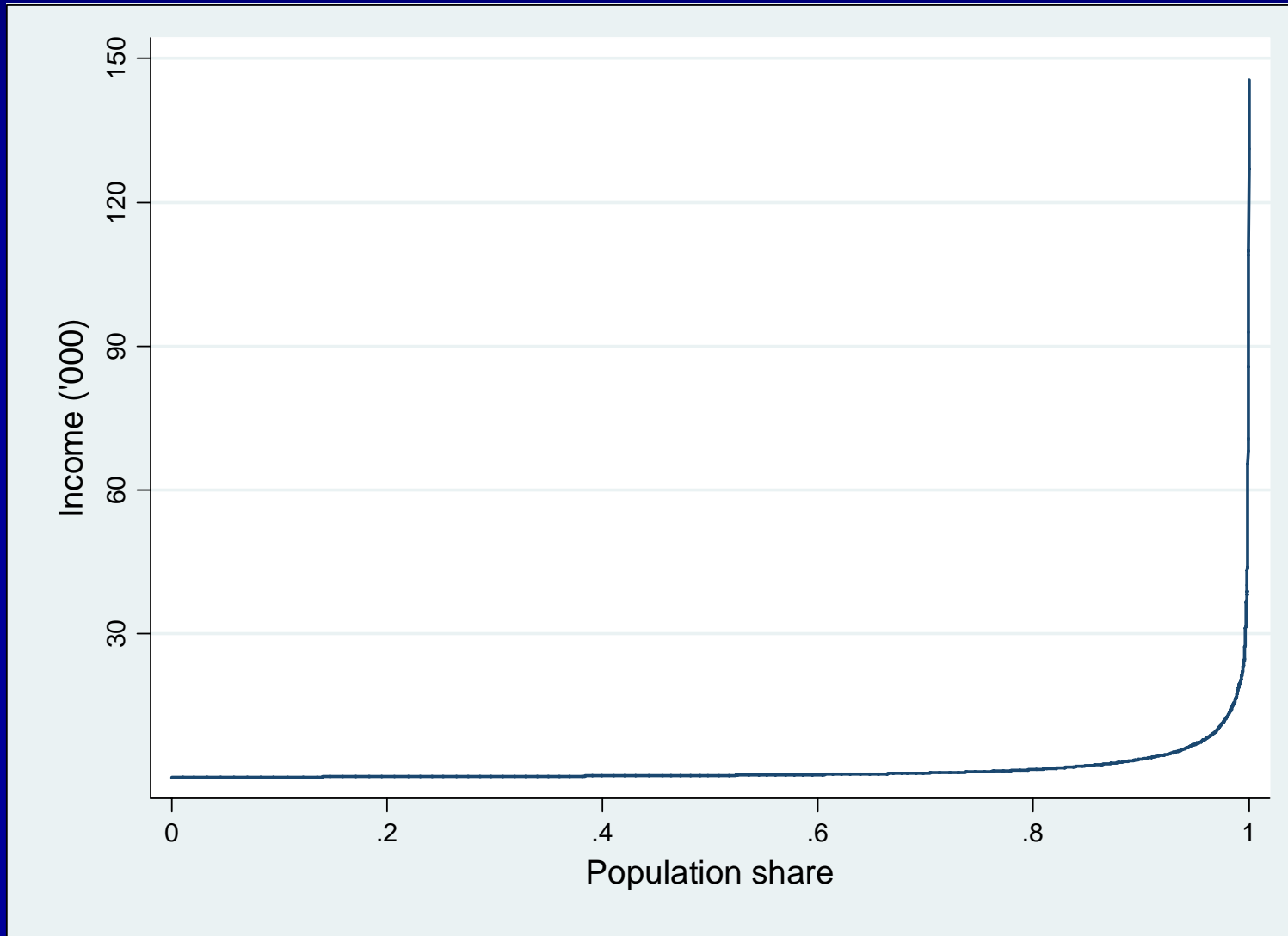


**INEQUALITY,
UNEMPLOYMENT, AND
POVERTY IN SOUTH AFRICA**

Overview of the project

- Theoretical relationship between labour markets and inequality
- Insights from the literature
- Inequality in SA
- Unemployment in SA
- Relationship between employment structure and inequality
- How much might a minimum wage reduce inequality?
- How much could expanded low-wage employment reduce inequality?
- Growth, inequality, and poverty reduction.

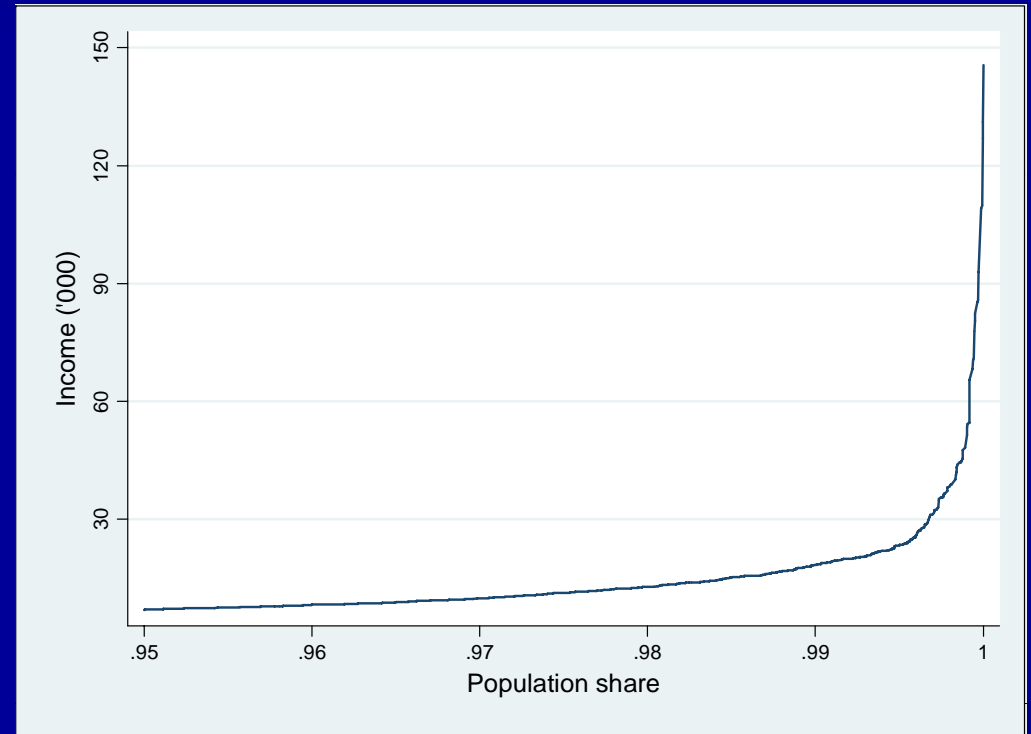
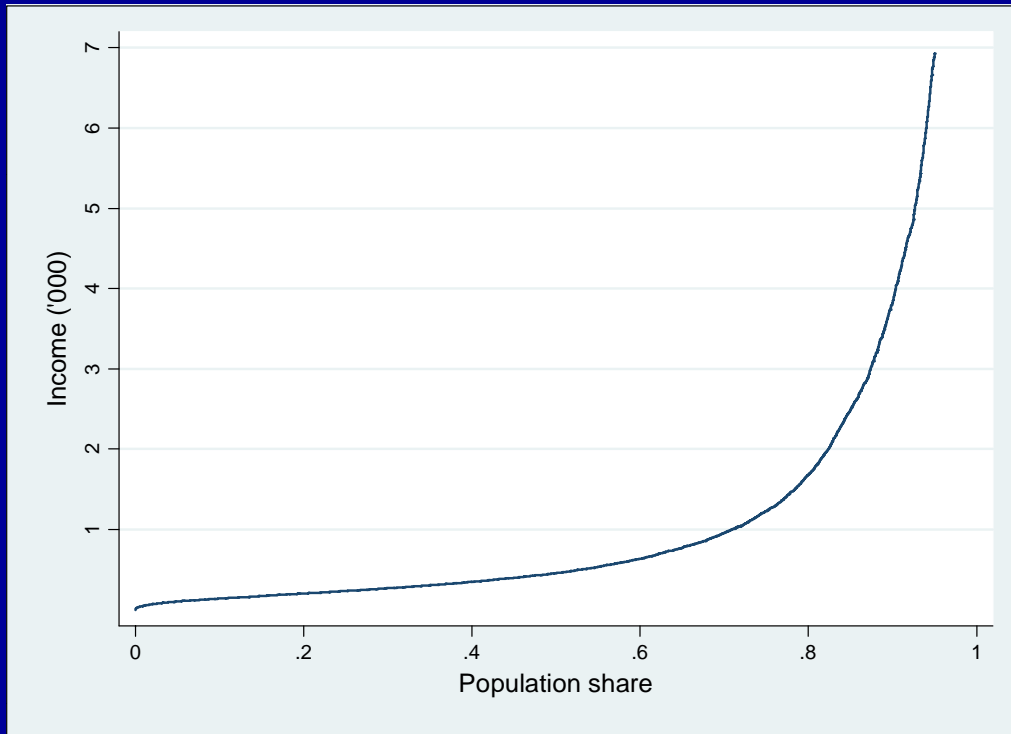
'Pen's parade' of income distribution



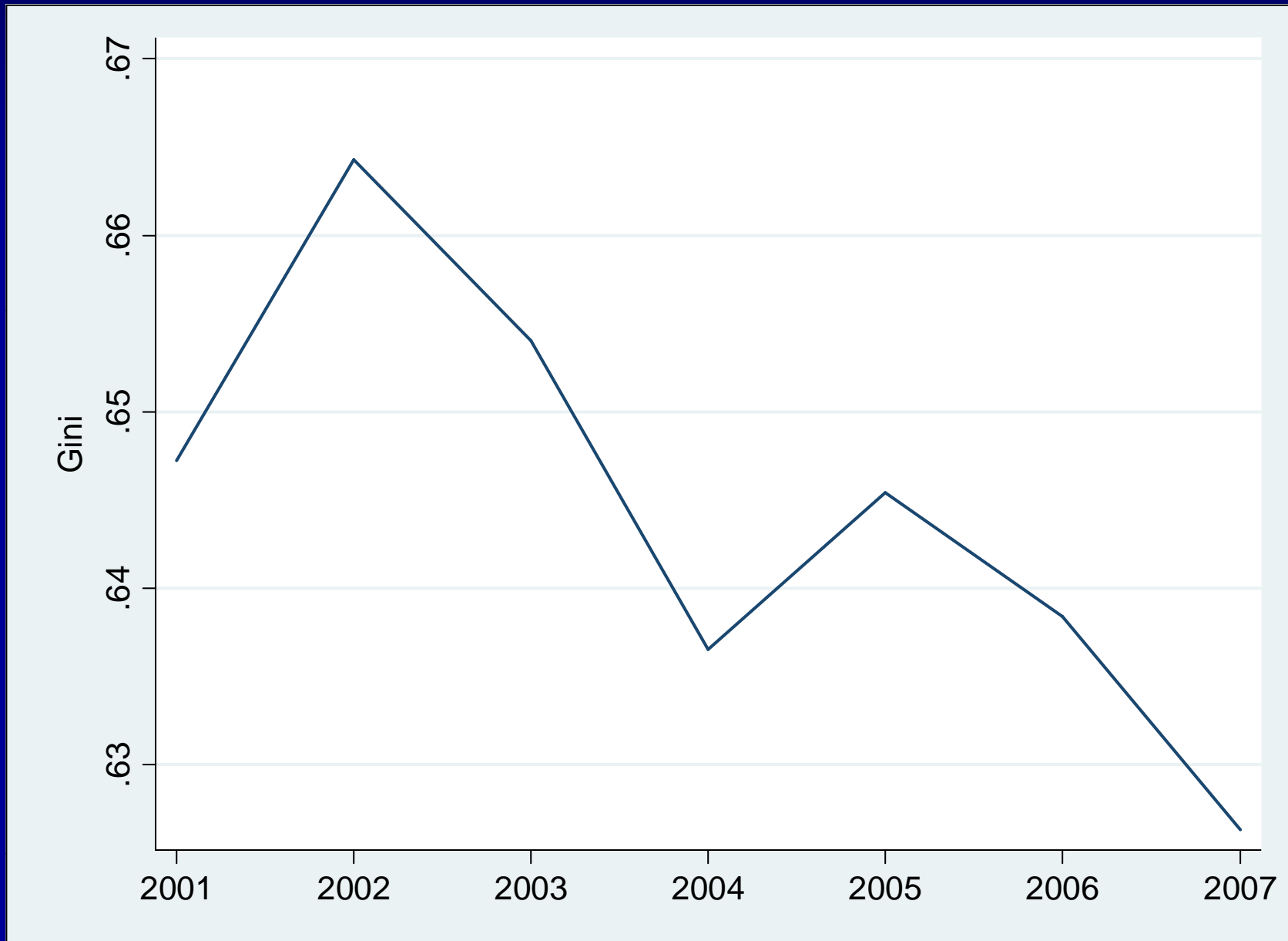
'Pen's parade' of income distribution

■ Bottom 95%

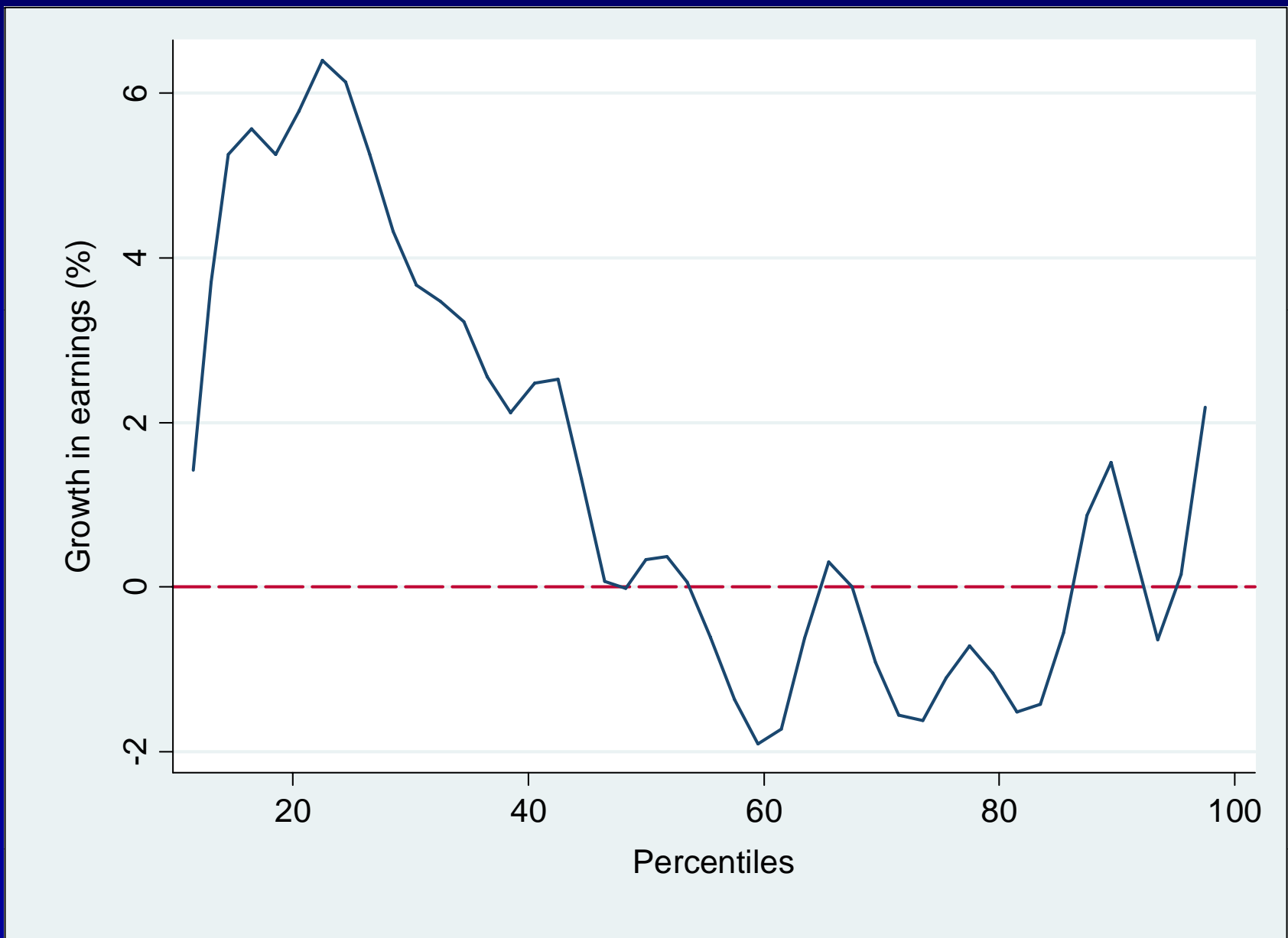
■ Top 5%



Earnings Inequality (Gini), 2001-7



Growth incidence curve of earnings (2001-2007)



Halving poverty by 2014

- *What are the growth and distributional implications of meeting the AsgiSA target of halving poverty by 2014?*

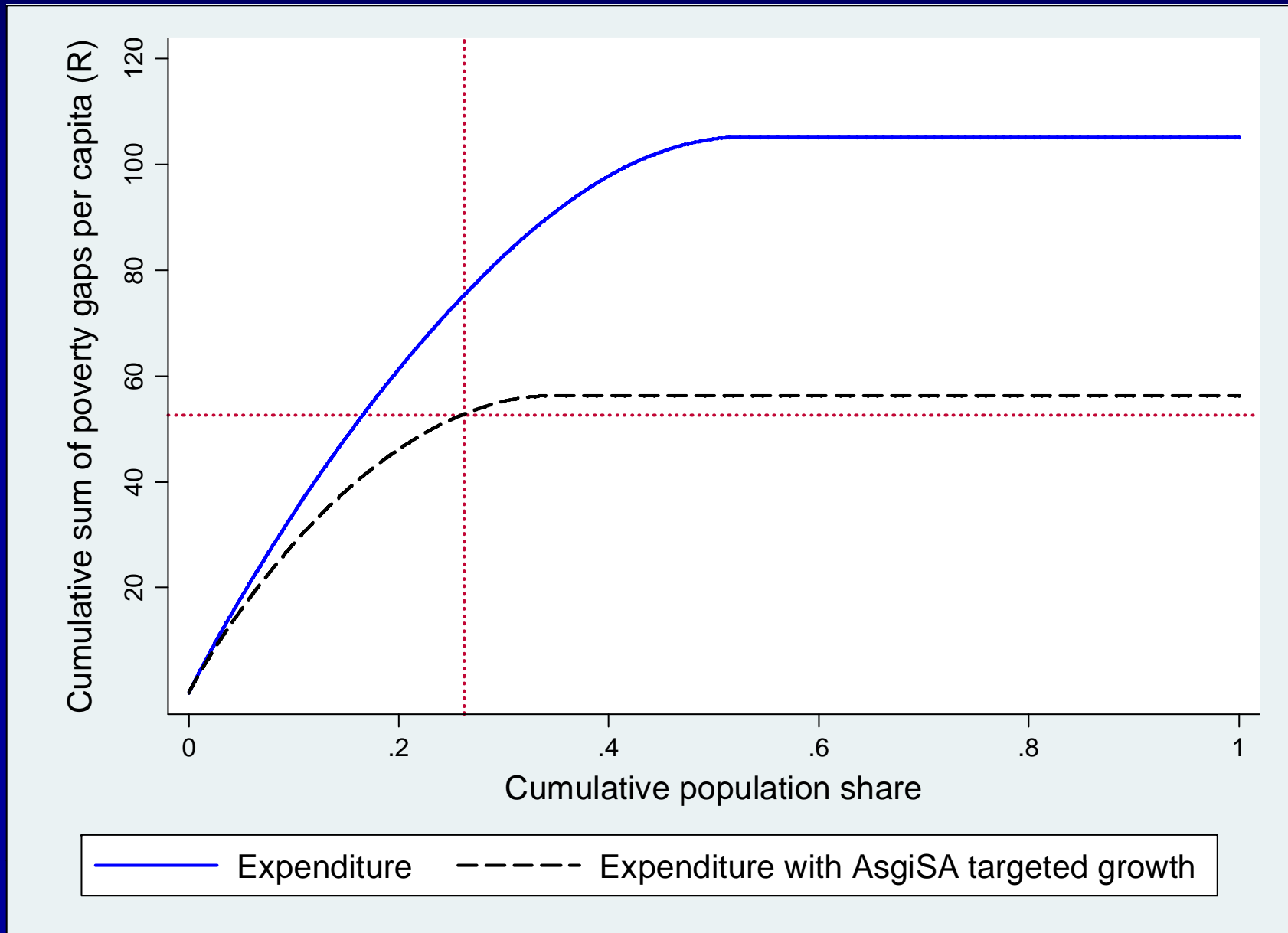
- Framing the AsgiSA target
 - poverty line at R450 (March 2006 prices)
 - poverty headcount ratio and poverty gap
 - ➔ Halving poverty by 2014 means cutting poverty headcount ratio to ±25% and reducing poverty gap to ±R30 billion.

Can we halve poverty through growth?

- 3 growth scenarios:

- AsgiSA growth targets 5.43%
- Treasury forecasts 4.36%
- Private banks' forecasts 3.69%

Poverty in 2014 under current distribution



Poverty in 2014 under 3 growth scenarios

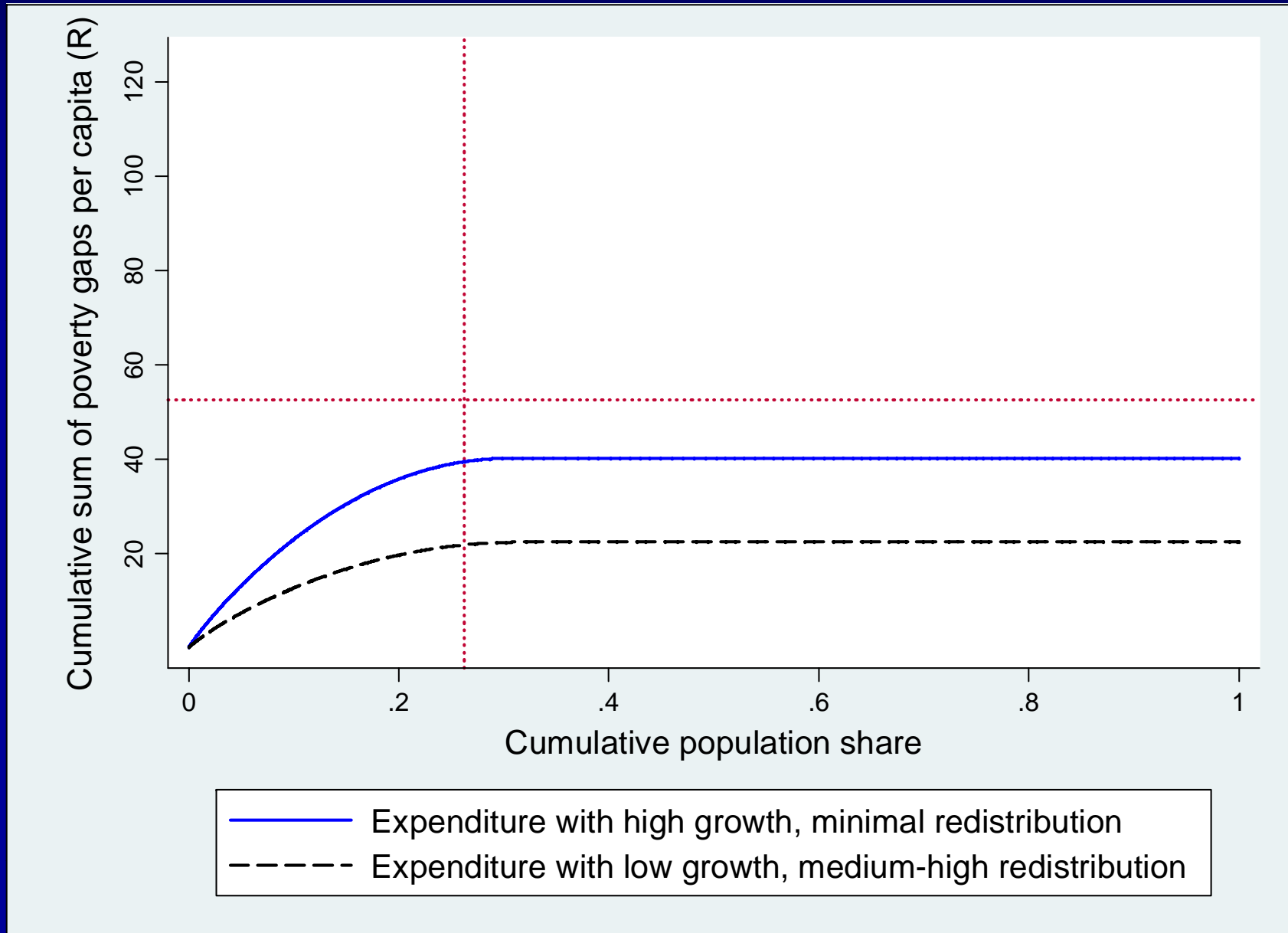
	Poverty headcount ratio (%)	Poverty gap (R billion)
2006 actual	52	60
Target: halving poverty	26	30
Growth scenarios:		
AsgiSA	34	32
Treasury	38	37
Banks	40	40

Simulated distributional change

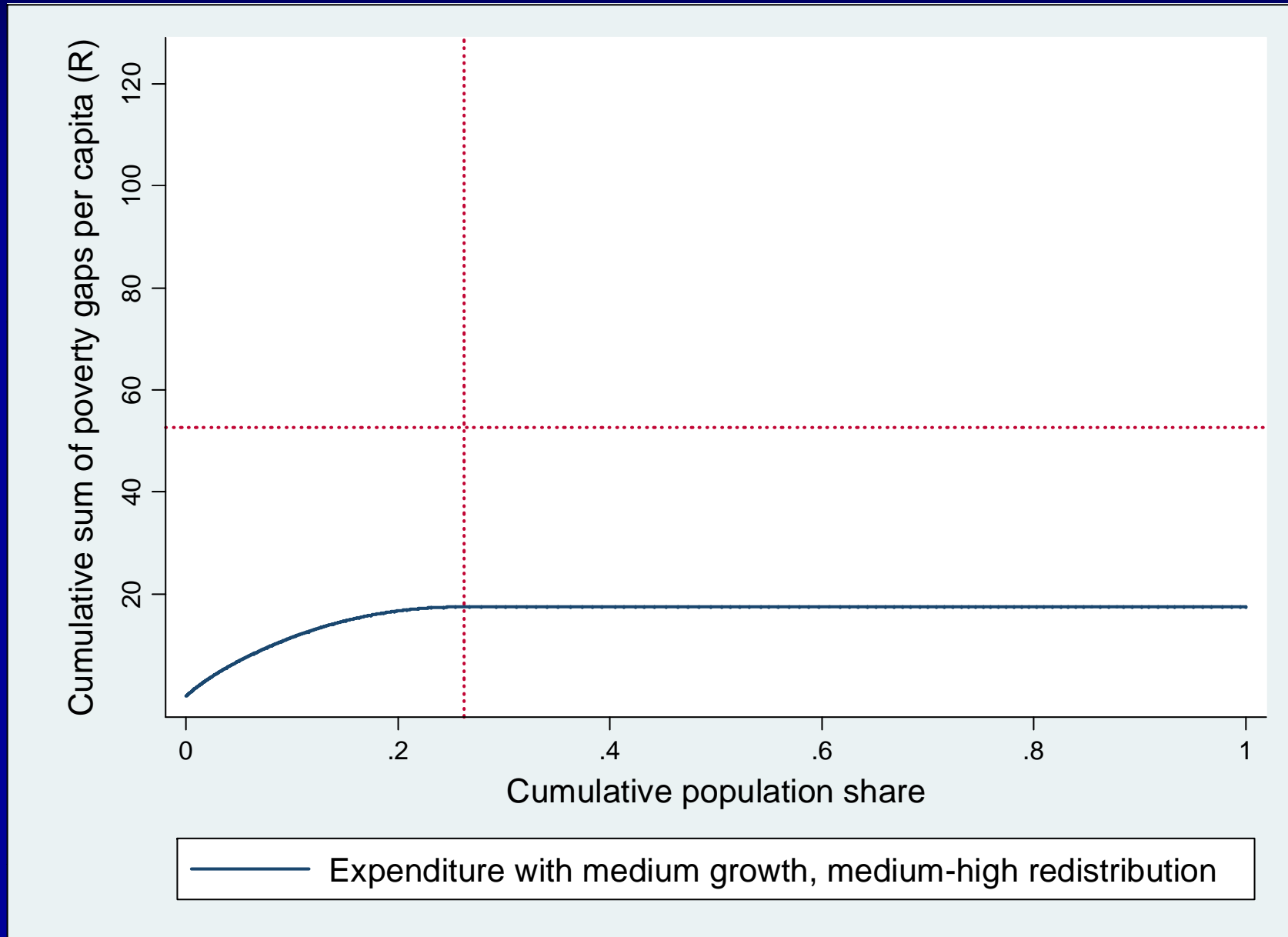
- Simulate a range of mean-preserving equalising distributional changes.
- Around median, 66th and 75 percentiles.
- Poorest person R50/R100/R200/R300 per month better off.
- Not transfers, but outcomes of more pro-poor growth path.

- Look at poverty outcomes under sixty growth/distributional scenarios.

2 growth/distributional scenarios in which poverty gap halved but poverty headcount ratio not halved



A growth/distributional scenario in which poverty is halved



Poverty outcomes under some growth/distributional scenarios

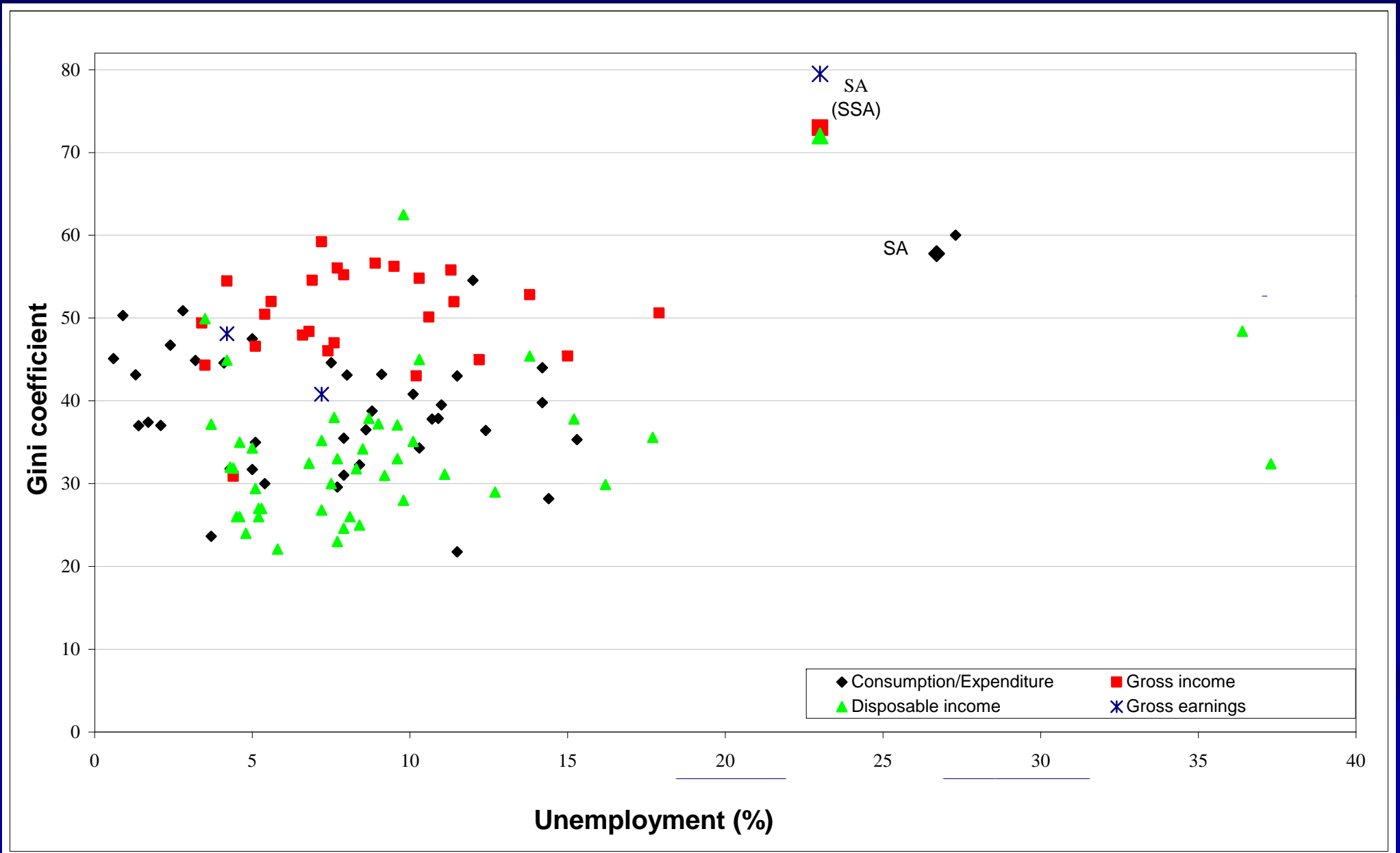
	Distribution				
	R300	R200	R100	R50	None
Growth					
7%	H, G	H, G	H, G	-, G	-, G
6%	H, G	H, G	-, G	-, G	-, G
5%	H, G	H, G	-, G	-, G	-, -
4%	H, G	H, G	-, G	-, -	-, -
3%	H, G	-, G	-, G	-, -	-, -

H = poverty headcount ratio halved; G = poverty gap halved.

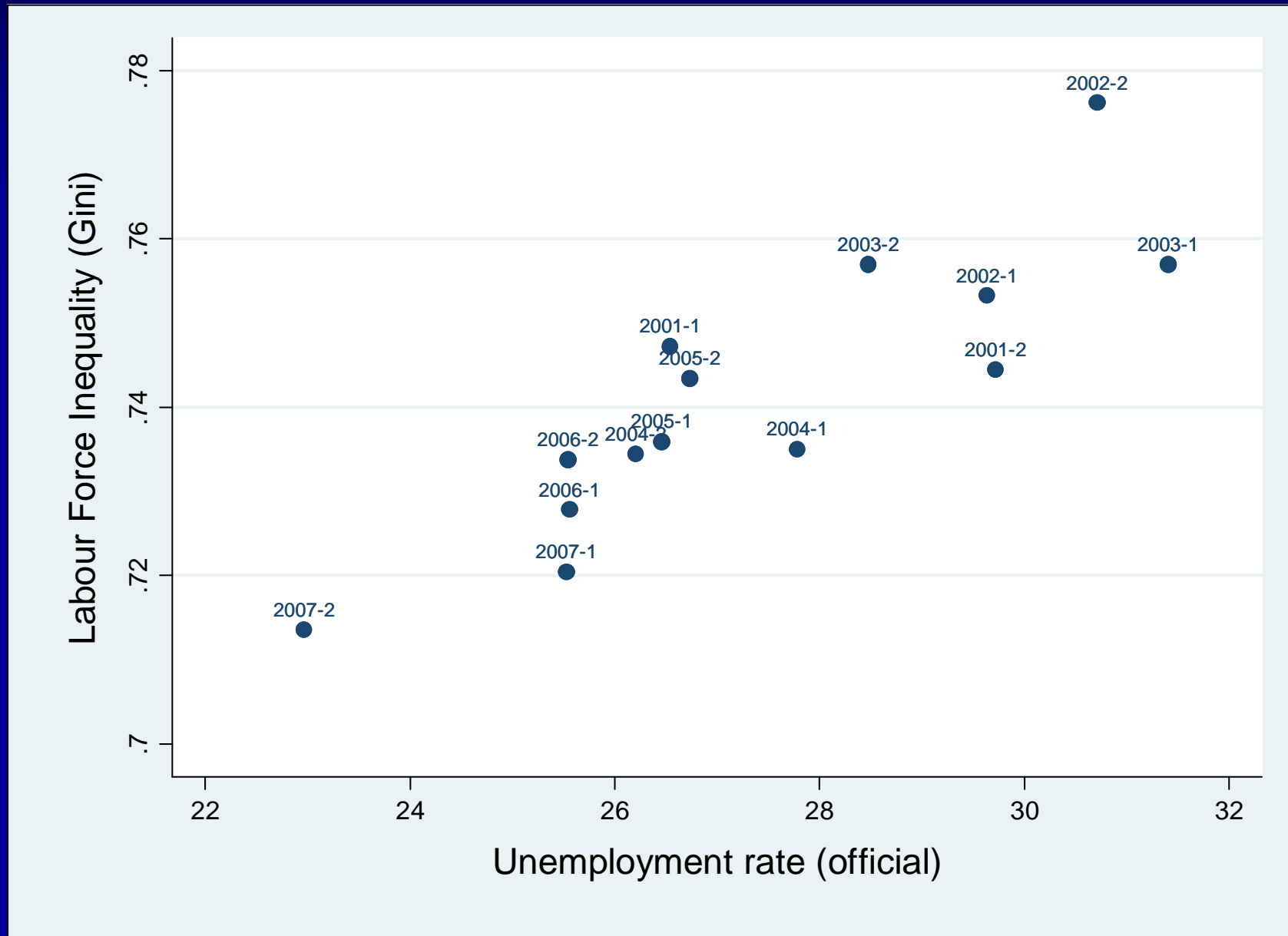
Conclusions on meeting AsgiSA poverty targets

- Poverty CAN be halved by 2014.
- But not by growth alone.
- We need a pro-poor shift in the growth path.
- Any worsening of inequality will put the AsgiSA poverty targets even further out of reach.
- Avoid temptation to set poverty line too low.

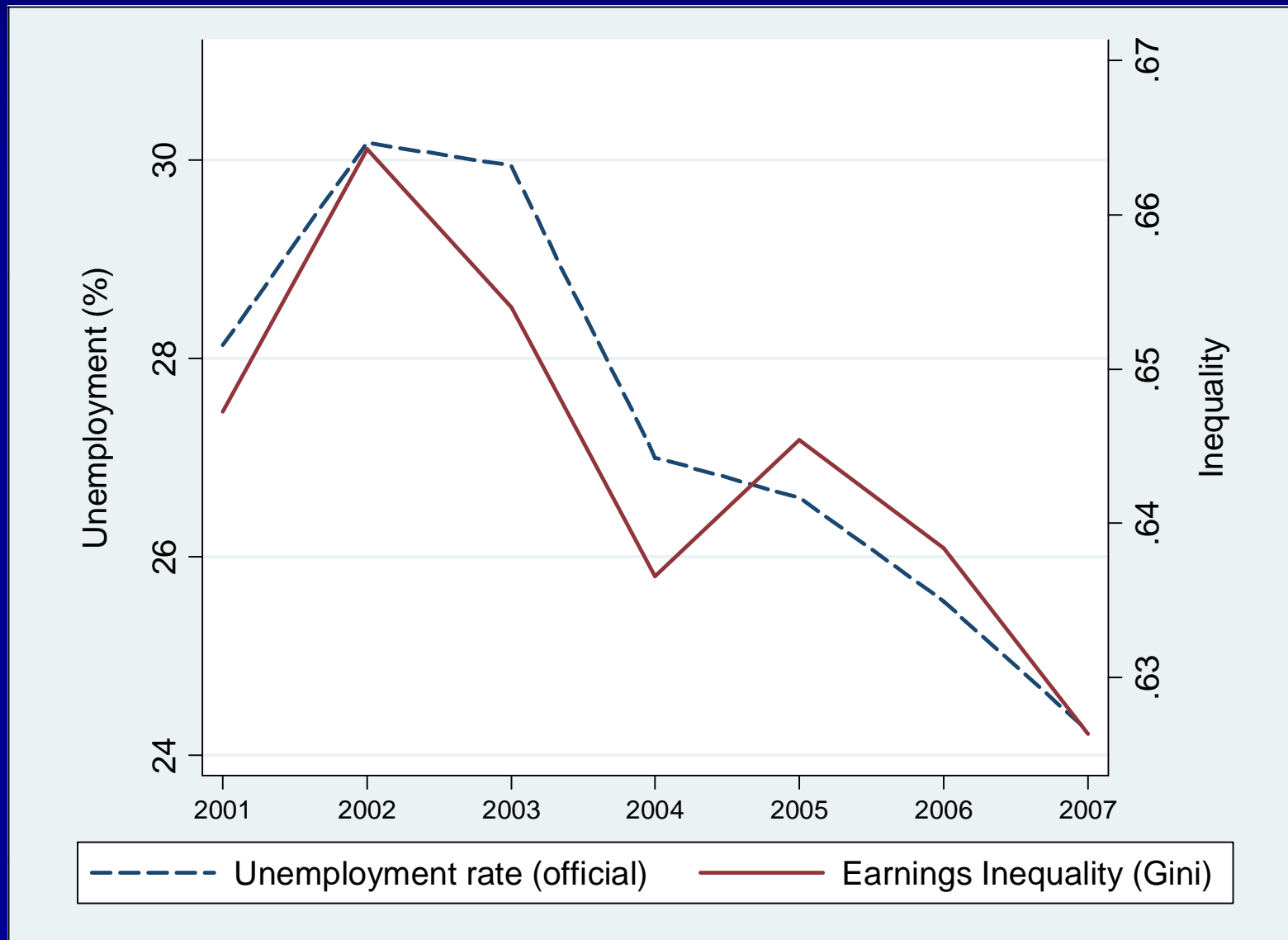
Inequality & unemployment: International comparison

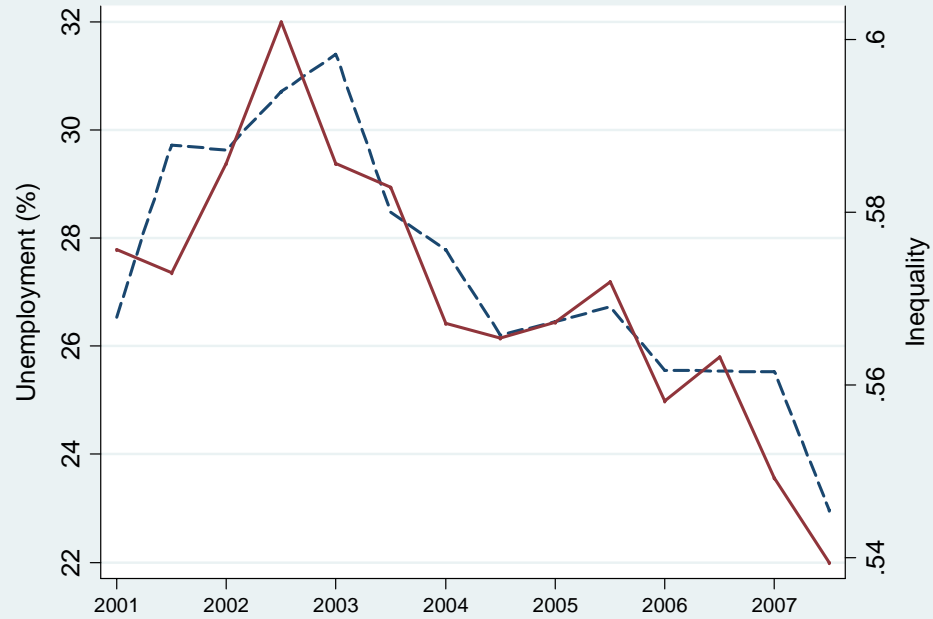


Unemployment & labour force earnings inequality, 2001-7

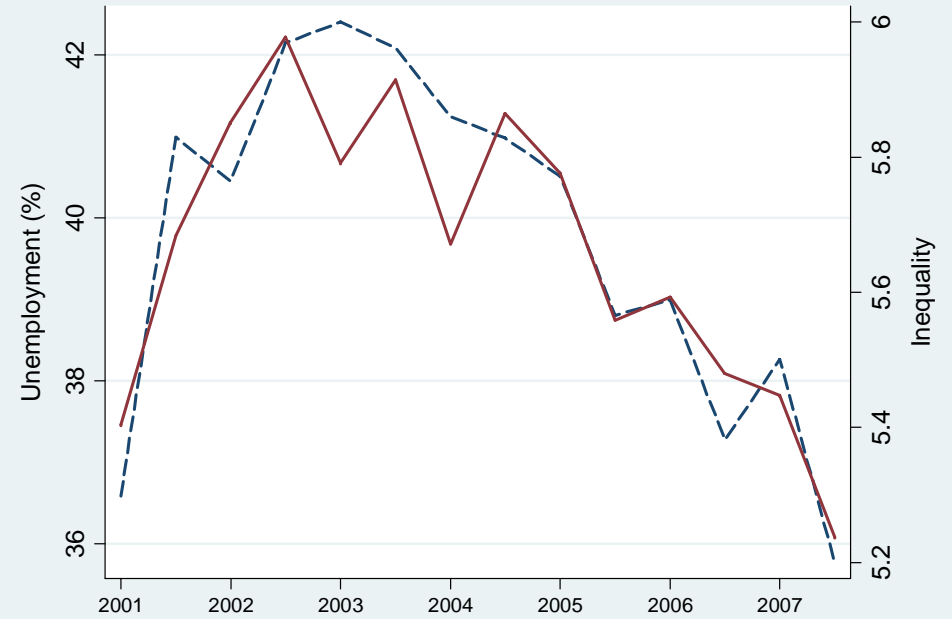


A very close relationship between unemployment and earnings inequality over time

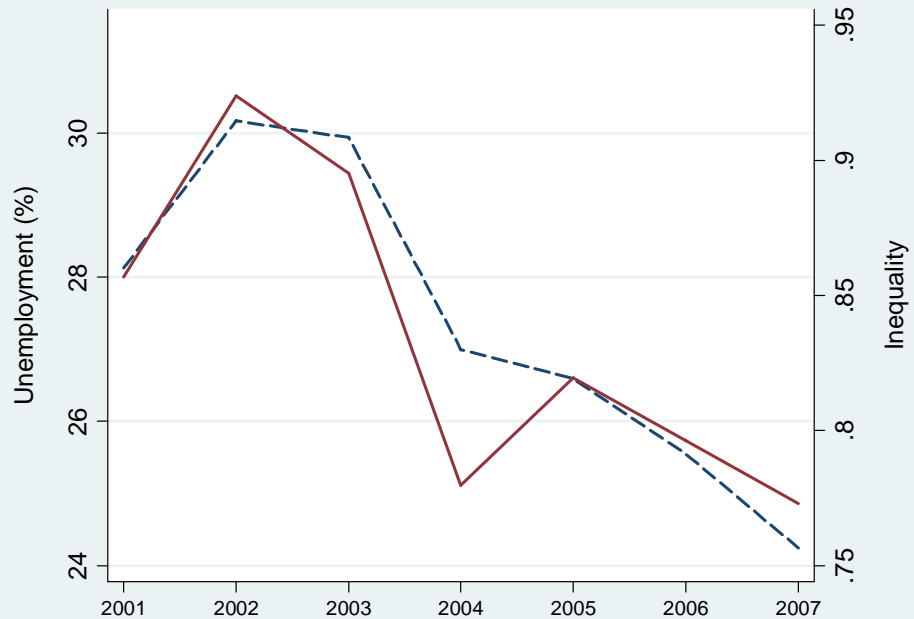




--- Unemployment (official) — Labour Force Inequality (RMD)



--- Unemployment (expanded) — Labour Force Inequality (MLD)



--- Unemployment rate (official) — Earnings Inequality (Theil)



--- Unemployment rate (official) — Earnings Inequality (MLD)

Relationship between earnings inequality & unemployment

- Possible explanations for this close relationship:
 - Direct causality from unemployment rate to earnings inequality, through effects of unemployment on the composition of the employed.
 - Indirect causality from unemployment to earnings inequality, through 'reserve army' type effects.
 - Common underlying factors, relating to distributional character of the growth path.
- Suggests no strong trade-off between reducing unemployment and reducing inequality.

How much do earnings contribute to overall inequality?

- Households receiving no income from work are mostly female-headed, overwhelmingly African, and much worse off than households receiving any income from work.
- 74% of all income comes from work.
- Income from work contributes 79% to total income inequality.

How does labour market structure explain earnings inequality?

- Decompose labour force and working age adult earnings inequality by employment status
 - Rate of unemployment and wage dispersion amongst the employed both contribute significantly.
- Unemployed/informally employed/formally employed
 - Rate of unemployment, wage dispersion among each of the informal and formal sectors, and wage gap between formal and informal sectors all contribute significantly to inequality.

How do *changes in labour market structure* *changes in* explain earnings inequality?

- Dynamic decomposition of labour force and working age adult earnings inequality by employment status
 - Changes in unemployment rate explain most of initial increase and later fall in inequality, changes in wage dispersion explain some.
- Unemployed/informally employed/formally employed
 - Changes in rate of unemployment & in formal/informal proportions of employment explain most of changes in inequality;
 - Changes in wage dispersion among each of the informal and formal sectors contribute less to changes in inequality.

Conclusions (i)

- Unemployment explains a lot of earnings inequality amongst the labour force and amongst working-age adults.
- Also a close relationship between unemployment and earnings inequality amongst the employed.
- Suggests no strong trade-off between addressing unemployment and inequality.
- Rather, reducing unemployment is central to reducing inequality.
- Earnings dispersion amongst employed also contributes to inequality.
- Gap between formal and informal sector earnings raises inequality.

Conclusions (ii)

- Generating low-wage jobs on a mass scale would reduce inequality, but not dramatically relative to scale.
- Minimum wage would generally reduce inequality, but net effect depends on any associated job losses.
- Emphasise mass creation of decent jobs.
- Continuation of inappropriate growth path unlikely to address either unemployment or inequality.
- Aggressive policies needed to deal with legacy of mass unemployment of young people who have seldom or never worked.
- Scale of unemployment goes far beyond 'labour market' issue.

Conclusions (iii)

- By international standards, poverty in SA associated more with distribution than with total resources.
- AsgiSA target of halving poverty is achievable...
- But not realistically with growth alone.
- Need a pro-poor shift in growth path.
- Considerable scope for progressive distributional change.
- But unlikely to happen endogenously.
- Internationally, 'downward stickiness' of inequality.
- Reduction of inequality as explicit policy objective.

Additional slides for reference

Effects of a R1000 minimum wage under 5 scenarios

	# raised to min. wage ('000)	# indirectly affected ('000)	Gini		% ↑ wage bill
			employed	labour force	
1	3 885		0.567	0.666	4.5
2	2 660		0.600	0.692	2.2
3	1 640		0.604	0.695	1.9
4	773	867 lose jobs,	0.626	0.712	0.2
5	773	867 lose jobs, 616 benefit from ripple	0.625	0.711	0.3

Expanded low-wage employment scenarios

	Gini	% ↑ total earnings
Benchmark: current levels	0.71	-
Employing $\frac{1}{3}$ unemployed at median informal wage	0.69	2.0
Employing $\frac{1}{3}$ unemployed at average informal wage	0.68	3.7
Employing $\frac{1}{2}$ unemployed at median informal wage	0.68	3.1
Employing $\frac{1}{2}$ unemployed at average informal wage	0.66	5.6
Employing $\frac{2}{3}$ unemployed at median informal wage	0.67	4.1
Employing $\frac{2}{3}$ unemployed at average informal wage	0.64	7.5

Inequality with expanded low-wage employment

