

Income and Non-income Inequality in Post-*Apartheid* South Africa: Drivers and Possible Policy Interventions

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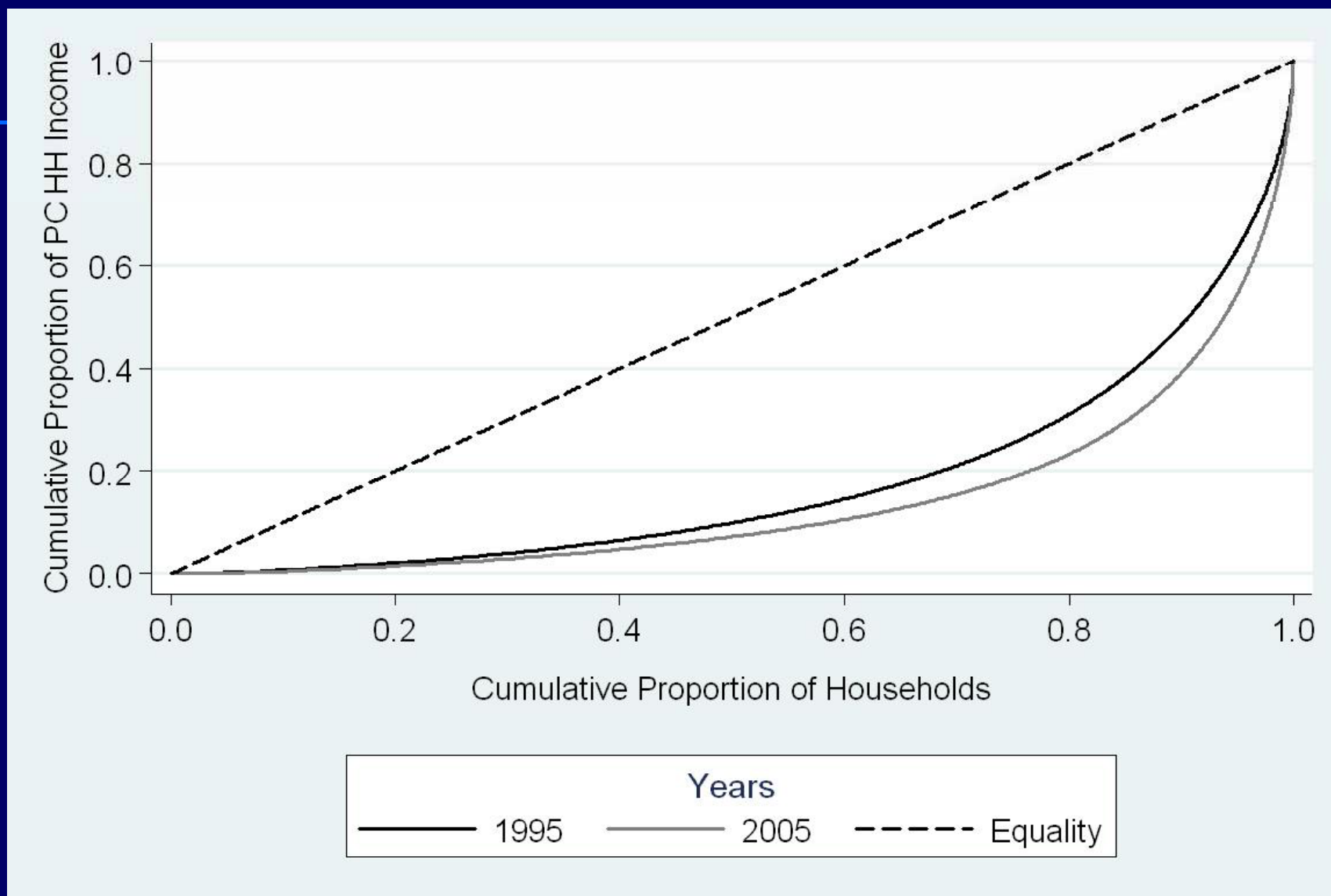
Introduction

- SA historically one of the most unequal societies
- Evidence of increasing income inequality since 1994
- Objective:
 - Overview of changes in income inequality 1995-2005
 - Drivers of increasing income inequality
 - Relationship between inequality, growth & poverty
 - Role of social grants in mitigating inequality
 - Changes in non-income inequality
- Data Sources

Changes in PC Household Income by Race and Gender of Household Head, 1995 - 2005

	1995	2005	% Change
Total	12,349	13,770	11.51%
African	7,106	6,979	-1.78%
Coloured	9,773	13,213	35.19%
Asian	23,050	24,707	7.19%
White	49,596	69,680	40.50%
Male Headed	15,010	18,623	24.08%
Female Headed	6,595	7,468	13.24%

Lorenz Curve for South Africa, 1995 and 2005



Inequality Shifts by Race and Gender of HH Head Gini Coefficients for 1995 & 2005

	1995	2005
Total	0.64	0.72
<i>By Race</i>		
African	0.56	0.61
Coloured	0.49	0.59
Asian	0.46	0.56
White	0.44	0.51
<i>By Gender of Household Head</i>		
Male Headed	0.63	0.70
Fem Headed	0.59	0.68

Theil Index by Race for South Africa 1995-2005

	1995		2005	
Total Inequality (Theil-T)	0.87	100%	1.14	100%
Within	0.50	57.4%	0.63	55.6%
Between	0.37	42.6%	0.51	44.4%

Gini Decomposition by Income Sources

$$G = \sum_{k=1}^K S_k \cdot G_k \cdot R_k$$

where G = Gini coefficient

S_k is the share of income source to total income

G_k is the Gini coefficient for that income source k

R_k is the correlation coefficient for income source k .

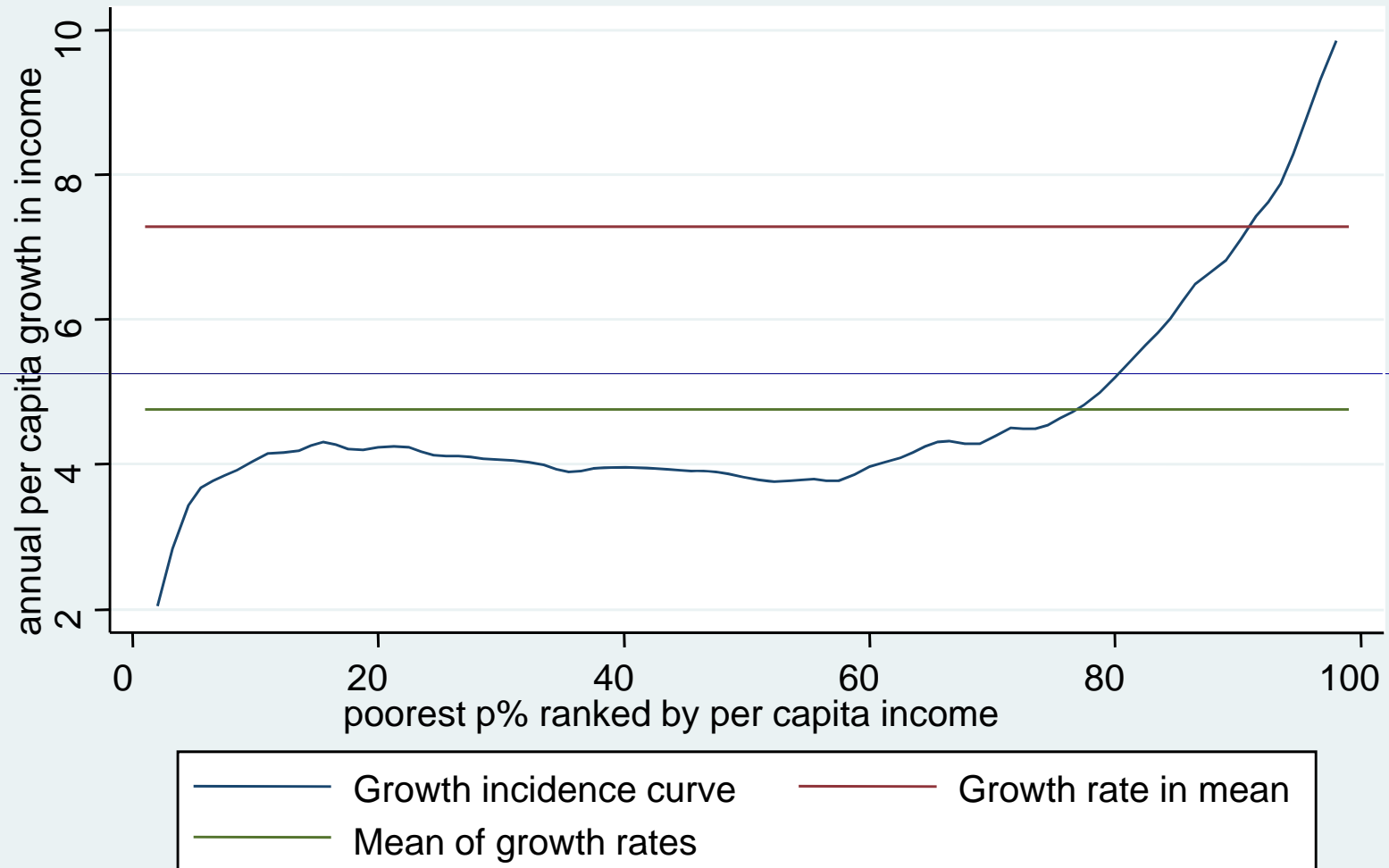
Results of the Gini Decomposition

Total population 1995						
Income Source	Rk	Gk	Sk	SkGkRk	Share	
Employment	0.90	0.72	0.61	0.39	60.9%	
Self-employment	0.89	0.98	0.15	0.13	19.7%	
Grants	-0.08	0.84	0.04	0.00	-0.4%	
Capital	0.85	0.99	0.01	0.01	1.5%	
Private pensions	0.73	0.98	0.03	0.02	3.7%	
Other	0.69	0.81	0.17	0.09	14.6%	
Gini				0.64	100.0%	
Total population 2005						
Employment	0.95	0.81	0.70	0.54	75.6%	
Self-employment	0.83	0.97	0.11	0.09	11.9%	
Grants	0.00	0.69	0.07	0.00	0.0%	
Capital	0.88	1.00	0.01	0.01	1.5%	
Private pensions	0.76	0.98	0.03	0.02	3.0%	
Other	0.73	0.89	0.09	0.06	7.9%	
Gini				0.72	100.0%	

Relationship between Inequality, Growth & Poverty

- Inequality increased while increase in real incomes (aggregate)
 - What is the impact on poverty?
- High level of growth necessary for poverty reduction:
 - Simple link: Incomes increase -> poverty will fall
- BUT:
 - Relationship differs between countries
 - Economic growth also brings about a change in distribution -> change in distribution dilute poverty impact of growth
- Look at different growth rates across the income distribution

Growth incidence curve for South Africa: 1995-2005



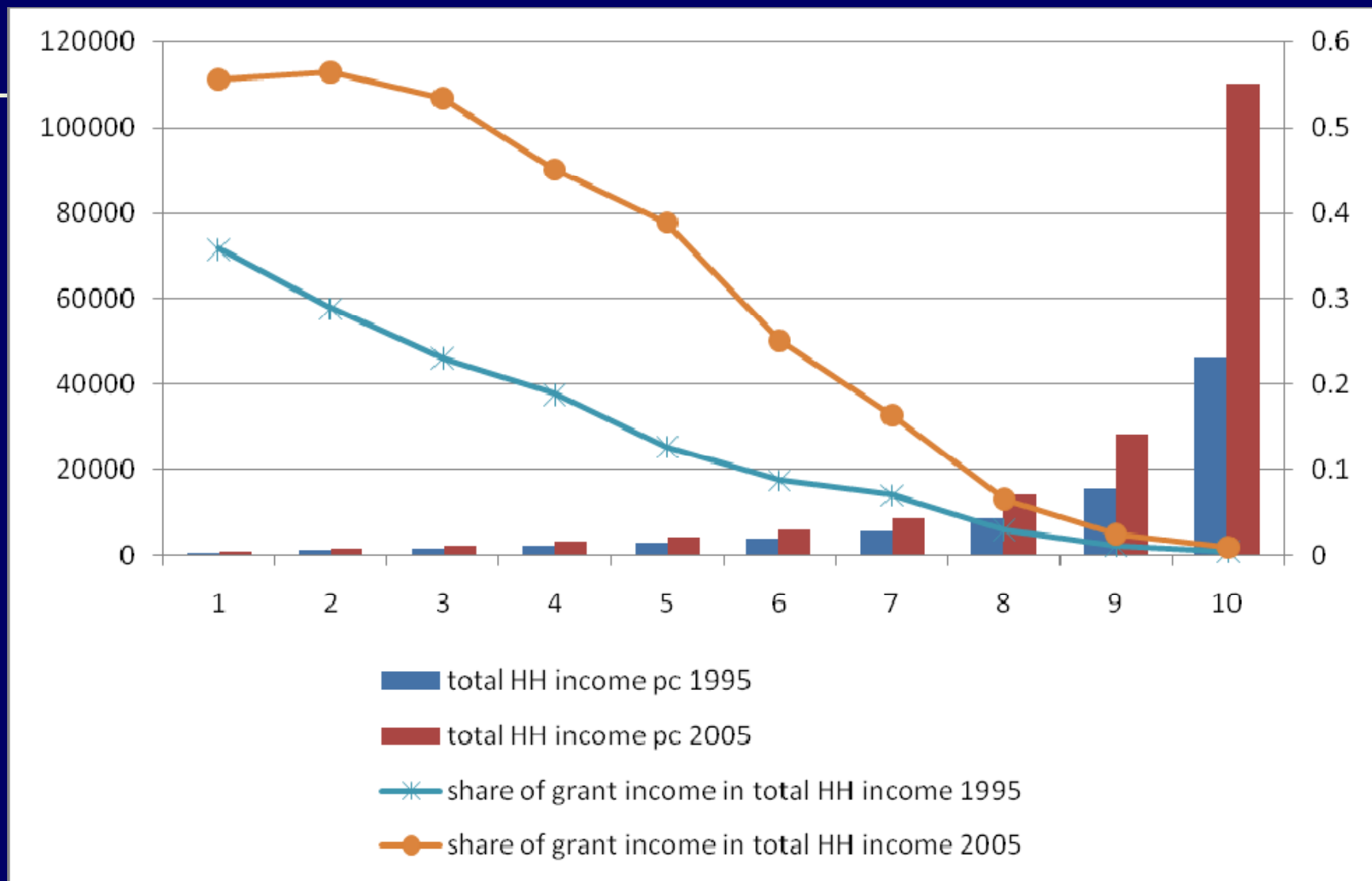
Source: Statistics South Africa, 1995 and 2005 & own calculations

Elasticities of Poverty Measures for South Africa 1995 and 2005

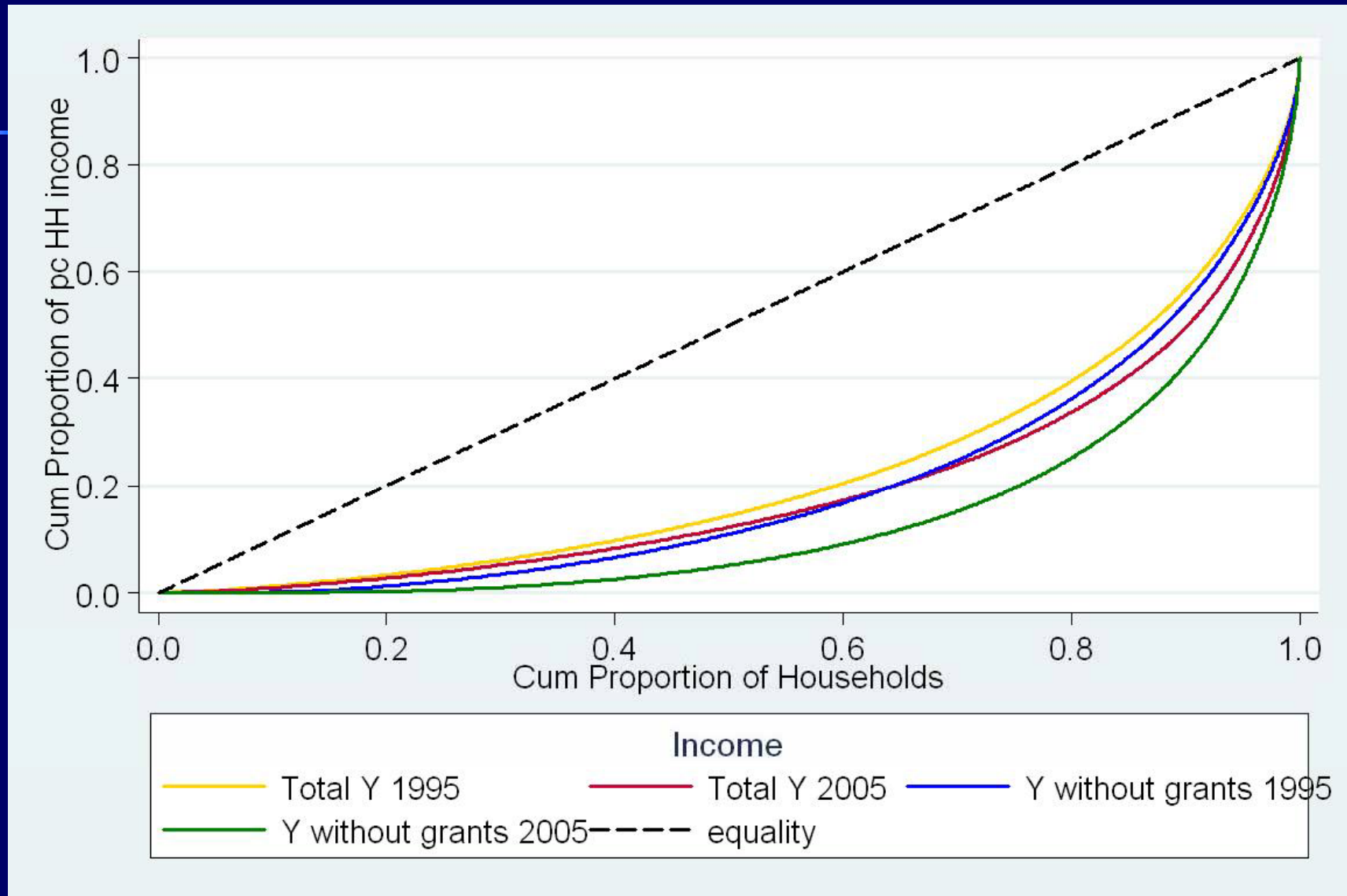
Category	R322 poverty line		R174 poverty line	
	1995	2005	1995	2005
<i>P1-growth elasticity</i>	-1.22	-1.06	-1.91	-1.62
<i>Gini-P1 elasticity</i>	5.87	6.29	15.32	15.63
<i>MPRS P1</i>	4.82	5.91	8.00	9.68

Social Grants as Policy Intervention

Share of Grant Income in Total Income, 1995 & 2005



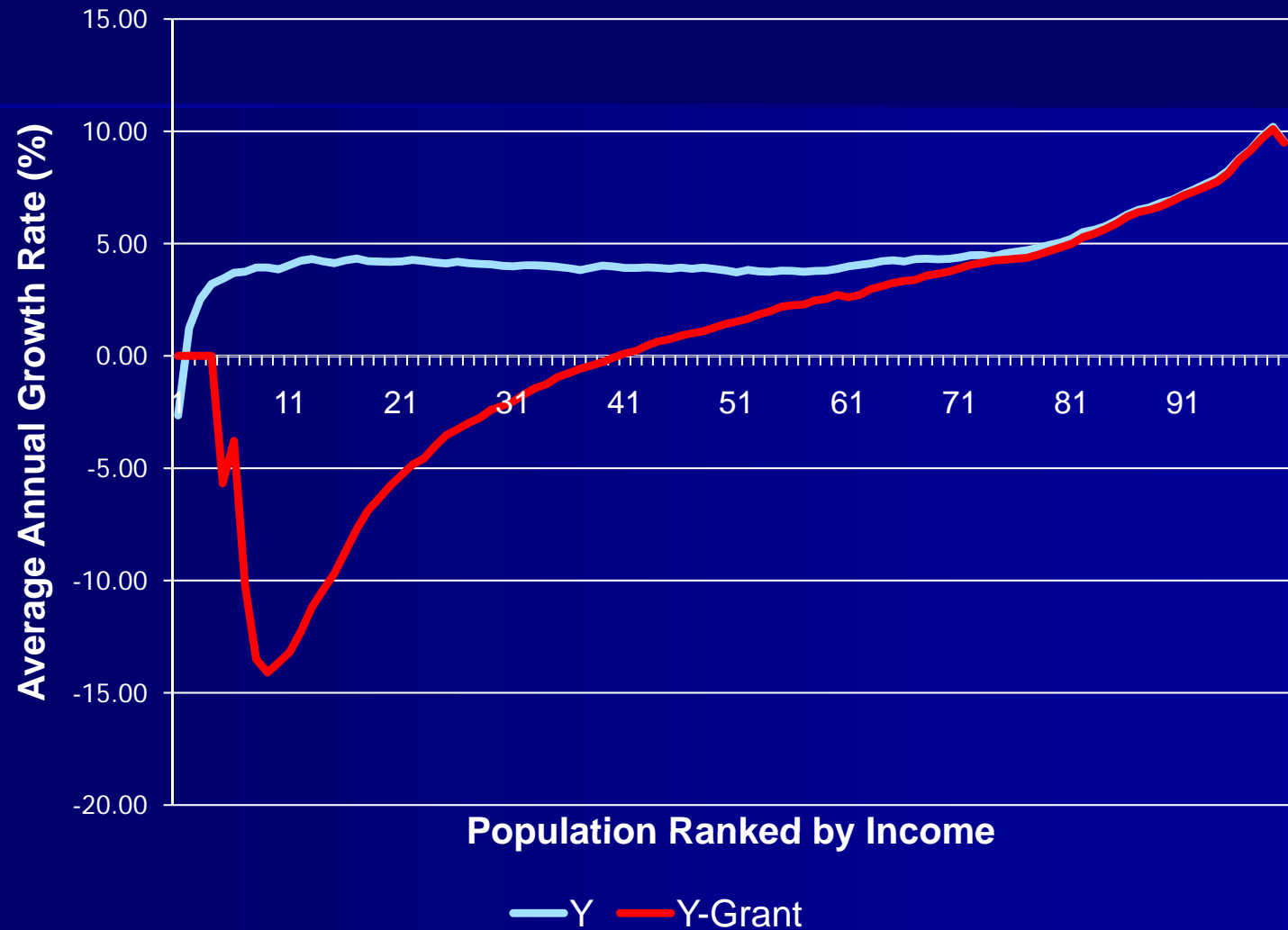
Lorenz Curves for Africans: With and Without Grant Income, 1995 and 2005



Impact of Social Grants on Income Inequality 1995 and 2005

	Gini Coefficients			
	1995		2005	
	PC Income	PC Income w/out Grants	PC Income	PC Income w/out Grants
Total	0.64	0.68	0.72	0.77
African	0.56	0.61	0.61	0.72
Coloured	0.49	0.53		

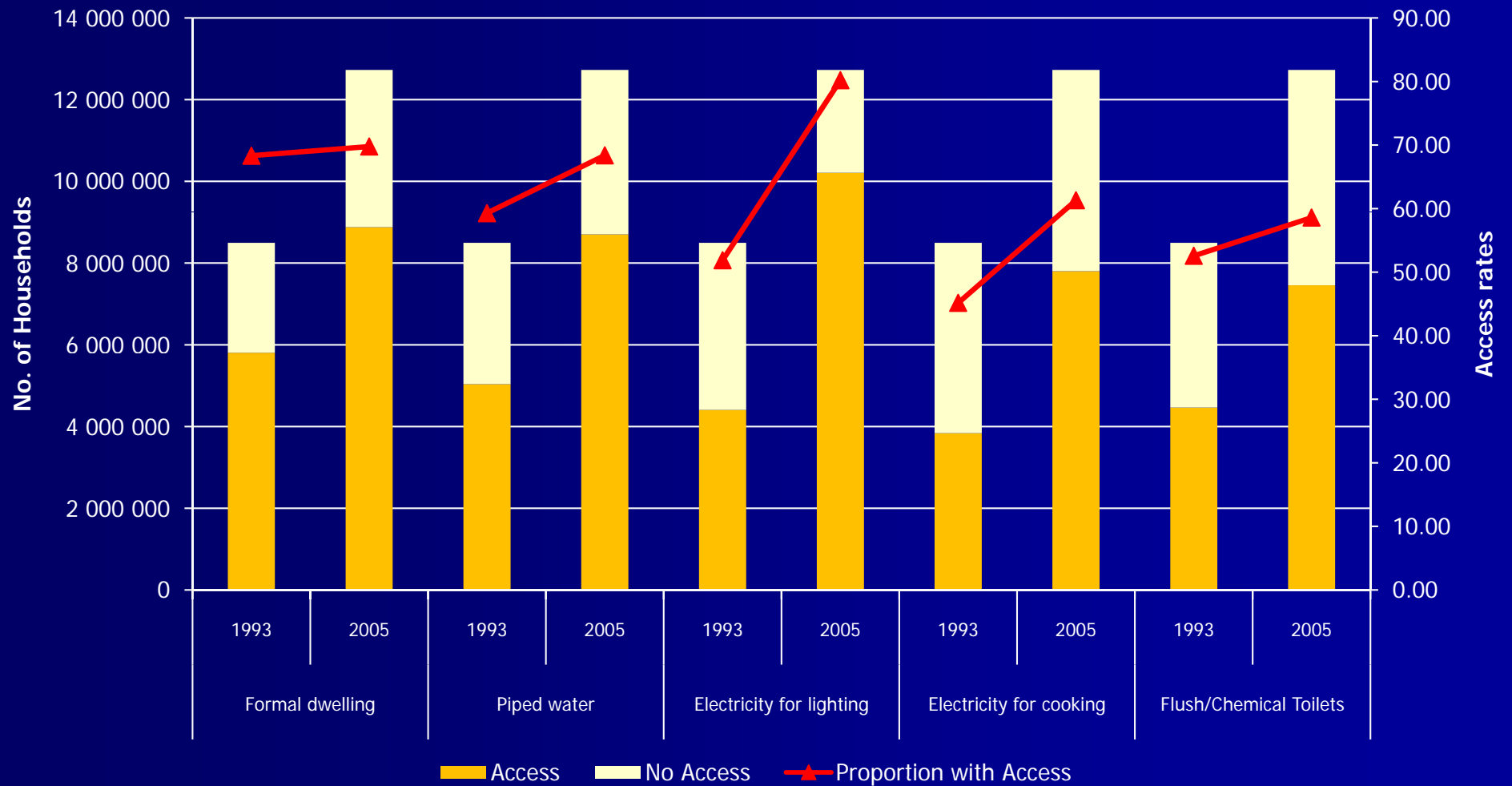
South African GIC: With and Without Grant Income



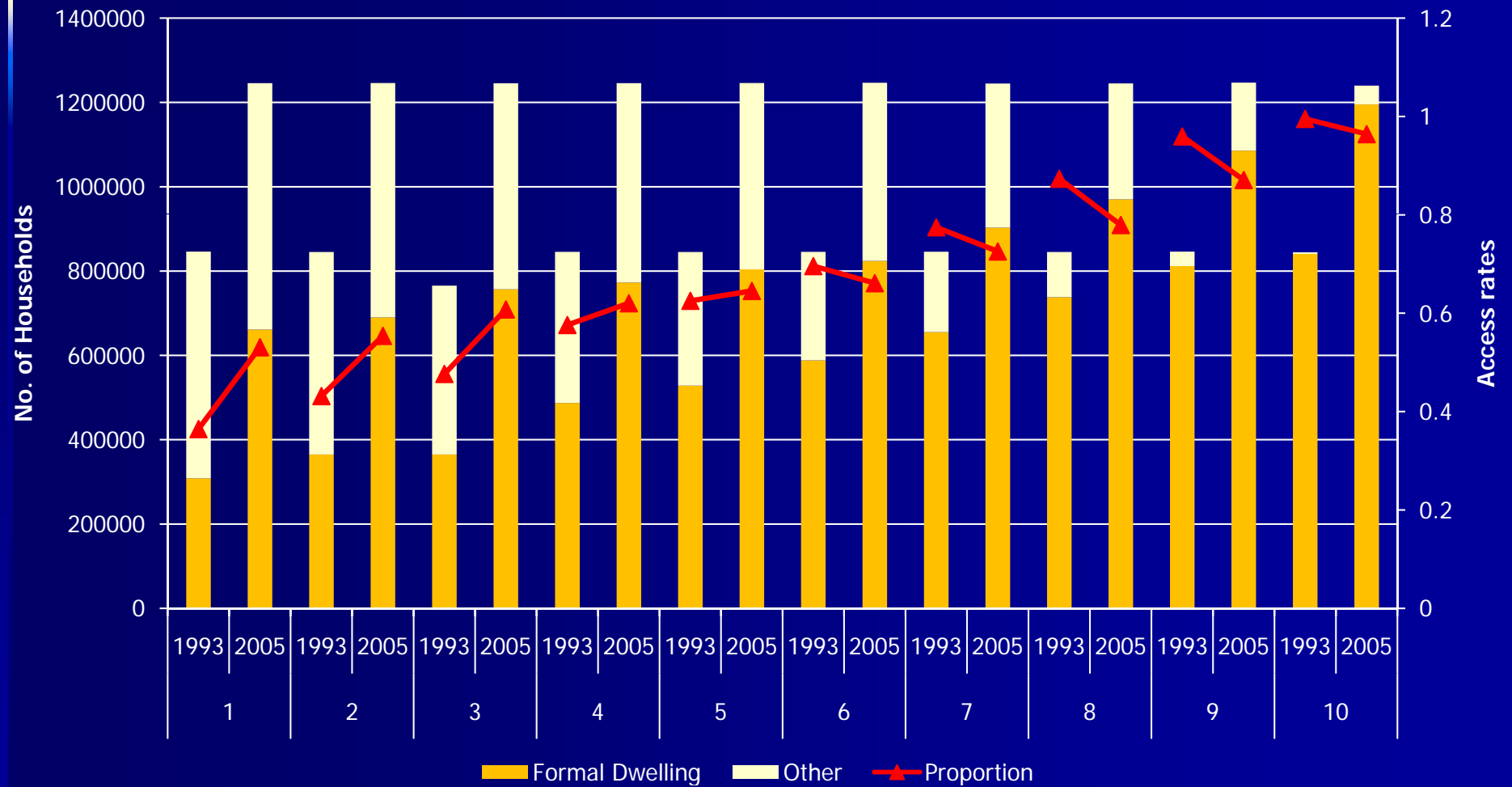
African GLCs with and without Grant Income



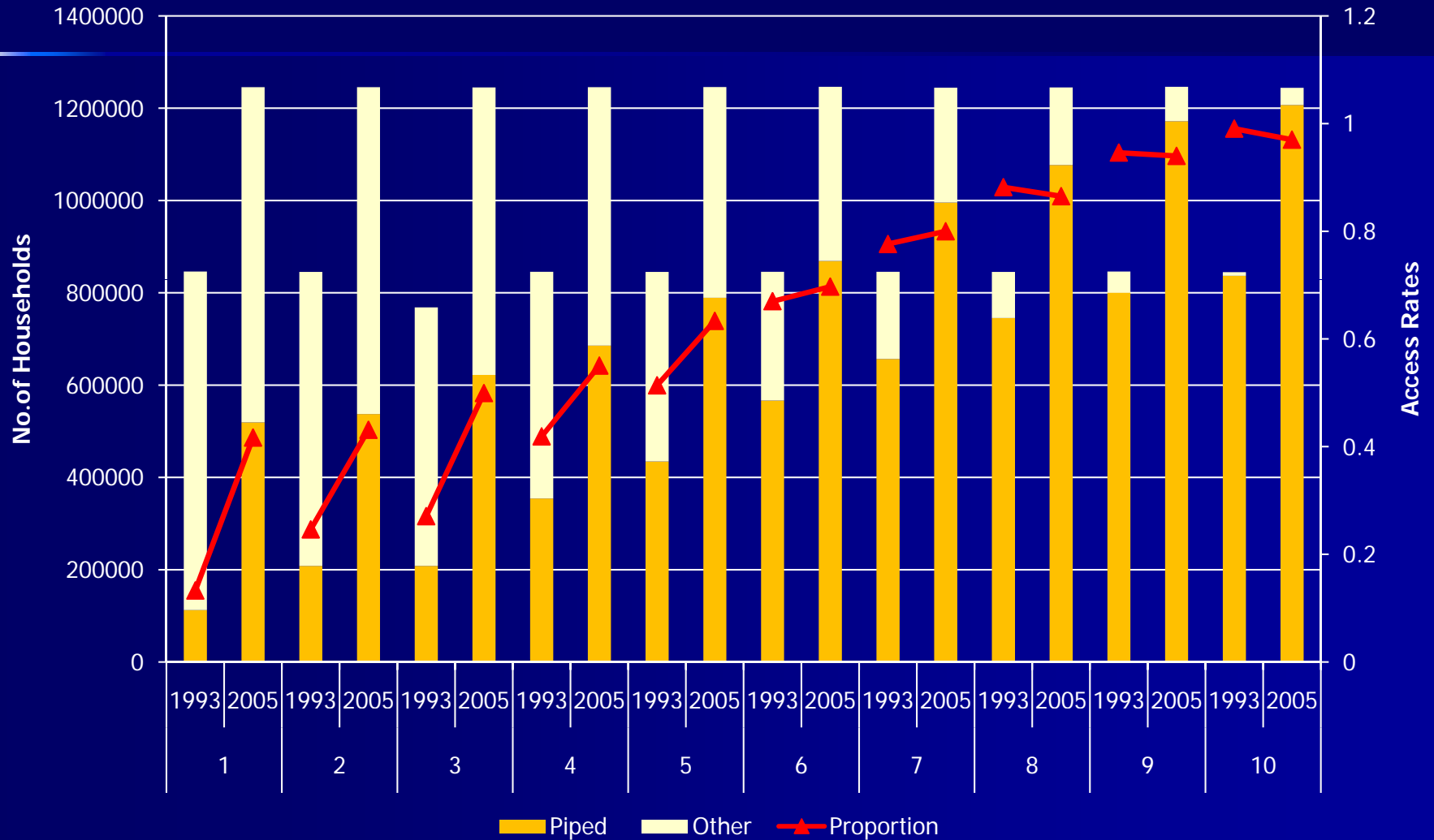
Changes in Non-Income Welfare Access to Services, 1993 – 2005



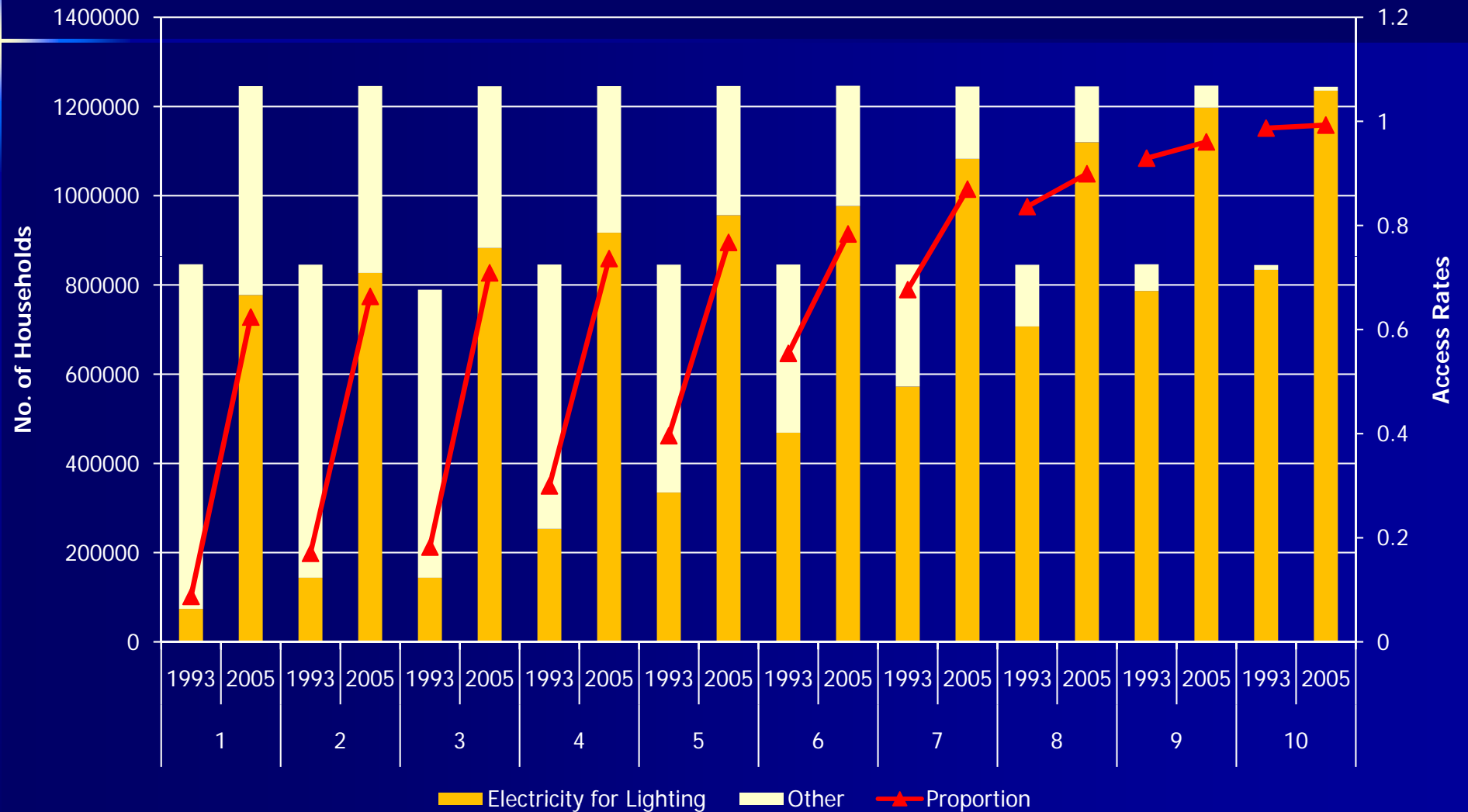
Access to Formal Dwelling, 1993 – 2005



Access to Piped Water, 1993 – 2005



Access to Electricity for Lighting, 1993 – 2005



Conclusion

- Increase income inequality with increase in mean incomes
 - Regardless of race & gender of HH head
- Increased contribution of between-group inequality –
- Gini decomposition:
 - Increased wage inequality
 - Main DRIVER of income inequality (particular wage/salary employment)
 - Social grants distribution neutral
- Rising inequality dampened impact of economic growth on poverty

- Role of social grants in mitigating inequality:
 - Impact across the Y distribution
 - Reduced inequality
 - Act as a stabiliser across the distribution – dampened income fluctuations
- Decrease in non-income inequality driven by G service delivery – still room for increased delivery at the bottom of the distribution