



Chapter 2

The Socio-economic Context



and the Need for Comprehensive Social Protection

2.1 Introduction

South Africa's social safety net has its roots in a set of apartheid labour and welfare policies that were racially biased and premised on full-employment. The last vestiges of state racial discrimination have subsequently been removed, but a key underlying principle of the old system remains in place, i.e. the assumption that those in the labour force can support themselves through work, and that unemployment is a temporary condition. In reality, those who cannot find work (and who do not, or no longer, qualify for UIF payments) fall through a vast hole in the social safety net.

This chapter outlines an analysis of the socio-economic context within which the Committee of Inquiry formulated its recommendations for a reform of the social security system. It points to the changing nature of inequality in South Africa and shows that the current safety net needs adapting to suit today's labour-surplus economy.

Ideally, people should be able to earn a living through employment rather than rely on welfare transfers. In this regard, Government's macro-economic strategy aims to push the economy onto a sustainable growth path that will generate jobs. However, given the size of the unemployment problem and the extent of the growth challenge, full employment is not a feasible scenario in the short to medium term. Moreover, the high levels of unemployment and the social deficit (including extreme poverty and inequality) pose a barrier to the attainment of a sustainable growth path.

2.2 Definition of socio-economic concepts

It is important to clarify the meaning of the terms "poverty", "inequality", "unemployment", "social exclusion" and "vulnerability" because these terms have specific connotations in social security. Also it is necessary to establish why these concepts, in practice, matter to people in their everyday lives.

2.2.1 Poverty

Poverty is usually defined either in absolute or relative terms. In absolute terms, poverty reflects an inability to afford an adequate standard of consumption. In this event, one would use a poverty line, reflecting an income level sufficient to afford adequate consumption, as a point to determine who is poor and who is not. This definition overlooks the distribution of resources in society that often underpins absolute poverty. Thus "relative poverty" refers to the individual's or group's lack of resources when compared to that of other members of that society.

Bringing these absolute and relative concepts together, the Committee of Inquiry states that for a comprehensive social security system, poverty can be defined as the inability of individuals, households or entire communities to command sufficient resources to satisfy a socially acceptable minimum standard of living.

Aside from these technical definitions, how do the poor themselves see poverty? During research for the Poverty and Inequality Report (PIR), developed for the then Deputy President

in 1998, the poor characterised their poverty in the following manner:

- ***Alienation from the community*** They are isolated from the institutions of kinship and community.
- ***Food insecurity*** The inability to provide sufficient or good quality food for the family is seen as an outcome of poverty.
- ***Crowded homes*** The poor are perceived to live in crowded conditions and in homes in need of maintenance.
- ***Use of basic forms of energy*** The poor lack access to safe and efficient sources of energy. In rural communities the poor, particularly the women, walk long distances to gather firewood or water, risking physical attack and sexual assault.
- ***Lack of adequately paid, secure jobs*** Lack of employment opportunities, low wages and lack of job security is regarded as a major contributor to people's poverty.
- ***Fragmentation of the family*** Many poor households are characterised by absent fathers or children living apart from their parents. Households may be split over a number of sites as a survival strategy.

Apart from the above, poverty matters because it is the best predictor of one's future life trajectory. In particular, the negative impacts of poverty tend to accumulate through a person's lifetime. The greater vulnerability resulting from poverty in youth tends to result in a continuous exposure to various risks (unemployment, ill health, and disability) effectively trapping people and their dependants in a cycle of poverty.

Committee analysis of poverty in South Africa today revealed the following:

- Forty five per cent of the population (18 million people) live on less than \$2 a day, as measured by the World Bank.
- Twenty five per cent of African children are stunted (that is, short for their age)
- Ten per cent of Africans are malnourished (that is, underweight for their age)
- Sixty per cent of the poor get no social security transfers.

The Committee of Inquiry has taken into account the quantitative measures of poverty as

well as people's actual experiences and perceptions of poverty and how these manifest in social exclusion and instability.

2.2.2 Inequality

Inequality refers to the unequal benefits or opportunities for individuals or groups within a society. Inequality applies both to economic and social aspects, and to conditions of opportunity and outcome. Social class, gender, ethnicity, and locality generally influence inequality. Reducing inequality includes:

- Increasing the relative share of the least well-off
- Improving relative mobility of the poor through reducing barriers to advancement in social and economic life, through promoting participation of disadvantaged groups, and eliminating the disproportionate advantages of the rich in terms of education, access, political power, etc.

Measured by Gini-coefficient, inequality in South Africa is ranked as the fifth highest in the world.

Inequality between races is a striking feature of South Africa. In 1996, 61 per cent of Africans lived in poverty, compared with only 1 per cent of whites. While this figure has probably changed somewhat since then, the continued stark contrast contributes to a perpetuation of apartheid-style prejudice, where notions of an "underclass" are carried over into the post-apartheid era. Flowing from this there is also a stark race differential in terms of who accesses private services (catering for the better off) and who accesses public services (catering mainly for the poor).

In the period 1991-1996, while inequality between races decreased, intra-racial (that is, class) inequality increased. This suggests that the racial divide of the apartheid era, if left to its own devices, could become entrenched as a deep class divide in the post-1994 transformation period.

In designing a comprehensive conceptual framework for social security, the Committee has considered the implications of these factors and the inequalities that emerge from its trajectory into contemporary society. From a social security perspective the key issue is to ensure that those who are currently excluded are

Table 1
Declining household incomes and growing inequality (1991–1996)

	African	White	Coloured	Asian
Poorest 50 per cent	-11 per cent	-16 per cent	0 per cent	-5 per cent
Richest 10	17 per cent	-0,3 per cent	16 per cent	28 per cent

given a stake in the present, and that those who have benefited from past privileges promote a level of solidarity.

2.2.3 Unemployment

The loss of a job, or the inability to find one, has a devastating impact on individuals and their dependents. This goes beyond the loss of income and what it can buy, to questions of social participation and personal identity.

There are two widely used definitions of unemployment: a “strict” and an “expanded” one, with the latter including “discouraged workers” who have given up looking for work.

The Committee’s review has shown that employment statistical data and analysis is generally highly contested. Although significant improvements have been made to employment data, some important problems remain to be tackled.

Importantly, with changing forms of employment, and hence changing statistical definitions of unemployment, the distinction between “employed” and “unemployed” is also becoming blurred. For the purposes of social policy, for example, the difference between an unemployed person and someone employed in the informal sector at virtually no income appears insignificant, since such work does not provide adequate job and income security.

However, using the one available set of comparable employment statistics,¹ formal sector employment has fallen significantly. This decline has serious social and economic implications. As mentioned, there well may be concurrent informal-sector employment that is unrecorded. However, household survey evidence demonstrates most of these jobs to be considerably lower-paid and less secure, and thus not significantly compensating for the loss of formal sector jobs.

An important factor that the Committee has had to consider is that South Africa is

characterised by a labour surplus economy that is unlikely to change in the foreseeable future. A labour surplus economy with high skills’ deficits at the lower end has significant implications for the design of a comprehensive social security system in the short to medium term.

2.2.4 Social exclusion

Social exclusion covers both the static condition (poverty) and the dynamic process (exclusion) through which poverty is caused. As such, the term “social exclusion” is, conceptually, more appropriate for integrated policy purposes than “poverty”.

Social exclusion functions through the twin mechanisms of exclusion and inclusion. It is essentially based upon the power of one group to deny access to reward and life-chances to another group; this is on the basis of certain criteria that the former seeks to justify. These criteria could, for example, be income, education, skin colour, language, sex or religious belief.

As in South Africa’s apartheid past, social exclusion was about mobilising state machinery and policies to exclude others (black people) from reward and privilege. Social exclusion manifests itself in barriers to advancement based on the economically arbitrary individual characteristics mentioned above. Many of these take the form of exclusion from markets; others take the form of exclusion even when markets are competitive.

Social exclusion implies a dynamic set of processes with a number of aspects:

- **Relativity** People are excluded from a particular society, as opposed to a focus on ability to purchase an “absolute” basket of goods that might have been regarded as adequate at another time.
- **Multi-dimensionality** Income and consumption are central, but so are other aspects of participation such as the ability to carry out socially valued activity (not

just paid work), political involvement and social interaction. In each dimension inclusion/exclusion are matters of degree, rather than simply of sharp cut-offs.

- **Agency** Someone, something or some process is responsible for exclusion or inclusion occurring, while inability to control major aspects of one's life is an important aspect of being excluded.
- **Dynamics** Such processes occur over time with long-lasting or cumulative effects. Duration in particular states matter and so do prospects for the future.
- **Multi-layered** Exclusion operates at different levels – individual, household, community/neighbourhood, and institutions.

2.2.5 Vulnerability

Vulnerability refers to the risk of a particular individual or group falling into poverty or in situations that compromise their human well-being. Certain individuals or groups, due to their position in society, are more vulnerable than others to the negative consequences of economic, political and social trends, cyclical changes or “shocks”. Generally women, children, the unemployed, households and communities with limited assets are least able to cope with the effects of, say, a negative change in basic service provision or access to remittances.

Therefore policy interventions that seek to move people out of poverty, and have them stay out of poverty, need to address questions of vulnerability. Such an approach requires strategies to advance vulnerable individuals or groups more easily out of their precarious environments or at least enable them cope better with any future negative changes.

2.3 South Africa's demographic challenge

Demographic trends are important in determining the direction of a country's social security system. In countries where population growth outstrips economic growth, the pressures on state centred social protection tend to increase. However, population change itself is not the problem, but rather the manner in which the population changes. In many OECD countries, for example, declining population growth with increasing numbers

concentrated in the higher age groups have placed pressures on health and retirement cover among others.⁵ Where social security benefit systems are designed in part on inter-generational solidarity, such trends raise concerns. Governments' responses to these trends vary with some encouraging birth rates through family and children's allowances and other measures. However, population trends and features that characterise countries in the south (less industrialised countries) differ. In the south, growth trends are higher, populations are concentrated in the younger age categories and life expectancy is relatively low.

Over the past five years, the South African population has grown at an average rate of 2,2 per cent. Currently South Africa's population features by age and gender, depicted in figure 2, reveal a high concentration of the population between the age categories of 0-34 with a higher proportion of women above the ages of 20.

HIV/AIDS will affect population trends and dynamics such as the size, growth and age structure of the population.

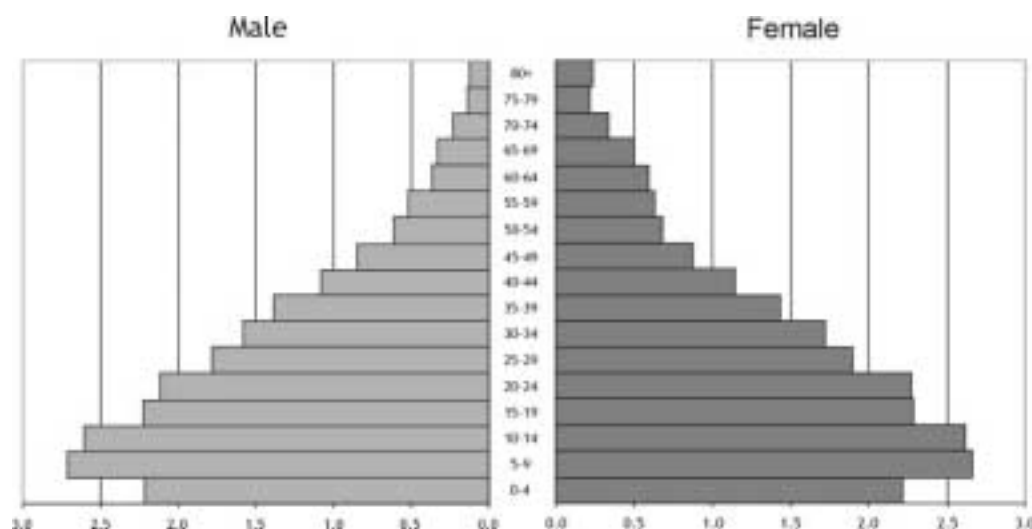
HIV/AIDS is having a profound impact on fertility and mortality rates in South Africa. Life expectancy at birth is also declining. Available information indicates that the average life expectancy at birth in South Africa has already declined from about 63 in 1996 to about 55 in 1999. It is expected to decline even further. There will also be a decline in the number of people in specific age groups, namely 0-4 year olds and 25-34 year olds.

Simultaneously, however, the real number of the old age population in South Africa is increasing rapidly, due to the improved quality of life of people who live through the young adult years of high risk to HIV infection.

The proportion of women in the total population will decline, as women are more vulnerable to HIV infection due to their lower social and economic status, and because of physiological reasons.

As a result of the above, it is expected that HIV/AIDS will impact upon dependency ratios in South Africa. The projected age structure of the population shows that the proportion of the population in dependent age groups, both children and elderly people, will increase considerably in relation to the potentially

Figure 2
Estimate of the South African population
by age and gender (millions of people).



economic active proportion of the population. This, in turn, means that the dependency rate will increase substantially during the coming years, and that there will be proportionally fewer people to care for children and elderly people.

In short, HIV/AIDS will continue to challenge the capability of existing social security programmes to address the increased impoverishment and vulnerability of people.

An important consideration in the design of comprehensive social security for South Africa is the extent to which social security can promote prevention and mitigate the impacts of HIV/AIDS and other chronic illnesses. Critical in this is the increased vulnerability and risk experienced by many because of poverty.

2.4 The structure of the labour force and the employment challenge

2.4.1 The extent of the problem

Unemployment levels have risen almost without pause for the past decade. Apparently accompanying this, at least until fairly recent times, has been a steady loss in formal sector jobs. This latter finding has given rise to an energetic debate, one whose weight can scarcely be borne by the statistics. The September 2000 LFS results record a statistically insignificant increase in

formal sector employment over the February 2000 figures – the February 2001 figures, in turn, record a statistically insignificant decline over the September 2000 figures. It seems that at best, formal sector employment is now roughly static, with gains in those industries where employment is growing being counterbalanced by losses in those where it is shrinking.

In the absence of significant formal sector employment growth, the burden of absorbing the country's expanding labour force falls on the informal sector. It is difficult to construct a coherent time series for informal sector employment. Apart from anything else, the survey instruments used to capture the desired information changed in the middle of the period with which we are concerned (the 1999 October Household Survey [OHS] gave way to the February 2000 LFS). As far as can be determined, once unpaid subsistence agricultural producers have been removed from the picture, employment in the informal sector was roughly constant at about 1,8-1,9 million in October 1999 and September 2000.

Official unemployment figures show that unemployment increased from 2,2 million (19,3 per cent) in 1996 to 4,2 million (26,4 per cent) by 2001. An expanded definition of unemployment increases the figure from 4,6 million (33 per cent) in 1996 to 6,96 million (37 per cent) by 2001 (table 2).

South Africa's employment creation record is presented in table 3. The SEE (a survey of earnings and employment) covers a sample of

formal sector firms. The non-SEE figures are drawn from household surveys, and are discounted by the SEE figures to give an estimate of employment in firms that are not covered by the SEE sample. The findings of these surveys have been controversial.

The areas of the economy covered and in which jobs are reportedly being lost were probably those containing “good” jobs (relatively secure and relatively well-paid). Expanding areas, by contrast, mainly in services, will be creating some “good” jobs (in areas such as financial services), but will also see the growth of many insecure and poorly-paid jobs.

According to table 3 formal sector employment declined from 6,8 million in 1996 to 6,7 million in 2001, a loss of around 100 000 jobs. Over the same period the informal sector grew from 1 million to 2,7 million.

With the economically active population growing by more than half-a-million each year, the outcome depicted in the tables – rising unemployment offset somewhat by rising informal sector employment (mainly in

survivalist activities) – seems inevitable. This, at first sight, and as far as can be ascertained from the official statistics, is the reality with which social security policies have to cope.

2.4.1.1 Youth unemployment

All told, there were some 2,5 million unemployed young people in 1999, 1,4 million women, and just fewer than 1,1 million men. Slightly more than 1,3 million of them are in urban areas; the remainder in non-urban areas face a reality in which economic opportunities are few and far between. The age category 15-19 years contained only about 8 or 9 per cent of the unemployed youth – the others were divided roughly evenly between the two age categories 20-24, and 25-29 years. About 600 000 of the young men, and 700 000 of the women had previously been employed. Those above the age of 25 years who had never previously been employed, more than 860 000, would have been starting to move into the “difficult to place” category – almost half of them (410 000) had already slipped into non-searching status. As may be expected, this tendency is more marked in the non-urban areas.

Table 2
Unemployment in South Africa (1996-2001)

Period	Official unemployment		Expanded unemployment	
	Number (1000s)	Rate (%)	Number (1000s)	Rate (%)
1996	2 224	19,3	4 566	33,0
1997	2 451	21,0	5 202	36,0
1998	3 163	25,2	5 634	37,5
1999	3 158	23,3	5 882	36,2
Feb 2000	4 333	26,7	6 553	35,5
Feb 2001	4 240	26,4	6 961	37,0

Table 3
Employment (1 000s) in South Africa (1996-2001)

Period	Formal sector			Informal sector
	SEE/STEE	Non SEE/STEE	Total	
1996	5 242	1 550	6 792	996
1997	5 139	1 587	6 726	1 136
1998	4 945	1 445	6 390	1 316
1999	4 840	1 724	6 564	1 907
Feb 2000	4 754	1 924	6 678	1 821
Feb 2001	4 676	2 002	6 678	2 665

Note: The formal sector employment figures exclude agriculture.

2.4.1.2 The informal economy

Two sets of changes are driving trends in employment totals in the sector. The first of these, the massive decline in informal agricultural employment (mainly unpaid), has witnessed a decline of almost 850 000. The other big change, that in employment in wholesale and retail trade, has seen 600 000 new workers joining the industry between September 2000 and February 2001. This is difficult to verify. The sudden appearance of 600 000 workers in six months, not to mention the fact that so few observations exist at present, make it difficult to determine with any degree of certainty the trends in the sector.

The Committee notes that whereas almost one quarter of formal sector workers earn R1 000 or less per month, more than three quarters (76,3 per cent) of informal sector workers, and more than 90 per cent of domestic workers are to be found in this income category. Another striking result is the figure of 18 per cent for informal economy workers who receive no income (it was 30 per cent in September 2000). Their condition is relatively easily explained – they fall either into the category “helping without pay in a family business”, or that of subsistence agricultural workers.

Ignoring those working in subsistence agriculture, the earnings of domestic workers are even lower than those of informal economy workers in general – almost two thirds of domestic workers (64,3 per cent) were paid R500 per month or less. With a further 27 per cent being paid between R501–R1 000, that left only 7 per cent earning close to a living wage.

2.5 The apartheid labour-welfare nexus

2.5.1 Income distribution

Governments affect income distribution in indirect and direct ways.

- Indirect ways include labour market and economic policies that shape the growth path (and hence the level and pattern of incomes in society).
- Direct ways include taxation and the public provision of social services (understood broadly to include public education, health and housing programmes) as well as income support (such as old age pensions or unemployment benefits).

Personal income is particularly affected by the combination of labour market and welfare or social policies: the labour-welfare nexus.

The apartheid system discriminated along racial lines, with poor white people benefiting especially. Education, health and housing benefits were biased towards whites, and job reservation ensured that white wage earnings were protected. Labour policies were designed to protect the labour-market position of white workers. The industrial conciliation machinery provided wage protection, job reservation ensured that the least competitive white workers obtained employment, and unemployment insurance was provided on a temporary basis. In this respect, the apartheid state was a racially exclusive variant of the Australian “wage-earners” welfare state, i.e. a welfare state that sought to ensure a certain standard of living for Australians as wage earners rather than as citizens.¹²

By contrast, black South Africans were subjected to extensive labour-market discrimination and disadvantage. Inferior education, influx control, the Group Areas Act and a range of other instruments undermined black incomes and consequently their social development. Given the chronic labour shortages that plagued low-wage sectors (notably agriculture and mining) during the post-war period, the apartheid state was averse to providing any alternative means of subsistence for African job seekers. Instead, it relied on coercive labour legislation to channel (mostly unskilled) African labour where it was needed most.

In contrast to its limited welfare coverage of the working-age population, the Government provided a universal (albeit racially discriminatory) welfare net in the form of the old age pension. This proved to be an important lifeline for poor African families, particularly from the 1970s onwards, as unemployment rose and as the real value of the pension increased. The Committee calculates that limited redistribution from white to black South Africans probably occurred through patterns of Government taxation and expenditure (see table 4). In other words, even under apartheid, the final distribution of income was significantly more egalitarian than the market distribution of income.

The development of the labour-welfare policy nexus under apartheid reflected the changing

class interests of powerful white constituencies. The massive investment in public education for white children in the 1950s and 1960s resulted in white workers securing the skills that enabled them, in the 1970s and 1980s, to command high incomes in free labour markets. This largely removed their dependence on direct state interventions (such as job reservation through the “colour bar”). As labour market regulation was de-racialised, the wage-setting machinery was extended to the African working class. Essentially apartheid social welfare for whites was based on a combination of income (cash) measures through job reservation and other forms of assistance and in kind benefits through education, health and housing to name a few. This could be characterised as a state-driven or institutional approach to social policy for whites.

Despite the decline in discrimination, inequality remained stubbornly high. In the last year of apartheid (1993), the poorest four deciles (40 per cent) of households, equivalent to 52 per cent of the population, accounted for less than 10 per cent of total income. While the richest decile (10 per cent) of households, equivalent to just 6 per cent of the population, captured well over 40 per cent of total income.

High and persistent inequality is one of the enduring legacies of apartheid. But its determinants shifted over the apartheid period. Whereas inequality was initially driven by the gap in racial incomes, this situation changed over time as African workers advanced up the occupational ladder and as unemployment increased. By the end of apartheid, the gap between the incomes of the employed and the unemployed had become a significant driver of inequality.

A range of economic factors contributed to the rise in open unemployment from the mid-1970s onwards. These included:

- The slowdown in economic growth from just under 6 per cent per annum in the 1960s, to 1 per cent per year in the 1980s
- Capital-intensive strategic investment by the state
- Policies to replace labour with capital in agriculture
- Tax breaks for capital investment
- The coincidence of negative real interest rates and rising wages in the in the 1970s and early 1980s.

By the end of the apartheid period, the economic structure had shifted away from absorbing large quantities of unskilled labour, and open unemployment had become a permanent feature of the socio-economic landscape.

2.5.2 Inequality at the end of the apartheid era

At the dawn of South Africa’s new democracy, there was still a clear correlation between race and household income (see figure 3). Affirmative action policies are designed in part to address this legacy of apartheid.

However, by the end of apartheid, intra-racial (class) inequality was contributing more to overall inequality than inter-racial inequality. The contribution of “within-group” inequality to total inequality rose from 38 per cent in 1975 to 58 per cent in 1991 and to 67 per cent in 1996.

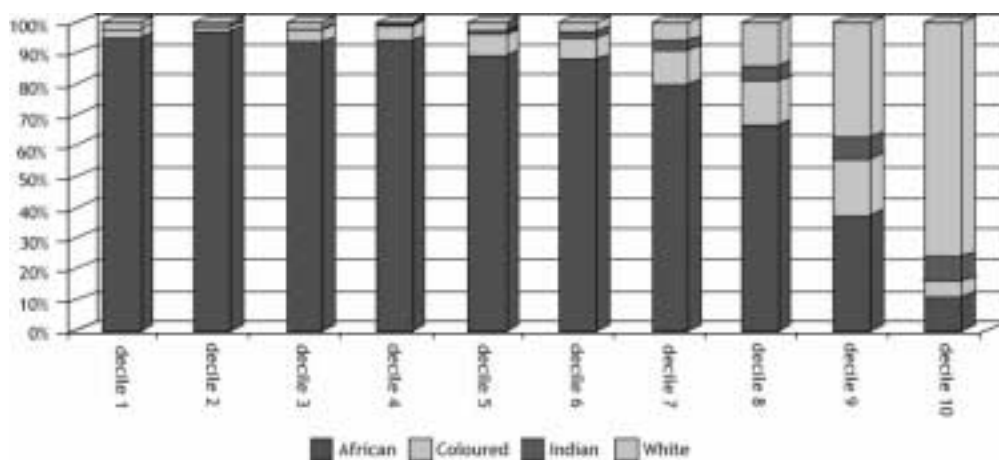
Figure 4 shows the composition of mean household income for each income decile – in other words, the sources from which the

Table 4
Racial income and population shares (1970–1996)

	Share of total income				Share of population			
	1970	1980	1991	1996	1970	1980	1991	1996
African	19,8%	24,9%	29,9%	35,7%	70,7%	72,4%	75,2%	76,2%
White	71,2%	65,0%	59,5%	51,9%	17,0%	15,5%	13,5%	12,6%
Coloured	6,7%	7,2%	6,8%	7,9%	9,4%	9,3%	8,7%	8,6%
Asian	2,4%	3,0%	3,8%	4,5%	2,9%	2,8%	2,6%	2,6%
Total	100%	100%	100%	100%	100%	100%	100%	100%

Note: Totals may not add up to 100% due to rounding.

Figure 3
Income deciles by race, 1993.



average household in each decile received its income. The bottom, or poorest decile, received most (48,5 per cent) of its income from remittances (including monetary remittances and remittances in kind, for example in the form of food). Old age pensions were very important to deciles 2 through 4. For every decile from the fourth up, wages comprised by far the most important source of household income.

- The top five deciles were heavily dependent on wages from regular employment. The top, or 10th, decile supplemented its wage income (64,5 per cent) with small but significant incomes from agriculture (6,8 per cent), self-employment (6,7 per cent) and income

from capital (12,1 per cent).

- Government old age pensions were of minimal importance to the top decile (at less than 1 per cent). The lower, poorer deciles relied more heavily on remittances and old age pensions.
- Income from agricultural production was of little importance, except to the top decile (which included high-income, capitalist farmers) and the bottom decile (where the incomes were so low that even R8 per month from smallholdings was an important contribution to the decile's income).
- Old age pensions were the most important public transfer payment.

Figure 4
Composition of household income, by income decile and source (%).

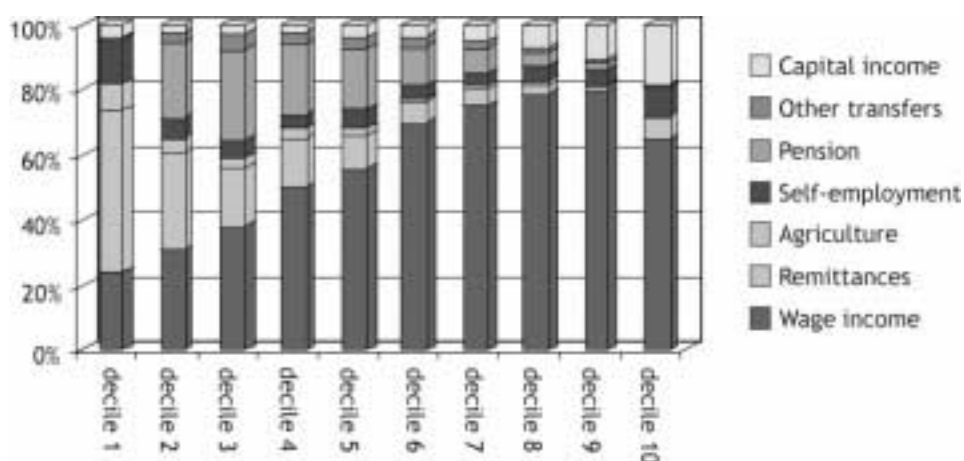
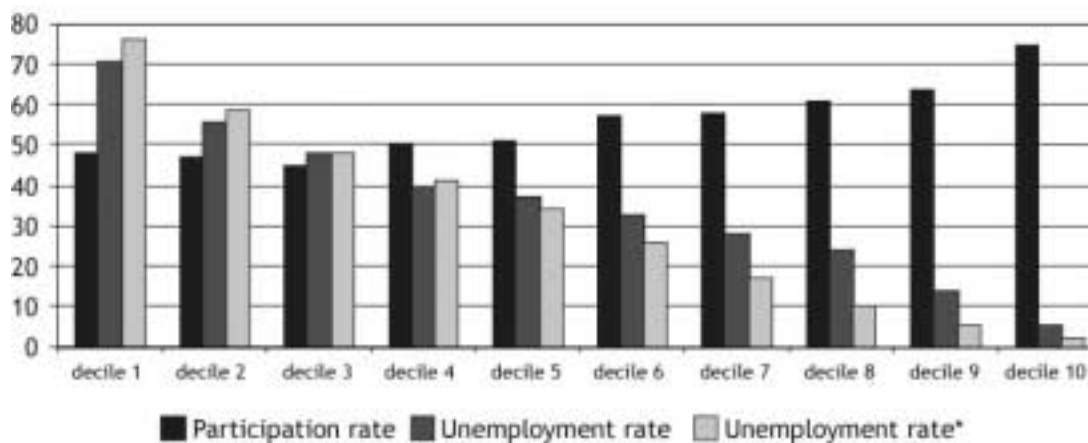


Figure 5
Participation rates and broad unemployment rates by income decile (1993).
 (Lower income households have less access to the labour market.)



2.5.3 The importance of public transfers

Figure 5 testifies to the continuing importance of transfers in South Africa. The scale of private inter-household transfers, i.e. remittances, reflects the continuing importance of migrancy. One-third of all African rural households in 1993 had members who were migrant workers. The scale of public transfers, in the form of the Government old age pension and other forms of welfare, reflects the expansion of the public welfare system since the 1980s.

As shown in figure 4, over a quarter of household income in the second and third deciles came from state old age pensions. Indeed, the presence of an old age pensioner in a household was often the main reason for lifting households out of abject poverty. Remittances were a further important source of income – although, overall, they were much less important than Government old age pensions, contributing less than 4 per cent of total income to pensions’ 12 per cent (figure 4). Not all remittances came out of wages – there were cases of pensioners

Table 5
The redistributive effects of public transfers (1993)

Income decile	Distribution of public transfers received (%)		Incidence of taxation on the poor (%)		Net transfer through taxes and public welfare (%)	
	Low	High	Low	High	Low	High
1	0	+7	-2	-3	+5	+4
2	+7					
3	+12	+26	-2	-4	+23	+22
4	+13					
5	+15	+29	-4	-5	+25	+24
6	+14					
7	+12	+23	-11	-12	+12	+10
8	+11					
9	+9	+15	-80	-76	-65	-61
10	+6					
Total	100	100	-100	-100	0	0

sending a share of their pension to family members living elsewhere – but it is safe to assume that most remittances came out of wage income.

Table 5 provides information to assess the redistributive effect of public transfers, i.e. the transfer of resources from taxpayers to old age pensioners and the recipients of other non-contributory welfare payments (primarily disability and child maintenance grants). The first column shows the distribution of public transfers, by decile. *Clearly evident in this column is the fact that the lowest income deciles, those in destitution, receive the lowest share of public transfers.* Once again, this demonstrates the perverse effects of ineffective means testing – the exclusion of a significant number of the poorest households from public transfers.

The second column shows the incidence of taxation. The final column shows the net transfer of resources through taxation and public welfare.

2.5.4 Access to wage income

Poverty and inequality in South Africa are rooted in the labour market: in part in low wages, and in part in very high rates of unemployment. Whereas inequality until the 1970s was determined largely by the gap between white and black incomes, inequality in the 1990s is primarily driven by: (a) inequality within the distribution of wages, and (b) by the fact that 30 per cent of households had no wage income at all. In other words, households in the lower echelons of the income distribution are those with no access to the labour market (the very poor) or with low-paying jobs.

Participation and broad unemployment rates by decile in South Africa are shown in figure 4. The participation rate corresponds to the proportion of adult household members participating in the labour force, and the unemployment rate corresponds to the proportion of the labour force that is unemployed. Both rates are presented here using an expanded definition of unemployment, which includes people who are not actively looking for jobs because they believe there are none available (i.e. the “discouraged” unemployed).

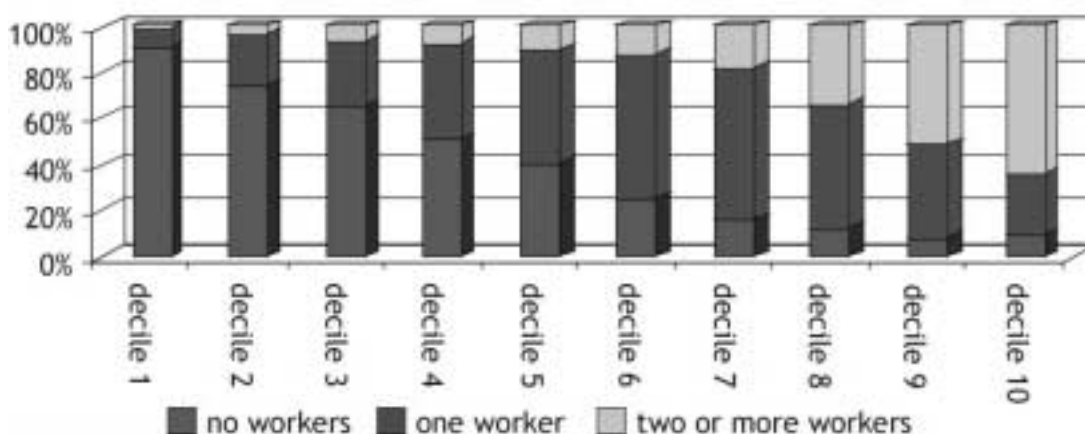
There is a clear and close correlation between unemployment rates and income. This can be seen in Figure 5. However, not only are poor households likely to have more unemployed adults than richer households, but they are also likely to have more adults who said they are not available for work (and hence are defined outside the labour force). Figure 5 shows that labour force participation rates rise steadily up the income deciles. The dual correlation between unemployment and income, and labour force participation and income, suggests that low-income households are significantly marginalised from the labour market.

Because low-income families tend to be larger than high-income families, the link between unemployment and poverty is stronger when income deciles are calculated on a *per capita* basis, as shown in the third bar in each set (unemployment rate*).

The incidence of employment is shown in a different way in figure 6. This shows the proportion of households in each income decile according to the number of household members

Figure 6
Employment per household by income decile.

(The number of workers increases with household income.)



in employment. A majority of households in each of the bottom four deciles have no members in employment. At the opposite extreme, a majority of households in each of the top two deciles have two or more members in employment.

The link between lack of employment and poverty is particularly strong in South Africa. In the OECD, the proportion of households in the bottom quintile without any members in employment is 42 per cent, with figures ranging from 21 per cent in Luxembourg, to 65 per cent in Ireland and 74 per cent in Finland. In South Africa, the corresponding figure is 83 per cent. This contrast is all the more striking when one considers that most jobless households have access to income support in the OECD, whereas this is not the case in South Africa.

Although participation rates are low and unemployment rates high in the lower deciles, those deciles nonetheless include a significant number of low-paid workers.

- About 30 per cent of employed workers are in households in the bottom five deciles. These workers are predominantly farm workers and, to a lesser extent, domestic workers.
- Only 13 per cent of manufacturing workers are in households in the bottom five deciles. Fully 77 per cent are in the top four deciles.
- Mineworkers are distributed more widely, with the largest numbers in deciles 4-7.
- In terms of occupation, people in professional, technical, managerial and administrative jobs are unsurprisingly in households in the top two deciles.
- Most machine operators and similar semi-skilled workers are in deciles 6-9.
- Unskilled labourers are spread across deciles 4-8.

In short, access to the labour market is an important determinant of inequality. Whether an individual has a job, or what kind of job he or she is able to get, plays a crucial role in determining their position in the income distribution. Labour-market institutions (bargaining councils and the Employment Conditions Commission) protect the incomes of wage-workers. Those who do not have jobs, however, enjoy no such income support.

2.5.5 Wage inequality

During the apartheid era, racial discrimination was an important determinant of wage

inequality. The contribution of racial discrimination to wage determination declined significantly between 1980 and 1993, dropping from 20 per cent to 12 per cent of the African wage. The racial wage gap is now predominantly explained by factors other than discrimination, such as differences in education and skill, location (urban or rural), and economic sector. African workers have the lowest educational qualifications, live predominantly in rural areas, and have the highest concentration in low-paying sectors such as agriculture. Education is particularly important, with an estimated half of the difference in racial earnings attributed to differences in educational qualifications.

Despite the decline in racial discrimination and in the wage gap between white and African workers, overall wage inequality has not declined. This is because within-race wage inequality rose as between-race inequality declined. The increase in wage inequality amongst Africans was in part the result of increased occupational mobility. There was a significant movement of Africans up the occupational ladder, with the proportion in the labourer and semi-skilled categories dropping from 57 per cent in 1980 to 38 per cent in 1993. As the number of Africans in higher-paying occupations increased, so the gap between high- and low-paid African workers increased, thus widening wage inequality.

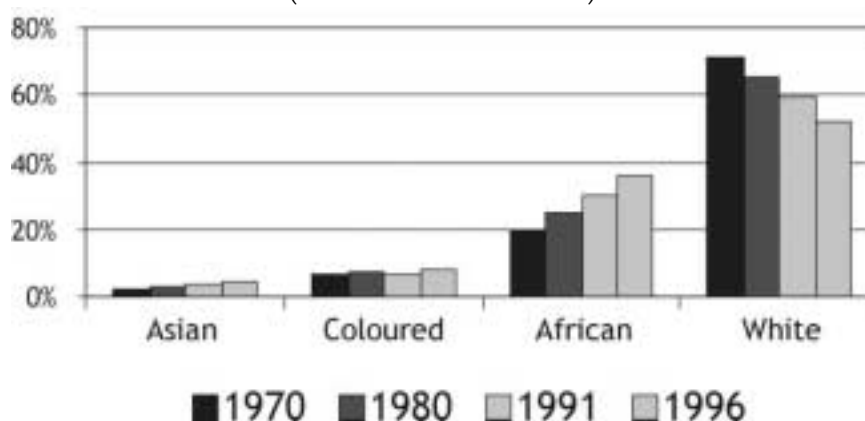
Union membership appears to benefit those at the bottom end of the wage distribution the most. By boosting the incomes of low-paid workers relative to higher-paid workers, the trade union movement would thus have acted to narrow the wage distribution in the unionised sector. But whether these efforts served to narrow the overall distribution of household income, however, is another matter (as the gap between unionised and non-unionised wages would have grown, and to the extent that job shedding occurred, the gap between the employed and the unemployed would have widened).

2.6 Changes in inequality in the 1990s

The distribution of income appears to have become more unequal between 1991 and 1996. The income share of the top decile increased from 52,3 per cent to 53 per cent, whereas that of the poorest 40 per cent dropped from 3,8 per cent

Figure 7
Shares of income by race (1970-1996).

(Racial shares of income.)



to 3,4 per cent. This resulted in the Gini-coefficient rising from 0,68 to 0,69. However racial income differences narrowed between 1991 and 1996. The share of total income received by African people rose from 29,9 per cent to 35,7 per cent, whilst the share received by white people fell from 59,5 per cent to 51,9 per cent. The steady decline in the share of total income received by whites in the face of the steady increase in that received by Africans from 1970 to 1996 is depicted in the figure 7.

Average incomes *per capita* among African people rose by 4,1 per cent per year, whilst incomes *per capita* among white people fell by 0,7 per cent per year. Figure 8 depicts household

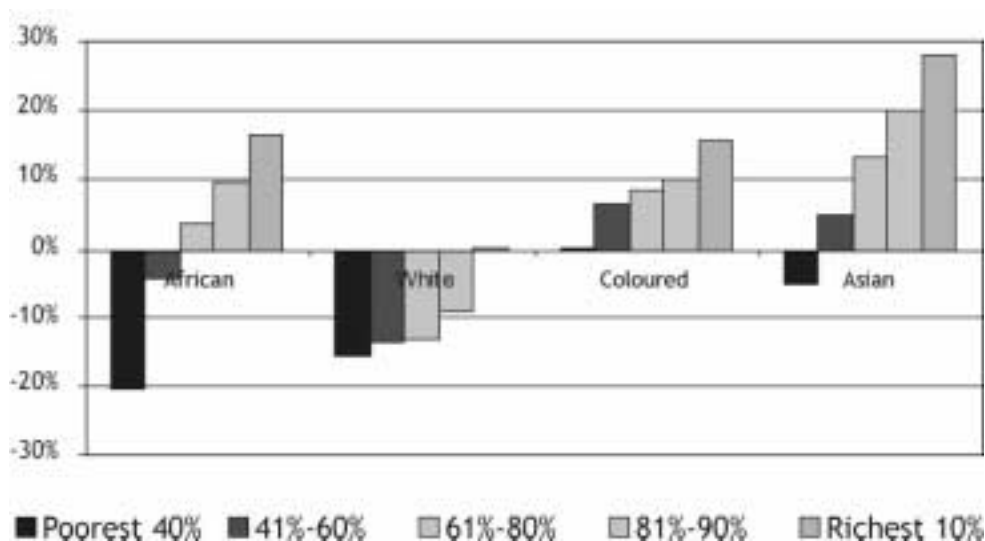
income growth by economic group within race. In 1991 only 9 per cent of the top or richest income decile were African. In 1996 the proportion had risen to 22 per cent.

2.6.1 Intra-racial inequalities

At the same time as inter-racial inequalities were declining, intra-racial inequalities were continuing to grow.

- The Gini-coefficient for income distribution among African people rose from 0,62 to 0,66 and among white people from 0,46 to 0,5.
- The incomes of the richest 10 per cent of

Figure 8
Growth of household income by race (1991-1996).



African households rose by 17 per cent, whilst the incomes of the poorest 40 per cent of African households fell by 21 per cent.

- Overall, relatively poor African and white households experienced absolute declines in their income, whilst relatively rich African, coloured and Indian households saw big income gains.

The real winners in terms of rising incomes were the better off African and Asian households. Of the total real increase in income between 1991 and 1996, 40 per cent went to the richest 10 per cent of African people, and a total of 62,5 per cent went to the richest 40 per cent of African people. The poor majority of African people barely benefited at all.

These findings are broadly corroborated by data from the KwaZulu-Natal Income Dynamics Study (KIDS). KIDS entailed tracing and re-interviewing in 1998 the African and Indian households in KwaZulu-Natal that had been interviewed in 1993 as part of the PSLSD survey. KIDS found that the proportion who were poor had risen from 35 per cent to 42 per cent, and that a greater proportion of households were in the lower end of the income distribution in 1998 than in 1993. At the same time, the proportion of rich people had also grown. Both trends contributed to a rise of 4 percentage points in the Gini-coefficient between 1993 and 1998.

2.6.2 The growth/ inequality debate

It is axiomatic that the greater the degree of income inequality, the higher the growth rate required to reduce poverty. The difficulties of generating sustained and sustainable growth rates high enough to reduce poverty at an acceptable pace have started to attract increasing attention in recent times. The Committee conducted an extensive survey of the international literature into this question, and constructed a simple model to compare the impacts of different growth strategies on the incomes of the poor. The model's results confirm findings reported in other studies – modest and sustained redistribution, even under conditions of relatively slow growth, does much more for the poorest of the poor (the bottom three deciles of the income distribution) than does fast “trickle down” (distribution neutral) growth.

This finding, coupled with the finding that

some substantial proportion of the unemployed probably fall into the category of “difficult-to-place”, and coupled as well, with the fact that earnings for most of those catapulted into the informal sector are very low, prompts the Committee to recommend a re-evaluation of the balance of resources devoted to poverty reduction.

Even if the only target were the elimination of destitution, redistribution can achieve this much faster than sustained trickle-down economic growth. The strong likelihood is that grants will do more than merely alleviate poverty.

In many households, the guarantee of a minimum consumption level will enable household members to engage in the risk-taking behaviour so necessary to the generation of additional income.

2.7 Poverty in South Africa

2.7.1 Recent evidence on poverty in South Africa

New evidence of changes in poverty emerges from the preliminary results of a study that looks at socio-economic conditions in households containing no workers.

- In 1995, Statistics SA reported that: 32 per cent of African households (a minority of which are pensioner households) were “workerless” (contained no employed people).
- By 1999, that percentage had risen above 38. Translated into numbers of households, the data suggest that whereas there were about 1,9 million African workerless households in 1995, that number had risen to 3,1 million by 1999.⁴ Only a few of these were “true” pensioner households, i.e. households in which the pensioner did not have to share a pension with other household members.
- Of approximately 210 000 African households in which there was no working age person present (many of them so-called “skip generation” households), about 182 000 of them spent, on average, less than R800 per month.

2.7.2 What is the level of poverty in South Africa?⁵

If a single set of statistics can disclose the extent of poverty in South Africa, it may be this – of the approximately 717 000 live births in 1999 that

can be sorted by household expenditure category, about 176 000 took place in households where total monthly expenditure was between R0 and R399. A further 231 000 babies were born into households where monthly total expenditure lay between R400 and R799. Into the next income class, R800 – R1 199 per month, some 119 000 babies were born. Accounting for almost three-quarters of the total, their prospects are bleak.

About 11 per cent of households with children under 7 went hungry in 1999 due to lack of money to buy food. Another 2,3 million households with people aged 7 years and older went hungry due to an inability to purchase food. The percentage of households reporting hunger in 1999 was 21,9 per cent.

Malnutrition remains one of the biggest contributors to child morbidity and mortality in South Africa. According to the national Food Consumption Survey of 1999, nearly 20 per cent of children aged 1-9 are affected by stunting, which is by far the most common nutritional disorder in South Africa. Around 23,3 per cent of children 1-6 are stunted.

Depending on which poverty line is used, researchers put the number of South Africans living in poverty at anywhere between 45 and 55 per cent (figure 9). Despite existing measures to address the various dimensions of poverty the reality is that, depending on the poverty line used, about 20-28 million citizens are living in poverty. The incidence of poverty differs between the different provinces. In all estimates the Western Cape and Gauteng have the lowest rates of poverty, and Mpumalanga, the Eastern Cape and the Northern Province the highest rates.

2.8 Addressing the challenges of social security reform in a democratic South Africa

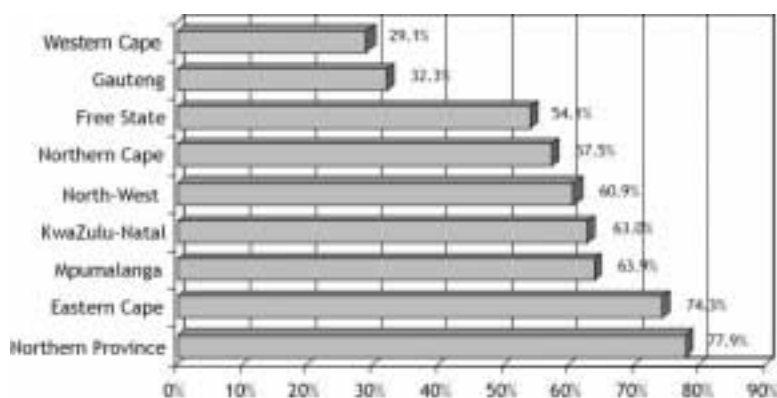
The distribution, extent and characteristics of social exclusion in South Africa have a definite material and structural basis. In short, the economic aspects of social exclusion are linked to the inability to command a sufficient flow of resources to avoid growing inequalities and to prevent deprivation – be it nutritional, medical, in terms of shelter, or a lack of full participation in society.

2.8.1 Inequalities in the distribution of wealth

There are five broad categories of economic flows reflecting different economic positions in an economy. These include income derived from owning property, income received in terms of salaries and wages, economic resources mobilised through subsistence and household activities, transfer payments received from private or Government sources and self-employment. Each of these categories is intimately connected to a set of economic relationships that define and structure a modern capitalist economy. Exclusion from, or marginalisation within, these sources of economic resource flows greatly increases the risk of poverty.

A key factor in South Africa is the skewed distribution of economic assets. Apartheid was central to this skewed distribution, driving the social exclusion of the majority and social

Figure 9
Percentage of population in poverty.



inclusion of the minority. In particular, the apartheid regime constructed citizenship and subject rights to determine which groups would have access to what level of social protection depending on their functionality to the racially constructed economic and social system.

The following are all examples of apartheid measures, which excluded the majority of people.

- The Land Act of 1913, which confined the land area that Africans could legally own or rent to 13 per cent of South Africa
- The 1913 Mines Act, which contained the first of many job reservations policies
- The Urban Areas Act of 1945
- Coloured Preference Policy
- The Group Areas Act of 1956, which restricted African access and African economic activity in the urban areas.

White South Africans were from 1924 onwards given substantial protection against poverty and vulnerability, partly by measures to exclude black South Africans referred to above, and partly by the introduction of social and economic policies similar to those adopted in the social democratic countries of Europe. Black South Africans were generally either excluded from these positive measures, or were protected to a much lesser extent than the white counterparts. For example, substantial maintenance grants were paid to single mothers with low income, but not if they were African.

Over the last few decades of the 20th century, blacks began to gain access to work related benefits and social insurance institutions primarily due to increasing unionisation and political pressure. This formed an important pressure that precipitated the breakdown of the citizenship/subject relationship underpinning the apartheid regime.

As democracy approached, the expectations of the excluded majority increased in regard to the role of the post-apartheid state in ensuring redress, employment and development. However, the apartheid regime, seeking to pre-empt effective post-apartheid intervention, sought to push through various pieces of legislation loosening the grip of Government over social and economic policy. In some instances they were successful (such as deregulating aspects of private healthcare and food production). In other areas, such as broader economic policy, social resistance

manifested through mass mobilisation and the establishment of tripartite socio-economic forums restrained them.

2.8.2 Shortcomings in the South African social security system

First, regarding non-contributory social assistance, there are large gaps resulting in a large proportion of the poor being excluded, and those who are uncovered are often not given appropriate support.

The Social Assistance Act covers the following categories of people:

- **Aged** Women over 60 years of age, and men over 65 years of age receive a state old age grant of R570 per month. This grant is the largest current social security transfer in the country, and, for those elderly persons who receive it, the grant plays a pivotal poverty alleviation role for the entire household.
- **Disabled** There is a disabled grant of R570 per month for medically-diagnosed disabled persons over 18 years of age. This grant is a *de facto* poverty grant, as 77 per cent of recipients are also in poverty.
- **Foster care** There is a grant of R470 per month for caring for foster families caring for children under 18 years of age.
- **Care dependency grant** There is a grant of R540 per month for parents of a disabled child (0-18) who requires care at home by another person. Thereafter application must be made for the adult disability grant.
- **Child support grant** There is a child support grant of R110 per month, paid to the primary caregiver, for children under seven years of age. This grant has been afflicted by a slow take-up rate, with only 25 per cent of the targeted group receiving the grant three years after implementation.

The following categories remain uncovered by social assistance:

- **Children** 75 per cent of poor children below seven years of age do not get the child support grant. All children over seven do not get any support. Finally, all children without primary caregivers, and child-headed households (which are in the increase) do not get any grant.

- **Disabled** Those with a chronic illness but who do not meet the strict medically based criteria are excluded. Thus if the disability is not medically complete, but does prevent that person from carrying out their trade, they would not qualify for the grant.
- **Unemployed** The UIF covers only 5 per cent of the unemployed. Therefore excluding those unemployed getting disability and childcare related grants, about 5 million unemployed people are without any form of income support from the social security system.
- **Poverty** Those with incomes below the poverty line, including working poor, are without any social security transfers. Currently about 60 per cent of the all the poor, or 11 million people, are uncovered.
- **Non-citizens** While the Constitution in S27 (1) (c) states that “everyone” has a right to social security, current social assistance mostly excludes non-citizens. In this regard, there will probably be constitutional pressure to ensure all people (including illegal immigrants) have access to certain basic services (such as emergency healthcare), and full access to certain categories such as refugees.

In short, there are large gaps and inadequacies in the social assistance system.

Second, regarding contribution-funded social insurance and regulated private schemes, these, too, cover a relatively small number of the population. Moreover, the increasing numbers who fall outside of the formal sector undermine the scope of social insurance’s contribution base, further limiting the system. In addition, there are internal distribution inadequacies within social insurance that provides the most vulnerable workers with a smaller share of benefits. The better paid generally seem to secure the largest share of benefits. Furthermore, some of the most vulnerable workers are often legally excluded from the system.

- The limited nature of the publicly provided benefits means that social security costs are, *de facto*, passed onto employers. This has increased non-wage costs in the economy. This acts as a disincentive for direct employment, that is, the

employment of regular workers. The increase in indirect employment (including casualisation), and the stagnation of net permanent jobs, is partly the result of employers trying to avoid these non-wage costs.

- The growth of employer-linked benefits necessarily excludes a significant share of the population. The unemployed, informally employed and many temporary workers have no access to these benefits. A current legal framework that cannot cope with the changing forms of employment aids this. In the South African situation this forces the non-wage costs to be higher still, since workers require more to support many unemployed persons (with no benefits) in their household. Consequently, this contributes to upward pressure on workers’ remuneration. This extreme pressure on the breadwinner effectively undermines any worker support for labour flexibility – since loss of employment equals loss of income.
- Private-provision schemes are contributing to escalating costs of services. Healthcare is a primary example of this. South Africa spends, including both public and private expenditure, about almost twice on health than considered necessary by the World Health Organisation – all this for relatively inadequate public and private service. The national overspend derives primarily from the cost-intensive private medical scheme environment that has created perverse incentives for over-servicing by private providers (who are paid on a fee-for-service basis), excessive administrator profit-taking and undermined consumer protection. The relatively high levels of expenditure is due to most health spending going towards the well resourced, private health sector which caters for only 15 per cent of the population.
- Profit-driven provision of services has often been accompanied by a removal of cross-subsidies to those unable to afford services. There is a tendency to “cherry-pick” high-income, low-risk groups that accordingly increases the difficulty of funding publicly provided social services through contributions.

2.9 The challenges

The inadequacy of current interventions, in a context of persistently high risk and deprivation, has contributed to several growing and, potentially, unsustainable challenges. The most important of these are the following:

- ***The wage-income relationship is breaking down*** — High unemployment, including the massive net loss of formal sector jobs, and growing shift towards so-called “atypical” work, has reduced the incomes of the poor. Historically, the working poor have supported the poor and unemployed via remittances and intra-household transfers. However, this relationship between formal sector wages and household incomes has declined due to the considerable loss of net formal jobs, and the downward qualitative shift in formal employment being created. In this period, there has been a decline in the incomes of the poorest 40 per cent.
- ***The state is vulnerable to Constitutional Court challenges*** — The Constitutional Court, in its *State v. Grootboom* judgement, has increased pressure on the state to put in place a coherent and comprehensive programme for progressively realising the constitutional obligations. This requires devising, formulating, funding, implementing and constantly reviewing relevant measures. The *Grootboom* judgement opens the way for further constitutional challenges against the state on the basis of not complying with the Constitution’s Bill of Rights. It should also be noted that the Constitutional Court has the power to enforce socio-economic rights, with direct implications for budgetary matters.
- ***The impact of AIDS will exacerbate poverty and inequality*** — Research conducted for the Department of Health indicates that there will be 5,5 million people infected with HIV/AIDS by 2004, and the impact will be increasingly felt in society. The impact is apparently already evident on social service institutions (mainly public healthcare). This will increase downward pressure on households and household incomes, and could significantly undermine the country’s medium- to long-term economic growth and social

development potential.

- ***The racially differentiated composition of public service users reinforces apartheid-style prejudice*** — The poor (mainly black) are dependent on strained public services. The rich (mainly white) make use of private services. This contributes to a lack of racial tolerance and understanding, and undermines social solidarity.
- ***Delivery of key services is affected by inability of poor to pay for inclusion*** — More people have access to important basic service such as telecommunications, water and sanitation, electricity, housing, and primary healthcare. While these have been hard fought gains, this extension of services has been undermined by an inability of the poor to afford payment.⁶
- ***Poverty-related increase in crime and social instability*** — This is potentially undermining to legitimacy of new democracy, and investment strategies. Levels of crime remain far too high, and include an increasing incidence of domestic violence. This reflects the underlying causality of poverty and the resulting depressed aspirations among the poorest in society.
- ***Social development/investment backlogs are now widely recognised as barriers to economic growth and development*** There is growing recognition among international financial and credit rating institutions, national Government and domestic social formations, that insufficient social investment and social development backlogs are a primary barrier to the achievement of sustainable levels of economic growth and development.

The findings in this chapter are based on the political economy of South Africa’s social security system and the challenges posed by some of its key features. The demographic trends and impacts of poverty, HIV/AIDS and other chronic illnesses as well as unemployment in the formal sector reinforce the need for a comprehensive approach to social security.

Furthermore, existing levels of poverty have reached unsustainable levels, and left unattended have the potential to reverse democratic gains achieved since 1994. The urgent need to address deepening social exclusion and alienation of

those households living in destitution cannot be ignored. A redesigned social security system has to respond to the constitutional, democratic and human development imperatives that provide the framework for transformation.

