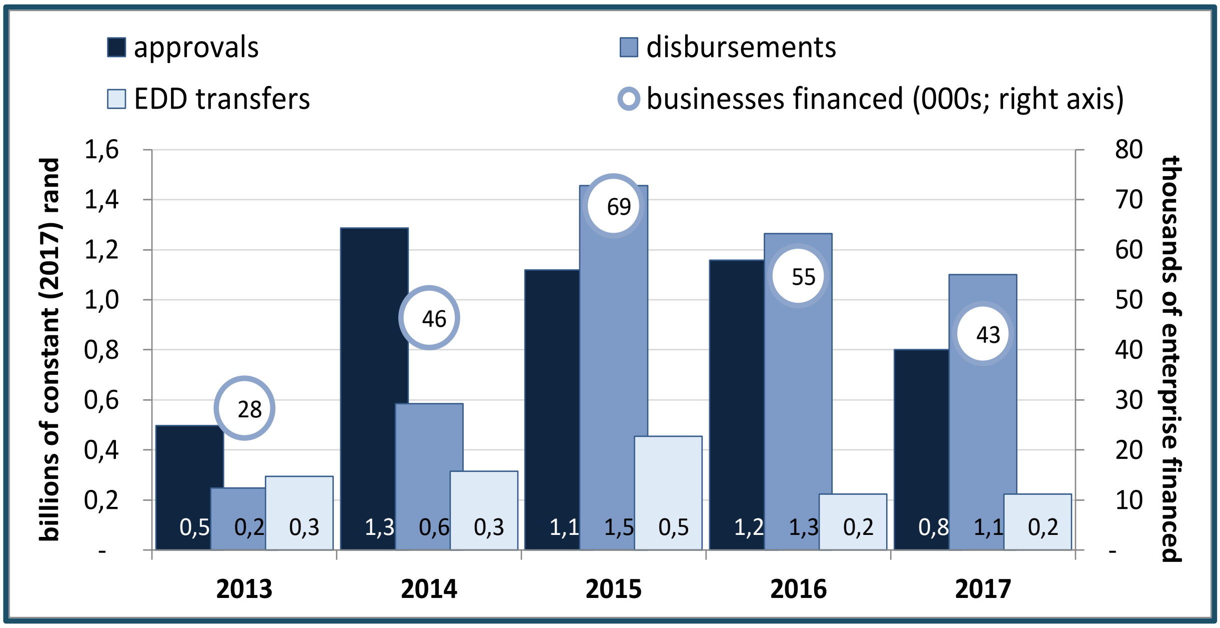
Most other programmes to support emerging enterprises focused on formal small and medium enterprises. They generally sought only to provide financial support and sometimes mentorship. Virtually none of these initiatives developed more robust institutions that could, in a holistic fashion and on a large scale, address the myriad gaps facing microenterprise in terms of both institutional and infrastructural systems.

Financial institutions for small and micro enterprises existed across all the spheres of the state. The largest national agency was the Small Enterprise Finance Agency (sefa), which was started by the dti, transferred to the Economic Development Department from 2013 to 2015, and then fell under the Department of Small Business Development (DSBD).

Sefa and similar institutions certainly made a significant contribution to maintaining small business. As with land reform, however, in themselves they were too small and too narrowly focused to substantially shift the distribution of ownership. Almost all of sefa's loans went to microenterprise, accounting for around a quarter of its total lending. While it reached around 50 000 firms a year, that was a small fraction of the total of 1,3 million informal enterprises. That said, demand for its loans was also limited by the lack of other services – market systems, training and infrastructure – that tightly constrained growth in small and micro enterprise.

In 2017, sefa disbursed over R1 billion in finance to around 43 000 small and micro enterprises. Around a quarter of the total went to micro enterprise, which comprised almost all of its borrowers. Sefa's lending and the number of borrowers more than doubled from 2013 to 2015. It then fell by around a third, apparently in an effort to reduce its risk levels.

Graph 20. Sefa lending in billions of constant (2017) rand and numbers of borrowers, 2013 to 2017 financial years



Source: Data on approvals, disbursements and businesses financed from sefa. Annual Report 2017. Pretoria. Data on transfers from National Treasury. Estimates of National Expenditure for 2015/6 and 2017/8. Economic Development Department Vote. Downloaded from www.treasury.gov.za in October 2018.

In short, apartheid meant that most potential businesspeople did not inherit the experience, relationships and assets required for successful business; market institutions were not geared to supporting emerging enterprise; and economic growth was dominated by industries that depended on large-scale production. In these circumstances, ending discriminatory laws could not in itself lead to a resurgence in small business. Rather, that required large-scale programmes to remedy inequalities in access to market services, including procurement, sales outlets and training, as well as resourcing and infrastructure.

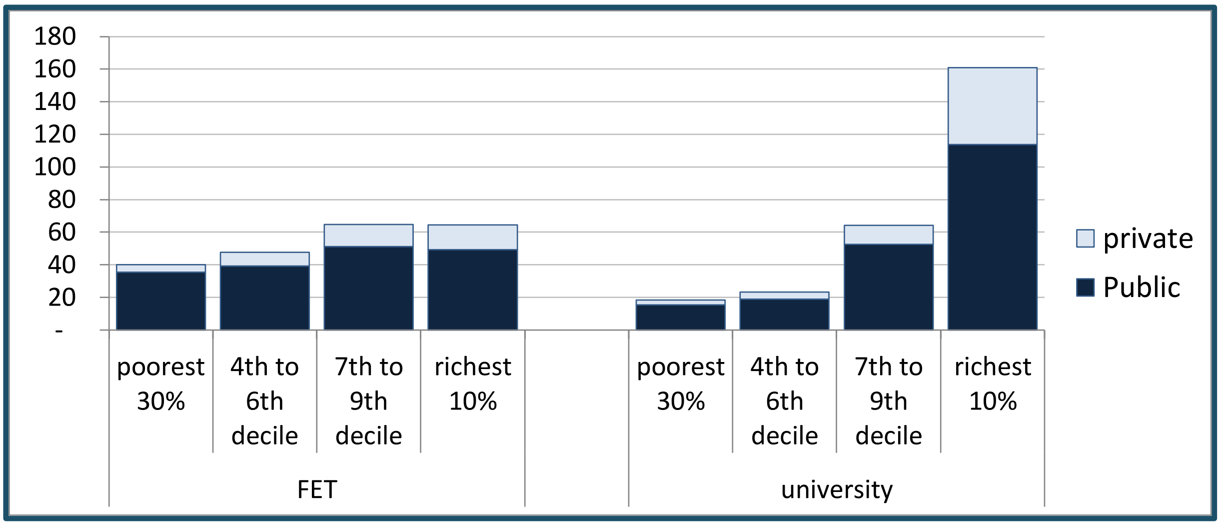
4.3 Education

Unequal education is central to the reproduction of inequality over time. In South Africa, the apartheid regime explicitly limited the skills pool to ensure a premium for the well-educated. To that end, it consistently underfunded and undermined the administration of African schools in particular. After 1994, explicit racial discrimination was ended. Nonetheless, profound inequalities remained.

Matric outcomes underscored the gap between schools serving well-off areas and others. The Department of Basic Education divided schools into groups based primarily on the incomes in their communities. The richest 15% of schools in 2015 were virtually all located in historically non-African neighbourhoods. They accounted for 30% of matric university passes, twice their share in the student population. They had an overall pass rate of 90%, and half their learners qualified for university. In contrast, the worst-off 25% of schools were found primarily in historic labour-sending areas and informal settlements. They achieved just 15% of all university passes. Only 62% of their learners passed at all, and less than one in five qualified for university. (Department of Basic Education 2016, p. 53)

In 2015, the richest decile accounted for over a third of all university students, and the second richest for another fifth. In contrast, the richest decile contributed just 8% of learners in secondary schools. Access to further education was far more equitable than university attendance, as Graph 21 shows, but the returns were substantially lower.

Graph 21. Students attending tertiary institutions per thousand people in income group, 2015



Source: Calculated from Statistics South Africa. Living Conditions Survey 2014/5. Electronic database. Series on household income deciles and payments for university education (directly or for loans). Downloaded from Nesstar facility at www.statssa.gov.za in August 2018.

The differences in school quality that underpinned matric and university outcomes largely reflected continued inequalities in resourcing. In the early 2010s, the average number of learners per educator in historically black schools, whether rural or urban, was 32 to one. In contrast, in historically white schools, which had mostly been racially integrated, the figure fell to 22 to one. (Calculated from Department of Basic Education 2016)

Deep inequalities also emerged around facilities, reflecting the historic accumulation of resources in historically white schools combined with underinvestment in black schools. In 2011, almost half of schools did not meet national minimum standards, with the largest backlogs around classrooms. About a tenth, virtually all in the historic labour-sending areas, had no running water, and a tenth did not have electricity. Four out of five formerly white schools had a library, compared to half of other urban schools, and only one in five schools in historic labour-sending regions. (Calculated from Department of Basic Education 2014, Table 13, p 21; Table 35, p. 45)

From 1994, the government ended racial discrimination in the provision of health and education and vastly increased spending on these services in poor communities. Nonetheless, inequality persisted, primarily because of the fee system for quality public schools and tertiary education combined with the failure to develop delivery systems for general education that were both effective and aligned with fiscal constraints.

A system of fees for quality public general education and universities effectively semi-privatised them. It enabled high-income households, irrespective of race, to get a world-class education in the public sector at a comparatively low price. In contrast, schools in poor neighbourhoods did not charge fees but also had inadequate resources and generally provided a weak education, constraining the potential for employment and self-employment into the future. The historically white schools had to provide places to all nearby residents, whether or not they could pay. But they could select among non-residents, and in practice preferred those who were able to pay fees, which varied substantially by region and school.[21]

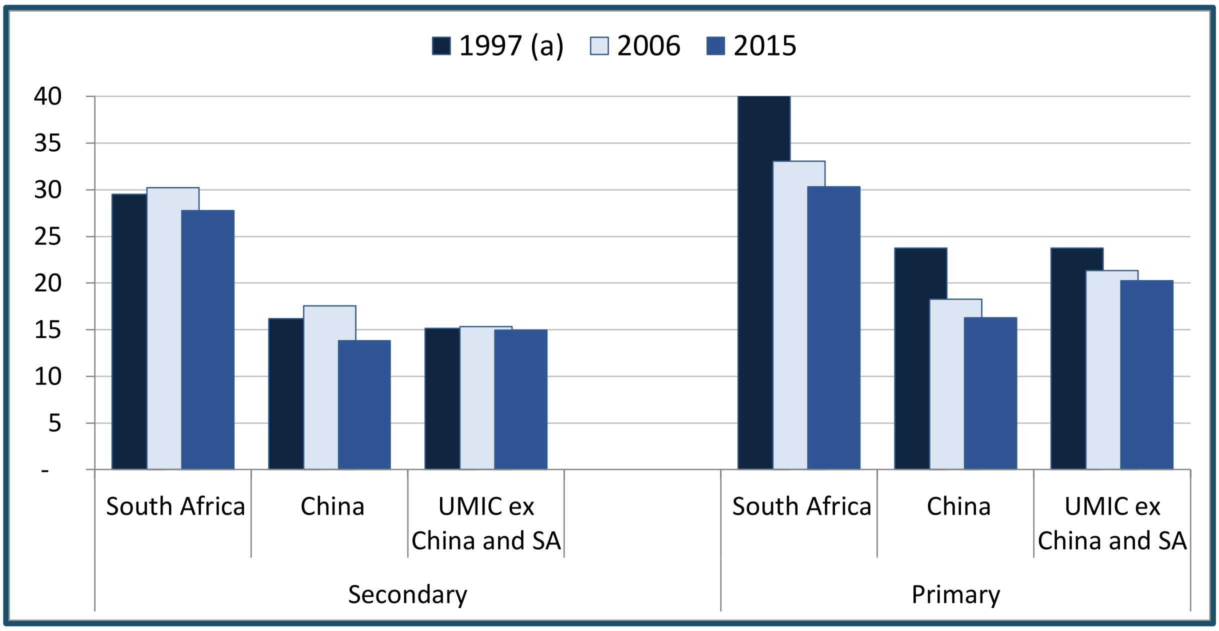
In addition, fees often proved an insuperable obstacle to university attendance, and were always a real burden. In 2015, the cost of a year's university education came to six months of the median annual income for households in the poorest 30%, but around 10 days for those in the richest 10%. Yet only a tertiary degree correlated with a significant improvement in employment levels, as shown in Graph 14 above.

The policy on fees arose out of government's difficulty in dealing with centres of excellence in the public sector that had been set up to ensure "European" standards for whites before 1994. These institutions were formally desegregated in the early 1990s. Still, they only had capacity to reach a minority of the population, and access depended in large part on ability to pay and location. This faced policymakers with a cruel choice. They could either deliberately reduce the quality of these centres in order to fund services for the majority; or they could maintain world-class practices for a few by providing higher funding and permitting the centres of excellence to charge fees, effectively maintaining historic inequalities.

The core delivery systems across the social services were effectively modelled on the centres of excellence. Yet most schools had neither the personnel nor the resources to implement them effectively. For instance, teachers had to have a university degree, with no formal auxiliary positions at lower levels. Given fiscal constraints, however, it proved virtually impossible to reach the necessary staffing levels in non-fee schools. As a result, staffing levels tended to fall far below international norms for the educational systems as a whole. In terms of learners to educators, for instance, the norm in upper-middle-income economies was just 15 to one – half the ratio in South Africa, despite some progress from 1994.

[21] In theory, schools could not turn away learners just because they could not pay; in practice, they could pick among applicants from outside the district, and were more likely to select children from well-off households.

Graph 22. Learner-educator ratio in South Africa compared to peer economies, 1997, 2006 and 2015



Notes: (a) 1998 for South Africa. *Source:* Calculated from World Bank. World Development Indicators. Electronic database. Series on primary and secondary teachers and pupils. Downloaded from www.worldbank.org in October 2018.

Finally, the general education curriculum remained geared to university entrance rather than employment. Efforts to revise the curriculum after 1994 tended to be under-resourced, particularly for teacher training and the provision of texts. As a result, expansion in teaching of new technologies and competencies, such as computer skills and problem-solving, was limited. In addition, there appeared to be no clear strategy for maintaining local languages while also ensuring competency in English, which was critical for obtaining employment in the formal economy.

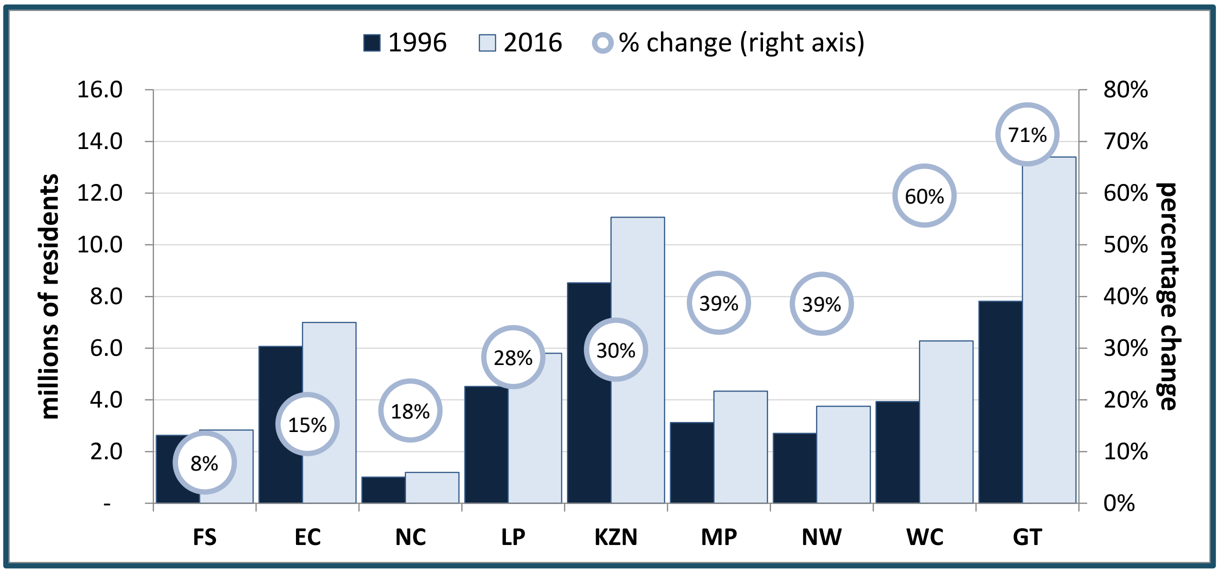
In short, despite adequate funding, the education system remained profoundly inequitable. Challenges centred on the role of fees in maintaining unequal position of centres of excellence and the development of delivery systems that were sustainable given limited funding and ability to pay.

4.4 Infrastructure

Apartheid policies under-resourced public investment in black communities, particularly in the labour-sending regions, while providing "European" standards for white communities. This approach was integrated with residential restrictions that kept most black people distant from economic centres. Even within urban areas, townships and informal settlements were located far from most industrial sites and city centres.

After 1994, the elimination of apartheid restrictions led to rapid migration into urban centres and away from historic labour-sending regions. Because the provinces after 1994 largely aligned with apartheid geography, their population growth rates diverged sharply. From 1996 to 2016, the national population grew by 38%. But the population of Gauteng climbed by over 70%, and the Western Cape by almost 60%. These population growth rates were matched by a few mining towns in the platinum and coal belts of the North West, Mpumalanga and Limpopo, as well as some iron-mining towns in the Northern Cape. Still, most provinces grew more slowly than the national average. The Free State, which suffered from the rapid downsizing of the gold industry as its reserves ran out, and the Eastern Cape fell furthest behind.[22]

Graph 23. Estimated (a) population growth by province, 1996 to 2016



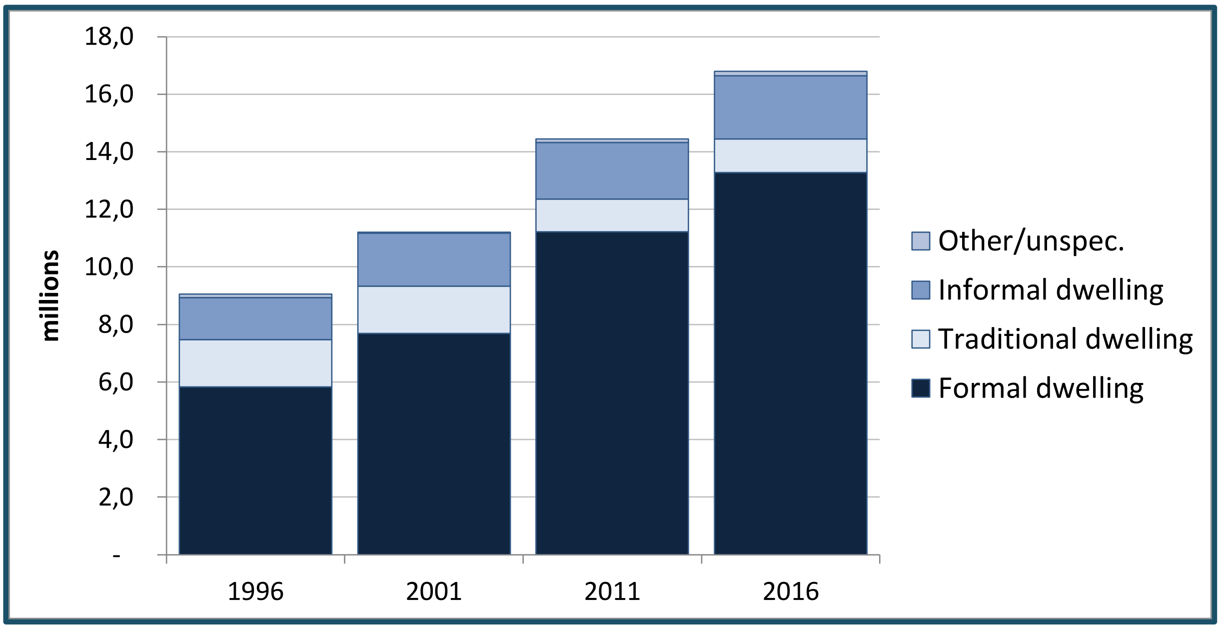
Note: (a) Estimates for rural-urban migration from 2011 are likely too low; see footnote on page 29. *Source:* Calculated from Statistics South Africa, 1996 Census and 2016 Community Survey. Downloaded from www.statssa.gov.za in November 2016.

The democratic government vastly increased investment in housing and household infrastructure in historically black communities, with the explicit aim of overcoming backlogs left by apartheid. These programmes entailed both upgrading services to existing houses and the provision of RDP houses, largely at no charge to low-income households.

After 1994, South Africa saw a vast increase in formal housing stock, which usually went with improved municipal services. The number of families living in formal housing climbed from six million to 13 million between 1996 and 2016, rising from 64% to 79% of all households. The number in traditional housing dropped from 1,6 million to 1,2 million, or from 18% to 7%, reflecting the move out of labour-sending regions. The same migration patterns contributed to continued but very slow growth in informal housing. The number of families living in informal housing climbed from 1,5 million to 2,2 million. The share of informal housing dropped from 16% in 1996 to 13% in 2016.

[22] The 2016 Community Survey likely understates migration from 2011 because it is weighted by the mid-year population estimates. The 2011 Census found that Statistics South Africa's mid-year population estimates substantially underestimated rural-urban migration. Nonetheless, the mid-year estimates since 2011 assume a falling migration rate. In interviews, Statistics South Africa officials argued that the rate through 2011 was extraordinarily high by international standards and therefore could not persist – an argument that ignores the unique nature of South Africa's apartheid legacy.

Graph 24. Households by type of housing, 1996 to 2016



Source: Calculated from Statistics South Africa. Community Profiles (census data) and 2016 Community Survey. Interactive datasets. Series on main dwelling. Downloaded from Superweb facility at www.statssa.gov.za in October 2018.

Formal housing typically brought improved infrastructure, particularly water, sanitation and electricity, as well as stronger and more comfortable structures. Subsidies for new formal housing represented a significant form of redistribution to the poorest 60% of households. As of 2017, around a fifth of households in the poorest 80% had received a government housing subsidy. For the richest decile, the figure dropped to 4%.[23]

Nonetheless, the new formal housing programmes did little to improve equality. They were rooted in the pre-existing urban planning model that provided working-class housing mostly as single-class dormitory towns segregated from richer suburbs and far from economic opportunities. The new settlements typically did not include economic sites, whether commercial, recreational or industrial. In consequence, they raised living standards but often did less than hoped to establish integrated communities or expand economic opportunities.

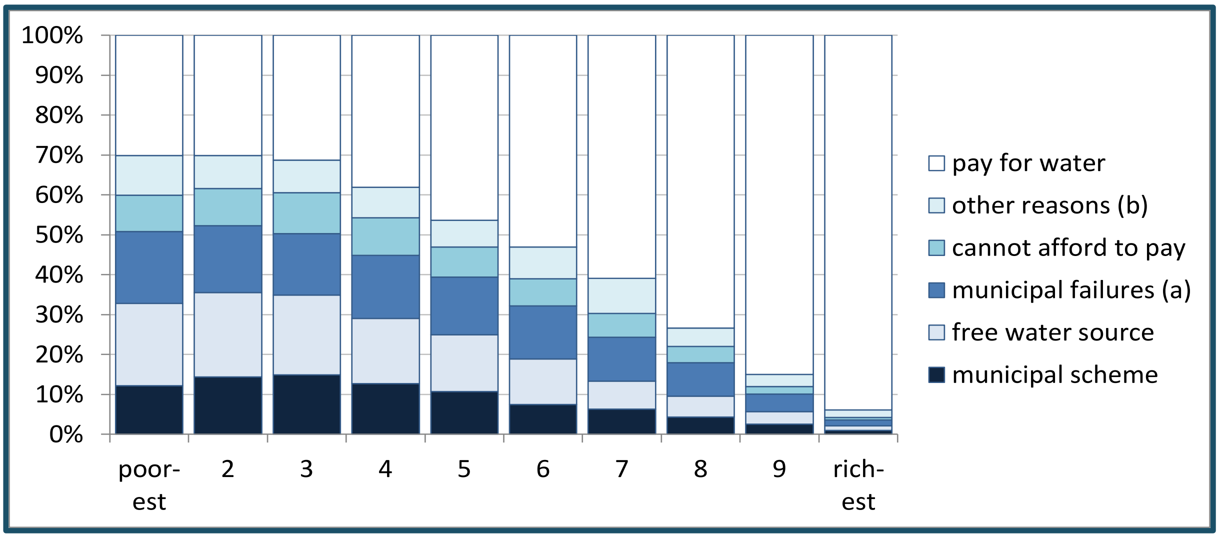
The government also extended municipal services in existing low-income communities. Faced with fiscal constraints, however, it effectively decided to promote a lower level of service than found in the historically white suburbs in order to reach more people. For instance, the standard for new sanitation was a ventilated improved pit toilet, rather than flush toilets in dwellings. Similarly, water was often provided in the yard rather than in the house, and electricity was supplied for lighting but not cooking. Since these standards effectively applied only in poor communities, they built a degree of inequality into infrastructure provision.

Besides extending physical infrastructure, from the early 2000s the state provided basic municipal services at no cost to poor households. As Graph 25 shows, 70% of the poorest 60% of households did not pay for services, compared to 6% in the richest decile. But most households did not pay due to inefficient billing systems, interrupted services or because they shared free community facilities, rather than because of targeted poverty-relief programmes.

[23] Calculated from Statistics South Africa. Living Conditions Survey 2014/5. Electronic database. Series on household income deciles and state housing subsidy. Downloaded from Nesstar facility at www.statssa.gov.za in August 2018.

Still, low levels of payment in low-income households meant that half of all households that paid for water fell into the richest 30%, and a fifth were in the richest 10%. As noted above, the quality of free services, however, often lagged far behind that provided in well-off suburbs.

Graph 25. Percentage of households paying for water and reasons for not paying, by decile, 2015



Note: (a) Broken meter, interruptions to water supply or failure to bill. (b) Not specified or community decision not to pay. *Source:* Calculated from Statistics South Africa. Living Conditions Survey 2014/5. Series on household income and household income deciles. Electronic database. Downloaded from Nesstar facility at www.statssa.gov.za in August 2018.

From the mid-2010s, the government initiated a series of programmes that were supposed to bring about more integrated communities, breaking from the apartheid tradition of single-class dormitory housing for working people. These programmes ranged from a new emphasis on building more integrated economies in townships to urban-planning regimes that were expected to develop more coherent and integrated communities. The impact of these programmes was not clear at the time of writing. They faced three significant challenges, however.

- The cost of land nearer to city centres and the need to develop new norms for urban planning both made it harder to shift paths. Construction companies were accustomed to building dormitory towns with rows of small formal houses but no sites for commercial or productive activity. Denser housing, such as row houses, typically had a higher cost per unit, although in the longer run they returned substantial savings for both residents and municipalities.
- Because incomes in most townships were low, demand for goods and services was often weak, making it hard to support local businesses. In formal townships in the metro areas in 2017, the average monthly income came to R5 200, compared to almost R30 000 for the richer suburbs. In the former labour-sending areas, township demand was around half as high.
- There was no common vision of the "township economy". The original concept focused on developing dormitory townships into integrated communities. But some versions aimed instead at placing industrial sites in residential areas, which seemed unlikely to improve the quality of life for residents.

4.5 The historic labour-sending areas

A variety of factors led to the continued impoverishment of the historic labour-sending regions compared to the rest of the country long after apartheid formally ended. They were designated originally in deprived, remote regions, and then starved of investment over decades. The resulting low incomes in turn limited local demand, further constraining economic opportunities. Then mass out-migration after 1994 brought an outflow of working-aged adults, especially the most educated.

Government efforts to improve conditions in the historic labour-sending regions centred on improving household living standards through social grants and increased investments in infrastructure and social services. Programmes to improve economic opportunities remained limited and disjointed. They were hampered in particular by the lack of a realistic and shared understanding of the economic constraints on the different labour-sending regions, combined with often weak local governance structures.

Of all government services, social grants were most successfully extended to the historic labour-sending areas. In 2017, 40% of households in these areas depended principally on social grants, compared to 12% in the rest of the country.[24] In part, this was because grants were paid only to people unable to work due to age or disability, which qualified a higher share of people in the historic labour-sending regions.

Because incomes were lower in the historic labour-sending regions, social grants were often a critical source of income. The old-age pension, for instance, was equal to around 60% of the median household income in the historic labour-sending regions, but only about 25% in the rest of the country. In 2017, 30% of households in the historic labour-sending regions received a remittance (with a median value of around R1 000 a month), while 70% received a social grant. Some 40% depended primarily on social grants to survive, compared to 15% that relied on remittances and 30% on earnings from employed people staying in the home.[25]

Other services improved substantially in the labour-sending regions, but on the whole failed to reach the level of the rest of the country, much less to catch up with the rich suburbs. This arose in part because of the difficulty of matching the long-term investments made over centuries in the economic centres, and in part because of the adoption of lower standards.

In contrast to the provision of government services, only relatively limited initiatives sought to expand economic opportunities for people in the historic labour-sending regions. This reflected the difficulty of agreeing on and funding strategies, especially in light of the lack of obvious opportunities and capacity in most of these areas. The liberation movement had historically viewed land reform as central to reversing the legacy of apartheid in the rural areas. As noted above, however, after 1994 it was neither implemented on the requisite scale nor targeted primarily at low-income people in the historic labour-sending regions.

Overall, the historic labour-sending regions posed an archetypical wicked problem, with deep difficulties around agreeing on viable strategies and funding them. In this context, the combination of social grants and mass out-migration reduced political pressure to find economic solutions.

[24] *Source:* Calculated from Statistics South Africa. General Household Survey 2017. Electronic database. Series on geography type and income source. Downloaded from Nesstar facility at www.statssa.gov.za August 2018.
[25] Calculated from Statistics South Africa. General Household Survey 2017. Electronic database. Series on remittances and geography type. Downloaded from Nesstar facility at www.statssa.gov.za in March 2018.

4.6 The redistribution of income

4.6.1 Social grants

By the mid-2010s, the provision of social grants had become the largest programme aimed at alleviating poverty. It addressed inequality because, given a fairly progressive tax system, it effectively redistributed income from relatively well-off households and big business to poor people who were unable to work. It did not, however, directly provide any support to working-aged people who were not disabled.

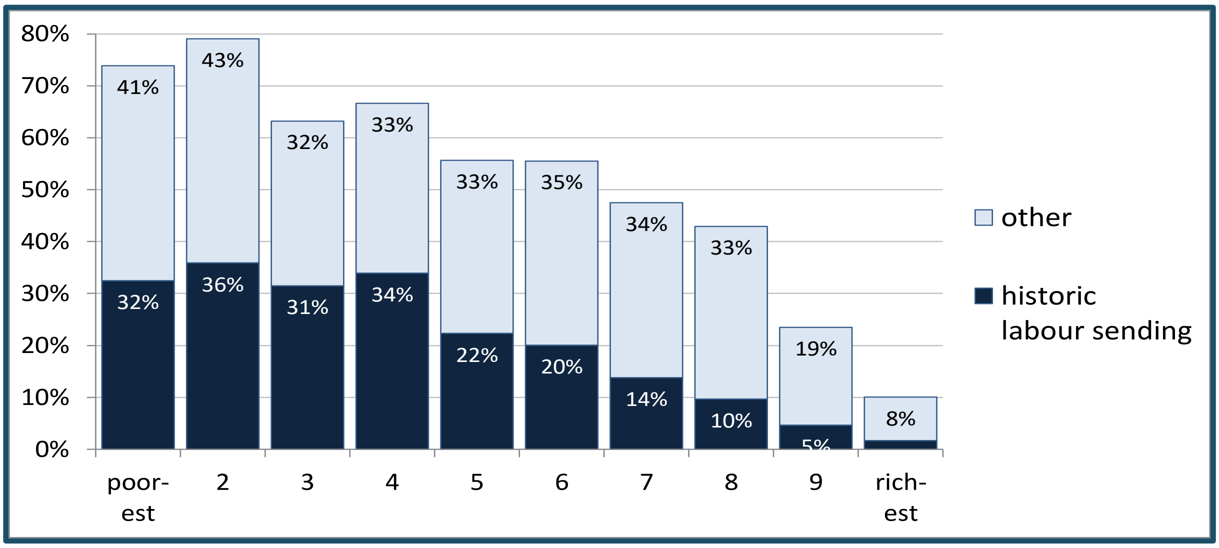
In February 2018, 17,5 million South Africans, or almost one in three, received some kind of social grant. Grants were provided to people who could not physically work due to age or disability and who earned less than R78 000 a year as a single person, or R158 000 as a couple, and owned under 1,1 million rand in assets. These income levels made the poorest 60% of the population eligible, although they also had to be unable to work and have limited assets.

In 2018, the maximum old-age pension and disability pensions were pegged at R1600 a month, while the child support grant was R380. Three out of five grants were for child support, reaching 12,2 million children in early 2018. In addition, there were 3,4 million old-age pensions and 1,1 million disability grants. (SASSA 2018) Because old age pensions and disability grants provided over four times as much as child-support grants, they accounted for around 60% of the value of all grants. Both the old-age and disability grants came close to the national and international poverty lines for a couple, while the child support grant would lift half a person out of poverty, using Statistics South Africa's food poverty line.[26] The World Bank's standard of US$1,90 a day indicates similar results.

Two thirds of households in the poorest 60% received a grant (sorted by total household income rather than income per person). For these households, given high jobless rates, access to a social pension often spelled the difference between destitution and ordinary poverty. A relatively small number of higher-income households also got social grants, presumably because low-income pensioners or disabled people were living with better-off families.

[26] In 2015, Statistics South Africa estimated a food poverty line of R501 per person per month in 2011 rand. (Statistics South Africa 2015, p 10). Reflating this figure using CPI, the poverty line would be around R620 a month per person in 2015. By this standard, the old-age pension could support around 2,2 people a month, and the child grant around half a person.

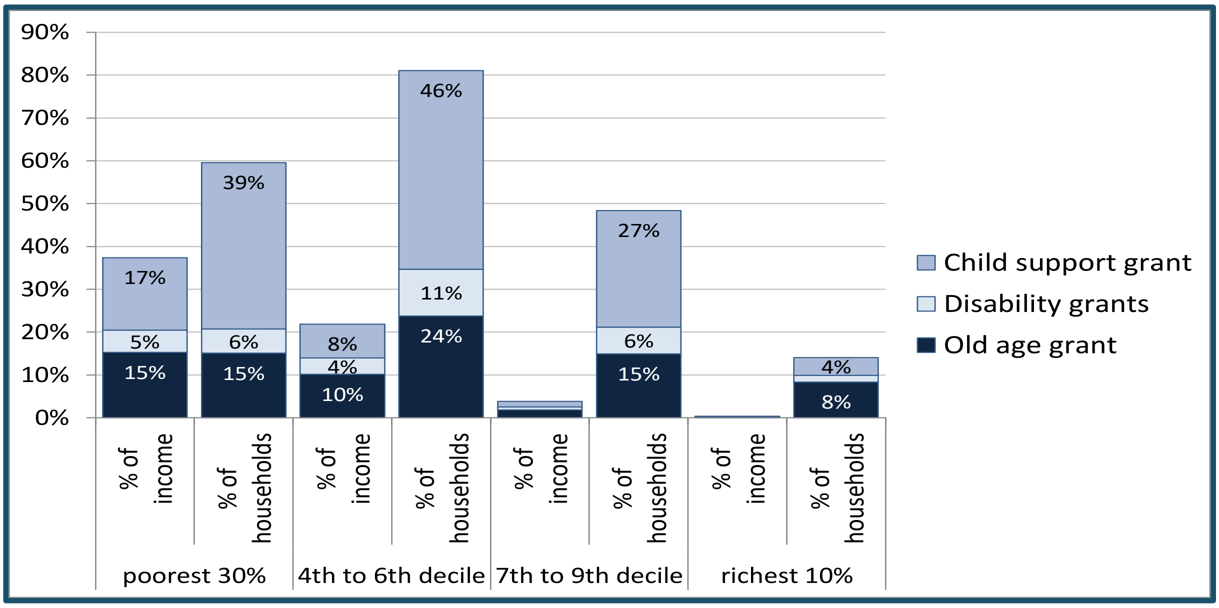
Graph 26. Share of household residents receiving grants by household income decile, 2017



Source: Calculated from Statistics South Africa. General Household Survey 2015. Electronic database. Series on household income, child support grant, disability grant and old age pension. Downloaded from www.statssa.gov.za in November 2016.

Social grants accounted for around a quarter of total income for the poorest 60% of households in 2015, and well over a third for the poorest 30% alone. For the formal working class, a similar percentage of households benefited, but grant income was dwarfed by much greater earnings from work. In the richest decile, a tenth of households got an old-age or disability grant, but the income came to less than 0,5% of total income.

Graph 27. Grant income as percentage of total income and recipients as percentage of all households by income group, 2015

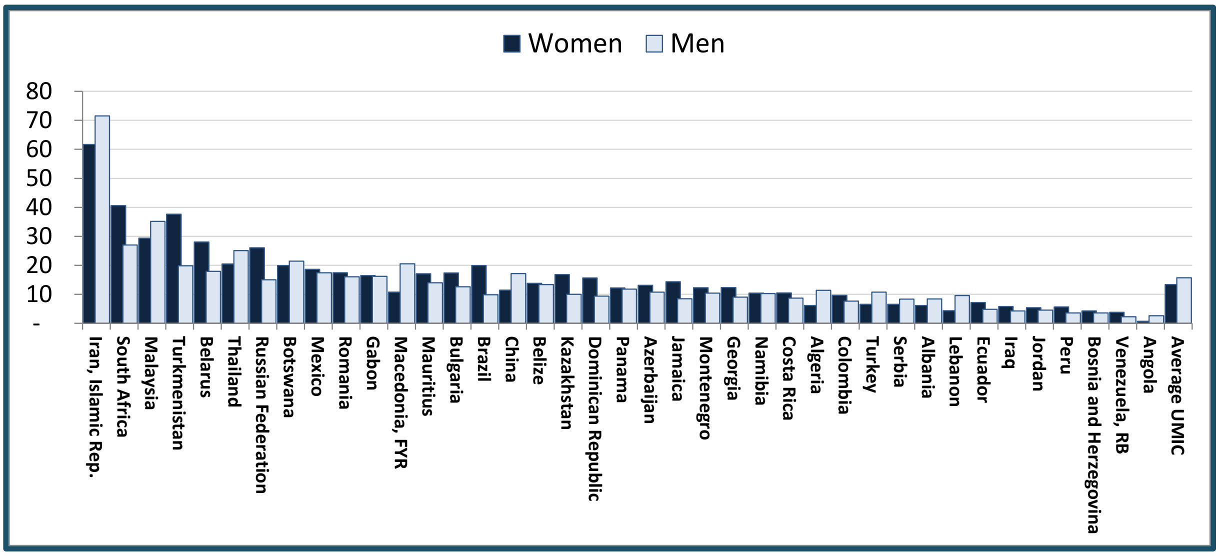


Source: Calculated from Statistics South Africa. Living Conditions Survey 2014/5. Series on household income, household income deciles, and income from grants by type. Electronic database. Downloaded from Nesstar facility at www.statssa.gov.za in August 2018.

While social grants contributed less than half of income for the poorest 60%, for the households that benefited from them old-age and disability grants provided at least half of their total income. Child-support grants contributed a quarter of income to beneficiary households in the poorest 60%.

In terms of the share of households affected, South Africa's income support programme was among the largest of upper-middle-income economies. Almost 35% of South African households received some kind of state transfer, compared to a weighted average of 15% for peer economies. Of course, the other economies had a more equitable primary income distribution to start with.

Graph 28. Percentage of women and men who said they had received a cash transfer from the government in the preceding year in upper-middle-income economies, 2014

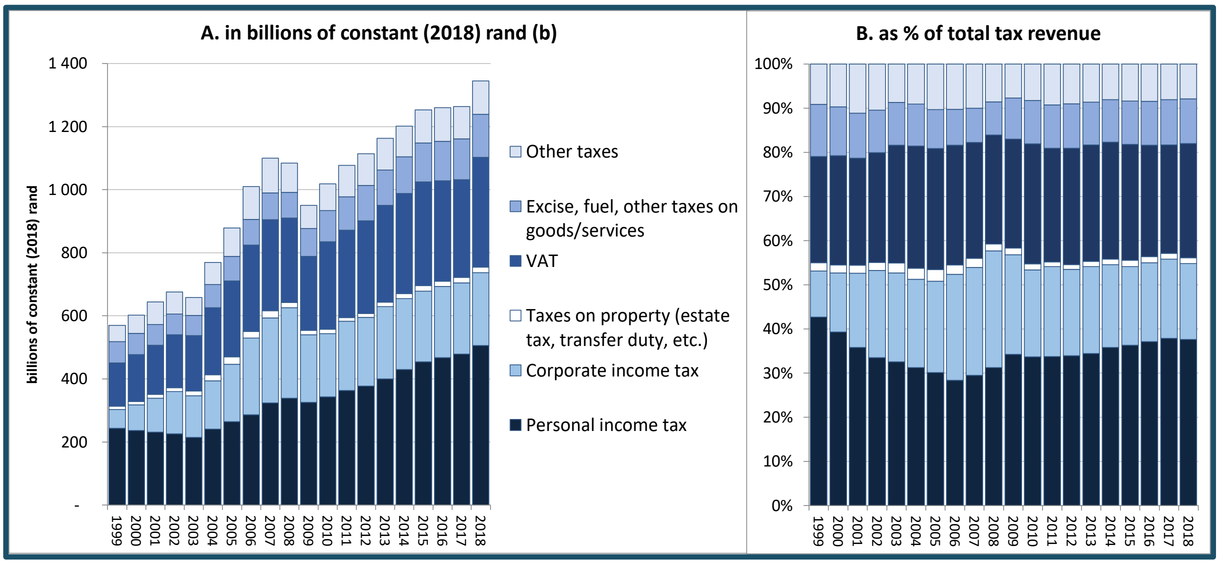


Source: Calculated from World Bank. Gender Statistics. Electronic database. Series on received government transfer in the past year for women and men. Downloaded from www.worldbank.org in December 2016.

4.6.2 Taxation

Redistributive efforts depended on a largely progressive tax system. As the following graph shows, the share of company and personal income tax in total government revenues remained fairly stable at around 55% from 1994 to 2017.

Graph 29. Tax revenue in billions of constant (2018) rand and shares by type, 1999 to 2018 (a)



Notes: (a) 2018 is budget projections. (b) Deflated with CPI for March, rebased to 2018. *Source:* Calculated from National Treasury. Budget Review 2018. Tables in excel. Table 2. Downloaded from www.treasury.gov.za in October 2018.

The deep inequalities in income meant that the tax burden was borne largely by a relatively small number of high-income individuals. In 2015, 500 000 people – around 1,3% of the working-age population – earned almost a third of taxable income and paid just under half of total personal income tax. Overall, just 7% of working-age people paid any income tax. Other taxes, however, were less progressive. Of these, the largest was the Value Added Tax, which had an essentially flat incidence in 2015 – that is, the share of income paid in tax was more or less the same at every income level.

Inevitably, when the primary income distribution – that is, income distribution based on the economy alone – is highly unequal, it proves difficult for the state to sustain redistribution from the relatively small high-income group to the rest of society. This approach has led to concerns about South Africa's limited tax base, which is a necessary consequence of the unusual extent of inequality rather than a peculiarity of the national tax system. In unequal democracies, however, progressive taxation is crucial for maintaining social and political stability.

That said, in the long run redistribution through the state requires that the programmes funded retain a degree of legitimacy among high-income taxpayers. For that reason, the evidence of state capture in the mid-2010s inevitably affected tax morality, which in turn contributed to the challenges of sustaining redistributive initiatives.

4.7 Conclusions

The inequalities in ownership, workplaces, educational systems and infrastructure established under apartheid were essentially reproduced by economic forces. Specifically, historically disadvantaged communities and individuals did not have the resources, experience, education or access to market services and infrastructure required to generate, or in many cases even to take advantage of, economic opportunities. The complex history of the former labour-sending regions meant that they contributed little to sustainable livelihoods for residents, significantly aggravating national inequalities and poverty.

Efforts by the democratic state to address these challenges centred on improvements in core government services. They were dominated by programmes:

- To improve government services and provide cash transfers to poor households;
- To protect labour rights and institute minimum wages; and
- To enhance representivity in business ownership and senior management through broad-based Black Economic Empowerment (BEE) policies.

While government services improved significantly in low-income areas, they remained heavily inequitable. In large part, this resulted because of reluctance to reduce the quality of services provided in rich areas, although government did seek to leverage increased payments for high-end institutions. The state did not undertake substantial innovation in most delivery systems outside of social grants and the development of lower standards for municipal services in low-income communities.

In contrast, the government undertook only limited programmes to address the drivers of differences in earnings from economic activity. It introduced a patchwork of programmes to promote small business and to reduce the wage gap, inequalities in education and the location of low-income housing. But these initiatives remained small relative to the scale of the problem, however, and were generally neither top priorities nor supported consistently across the state.

Strengthening programmes to bring about greater equality requires an understanding of why they have remained limited to date. Some factors include the following:

- While democracy promises a degree of equality for voters, the economy gave great power to a small, relatively cohesive group of business managers and owners and to people with high skill levels. With the end of apartheid, this group became more representative, but arguably over time that made it more difficult to reduce its privileges. The unusually large social and physical distances that apartheid established between rich and poor made it more difficult for the powerful in both the public and private sector to understand and respond to the needs of the majority.
- Introducing large-scale, systemic change in the economy was inevitably risky and costly. In the absence of agreement on the required direction of change, mobilising the political will to bring it about proved difficult. Government leaders and officials knew that if a programme went wrong, they would be blamed, whereas if it worked, they would likely still be seen as falling short.
- Government structures tended to limit the scope for large innovative programmes. To start with, the fragmentation of the state between departments and spheres made it almost impossible to secure alignment around major programmes. In addition, the budget system was largely designed to prevent risk. That made it difficult to get funding for innovative programmes on a large enough scale to make a difference.
- The extreme poverty and economic exclusion of the historic labour-sending regions proved particularly difficult to address, given their lack of resources, local demand, physical and institutional infrastructure, and skills.

5 TOWARD STRATEGIC SOLUTIONS

Programmes to achieve greater equality differ from anti-poverty measures in three main ways.

- They target the majority (for instance, the poorest 70% of the population) rather than a minority (typically the poorest 10% to 40% of households);
- They improve access to economic opportunities instead of focusing on immediate relief from extreme poverty in the form of income or in-kind support; and
- They are complemented by programmes to constrain remuneration and wealth for the richest decile, to equalise government services, and to develop communities that are more integrated by income level.

This section outlines some broad options for addressing inequality. The aim is to scope possible strategies rather than to identify specific proposals.

In the short run, the greatest impact can be achieved through institutions that facilitate collective action to address community challenges and by initiating support for small business, including through land reform and support for township enterprise. In the longer run, industrial policy needs to focus more on scaling up support for industries that are both sustainable and relatively labour intensive, including in light industry and services. This section outlines broad interventions that, if adopted on an adequate scale, could materially narrow the income gap.

5.1 Empowering communities

Bringing about systemic change at community level cannot normally be achieved by individuals or households. Rather, it requires collective action by community members. That in turn depends on organisational structures able to provide a platform for people to reach agreement and oversee initiatives. From this standpoint, the average municipality, with over 40 000 households, is too large to promote community-level mobilisation around common projects.

Various models exist for effective community institutions, including projects for township upgrading, various kinds of service co-op, and the Community Work Programme as originally designed. These models have in common the need to provide sufficient time and resources for institution building, and to involve some dedicated organisers. Setting up robust institutions generally imposes initial delays and costs, but is crucial for long-run sustainability.

In a similar vein, the government should actively promote worker organisation. To that end, it could provide resources for organising and policy work. It could also support non-profit agencies to operate service centres for unorganised workers, especially in domestic and farm work, and to assist small businesses with labour relations. The Commission for Conciliation, Mediation and Arbitration (CCMA) undertook some of these functions, but they were not a central part of its mandate.

5.2 Promoting small business

Developing economic institutions and systems that support small business requires a holistic approach encompassing access to resources, skills, and markets. Agencies to achieve this aim are sometimes called “meso-institutions” that function at the level of a region or an industry – able to develop systems at a scale beyond the reach of an individual entrepreneur but also to respond to specific regional or sectoral needs. Models include marketing co-ops; cluster agencies; social enterprises supporting crafts producers; and incubators.

Effective meso-institutions are crucial for two key initiatives: land reform and the township economy.

To start with, land reform would have to be fundamentally repurposed to promote rural livelihoods, ideally by increasing production for local consumption or for national value chains. To succeed, it would have to start with a viable business model and then identify what land should be acquired, rather than purchasing land and trying to find uses for it. District land committees would provide a basis for this approach.

In terms of township enterprise, as the Job Summit proposed, a dedicated fund is needed to provide infrastructure, services and financial support for new business centres in townships or industrial sites near them. Organisations and municipalities could apply for resourcing to establish support systems for local clusters or sites.

5.3 Promoting greater accountability and equality in big business

In South Africa, establishing more equitable workplaces and pay scales is central to economic equality. This could be achieved by providing resources for managers and worker representatives to review communication systems and qualification requirements, and on that basis remuneration systems; by requiring worker and community representation on boards of directors; and by expanding training for supervisors.

Large companies should also be required to publish information annually on their employment in South Africa; remuneration by level; and local procurement and supplier-development efforts. Ideally these requirements would extend to large private companies and foreign-owned firms.

5.4 Education

A more equitable economy cannot be achieved without radically more equitable general education. Critically, every person who leaves school with matric or less should have the skills required for modern employment. Core competencies include strong language skills in English and at least one other language; problem solving, creativity and design; computer use; and arithmetic for accounting and monitoring production.

Significant innovation is required to overcome the inequitable school funding models left by apartheid. Benchmarks should be set, and adhered to, to reduce inequalities in staffing levels for both educators and support staff. In addition, access to quality educational institutions should be visibly based on merit, not just income. Measures to achieve that end could include for instance a requirement that every school, public or private, be at least 50% black; that people are entitled to send their children to the school that is closest to where they work, not just where they live; and for secondary schools, the development of admissions procedures that are blind to both income and residential location. At university level, tuition should be replaced with a surcharge on the income tax. That would effectively mean payments automatically to changes in income after graduation.

Finally, immigration of skilled people should be encouraged to reduce inequalities in pay. Above all, professional associations should no longer be allowed to veto migrants in order to maintain their own incomes. If migrants can demonstrate that they have a university degree or full artisanal qualification, they should be granted work permits, even without a job offer, specifically to reduce the cost of skilled labour as a step toward building a more equitable and competitive economy.

5.5 Infrastructure

There were no simple fixes for infrastructure inequalities. Delivery models could be improved by the following:

- A more rigorous effort to track internal migration would assist in anticipating needs. In particular, government should publish an annual report on the municipalities with the fastest population growth.
- Densification and the development of multi-class communities should be made a central aim of urban planning. That requires both new models and resourcing. As a start, all new high-income housing developments should have to set aside 25% of accommodation for people in the poorest 60% of households.
- Service standards should be set at the same level for all communities. If a solution is not appropriate for high-income communities, it should not be imposed on low-income areas.
- Participatory budgeting at the ward level would assist communities to take ownership of trade-offs and to identify their own priorities.

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