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## Poverty and Inequality

### Introduction

This chapter deals with poverty and inequality which are among South Africa's most intractable development challenges linked to high unemployment. The concepts of poverty, inequality and related terms are explained. The evolution of policies and programmes aimed at reducing poverty and inequality is also discussed. The chapter starts by providing a brief background on poverty and inequality, before and after apartheid. A broad analysis of poverty and inequality in South Africa implies that race remains a key marker of inequality (and poverty) in South Africa – this has to do, in the main, with the ramifications of apartheid colonialism and a structure of the South African economy that negatively affects the labour market. Furthermore, the chapter discusses the various types of inequalities; and lastly, the levels of poverty and inequality in democratic South Africa.

Indeed, poverty and inequality are among the most contested issues in the post-1994 South Africa. This is largely because poverty and inequality, particularly income inequality, remain very high in South Africa. For a country with over 350 years of apartheid colonialism, there is cause to worry that if poverty and inequality are not reduced, the affected people can revolt. This is even more likely, given the character of income inequality in South Africa: inequality is not only a class character but also racial and political character. Barrera<sup>312</sup> describes racial inequality as where race and inequality meet. Political inequality, on the other hand, according to Verba,<sup>313</sup> refers to 'the extent to which citizens have an equal voice over governmental decisions.' Although this chapter cannot do justice to the notion of political inequality, it is important to briefly reflect on this important issue, especially given the history of apartheid colonialism.

### Historical Context

There is a general consensus in South Africa that poverty and inequality, particularly income inequality and income poverty, are persistent. These two development

issues are primarily linked to the legacy of apartheid colonialism, as well as the structure of the economy. As argued in Chapter 1, apartheid colonialism relegated Africans, or black South Africans in general, to low skill and unskilled sectors by systematically ensuring that Africans received inferior education (as discussed in Chapter 9). Inequality is entrenched in a particular structure of the economy. On the other hand, the structure of the economy perpetuates inequality by benefitting those with certain skills or political connections, while keeping the rest of society, within the African community, at lower levels of economic or financial wellbeing.

According to Townsend,<sup>314</sup> drawing from the World Bank perspective, poverty can be defined as the inability to attain a minimal standard of living measured in terms of basic consumption needs or income required to satisfy those needs, while inequality is defined as the unequal or unevenness of social disparities, characterised by the existence of unequal opportunities and rewards within a group or society. Poverty and inequality are also political concepts because, according to Meth,<sup>315</sup> they relate to the allocation or distribution of resources, and reflect the impact of past and present policy choices.

The roots of poverty and inequality in the post-apartheid dispensation can be traced back to both the pre-colonial era as well as the apartheid colonial dispensation. According to Wilson,<sup>316</sup> the first steps in shaping poverty and inequality in South Africa's political economy can be traced back to the arrival or the settlement of Europeans in the most southern tip of Africa. Even though the ownership of land did not necessarily imply acquisition of wealth, Wilson<sup>317</sup> argues that the ownership of land by the dominant population group enabled a process of accumulation to begin which placed resources in the hands of some individuals, families and groups, mainly white settlers, which could then be used for investment into human capital in the form of education and training for their sons and daughters.

Furthermore, land as a basis for accumulating wealth for 200 years was overtaken by the discovery and exploitation of minerals at the end of the nineteenth century. According to Frye et al,<sup>318</sup> a developed industrial capitalism was superimposed on settler colonial land and mercantile socio-political domination. This capitalism – colonial and apartheid capitalism – was based on 'wage slavery' more typical of advanced capitalist societies.

Since 1994, successive democratic governments have pursued numerous initiatives to redress the ramifications of apartheid colonialism as far as poverty and inequality are concerned. Chapter 5 discussed some of the programmes, policies and legislation aimed at reducing income inequality. With regards to poverty, government has experimented with various anti-poverty initiatives.<sup>319</sup>

### Perspectives on Poverty and Inequality

To start with, there are many definitions and many aspects of poverty. Similarly, there are many definitions and/or aspects of inequality. Someone is said to be poor if the person's income is below a predetermined poverty datum line. There are also aspects of poverty that relate to access to basic services and assets, hence some talk of poor-poor-service or poor-asset. Similarly, there are different aspects of inequality: income inequality, asset inequality, educational inequality, gender inequality, political inequality, social inequality, and so on.

Normally, poverty and inequality are measured in monetary terms – the term used is 'money metric measures'. In other words, measurements or calculations take into account the amount of money a person has. It is in this context that a poverty datum line should first be calculated before the people classified as poor are determined. With regard to poverty, economists talk of absolute poverty, relative poverty, subjective poverty and intensity of poverty. In a nutshell, with regard to measuring poverty, through money metric measures, (a) a Headcount Index (notated as  $P_0$ ) measures the proportion of the population whose consumption (or other measures of standard of living) is less than the poverty line; (b) Poverty Gap Index (notated as  $P_1$ ) is the average, over all people, of the gaps between poor peoples' living standards and the poverty line, and it indicates the average extent to which individuals fall below the poverty line (if they do) –  $P_1$  can be interpreted as a measure of how much (income) would have to be transferred to the poor to bring their expenditure up to the poverty line – and (c) Squared Poverty Gap Index (notated as  $P_2$ ) is a weighted sum of poverty gaps (as a proportion of the poverty line), where the weights are the proportionate poverty gaps themselves –  $P_2$  takes inequalities among the poor into account, for instance, a (cash) transfer from a poor person to an even poorer person would reduce the index and a transfer from a very poor person to a less poor person would increase the index. It is important to note that money metric measures of poverty are known as Foster-Greer-Thorbecke (FGT) family measures of poverty, named after those who came up with money metric measures of poverty.

Table 10.1, indeed, shows very high levels of poverty although the share of those below the various poverty lines is declining in South Africa. For instance, for an income poverty line of R551.78 per person per month, there are about 46 per cent of people living below the poverty line.

**Table 10.1:** Income Poverty in South Africa (2005-2009)

	Percentage of population living below various poverty lines (in 2009 constant Rand)	
	2005	2009
Expenditure Poverty Line [R551.78 per person per month]	70	65
Income Poverty Line [R551.78 per person per month]	59	46
Expenditure Poverty Line [R298.17 per person per month]	54	49
Income Poverty Line [R298.17 per person per month]	40	27
Expenditure Poverty Line [R149.08 per person per month]	31	25
Income Poverty Line [R149.08 per person per month]	23	12

**Source:** Development Indicators (2012) in Gumede (2014b:287)

The main point is that income poverty remains very high in South Africa. Other aspects of poverty can be said to be high as well. Borat et al confirm that service- and asset-poverty are still very high in South Africa, though declining.<sup>320</sup> There are also measures of poverty that relate to the ‘voices of the poor’, the work that is originally associated with Nanak Kakwani and Ravi Kanbur, which the World Bank sort of appropriated. The voices of the poor relate to whether people are able to freely express themselves. Lastly, Amartya Sen<sup>321</sup> developed what came to be known as capability measures of poverty. These have to do with an ability of individuals to pursue the kinds of life that they value.

It should be noted that there is no single widely accepted or best way to measure inequality – although the Gini Coefficient is the most popular measure. In economics, there is an understanding, if not acceptance, that inequality measures perform differently under different kinds of income transfer. The Gini coefficient ranges between 0.0 and 1 – the highest inequality being 1 and the lowest being 0. Another used economic measure of inequality is the Lorenz Curve which is a

graphical representation of the relationship between the cumulative percentage of income and the cumulative percentage of (ordered) population. The Gini Coefficient, for instance, is much less sensitive to income transfers between households if they lie near the middle of the income distribution, compared to the tails. The Atkinson Index, on the other hand, is strongly correlated with the extent of poverty; therefore, it is more 'bottom-sensitive' than other measures. The Robin Hood Index is insensitive with respect to income transfers between households on the same side of the mean income.<sup>322</sup>

In the context of South Africa, there is discourse relating to what is called 'Two Economies' which, as a metaphor, is a short form of socio-economic dualism: 'first economy' and 'second economy'. The First Economy is a part of the South African economy that is developed and it is globally integrated while the Second Economy is a part of the economy that is marginalised, exists at the edges, consists of large numbers of the unemployed and the 'unemployable', and does not benefit from progress in the first economy. Lastly, the second economy is characterised by underdevelopment, contributes little to gross domestic product and has weak social capital. It is also characterised by poor skills, incorporates the poorest of the rural and urban poor, is structurally disconnected from both the first and global economies, and is incapable of self-generated growth.<sup>323</sup> Like measuring poverty and inequality, there is no standard measure of the second economy or the first economy. Using a measure of persons aged fifteen years and above whose level of completed education is primary (grade seven/standard five) or below, Gumede (2008) estimated that there were about 9.5 million South Africans in the second economy.<sup>324</sup>

Another important issue of measurement, linked to poverty, is human development. The Human Development Index (HDI) is a composite index that measures human development based on three aspects: longevity, knowledge and a decent standard of living. It is important that the HDI improves so as to advance the wellbeing of people. Besides the commonly known HDI, there is also a Human Poverty Index, which, for developing countries, combines measures of life expectancy, child nutrition status and access to improved water sources, and income. Then, there is a Gender-related Human Development Index, which reflects differences in HDI for women compared to men; while the Gender Empowerment Measure combines measures of equality in political and economic power for men and women.

South Africa's HDI has been increasing, albeit marginally, in the past few years. As Table 11 shows, in 2010 the HDI for South Africa was 0.604, and this has steadily increased to 0.629 in 2012.

**Table 10.2:** Human Development in South Africa (1980-2012)

	Life Expec- tancy	Expected years of Schooling	Mean years of Schooling	GNI per capita (2005 PPP\$)	HDI
1980	56.9	11.1	4.8	8,399	0.57
1985	59.8	11.1	4.8	7,892	0.581
1990	61.5	11.4	6.5	7,671	0.621
1995	59.9	13.1	8.2	7,350	0.65
2000	54.8	13.1	8.2	7,462	0.622
2005	51.1	13.1	8.2	8,420	0.604
2010	52.2	13.1	8.5	9,307	0.621
2011	52.8	13.1	8.5	9,463	0.625
2012	53.4	13.1	8.5	9,594	0.629

**Source:** 2013 Human Development Report

As Table 10.2 shows, per capita incomes have been increasing, so also is life expectancy although the increase in life expectancy has effectively been negligible. Other useful numbers in the 2013 Human Development Report relate to schooling: data implies that South Africans, on average, school five years less than expected. Since 1995, according to the 2013 Human Development Report, the expected period of schooling in South Africa are 13.1 years; however, the mean period of schooling have remained 8.5 years since 2010.

**Perspective Box:** Human Development Index (HDI)

Pros	Cons
It is a wider measure of ‘development’ and GDP alone	HDI fails to take account of qualitative factors, such as cultural identity and political freedoms, human security and gender opportunities
The additional indicators used are objective and measurable	HDI does not include dimensions, ranging from gender equity to environmental biodiversity.
It gives a sense of the level of human development	HDI does not take into account the inequalities in income distribution

When it comes to inequality, there are different theories. With regard to racial inequality, according to Barrera,<sup>325</sup> the theories of racial inequality are classified into the following categories: deficiency theories, bias theories and structural theories. Deficiency theories are based on the perspective that social, political and economic inferiorities of the racial minority are a result of the biological, structural and cultural deficiencies of the minority groups. Bias theories, on the other hand, are often used to explain racial inequalities by expanding on racial differences. As opposed to deficiency theories, bias theories assert that racial inequality is a result of the injustice of dominant groups. Structural theories find explanations of racial inequality in sub-cultural groups. They can be divided into two categories: class and colonial. The class model is essentially a Marxist approach to inequality while the colonial model draws attention to political oppression, self-determination and liberation of the geographically restricted group.

There are also various theories and models of ethnic and racial inequality, as captured in Hirschman.<sup>326</sup> Gunnar Myrdal,<sup>327</sup> for instance, argued that racial inequality was an act of discrimination which was a consequence of prejudice behaviour by dominant groups. Myrdal described racial inequality as a vicious prejudice-discrimination cycle on the minority group, where the 'effects' of discrimination by the dominant group encourage further discrimination on the minority group. Although Myrdal<sup>328</sup> was writing about the American society, his hypothesis bears relevance to the case of South Africa. In addition, from the menu of racial inequality theories, the bias and colonial theories have relevance to South Africa because discriminatory policies and legislation, for over three centuries, have created racial inequality in South Africa.

### **Poverty, Inequality and the Labour Market**

According to van der Berg,<sup>329</sup> South Africa consists of high levels of inequality, with especially large and persistent inequality in income distribution. It is common to ascribe South Africa's high levels of inequality and poverty to racial discrimination and, in particular, apartheid colonialism. This is primarily because racial discrimination under, first British colonial rule and then apartheid distributed the spoils of economic growth along racial lines, which, according to van der Berg,<sup>330</sup> laid the foundation for patterns of further development and privilege in a society stratified by race. At least from a theoretical perspective, racial inequality in South Africa is a function of the political history which has transcended over three centuries and which is characterised by whites treating Africans as inferior and subhuman.

From an economic point of view, income inequality is a function of the labour market – South African poverty and inequality are strongly rooted in the labour market (see, for instance, Leibbrandt et al).<sup>331</sup> Van der Berg<sup>332</sup> demonstrates

that South Africa is a country with infamously skew distribution of income and, consequently, high poverty levels for an upper-middle-income developing country. Bhorat et al<sup>333</sup> argue that income inequality in South Africa have to do with the structure of the economy. According to Narayan and Mahajan<sup>334</sup> the South African economy is characterised by high unemployment rates, where the narrowest measure places unemployment rate at about 25 per cent and the wage differentials in the labour market account for the high income inequality in South Africa.

Leibbrandt et al<sup>335</sup> illustrate that education affects the propensity of black people participating in the labour force, as well as their probability of being employed and earning some income. According to Bhorat and Hodge,<sup>336</sup> the South African labour market demand patterns reflect an increasing demand for highly skilled labour and decreasing demand for low-skilled workers, thus increasing the inequality. The labour market is influenced by the structure of the economy in South Africa – it might be in this context that Frye et al<sup>337</sup> characterise South Africa's inequality as 'structural inequality'.

The restructuring of the South African economy, by implication, would redress income inequality. To restructure the South African economy, sectors would need to be configured and articulated differently, the financialisation and internationalisation of the economy would need to be tampered with and Mineral Energy Complex (MEC) would need to change, as Chapters 4 and 6 have indicated. The restructured South African economy should create more jobs, and in particular employ Africans, especially the youth.

It is important to acknowledge that many economists in South Africa conclude that economic/income inequality has increased during the first twenty years of democracy because intra-inequality, within the African group, has increased. Seekings and Natrass<sup>338</sup> were first to publish a book arguing that the nature of income inequality in South Africa relates to class; that 'race had given way to class' and or the 'the basis of disadvantage shifted from race to class' (p.4). However, others have argued – see for instance Bhorat et al<sup>339</sup> – that the character of economic inequality in South Africa should be understood along racial lines.

Table 10.3 actually demonstrates that all population groups have experienced some increase in (in-group) inequality – it is not convincing that the African population group accounts for the significant increase in income inequality that post-apartheid South Africa is reported to be experiencing. In fact, income inequality for the African population group appears to be relatively steady from 2005 to 2011 (for the latest available data).

**Table 10.3:** Gini Coefficient by Population Group

	1975	1995	2005	2009	2011
African	0.47	0.49	0.56	0.54	0.55
White	0.36	0.39	0.45	0.39	0.42
Indian	0.51	0.45	0.53	0.49	0.45
Coloured	0.45	0.49	0.58	0.52	0.53

**Source:** Gumede (2015b:97)

In a ten-year period, from 1995 and 2005, as Table 10.3 shows, there was a relatively significant increase in income inequality within the African population group (from 0.49 in 1995 to 0.56 in 2005) but income inequality within the African population group has remained similar to the 2005 level, at least until 2011. Table 10.3 suggests that it is within the white population group that a significant increase in income inequality has occurred.

In addition to racial inequality and other inequalities in South Africa, there is a challenge of political inequality. While racial inequality concerns the gap between different population groups, political inequality refers to differences with regard to influence over governmental decisions particularly within the same population group.<sup>340</sup> In the case of South Africa, political inequality can be found within the African population group. Because political inequality is fuelled by political patronage, South Africa has increasingly experienced service delivery protests.

### Conclusion

This chapter discussed poverty and inequality which are among South Africa's most intractable development challenges. The evolution of policies and programmes aimed at reducing poverty and inequality was also discussed. A broad analysis in this chapter confirms that race remains a key marker of inequality (and poverty) in South Africa; this is linked, in the main, to the ramifications of apartheid colonialism. There is a general consensus in South Africa that poverty and inequality, particularly income inequality, remains high. These two development issues are primarily linked the negative legacy of apartheid colonialism, as well as the structure of the economy.

## Key Terms

**Absolute Poverty:** A condition where a person does not have the minimum amount of income needed to meet the minimum requirements for basic living needs.

**Gini Coefficient:** A measure of the inequality of income distribution, a value of 0 expressing total equality and a value of 1 expressing maximal inequality.

**Human Development Index:** A summary composite index that measures human development based on three aspects: longevity, knowledge and a decent standard of living.

**Income inequality:** Unequal distribution of household or individual income across the various participants in an economy.

**Inequality:** Social disparities, characterised by the existence of unequal opportunities and rewards within a group or society

**Labour Market:** A market where workers and employers interact for a wage or salary.

**Political Inequality:** Differences with regard to influence over governmental decisions, particularly within the same population group.

**Political Patronage:** The use of state or governmental resources or political power to benefit one's acquaintances.

**Poverty:** A state or condition in which an individual or a community cannot enjoy the minimal basic standard of living due to financial constraints.

**Racial Inequality:** The unequal distribution of opportunities and rewards along racial lines.

**Relative Poverty:** A situation whereby a household income level is below a given proportion of average national income.

**Social Inequality:** The existence of unequal opportunities and rewards for different social positions within a social group or society.

**Structural Inequality:** A condition where one category of people is attributed an unequal status in relation to others.