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Mind the Gap: Income inequality in post-apartheid South Africa

PSEF, 27 November 2019

Ingrid Woolard, Stellenbosch University & SALDRU, UCT

“Countries around the world provide frightening examples of what happens to societies when they reach the level of inequality toward which we are moving. It is not a pretty picture: countries where the rich live in gated communities, waited upon by hordes of low-income workers; unstable political systems where populists promise the masses a better life, only to disappoint. Perhaps most importantly, there is an absence of hope.

In these countries, the poor know that their prospects of emerging from poverty, let alone making it to the top, are minuscule. This is not something we should be striving for.”

Joseph Stiglitz, 2012

- **Intrinsically:**

- Unfair (conceptions of justice)
- Pervasive inequality aversion reduces measured well-being

- **Instrumentally:**

- Brake on poverty reduction
- Reduces future economic growth
- Promotes other inequalities (in health, education, political power)
- Promotes conflict, disaffection, and strife
- Limits economic mobility of younger generations



Where does data come from?

- South Africa is a very large country

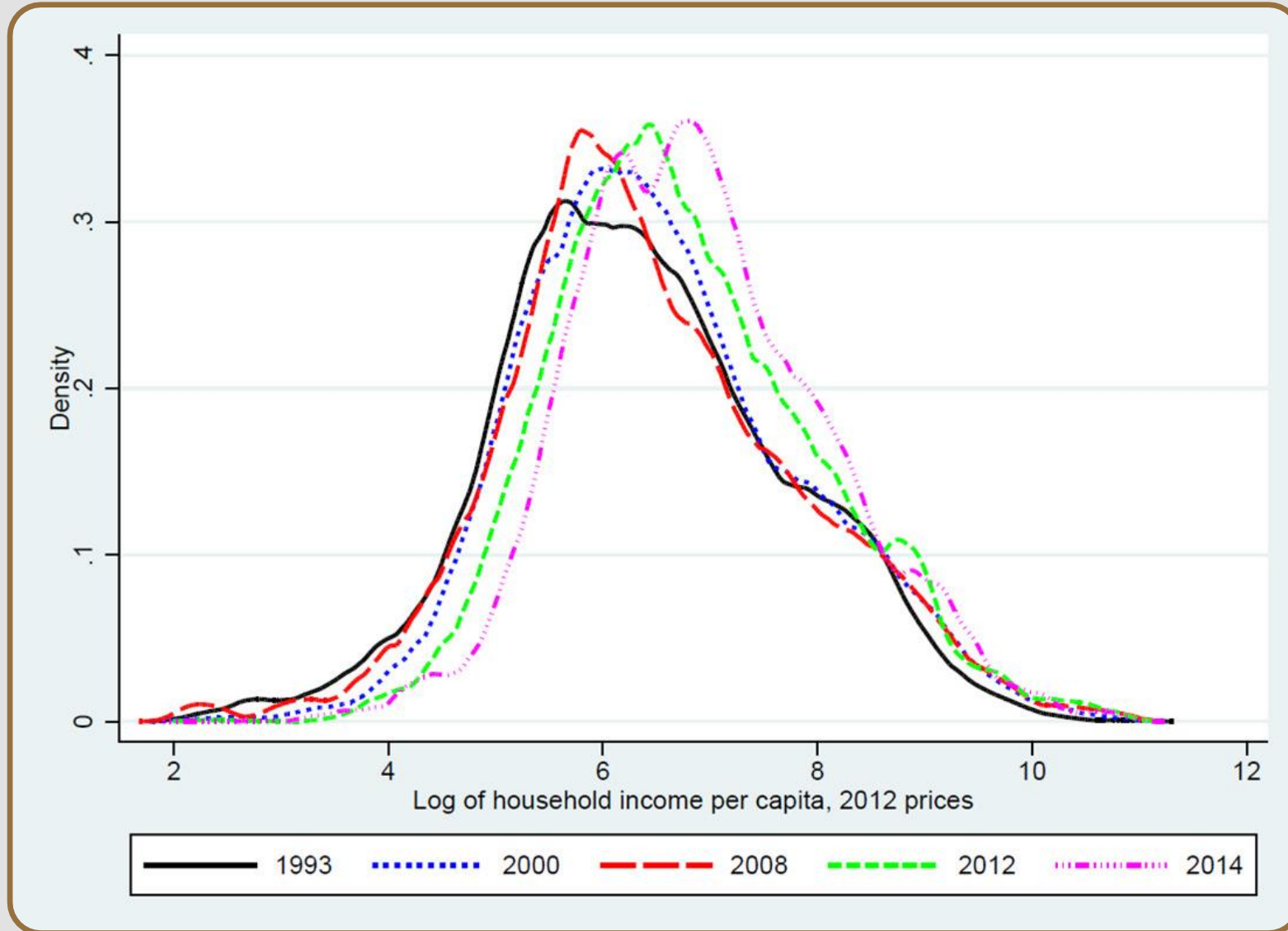


- Grueling and sometimes dangerous work





Poverty has fallen since 1993 ...



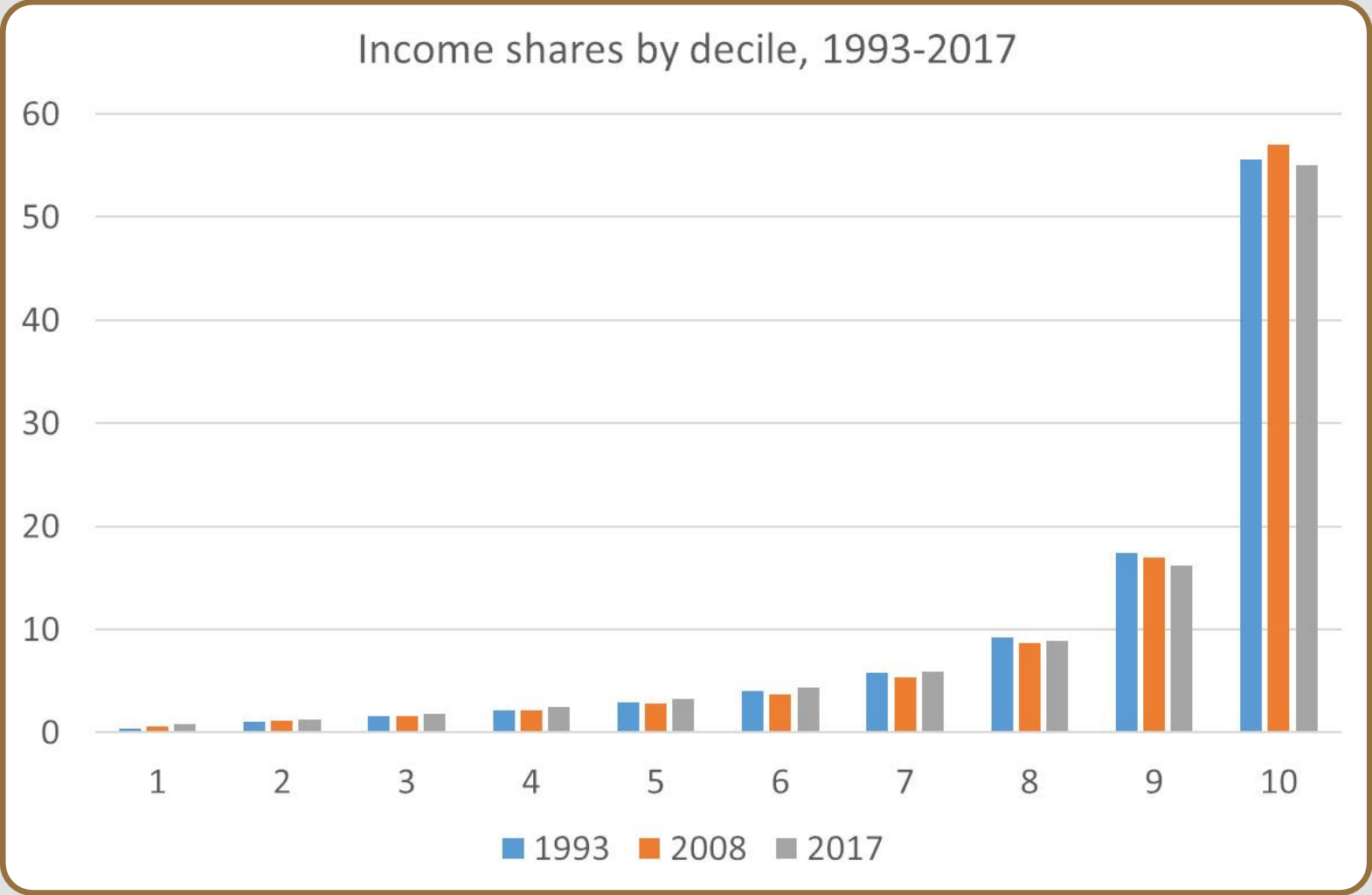
PSLSD, 1993; IES 2000;
NIDS Waves 1 to 4

But the pattern of income inequality now is much the same



- Note:

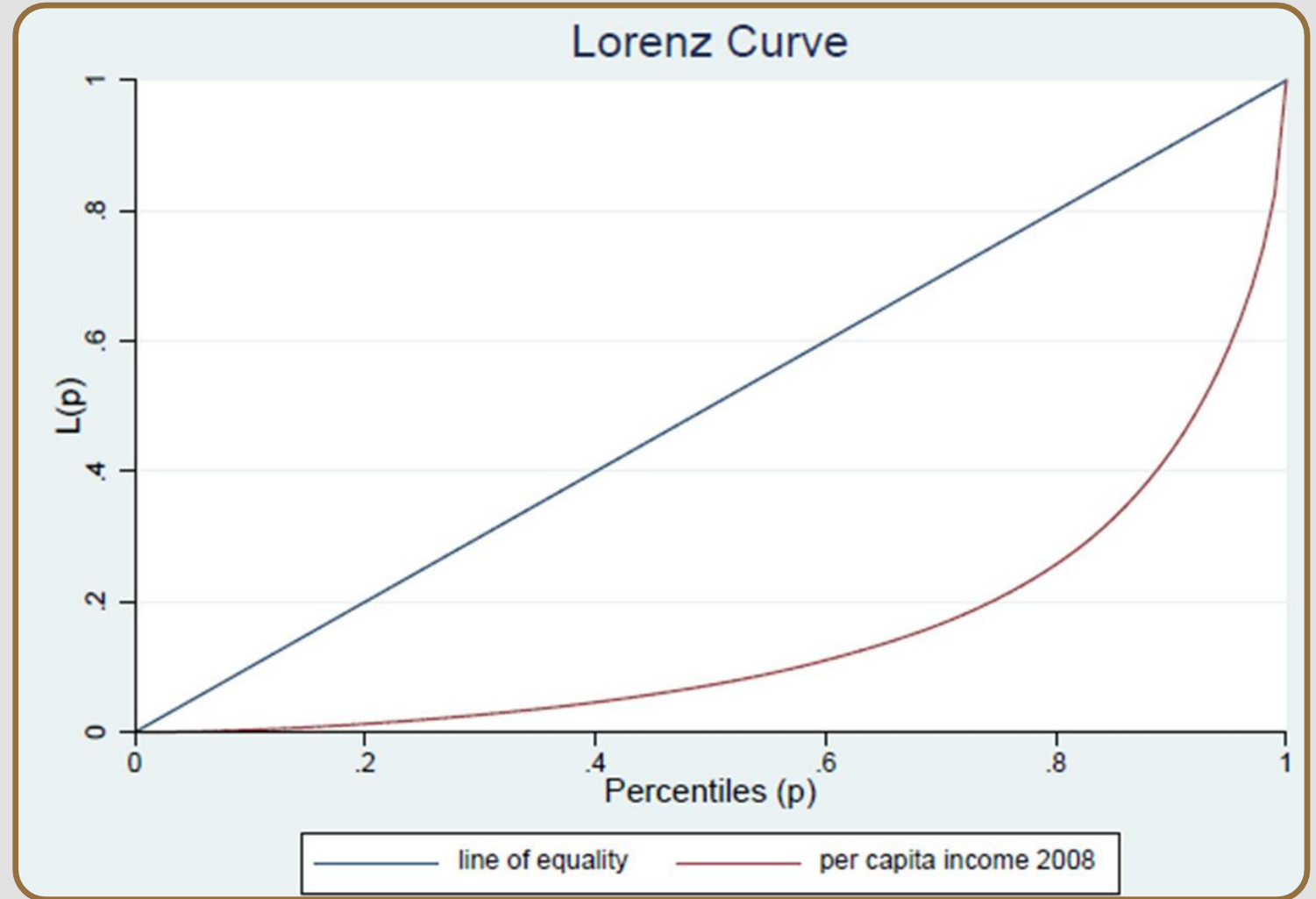
- Measure of wellbeing is per capita household income after direct taxes and transfers
- Deciles contain equal numbers of people
- Census weights have been applied



PSLSD, 1993; NIDS Wave 1; NIDS Wave 5

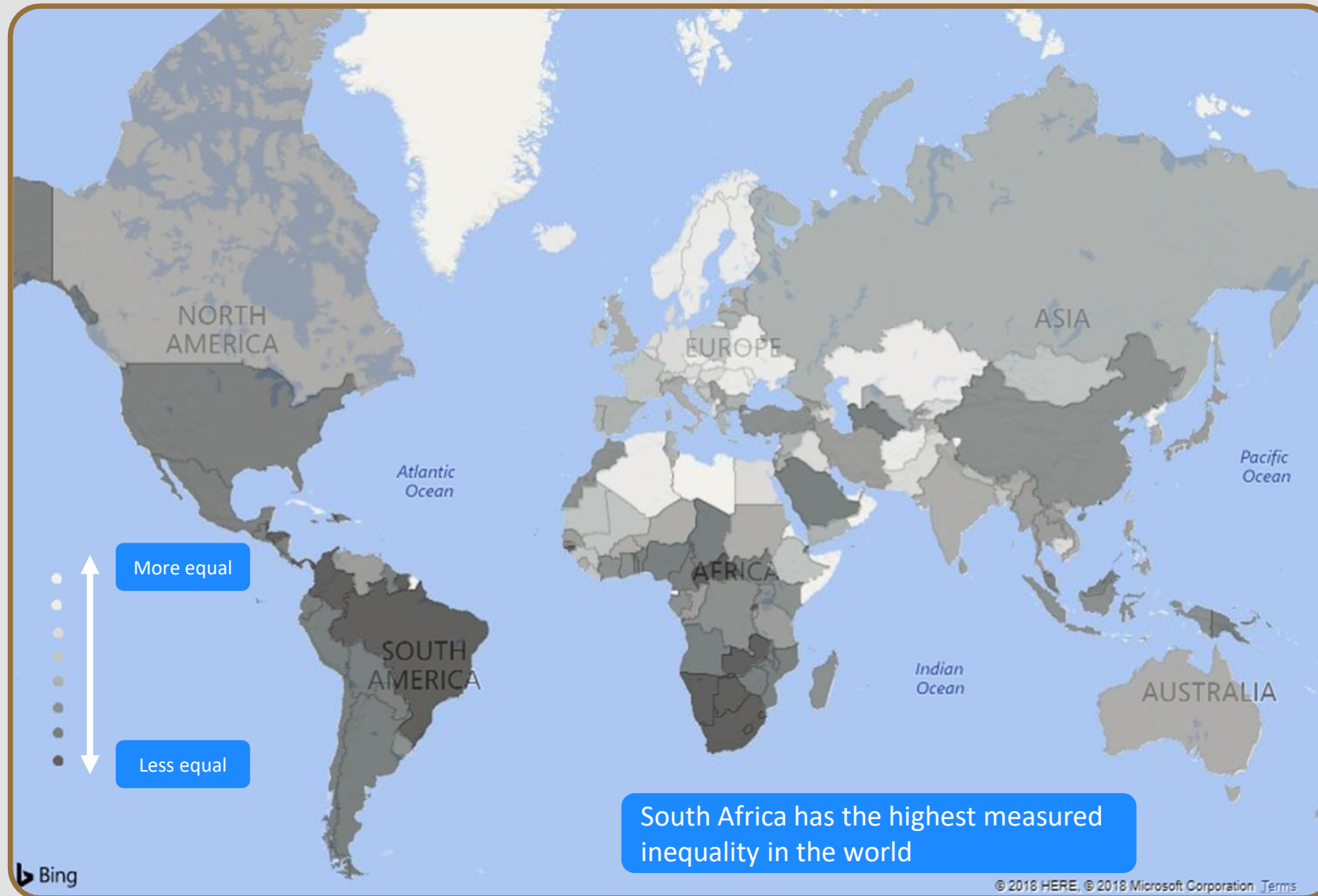
Gini coefficients

- 1993 - 0.67
- 2008 - 0.67
- 2017 - 0.65

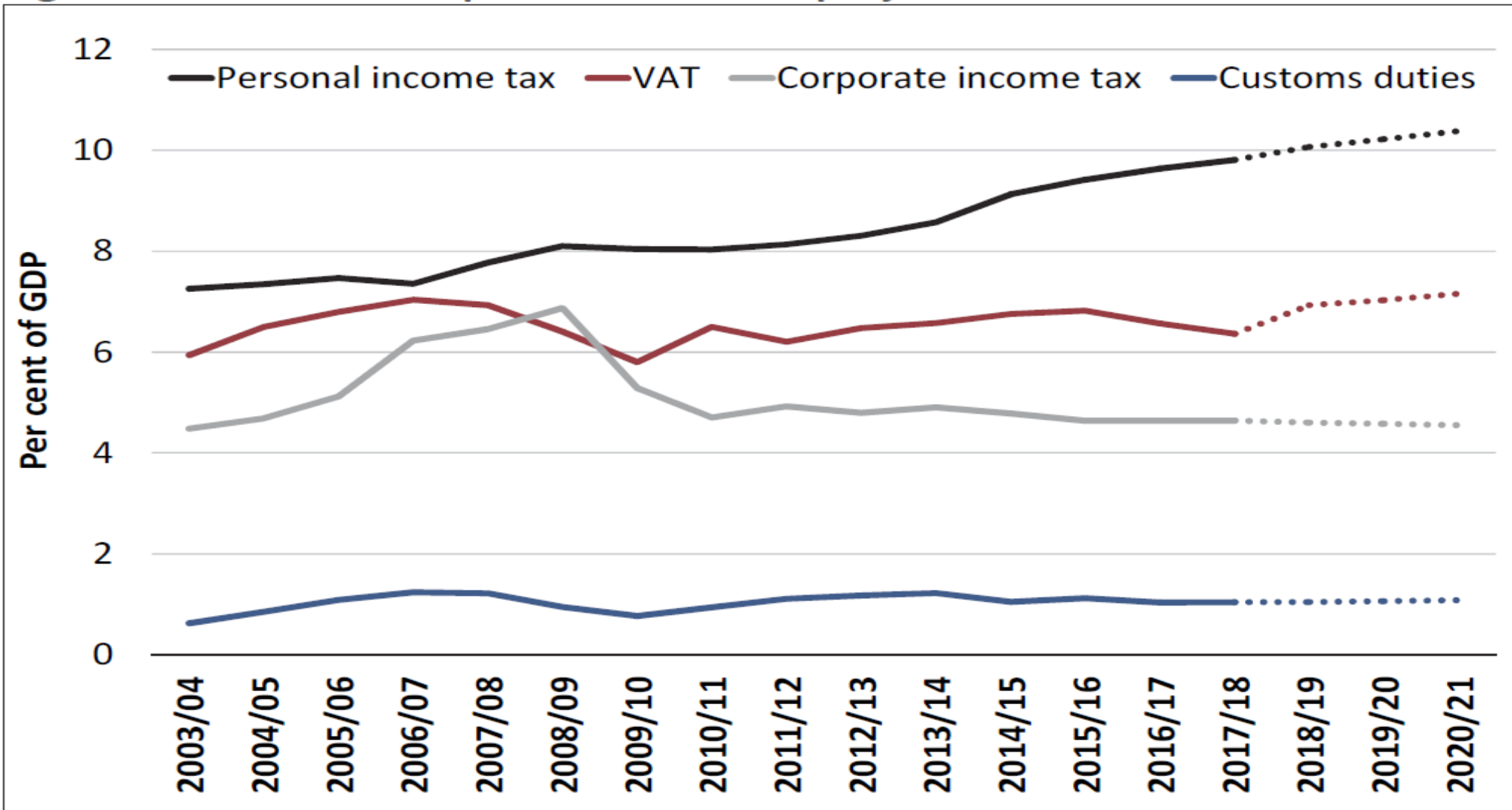


NIDS Wave 1

SA and the global context

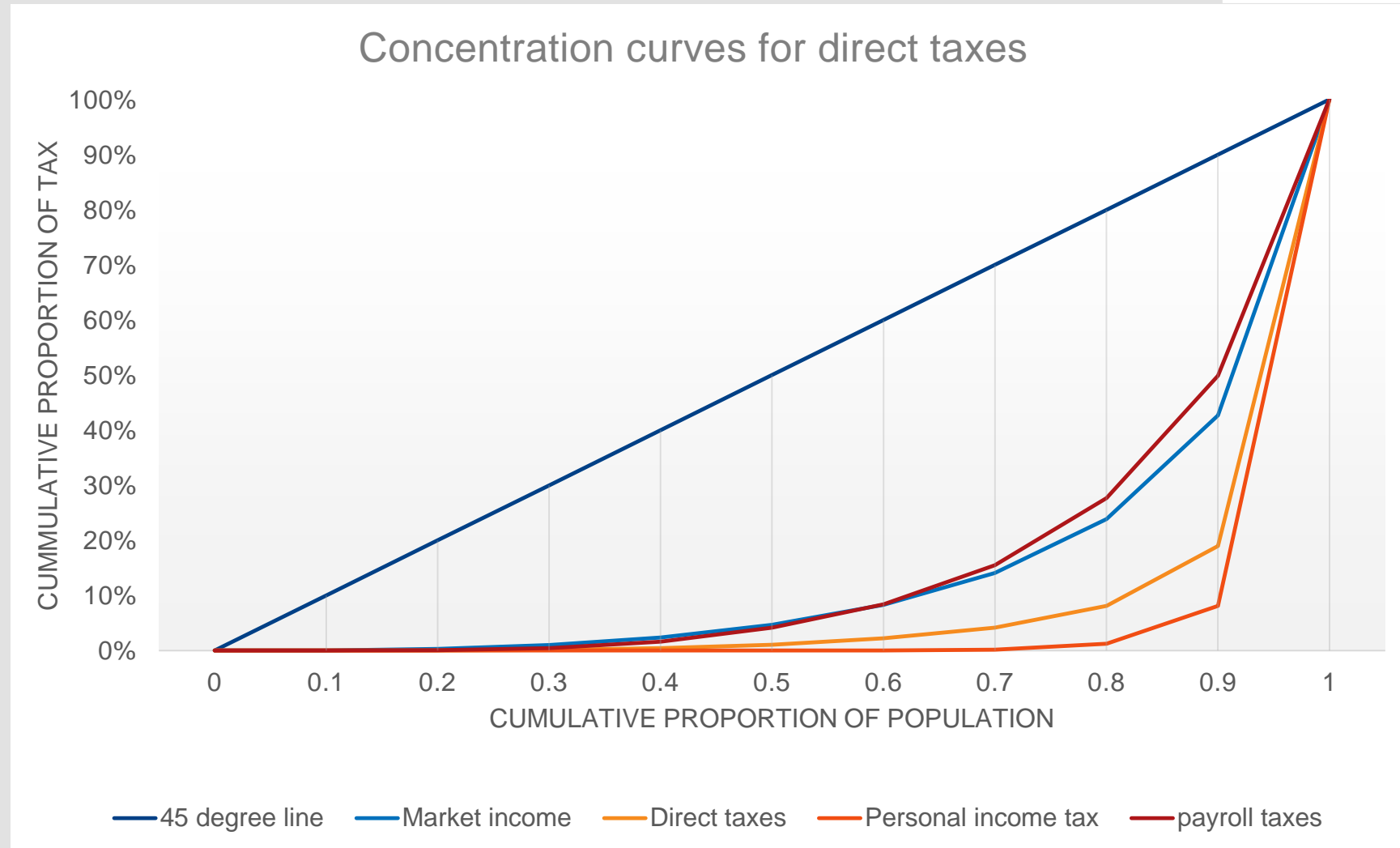


The role of fiscal policy in reducing income inequality



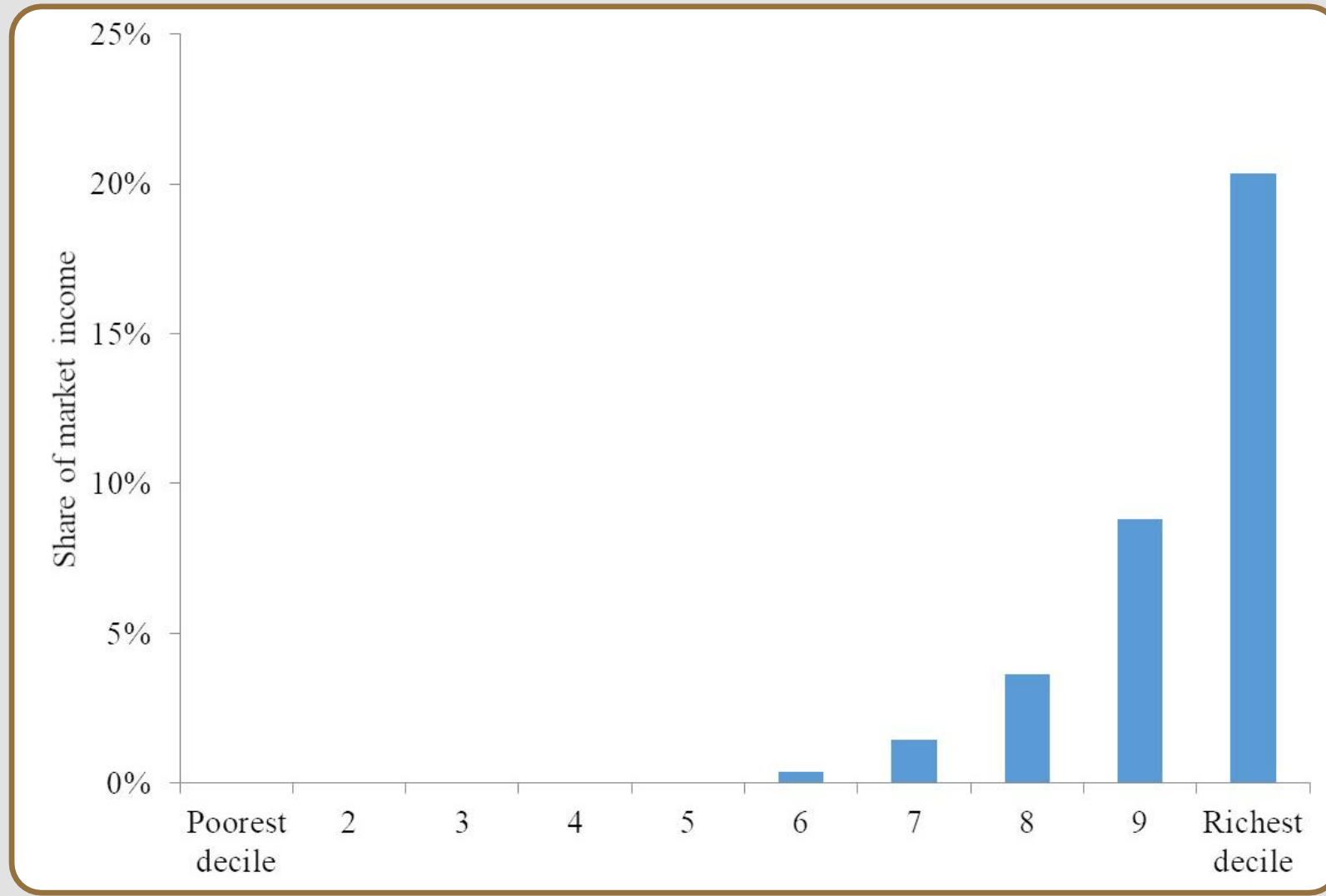
Source: National Treasury (2018)

Payroll taxes are regressive; PIT is progressive



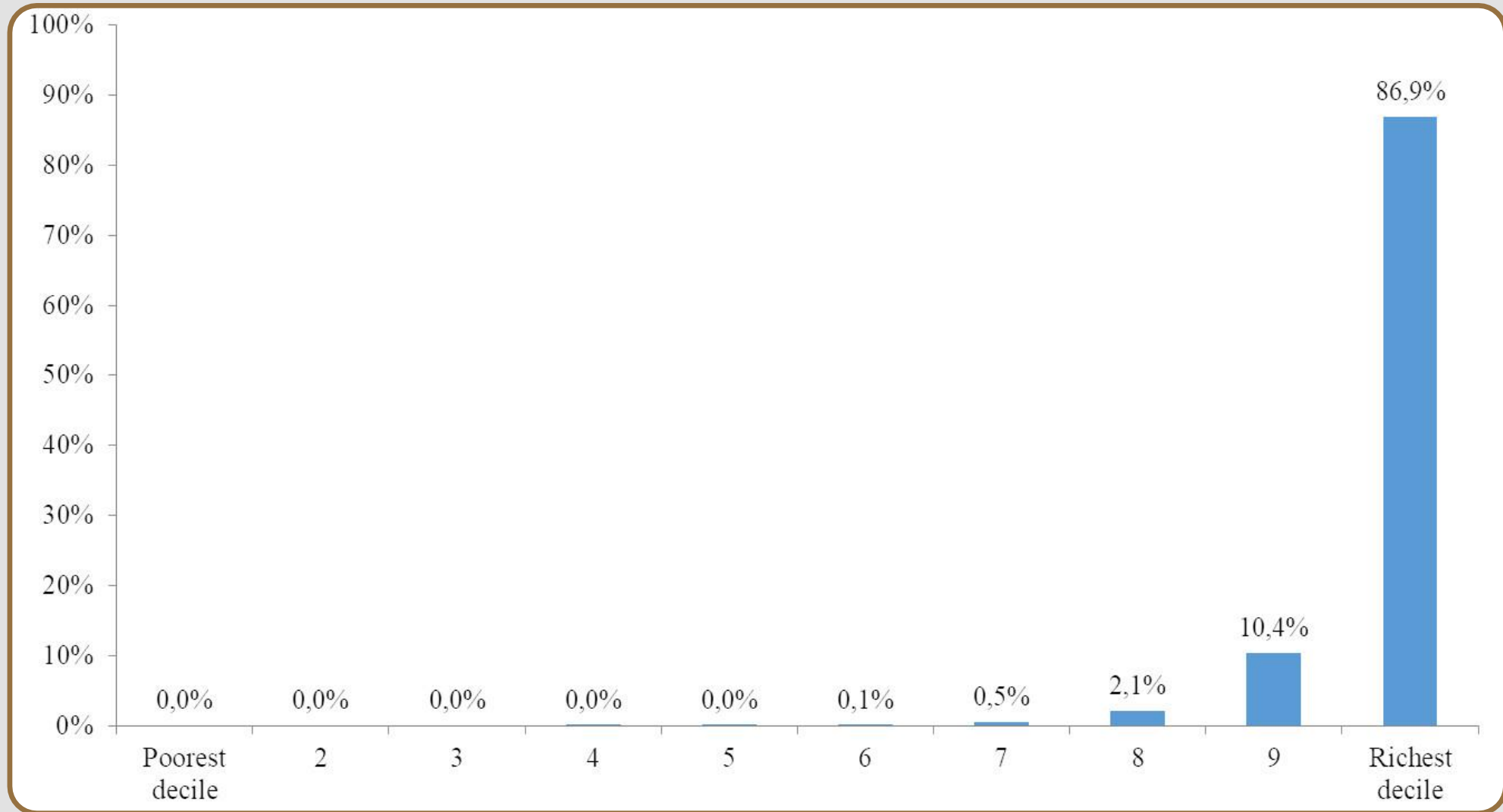
Maboshe and Woolard (2018), 'Revisiting the impact of direct taxes and transfers on poverty and inequality in South Africa'

Personal income taxes are progressive in relative terms



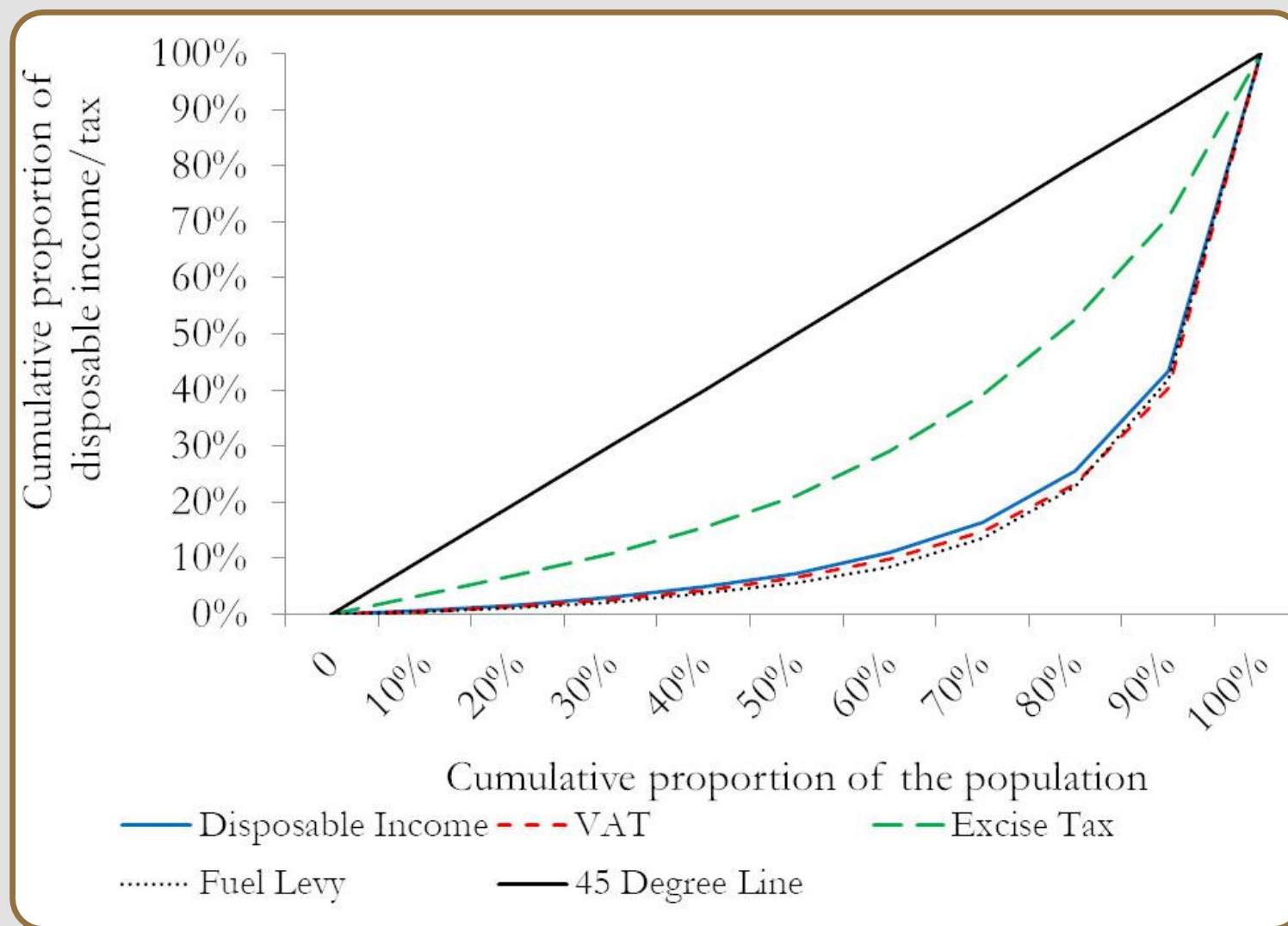
Maboshe and Woolard (2018), *'Revisiting the impact of direct taxes and transfers on poverty and inequality in South Africa'*

And absolute terms



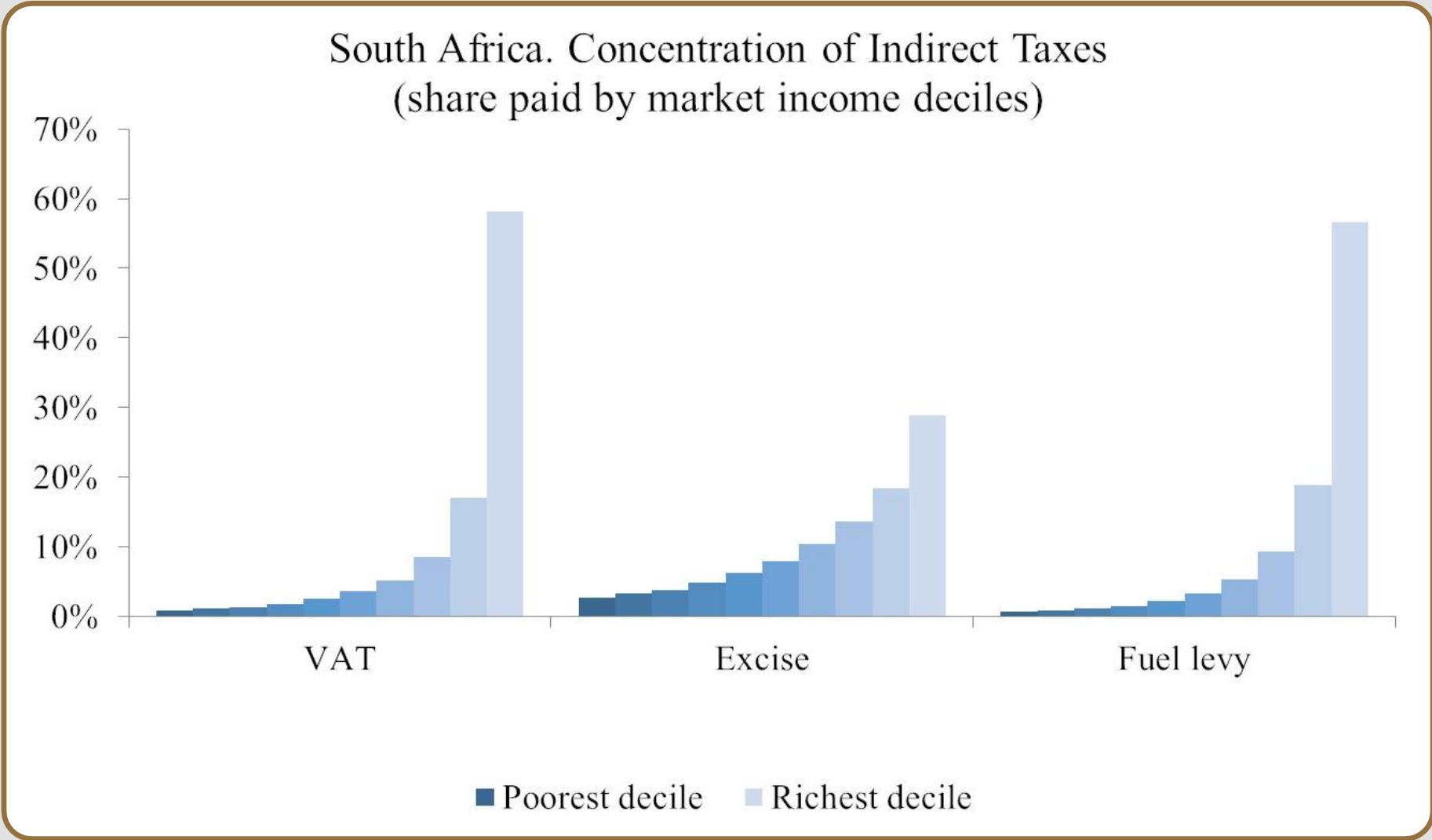
Maboshe and Woolard (2018), 'Revisiting the impact of direct taxes and transfers on poverty and inequality in South Africa'

By contrast, indirect taxes (overall) are somewhat regressive



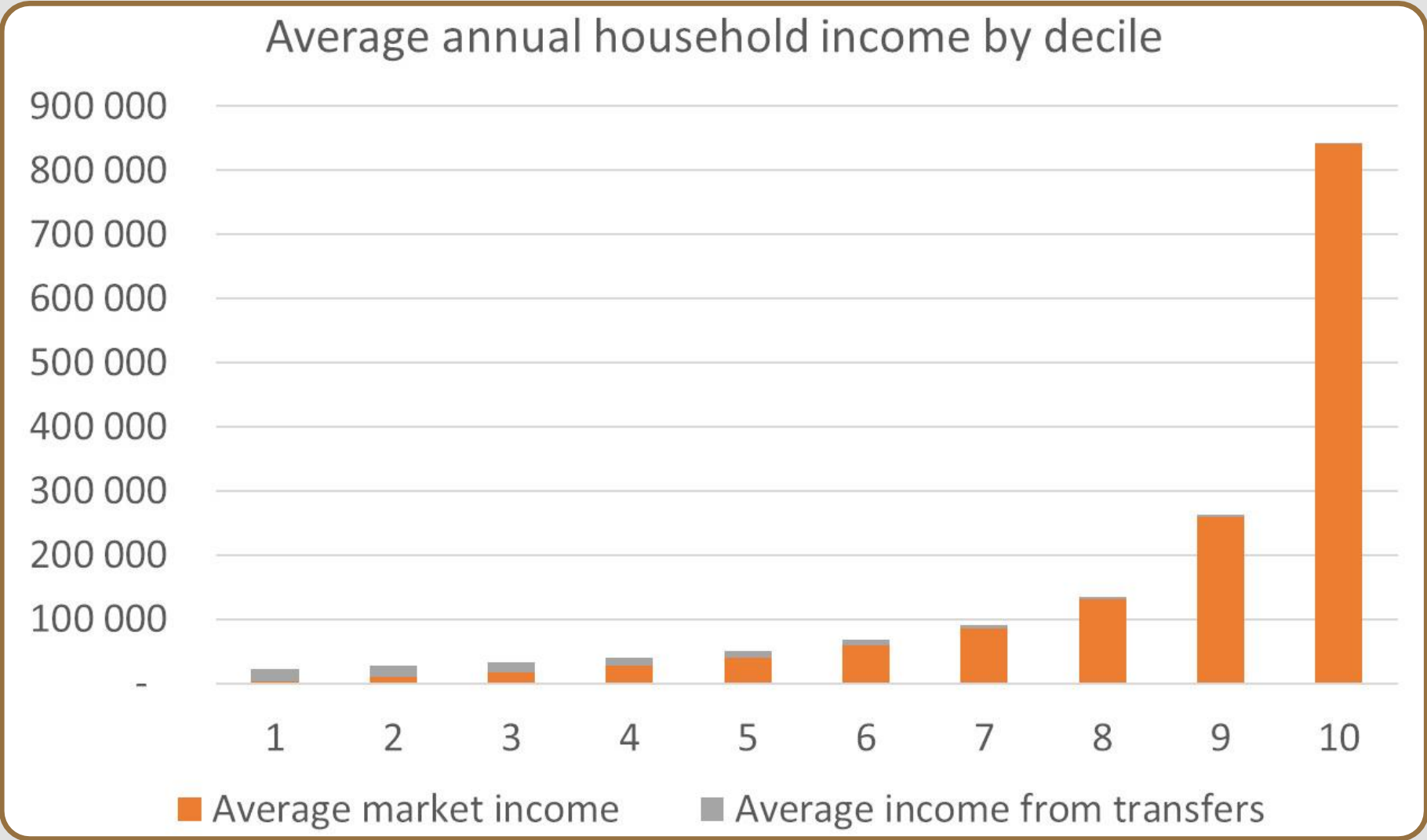
Inchauste, Lustig, Maboshe, Purfield, and Woolard (2015), *'The distributional impact of fiscal policy in South Africa'*

Although richer households contribute the most



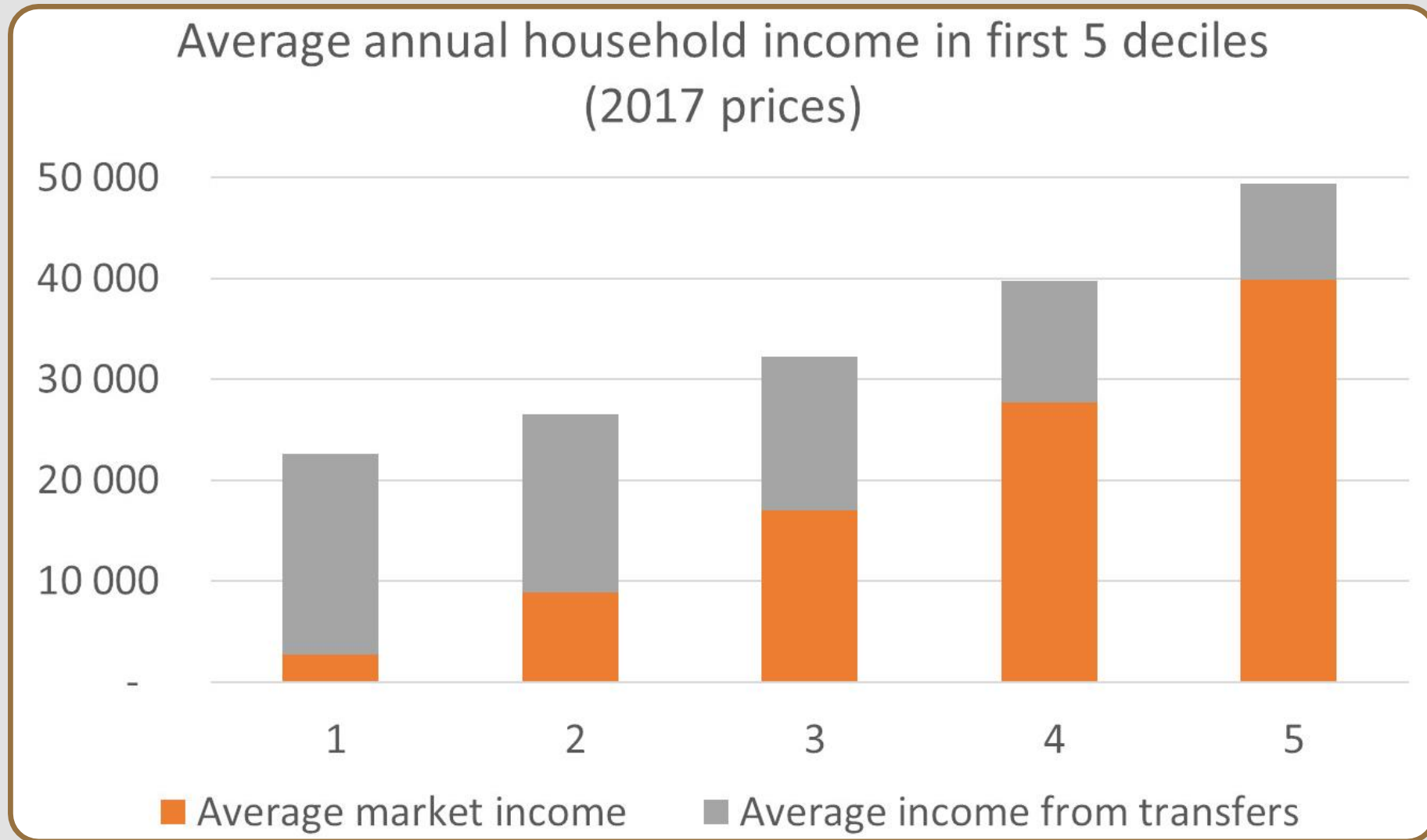
Inchauste, Lustig, Maboshe, Purfield, and Woolard (2015), 'The distributional impact of fiscal policy in South Africa'

Cash transfers are well-targeted



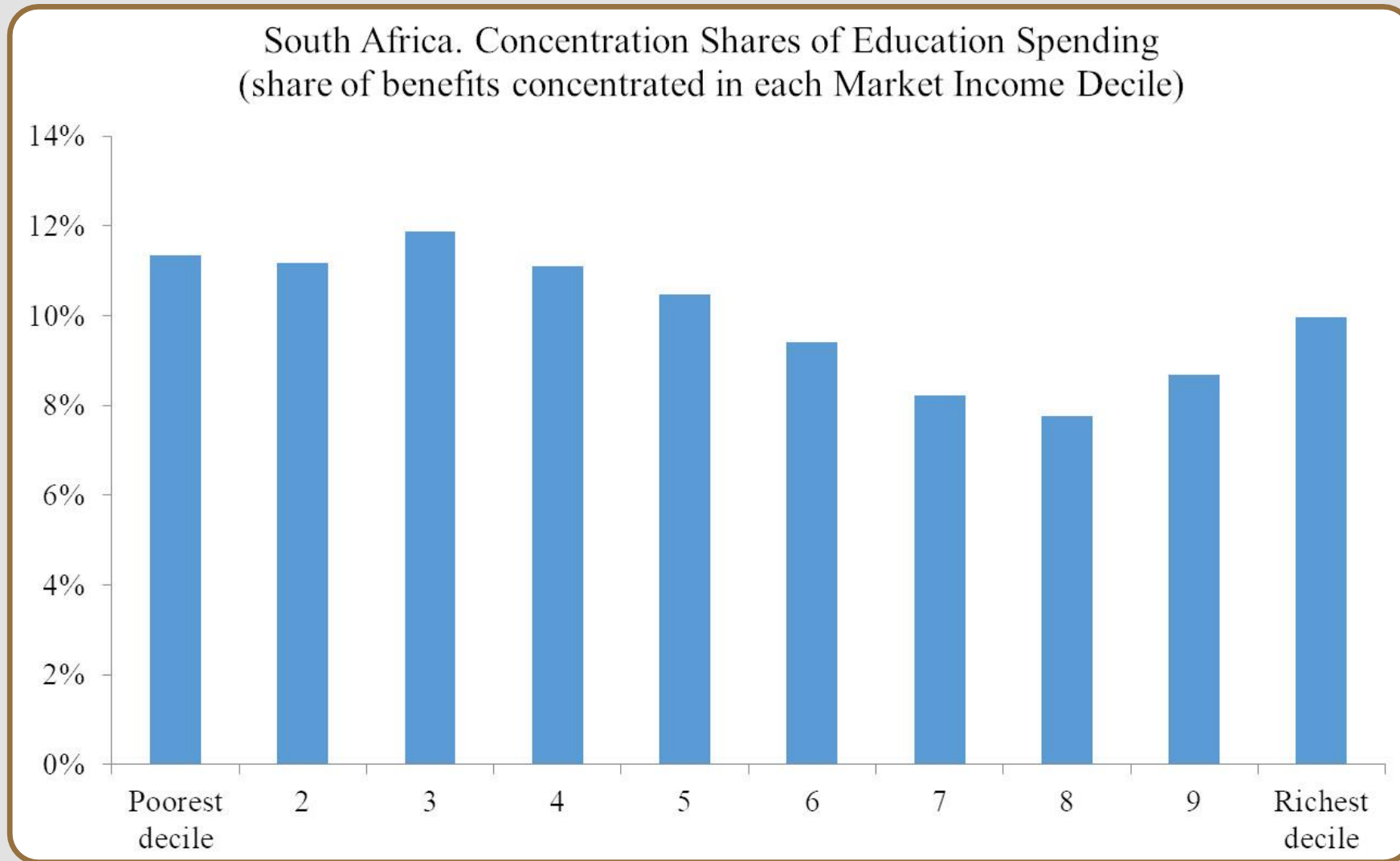
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Cash transfers are well-targeted



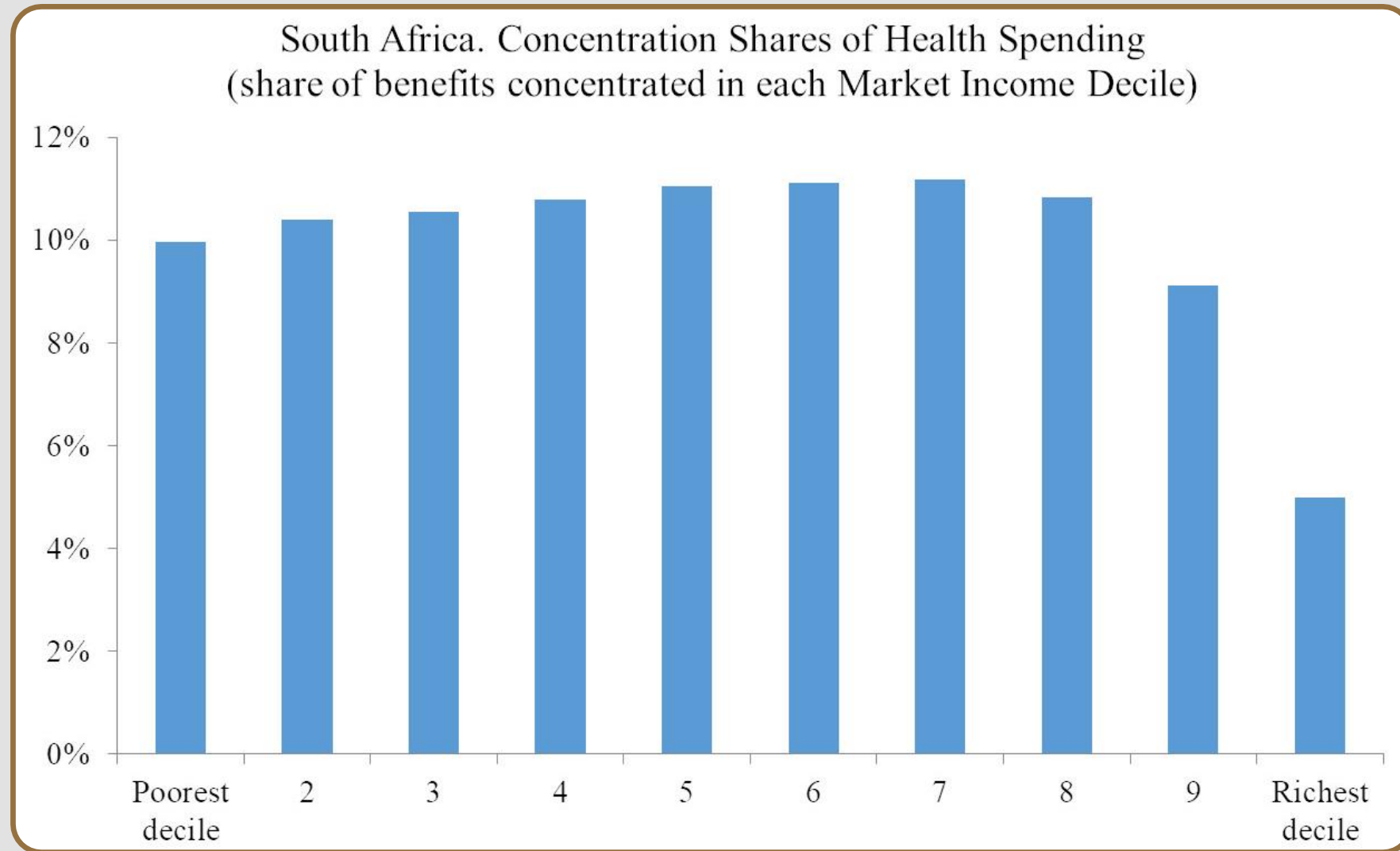
Maboshe and Woolard (2018), 'Revisiting the impact of direct taxes and transfers on poverty and inequality in South Africa'

Education spending is somewhat pro-poor

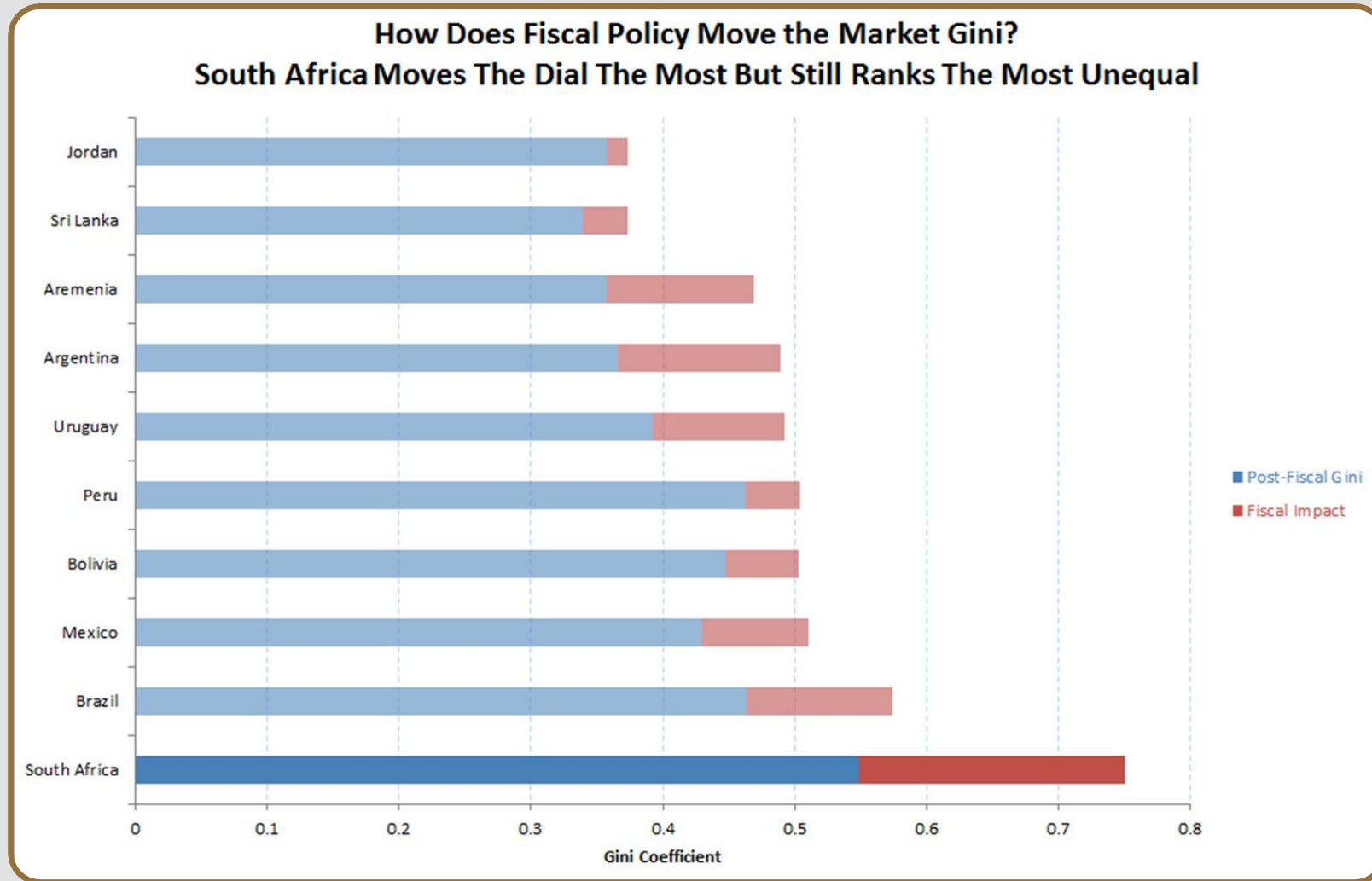


Inchauste, Lustig, Maboshe, Purfield, and Woolard (2015), *'The distributional impact of fiscal policy in South Africa'*

And healthcare spending more so

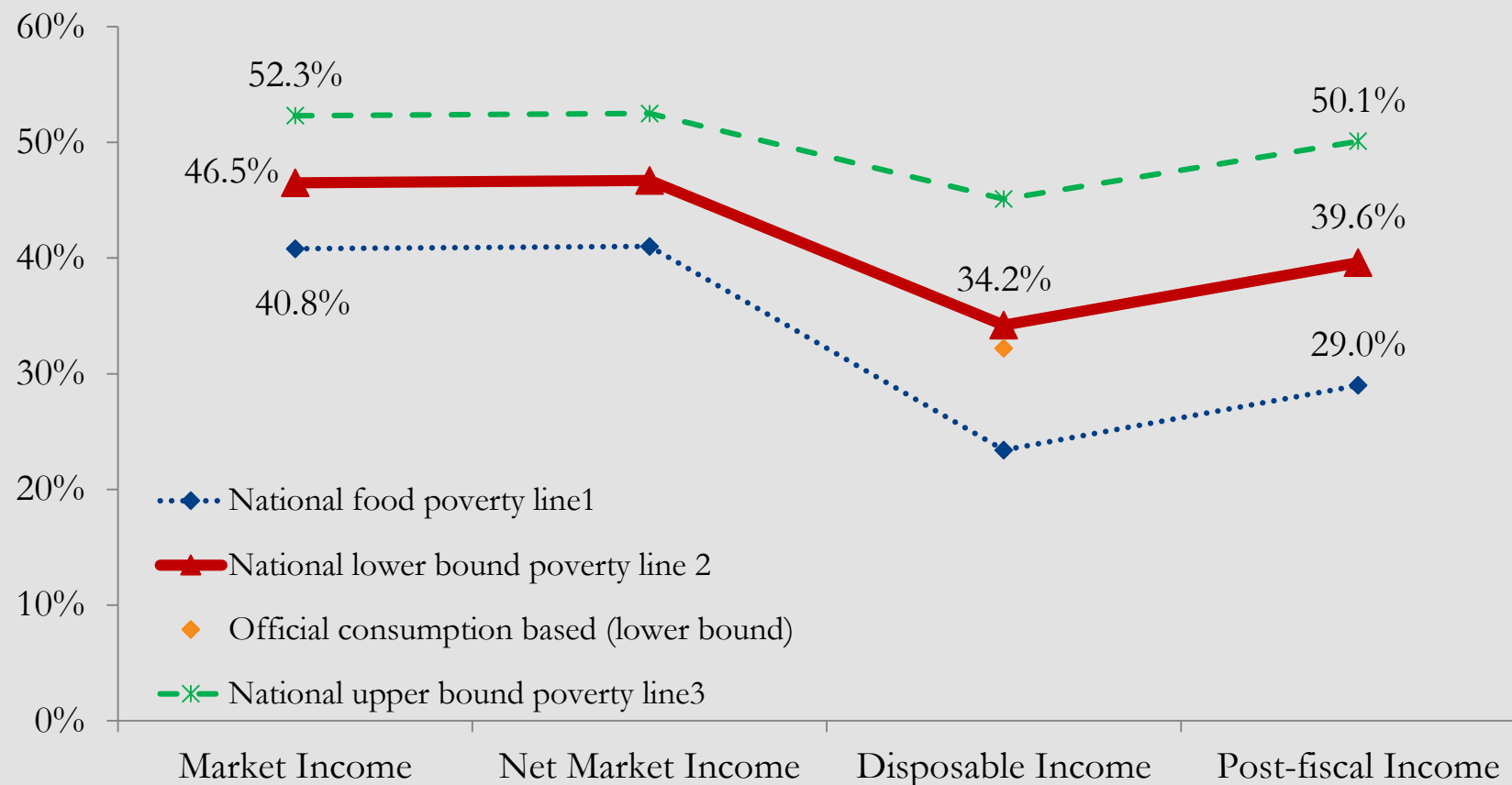


Inchauste, Lustig, Maboshe, Purfield, and Woolard (2015), *'The distributional impact of fiscal policy in South Africa'*



Sources: For Latin America see: Lustig and Pessino, 2014; Paz et al., 2014, Higgins and Pereira, 2014; Scott, 2014; Jaramillo, 2014, Bucheli et al., 2014; Lustig et al., 2014. Preliminary results for Armenia (Younger et al., 2014) Ethiopia (Hill et al., 2014), Jordan (Serajuddin et al., 2014), Sri Lanka (Arunatilake et al., 2014), and Incahuste, Lustig, Maboshe, Purfield and Woolard, 2015

Poverty declines substantially due to fiscal policy



COMMITMENT
TO EQUITY

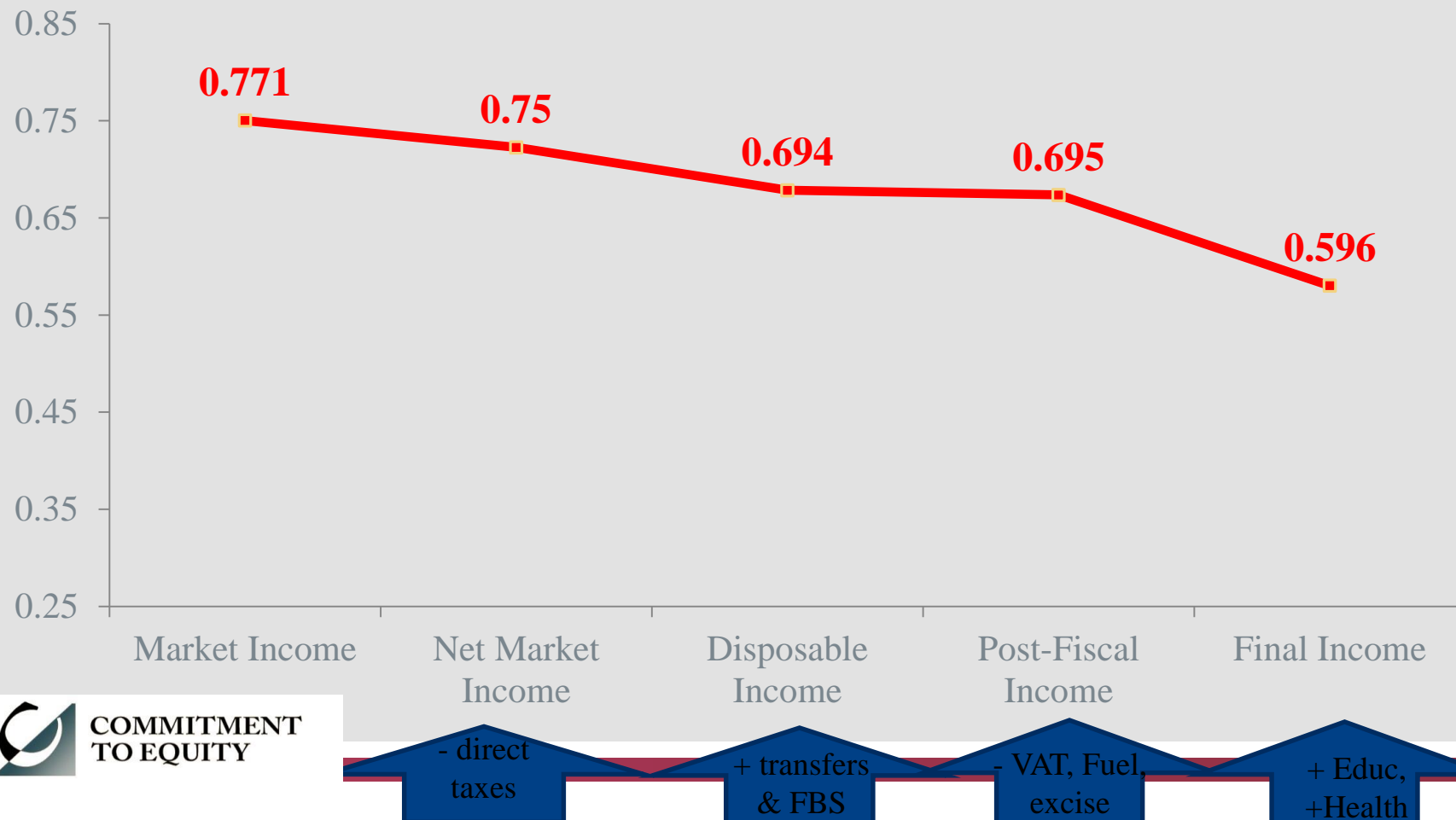
- direct
taxes

+ direct
transfers

- Indirect
taxes
+ indirect
subsidies

Inequality falls substantially with fiscal interventions

The Gini Coefficient before and after Taxes, Transfers and Free Services, Education and Health Falls by over one-fifth



Understanding labour market inequality

Year	Contribution of labour earnings to overall Gini
1993	84.4%
2008	87.2%
2014	90.2%

- In all years, more than a third of this “earnings inequality” actually comes from households having **zero** income

Sources

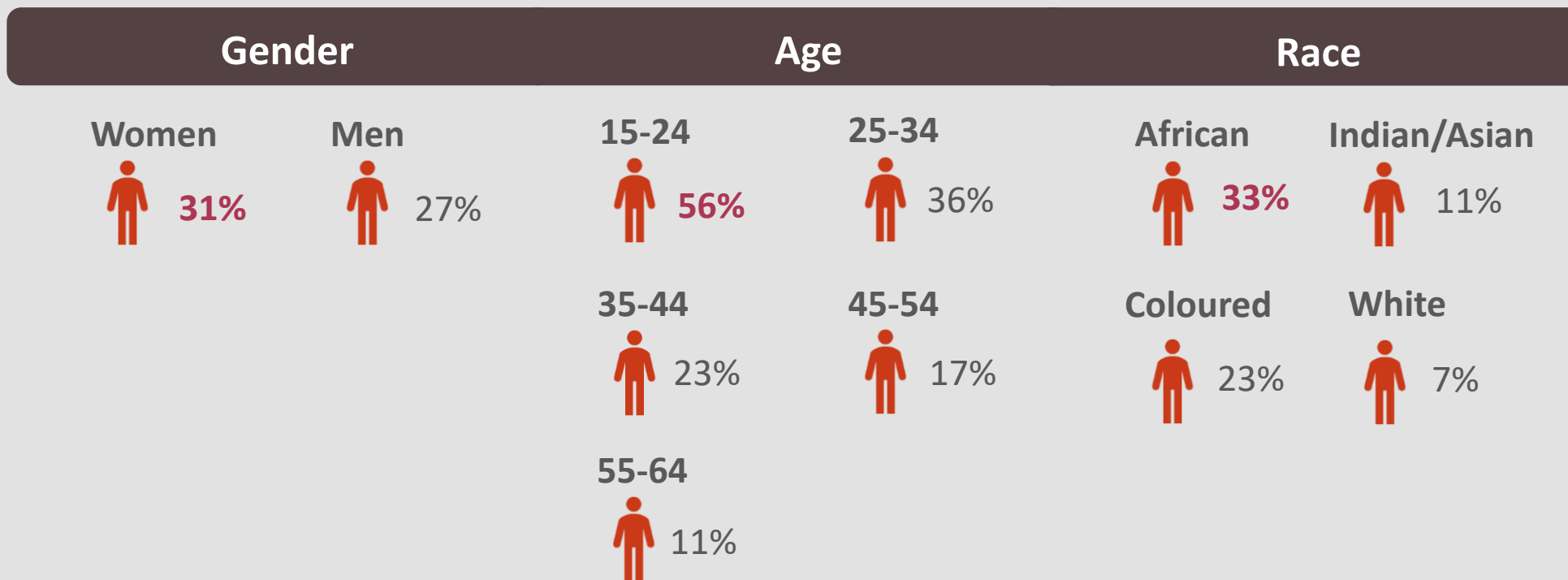
- Leibbrandt, Woolard & Woolard (2009), *‘Poverty and inequality dynamics in South Africa: Post-apartheid developments in the light of the long-run legacy’*
- Leibbrandt, Finn & Woolard (2012), *‘Describing and decomposing post-apartheid income inequality in South Africa’*
- Hundenborn, Leibbrandt & Woolard (2016), *‘Drivers of inequality in South Africa’*



6.6 million South Africans are unemployed

29% narrow unemployment rate, 2019

Unemployment is highest for women, youth, and Black South Africans



The distribution of jobs matters

	% share of population	% in poverty	% share of poor
NEA: Age 0-14	30%	57%	39%
NEA: Age 15-64	28%	52%	33%
NEA: Age 65+	5%	35%	4%
Unemployed	10%	61%	13%
Employed	28%	17%	11%
All individuals	100%	44%	100%
Household where no-one is working	31%	59%	59%
Household where at least one person is working	69%	19%	41%
All households	100%	31%	100%

Lilenstein, Woolard & Leibbrandt (2018), *'In-work poverty in South Africa: the impact of income sharing in the presence of high unemployment'*

Not all jobs are equal

Employment type	% share of workers	% workers in poverty	% share of poor workers
Private household	11%	42%	29%
Primary sector	10%	18%	11%
Secondary sector	17%	19%	20%
Tertiary sector	61%	10%	40%
Regular paid worker	81%	12%	60%
Casual worker	11%	45%	22%
Self-employed worker	8%	26%	18%
All workers	100%	17%	100%

Lilenstein, Woolard & Leibbrandt (2018), *'In-work poverty in South Africa: the impact of income sharing in the presence of high unemployment'*

- Deep drivers of inequality make change difficult
 - Inequality has self-sustaining path dependency
 - Deep-seated social stratification sustains inequality
 - Norms regarding inequality and redistribution durable
 - Strong link between economic and political inequality
 - Presence/absence of social movements important
 - Demographic dynamics can exacerbate inequality



“South Africans should not be polite about
inequality”

Ben Turok, 2019

