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

![Graph showing Earnings Inequality (Gini) from 2001 to 2007. The graph indicates a general increase in earnings inequality from 2001 to 2003, followed by a decrease until 2005, with a slight increase in 2006 and a decrease again by 2007.](image-url)
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

Cumulative sum of poverty gaps per capita (R)

Cumulative population share

Expenditure

Expenditure with AsgiSA targeted growth
## Poverty in 2014 under 3 growth scenarios

<table>
<thead>
<tr>
<th></th>
<th>Poverty headcount ratio (%)</th>
<th>Poverty gap (R billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006 actual</td>
<td>52</td>
<td>60</td>
</tr>
<tr>
<td>Target: halving poverty</td>
<td>26</td>
<td>30</td>
</tr>
<tr>
<td>Growth scenarios:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AsgiSA</td>
<td>34</td>
<td>32</td>
</tr>
<tr>
<td>Treasury</td>
<td>38</td>
<td>37</td>
</tr>
<tr>
<td>Banks</td>
<td>40</td>
<td>40</td>
</tr>
</tbody>
</table>
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

- Expenditure with high growth, minimal redistribution
- Expenditure with low growth, medium-high redistribution
A growth/distributional scenario in which poverty is halved
# Poverty outcomes under some growth/distributional scenarios

<table>
<thead>
<tr>
<th>Growth</th>
<th>R300</th>
<th>R200</th>
<th>R100</th>
<th>R50</th>
<th>None</th>
</tr>
</thead>
<tbody>
<tr>
<td>7%</td>
<td>H, G</td>
<td>H, G</td>
<td>H, G</td>
<td>- ,G</td>
<td>- ,G</td>
</tr>
<tr>
<td>6%</td>
<td>H, G</td>
<td>H, G</td>
<td>- ,G</td>
<td>- ,G</td>
<td>- ,G</td>
</tr>
<tr>
<td>5%</td>
<td>H, G</td>
<td>H, G</td>
<td>- ,G</td>
<td>- ,G</td>
<td>- , -</td>
</tr>
<tr>
<td>4%</td>
<td>H, G</td>
<td>H, G</td>
<td>- ,G</td>
<td>- , -</td>
<td>- , -</td>
</tr>
<tr>
<td>3%</td>
<td>H, G</td>
<td>- ,G</td>
<td>- ,G</td>
<td>- , -</td>
<td>- , -</td>
</tr>
</tbody>
</table>

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

![Graph showing the relationship between Gini coefficient and unemployment rate across different income measures such as consumption/expenditure, gross income, disposable income, and gross earnings. The graph includes markers for different countries or regions, represented by icons such as stars and diamonds.]
Unemployment & labour force earnings inequality, 2001-7

![Graph showing the relationship between unemployment rate and labour force inequality from 2001 to 2007. The y-axis represents labour force inequality (Gini) ranging from 0.7 to 0.78. The x-axis represents the unemployment rate (official) ranging from 22 to 32. The data points are marked for each year from 2001 to 2007.]
A very close relationship between unemployment and earnings inequality over time.
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 informal sectors, and wage gap between formal and informal sectors all contribute significantly to inequality.
How do changes in labour market structure 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 informal 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

<table>
<thead>
<tr>
<th></th>
<th># raised to min. wage (‘000)</th>
<th># indirectly affected (‘000)</th>
<th>Gini</th>
<th>% ↑ wage bill</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>3 885</td>
<td></td>
<td>0.567</td>
<td>4.5</td>
</tr>
<tr>
<td>2</td>
<td>2 660</td>
<td></td>
<td>0.600</td>
<td>2.2</td>
</tr>
<tr>
<td>3</td>
<td>1 640</td>
<td></td>
<td>0.604</td>
<td>1.9</td>
</tr>
<tr>
<td>4</td>
<td>773</td>
<td>867 lose jobs,</td>
<td>0.626</td>
<td>0.2</td>
</tr>
<tr>
<td>5</td>
<td>773</td>
<td>867 lose jobs, 616 benefit from ripple</td>
<td>0.625</td>
<td>0.3</td>
</tr>
</tbody>
</table>
## Expanded low-wage employment scenarios

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Gini</th>
<th>% increase total earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benchmark: current levels</td>
<td>0.71</td>
<td>-</td>
</tr>
<tr>
<td>Employing $\frac{1}{3}$ unemployed at median informal wage</td>
<td>0.69</td>
<td>2.0</td>
</tr>
<tr>
<td>Employing $\frac{1}{3}$ unemployed at average informal wage</td>
<td>0.68</td>
<td>3.7</td>
</tr>
<tr>
<td>Employing $\frac{1}{2}$ unemployed at median informal wage</td>
<td>0.68</td>
<td>3.1</td>
</tr>
<tr>
<td>Employing $\frac{1}{2}$ unemployed at average informal wage</td>
<td>0.66</td>
<td>5.6</td>
</tr>
<tr>
<td>Employing $\frac{2}{3}$ unemployed at median informal wage</td>
<td>0.67</td>
<td>4.1</td>
</tr>
<tr>
<td>Employing $\frac{2}{3}$ unemployed at average informal wage</td>
<td>0.64</td>
<td>7.5</td>
</tr>
</tbody>
</table>
Inequality with expanded low-wage employment

Cumulative population share vs Cumulative income share

- Earnings
- Earnings with expanded low-wage employment