TABLE OF CONTENTS

Committee Report No 2: The socio-economic context: An imperative for social protection......6

2.1 Introduction 6
2.2 South Africa's Demographic Challenge 6
2.2.1 The impact of HIV/AIDS......7
2.2.2 The apartheid labour-welfare nexus Governments affect income distribution in indirect and direct ways. 8
2.2.3 Inequality at the end of the apartheid era......10

2.3 The importance of public transfers......12
2.3.1 Access to wage income 13
2.3.2 Wage inequality......16

2.4 Changes in Inequality in the 1990s......16
2.4.1 Intra-racial inequalities 18
2.4.2 Unemployment during the post-apartheid period 18
2.4.3 The restructuring of employment......19
2.4.4 New evidence on poverty in South Africa 20

2.5 The challenges of Post-apartheid social policy reform......21
2.5.1 The old-age pension 21
2.5.2 Child support grants......22
2.5.3 The private sector......23

2.6 Findings and Recommendations......24

APPENDICES......26

REFERENCES......28

LIST OF FIGURES

Figure 2.1 Estimate of the South African population by age and gender (millions of people)....7

Figure 2.2 Income deciles, by racial/population group, 1993. 11

Figure 2.3 Composition of household income, by income decile and source (%)....11

Figure 2.4 Participation rates and broad unemployment rates by income decile (1993) 14

Figure 2.5 Employment per household by income decile 15

Figure 2.6 Shares of income by race—(1970-1996) 17

Figure 2.7 Growth of household income by race (1991-1996) 17

Figure 2.8 The decline in employment in mining and agriculture 20

Figure 2.9 Nominal and real value of the old-age pension 22

Figure 2.10 Poverty incidence by province 23

Figure 2.11 Inter-relation between structural changes in the economy, employment and poverty 25

LIST OF TABLES

Table 2.1 Racial income and population shares (1970–1996) 9

Table 2.2 The redistributive effects of public transfers (1993) 13

Table 2.3 Unemployment rates during the 1990s 19

Committee Report No 2

The socio-economic context: An imperative for 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. Means-tested child-support grants and old-age pensions are now available to all on a non-discriminatory basis—but those who cannot find work (and who do not, or no longer, qualify for Unemployment Insurance Fund (UIF) payments) fall through a vast hole in the social safety net. The social security system needs to be adapted to fit this reality.

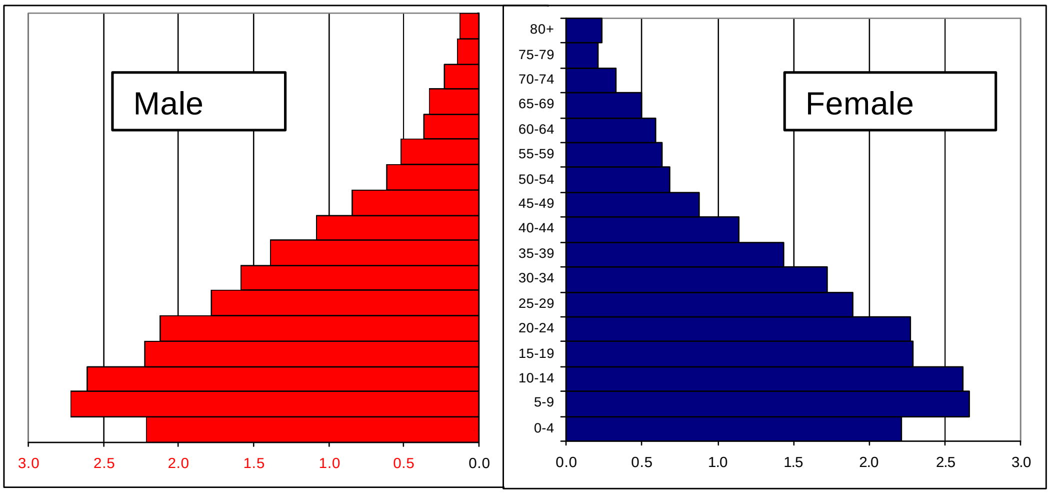
This chapter outlines an analysis of the socio-economic context within which the Committee of Inquiry formulates its recommendations for a reform of the social security system. It points to the changing nature of inequality in South Africa and shows that the current safety net needs adapting to suit today's labour-surplus economy. Ideally, people should be able to earn a living through employment rather than rely on welfare transfers. The government's macroeconomic strategy aims to push the economy onto a sustainable growth path that will generate jobs. However, given the apartheid backlogs, 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. South Africa's labour policies (which protect wages and promote skills development and productivity growth) must thus be accompanied by social policies that provide a social safety net or social protection for the unemployed, the marginalised and socially excluded.

2.2 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 growth itself is not the problem. It is the features of either population growth or decline that make up the overall trends that impact on social security systems. These features could include the age, gender and spatial distribution of the population. 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.[1] 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.[2]

Over the past five years, the South African population has grown at an average rate of 2,2 per cent.[3] Relative to population growth, economic growth, especially job-creating growth, does not compare well. This has significant implications for the design of social security, particularly of the contributory kind. Moreover, South Africa's population features by age and gender, depicted in figure 2.1, reveal a high concentration of the population between the age categories 0-34 years with a higher proportion of females between the ages of 66-80 years.

Figure 2.1 Estimate of the South African population by age and gender (millions of people).



Source: October Household Survey (1999)

2.2.1 The impact of HIV/AIDS

Among the key variables that impact on demographic trends are mortality and fertility rates. South Africa, in common with other countries in sub-Saharan Africa is experiencing an unprecedented rate of increase in HIV/AIDS. The social and potential economic impacts of HIV/AIDS pose an enormous challenge to South Africa's social security system. The most recent demographic analysis documents state that the impact of AIDS deaths will reduce population growth rates to close to zero by 2010. While the population rises to 49 million in 2010, the rate of growth will be minimal. Projections indicate that HIV prevalence peaks between 2007 and 2009, and then subsequently falls. AIDS morbidity and mortality, however, continue to rise for years thereafter, with over a million deaths a year from AIDS by 2010.[4] This analysis confirms the predictions of repeated modelling exercises and demographic studies. "The projections show that, without treatment to prevent AIDS, the number of AIDS deaths can be expected to grow, within the next 10 years, to more than double the number of deaths due to all other causes, … in South Africa by 2010".[5]
HIV/AIDS is dramatically altering the age profile of the South African population. Projections for the year 2010 demonstrate the conventional pyramid shape, depicted in figure 2.1. Modelling the impact of HIV/AIDS, however, documents an ageing population rapidly losing the social and

economic support of its most productive members. The most recent South African Government-sponsored report corroborates this trend and finds "a steady increase in adult mortality during the 1990s. The mortality of young, adult women has increased rapidly in the past few years with the mortality rate in the 25-29 year range in 1999/2000 being some 3,5 times higher than in 1995".[6]

Such demographic changes lead to a steady ageing of the population -- much more rapidly than in the absence of HIV/AIDS.

These demographic changes have a profound impact on the life cycle and social support systems. Research for example, projects an increase in the number of children orphaned rising to nearly two million in South Africa by the year 2010, up from 158 000 in the year 2000.

Another recent study, using the Metropolitan Life Doyle model, projects an even greater number of orphans.[7] Children live disproportionately in rural areas and are more likely to be poor. Although the South African population is roughly evenly split between rural and urban, approximately 70% of the poor are located in rural areas.[8] 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. The next section examines how South Africa's apartheid labour welfare nexus contributes to the risks and vulnerabilities experienced by the majority of poor people.

2.2.2 The apartheid labour-welfare nexus 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. [9] This trend is still evident when viewed against the disparities in the racial shares of income and poverty and the population, as can be seen from table 2.1 and figure 2.2.

Table 2.1 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%

Sources: 1970 and 1980 data from McGrath (1983), 1991 data from Whiteford and McGrath (1994), 1970 and 1980 population data estimated from Sadie (1993). P. 9. Note: totals may not add up to 100% due to rounding.

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. McGrath (1983) calculates that limited redistribution from white to black South Africans probably occurred through patterns of government taxation and expenditure (see below). 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.[10] 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.[11] 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.

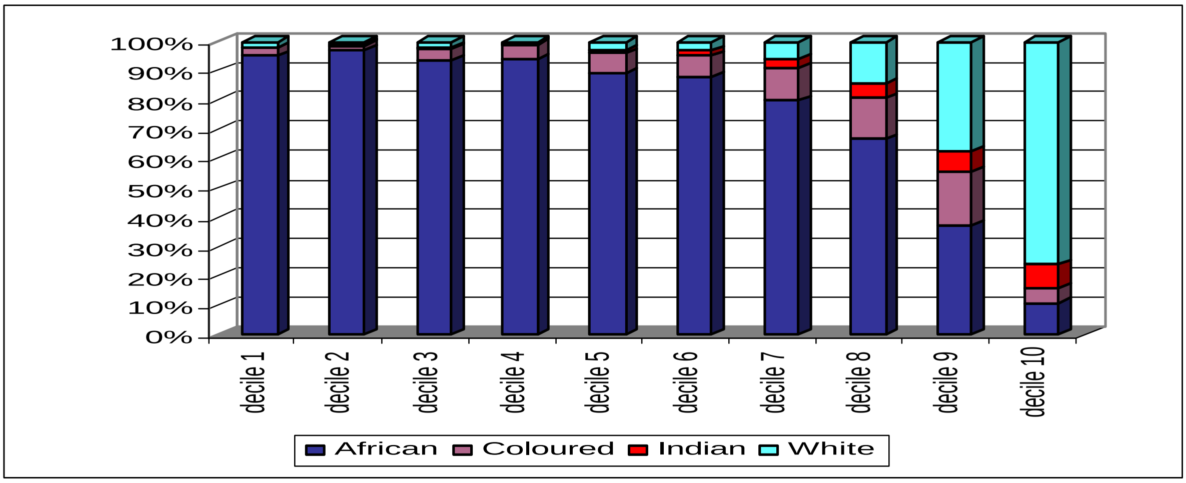
High and persistent inequality is one of the enduring legacies of apartheid. But its determinants shifted over the apartheid period. Whereas inequality was initially driven by the gap in racial incomes, this situation changed over time as African workers advanced up the occupational ladder and as unemployment 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.

2.2.3 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 2.2). Affirmative action policies are designed in part to address this legacy of apartheid.

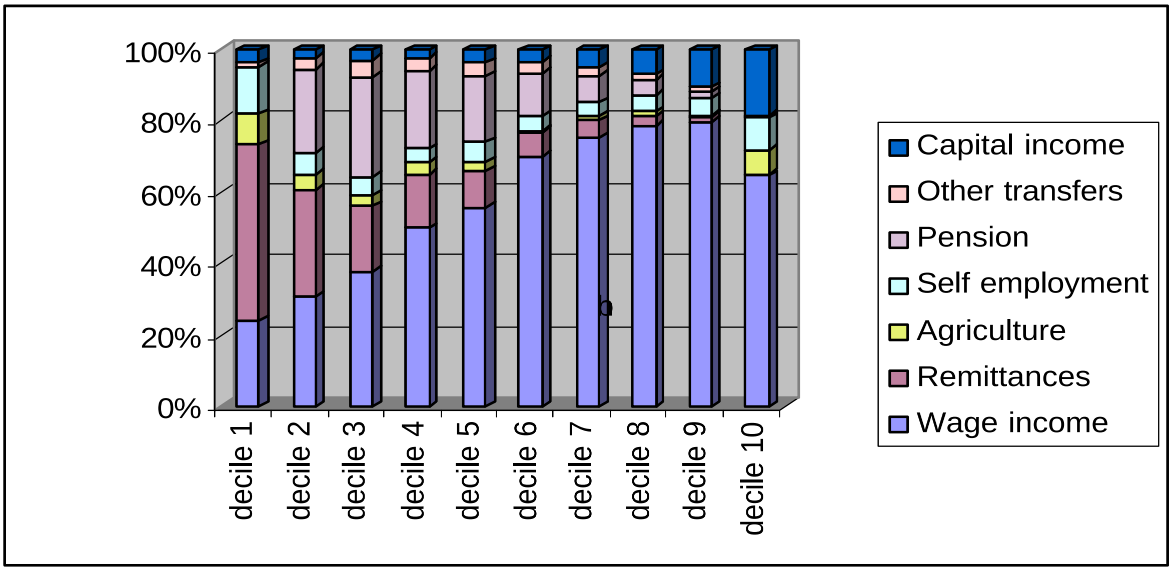
Figure 2.2 Income deciles, by racial/population group, 1993.



However, by the end of apartheid, intra-racial (class) inequality was contributing more to overall inequality than inter-racial inequality. According to Whiteford and van Seventer[12] 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 2.3 shows the composition of mean household income for each income decile—in other words, the sources from which the 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.

Figure 2.3 Composition of household income, by income decile and source (%)



Notes: Wage income includes regular wages (after tax), casual wages and the value of employer subsidies of transport, food and housing; remittances includes value of remittances in money and in kind; agriculture includes value of agricultural production whether consumed or sold; "self-employment" comprises the profits earned from self-employment; pension comprises government old-age pensions; other transfers comprise other public transfers; capital income includes income from capital, actual and imputed rent on land and property, interest on financial assets, and income from contributory pension schemes. n = 8567.

- 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).
- Public transfer payments other than old-age pensions were of little importance.

2.3 The importance of public transfers

Figure 2.3 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.[13] 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 before and during the apartheid period.

As shown in figure 2.3, 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 2.3). Not all remittances came out of wages—there were cases of pensioners sending a share of their pension to family members living elsewhere[14]—but it is safe to assume that most remittances came out of wage income.

Table 2.2 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 according to the estimates by McGrath *et al* (1997). The final column shows the net transfer of resources through taxation and public welfare.

Table 2.2 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
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

* These columns are from McGrath *et al* (1997) using their scenarios of a low incidence of taxation on the poor and a high incidence of taxation on the poor. It assumes that welfare payments are funded in direct proportion to total taxation, and no adjustment is made for deficit financing.

Note that the total value of redistribution through public transfers in 1993 was about 1,7 times larger than the total value of redistribution through private transfers (remittances). Public transfers, and especially the government's old-age pension system, was, and continues to be, a major mechanism for redistribution in South Africa. As Ardington and Lund (1995) point out, pensions are a reliable source of income (unlike most private transfers through remittances), allow recipients to obtain credit, and get resources into rural areas and especially to women-headed households. Case and Deaton (1998) concur, assessing that the old-age pension system is "an effective tool of redistribution" reaching "predominantly poor households". The old-age pension is also, paradoxically, an effective mechanism for getting resources into poor households where children live, because so many children live in three-generation households dependent on a grandparent's pension. Duflo (2000) found that children living in households where their maternal grandmother received a pension had significantly better anthropometric statistics (i.e. weight and height for their age).

2.3.1 Access to wage income

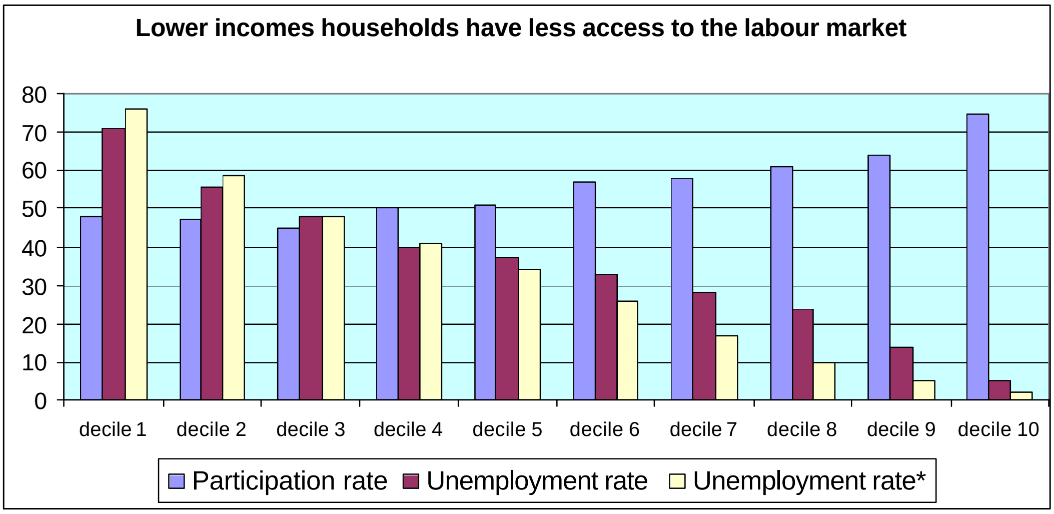
Poverty and inequality in South Africa are rooted in the labour market: in part in low wages, and in part in very high rates of unemployment. Whereas inequality until the 1970s was determined largely by the gap between white and black incomes, inequality in the 1990s is primarily driven by: (a) inequality 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.

As Leibbrandt *et al* point out, "access to wage income is central to determining which households are able to avoid poverty and, even, the depth to which poor households sink below the poverty line. This reasserts the importance of the labour market in understanding poverty" (1999: 12).

Participation and broad unemployment rates by decile in South Africa are shown in figure 2.4. 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 2.4. 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 2.4 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.

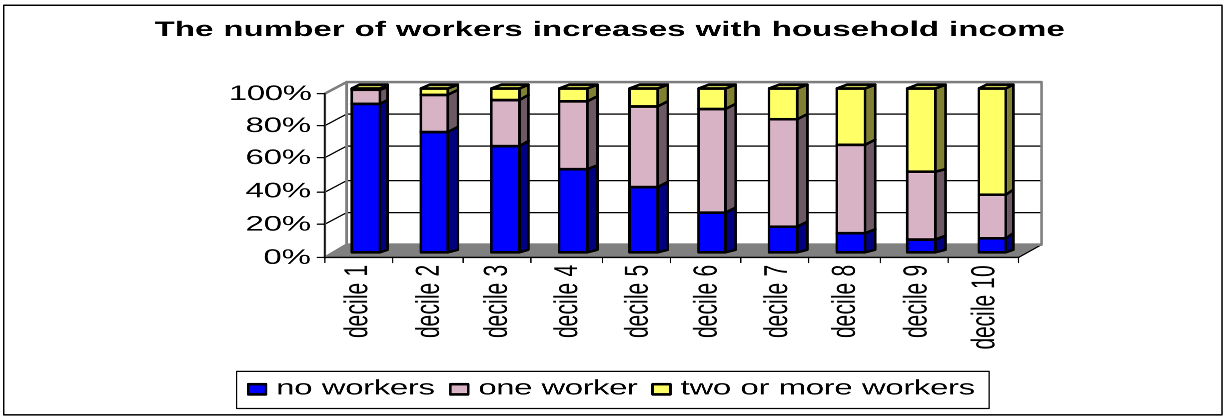
Figure 2.4 Participation rates and broad unemployment rates by income decile (1993)



*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 2.5. This shows the proportion of households in each decile according to the number of household members 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.

Figure 2.5 Employment per household by income decile



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 (OECD, 1998: 24). 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. The industrial working class, by contrast, is concentrated in the top five deciles.
- 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 workers in clerical and sales occupations are in the top three deciles.
- Artisans are spread across the top four deciles.
- Most machine operators and similar semi-skilled workers are in deciles 6-9.
- Unskilled labourers are spread across deciles 4-8.[15]

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.

2.3.2 Wage inequality

During the apartheid era, racial discrimination was an important determinant of wage inequality. As the system slowly de-racialised, the impact of racial discrimination declined accordingly. According to Moll (2000), 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.[16] Education is particularly important. According to Schultz and Mwabu[17] (1998a), half of the difference in racial earnings can be attributed to differences in educational qualifications.

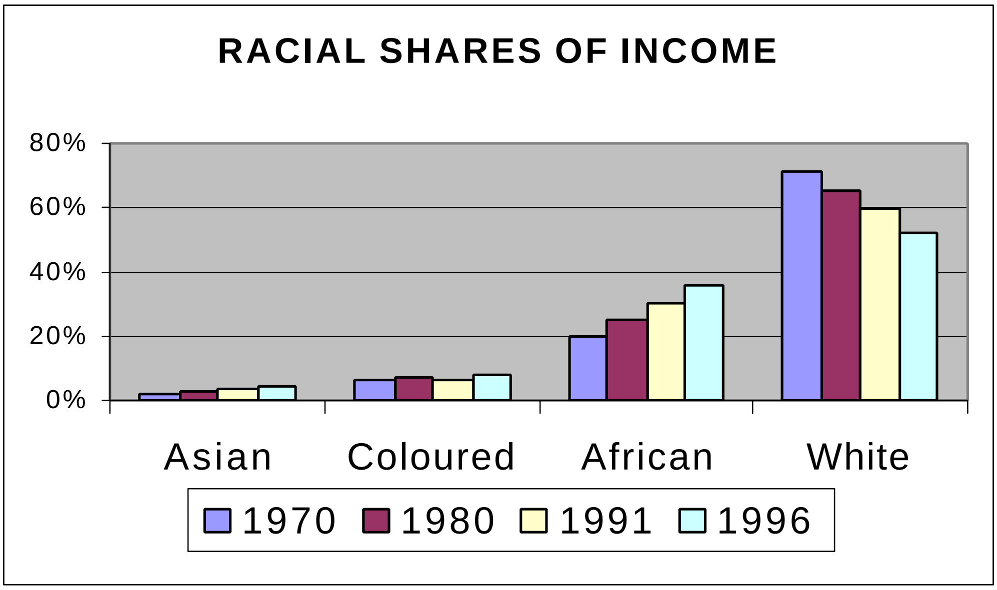
Despite the decline in racial discrimination and in the wage gap between white and African workers, overall wage inequality has not declined. This is because within-race wage inequality rose as between-race inequality declined. The increase in wage inequality amongst Africans was in part the result of 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.[18] 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.[19][20] 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).

2.4 Changes in Inequality in the 1990s

The distribution of income appears to have become more unequal between 1991 and 1996. According to Whiteford and Van Seventer, 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 to 3,4 per cent. The Gini-coefficient rose from 0,68 to 0,69. Whiteford and Van Seventer found that racial income shares continued to shift 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 2.6.

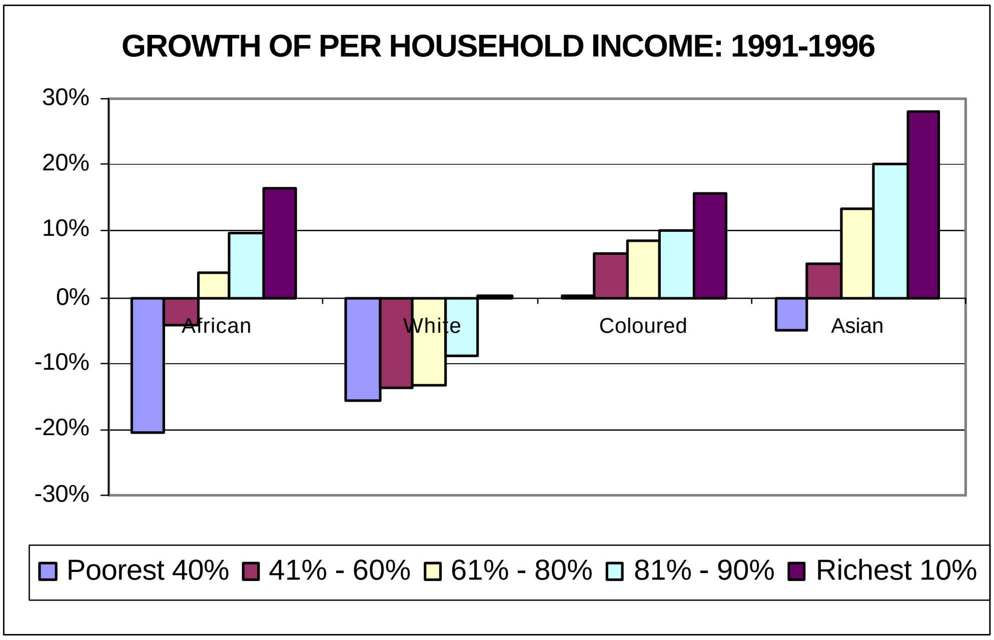
Figure 2.6 Shares of income by race—(1970-1996)



Source: Whiteford and van Seventer (1999: I)

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 2.7 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.

Figure 2.7 Growth of household income by race (1991-1996)



Source: Whiteford and van Seventer (1999: ii)

2.4.1 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 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.[20]

The real winners in terms of rising incomes were the better off African 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 (Carter and May, 1999).

According to Cichello, Fields and Leibbrandt (2000), those who suffered the biggest drop in earnings were those with the highest earnings to begin with, whilst the individuals who gained the most were those with no or low earnings in 1993. This is because the dominant factor behind rising and falling earnings was a change in an individual's labour-market status. Cichello *et al* found that only 62 per cent of the individuals in regular employment were still in regular employment in 1998. About 18 per cent were now in casual employment or informal sector work, about 15 per cent were unemployed and 6 per cent were not available for work. The shift from regular employment to non-employment (whether unemployed or not available for work) was, of course, catastrophic in terms of earnings.

2.4.2 Unemployment during the post-apartheid period

Unemployment has risen steadily during the post-apartheid period (see table 2.3). This is the result of two forces: a growing labour force (and rising labour force participation rates); and falling formal employment. There is some evidence of a marginal increase in employment in the late 1990s, but this has not been enough to reverse the general downward trend of the decade. According to data from the October Household Survey, total employment rose slightly between 1996 and 1998, but unemployment increased as the labour force grew even faster. According to these official statistics (which are questionable, particularly with regard to agriculture -- see Simbi and Aliber [2000]), total employment increased because employment in agriculture and domestic services grew sufficiently to compensate for the decline in employment elsewhere. Even if employment did increase in this way, it is nevertheless worrying because informal employment tends to be of a survivalist nature, and agricultural employment tends to be seasonal and vulnerable to droughts and other disasters. Sustained growth in living standards is best based on a healthy growth in formal employment—particularly in manufacturing and services.

Table 2.3 Unemployment rates during the 1990s

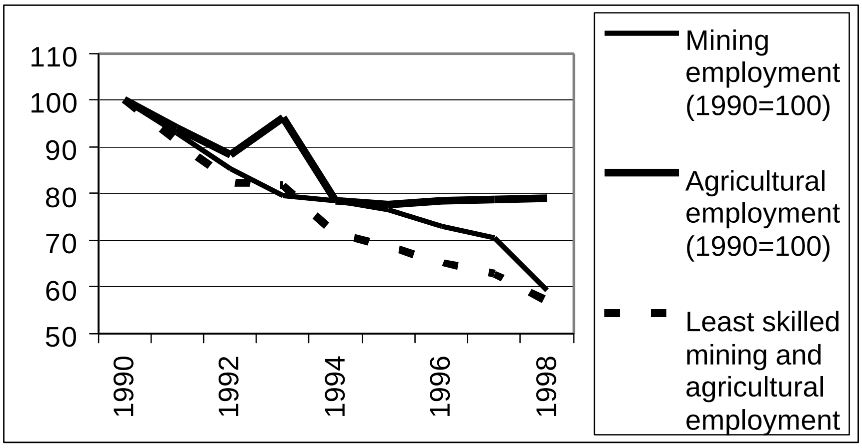
	PSLSD 1993	OHS 1994	OHS 1995	OHS 1996*	OHS 1997*	OHS 1998*
Unemployment (strict)						
African	15,7	24,7	20,7	26,8	28,3	33,4
Coloured	15,1	17,6	16,5	11,9	15,3	15,8
Indian	7,1	10,2	8,3	10,8	9,8	14,8
White	3,2	3,0	2,8	3,8	4,0	4,5
Total	12,7	20,0	16,9	20,3 (19,3)	22,0 (21,0)	26,1 (25,2)
Unemployment (expanded)						
African	37,7	39,2	36,0	43,8	46,5	47,6
Coloured	20,9	21,7	22,9	18,3	22,1	23,9
Indian	11,0	12,9	10,1	14,9	12,8	19,5
White	4,6	3,9	3,4	5,3	6,2	6,6
Total	29,4	31,5	29,2	34,4 (33,0)	37,4 (36,0)	38,6 (37,5)

Source: Nattrass (2000). *The figures in parentheses in 1996 and 1997 have been re-weighted to adjust for the lack of inclusion of mining hostels in the sample. The figure in parenthesis for 1998 includes mining hostels in the sample.

2.4.3 The restructuring of employment

The structure of South African employment has become more skilled.[21] This is the result of a general shift away from unskilled labour in all sectors and a shift away from labour-intensive sectors (especially the mining sector). Employment shedding-off on commercial farms contributed to the shift away from unskilled employment in South Africa over the decade.[22] Figure 2.8 illustrates the dramatic decline in employment in mining and agriculture across the 1990s—especially with regard to less-skilled workers in those sectors. Thus, even in the historically unskilled labour intensive mining sector, there has been a shift towards higher paid, better skilled workers—but at the cost of employment overall.

Figure 2.8 The decline in employment in mining and agriculture



(Source: South African Reserve Bank data)

2.4.4 New 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.[23] 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. In them were to be found some 152 000 of the 176 000 children present in such households, and 188 000 of the 232 000 pensioners.

Estimates in 1999 revealed that there were about 2,6 million unemployed in households in which there was no worker present and in which monthly total household expenditure was less than R800 per month. Of them, 1,4 million were women. Amongst them, 800 000 had given up the search for work that does not exist, while a further 600 000 continued to search for jobs. Corresponding figures for the men were 1,2 million total, of whom 560 000 were discouraged, while 590 000 sought work. Almost 96 per cent of these people belonged to the African population group once again reinforcing the links between extreme or chronic poverty and its disproportionate effect on people's potential to gain employment. In total there were 10,8 million people (of whom 10,2 million were African) living in workerless households where expenditure was less than R800 per month.

In households in the expenditure class R0-799 per month that contained working age persons, some 3,5 million were aged between 15 and 34 years (there were a further 1,6 million people between 35 years and retirement age). Other research commissioned by the Committee of Inquiry suggests that many of the unemployed would have been young. Nattrass[24] reports that among the strictly unemployed in households where expenditure was less than R800 per month, 32 per cent were aged between 15-25, while a further 36 per cent were aged between 26-35. Age distributions among the discouraged were similar. On this evidence it can be concluded that there was a significant overlap between the set of households where gross expenditure was less than R800 per month and workerless households in the same expenditure class.

For those who obtain formal employment, conditions will probably be better. They, however, constitute a tiny minority of the increase in the supply of labour.[25] Against this socio-economic context the Committee's view is that the connection between sustained high unemployment rates (with the attendant loss of hope of obtaining gainful employment), and the creation of a fertile breeding ground for criminal and other anti-social activity, is strong.

2.5 The challenges of Post-apartheid social policy reform

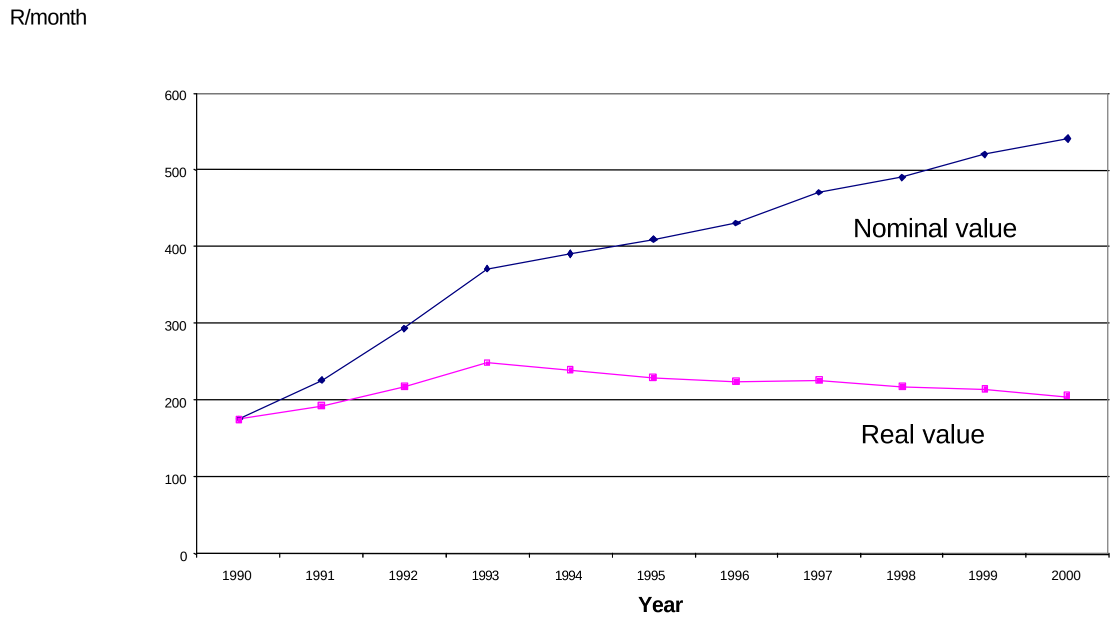
As noted above, the democratic government inherited a pattern of government taxation and spending that was surprisingly redistributive. According to McGrath *et al* (1997), redistribution through the budget reduced the Gini-coefficient in 1993-1994 from about 0,7 (for gross or original income) to about 0,6 (for post-tax/transfer income, taking into account also the value of "in kind" benefits from public education and healthcare).

In the years immediately following 1994 the budget was further reformed in redistributive directions. On the basis of calculations by Van der Berg,[26] argues that "the first years after the political transition saw a large and significant shift of social spending from the affluent to the more disadvantaged members of society". Government spending on social service transfers such as public education, public health, subsidies for housing and capital expenditure on the provision of water increased. Estimates indicate that spending on the poorest 40 per cent of households (i.e. quintiles 1 and 2) rose by about 50 per cent between 1993 and 1997. A small part of this was made possible by reduced spending on the rich, in that spending per capita on the top quintile actually declined. But extra spending on the poor in the mid-1990s came from increased and well-targeted spending by the government. This targeted expenditure did not entail *cash* income, in the form of government welfare grants or social assistance transfers, but rather benefits *in kind*—especially in terms of education.

2.5.1 The old-age pension

The single most important instrument of redistribution (of cash income) through the budget is the old-age pension. As shown above, pensions comprise a major source of income for the poorest 40 per cent of households. In the last years of apartheid the de-racialisation of pension benefits was achieved through large increases in the real value of the pension paid to African people. Since 1993 the real value of the old-age pension has declined by an average of about 1,5 per cent per year, or a total of about 20 per cent (see figure 2.9).

Figure 2.9 Nominal and real value of the old-age pension



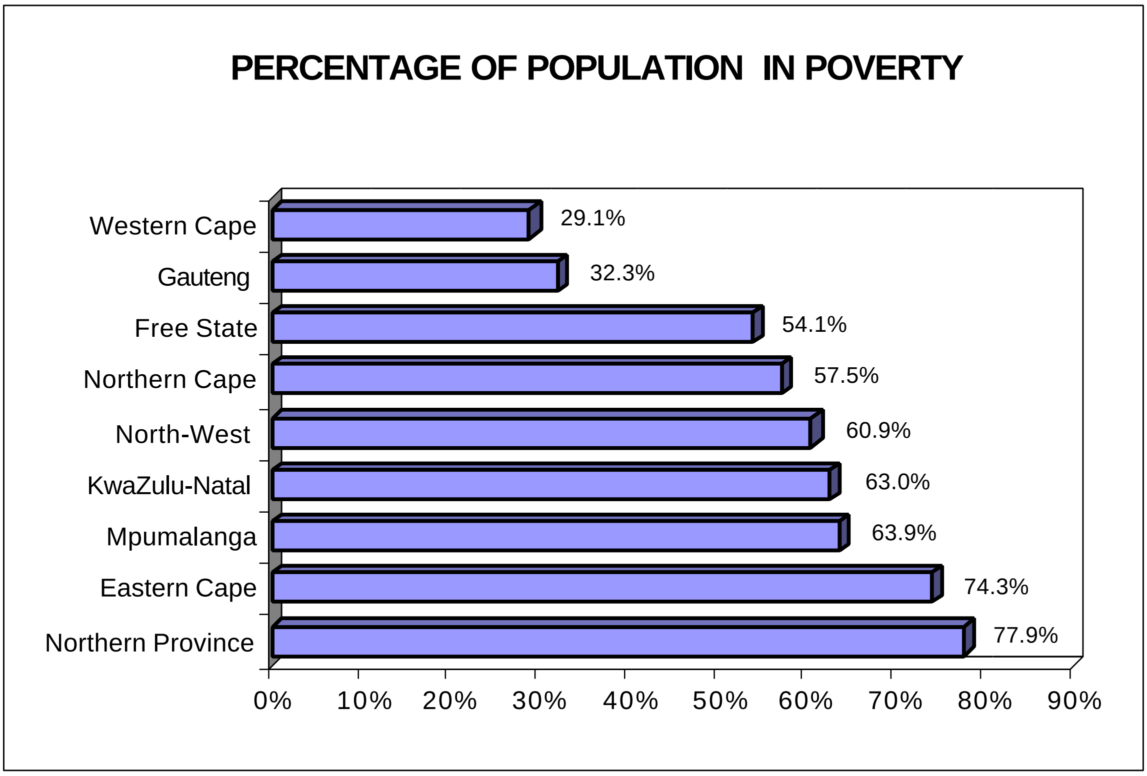
2.5.2 Child support grants

The drop in the value of public financial support for low-income single parents was more drastic. Up to 1997, low-income single parents were eligible for State Maintenance Grants. The grant paid a basic R430 per month to the single parent, plus R135 per child up to the age of 18 years, subject to a limit of two children. A single mother with two children could receive as much as R700 per month. The reality for many single parents was that access to the grant was race based with mainly coloured and white single parents as beneficiaries. Another problem with the grants was that, even after the removal of racial restrictions on access there were very low-take-up rates among African parents, especially in rural areas. In 1994, only one-fifth of the grants were paid to African recipients, whilst nearly 60 per cent were paid to coloured recipients. The grants absorbed 12 per cent of the welfare budget.

In 1996, the Lund Committee proposed that the State Maintenance Grants be replaced by new Child Support Grants at a value of R75 per child. The Committee foresaw the new grant reaching as many as three million children by 2005.[27] A Child Support Grant of R100 a month was introduced from April 1998.

Government support for this reform was based on the grounds that it freed resources for improved take-up rates in poorer parts of the country, could be more widely spread across all race groups and was thus egalitarian. The result, in the short-term, was almost certainly regressive, however, as take-up rates rose slowly. By June 2000 fewer than 400 000 applications had been made for the Child Support Grant, and take-up rates were highest in Gauteng, the richest province. (Figure 2.10 depicts the incidence of poverty across provinces, demonstrating that the Western Cape and Gauteng have the lowest poverty rates.) In the longer term, improved take-up rates among the very poor might result in a more progressive outcome—but only if institutional obstacles to improved take-up rates among the poor can be overcome.

Figure 2.10 Poverty incidence by province



Source: Whiteford and Van Seventer (1999: iv)

One important shift in the labour-welfare policy nexus in post-apartheid South Africa was the extension of unemployment insurance to cover workers in sectors that had previously been excluded. The Department of Labour extended the UIF to protect all workers in the private sector, including domestic, seasonal and other informal workers. The benefit schedule was also revised to provide higher proportional benefits for low-income workers than high-income workers. But these reforms did not bring public sector workers into the UIF.

2.5.3 The private sector

The proportion of African households resorting to the private sector for the provision of welfare has grown steadily. By 1997 almost one-fifth of the population was covered by private medical aid schemes, and coverage was closely related to income.[28] Most employees are now covered by private sector retirement funds. The provision of education, health and retirement pensions has become increasingly linked to employment.

Strong continuities remain with the previous labour-welfare policy nexus. The social security system provides relatively generous assistance to old-age pensioners and limited assistance to caregivers—but no assistance to a large section of the poor whose poverty is the result of long-run unemployment. ***There is a pressing need to redesign the post-apartheid labour-welfare policy nexus to provide income security for all.***

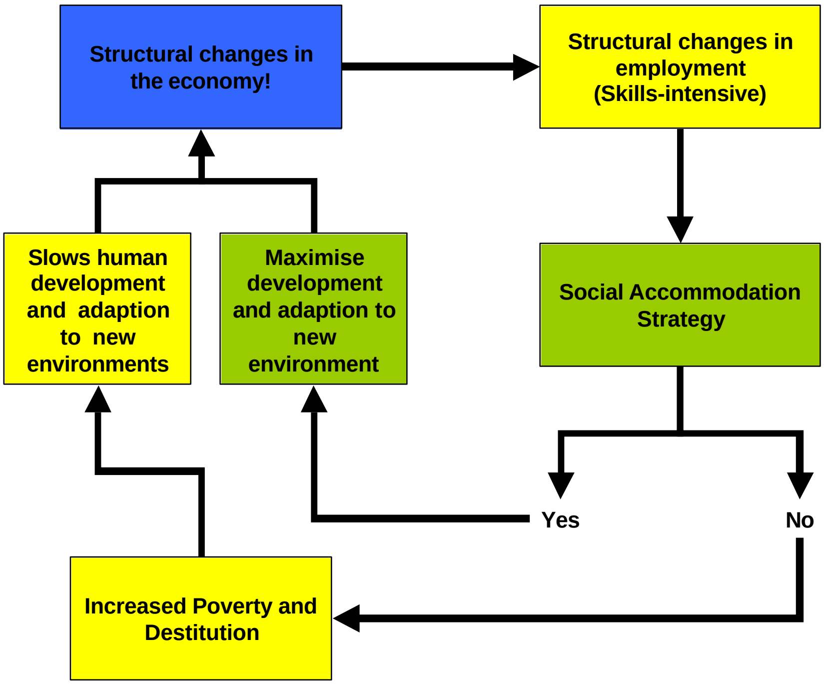
2.6 Findings and Recommendations

South Africa's labour market policies provide income support to employed workers and encourage skills development and productivity growth. This is consistent with the overall growth strategy that encourages higher-value added production and greater use of skilled labour. Training is thus of central importance—but not everyone can be trained, and there is no guarantee that those with training will find employment. A skill-intensive growth path is not a labour-demanding growth path (especially at low rates of growth). Based on empirical research, international comparative analysis and other evidence, it is the Committee's considered view that unemployment is unlikely to fall dramatically over the medium-term and that existing levels of destitution as a result of income poverty seriously compromise other social policy interventions of government.

In this regard the Committee's analysis indicates that for the optimal impact of government intervention, through health, education, housing and other basic services to be made, an essential prerequisite, in the immediate term, is the provision of income support for workerless households. Projected shifts in the labour welfare nexus as a result of government interventions to address capability and asset poverty—especially with regard to increases in the skill pool—may be evident in the long term.

This is illustrated in figure 2.11 which depicts the inter-relationships between structural changes in the economy, employment and poverty.

Figure 2.11 Inter-relation between structural changes in the economy, employment and poverty



In the short to medium term the desperate levels of income poverty and overall destitution need to be addressed. International comparative experience as well as research on the developmental impact of cash transfers, in the form of social pensions, shows that this is the most direct way of addressing the desperate levels of poverty in South Africa. Extending the social security net to those who are marginalised by and excluded from the growth path is the central challenge of comprehensive social security reform.

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. Of particular relevance are the findings that without intervention, the impacts of chronic illnesses such as HIV/AIDS when combined with income poverty compromises human security in South Africa. Furthermore, existing levels of poverty, rooted in apartheid, have reached unsustainable levels and 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.

APPENDICES

Table 2.A1 Income deciles, by racial/population group (1993)

Population or racial groups	Total %	Income deciles 1 %	2 %	3 %	4 %	5 %	6 %	7 %	8 %	9 %	10 %
African	75	95	97	93,5	94	89	87	80	66	37	11
Coloured	8	3	1,5	4	5	7	7	11	14	18	5
Indian	3	0	0,5	0,5	0,5	1	2	3	5	7	8
White	15	2	1	2	0,5	3	3	6	14	37	77
Total	100	100	100	100	100	100	100	100	100	100	100

Table 2.A2 Composition of household income, by income decile and source (%)

	Deciles 1 %	2 %	3 %	4 %	5 %	6 %	7 %	8 %	9 %	10 %	Total %
Wage income	23,5	30,6	37,8	50,0	55,8	69,6	75,0	78,5	79,9	64,5	67,7
Remittances	48,5	30,0	18,4	15,0	10,0	6,8	5,1	2,9	1,2	0,4	3,4
Agriculture	8,4	4,4	3,0	3,3	2,5	0,7	1,3	1,0	0,7	6,8	4,0
Self-employment	13,0	6,1	5,1	4,0	5,5	3,9	3,8	4,8	4,6	9,0	6,7
Pension	0,0	23,2	27,9	21,8	18,8	12,1	7,6	4,3	1,9	0,5	4,6
Other transfers	1,0	3,2	4,8	3,7	3,5	3,0	2,0	1,6	1,1	0,3	1,2
Capital income	3,5	2,1	2,8	2,1	3,7	3,4	5,0	6,6	10,5	18,1	12,1
Total	100	100	100	100	100	100	100	100	100	100	100

Notes: Wage income includes regular wages (after tax), casual wages and the value of employer subsidies of transport, food and housing; remittances includes value of remittances in money and in kind; agriculture includes value of agricultural production whether consumed or sold; self-employed comprises the profits earned from self-employment; pension comprises government old-age pensions; other transfers comprise other public transfers; capital income includes income from capital, actual and imputed rent on land and property, interest on financial assets, and income from contributory pension schemes. Some column totals do not add up to 100% because of rounding errors and the omission of some very minor sources of income. n = 8567.

Table 2.A3 Participation rates and broad unemployment rates by income decile (1993)

	Total	Income deciles									
		1	2	3	4	5	6	7	8	9	10
Participation rate (%)	61	48	47	45	50	51	57	58	61	64	75
Unemployment rate (%)	30	71	56	48	40	37	33	28	24	14	5
Unemployment rate (%) using per capita income deciles*	32	76	59	48	41	34	26	17	10	5	2

* Calculation by Kingdon and Knight (1999: 7)

Table 2.A4 Employment per household by income decile, 1993

Number of employed per household	Total %	Income deciles 1 %	2 %	3 %	4 %	5 %	6 %	7 %	8 %	9 %	10 %
0	39	92	75	66	51	41	25	16	12	8	9
1	40	8	23	29	42	49	63	66	54	41	26
2+	21	1	3	6	7	10	12	18	34	51	64
Total	100	100	100	100	100	100	100	100	100	100	100

REFERENCES

Adams, J. 2000. Quarterly Sectoral Report: Welfare. Budget Brief no. 47. Institute for Democracy in South Africa. Cape Town.

Ardington, E and Lund F. 1995. Pensions and Development: Social Security as Complementary to Programmes of Reconstruction and Development. In: Development Southern Africa, vol. 12, no. 4.

Baber, R. 1998. The Structure of Livelihoods in South Africa's Bantustans: Evidence from Two Settlements in Northern Province. D.Phil Thesis in Economics. University of Oxford.

Bhorat, H, and Hodge, J. 1999. Decomposing Shifts in Labour Demand in South Africa. In: South African Journal of Economics, vol. 67, no. 3: 348-380.

Budlender, D. 2000. Human Development. In: May, J. (ed.). Poverty and Inequality in South Africa: Meeting the Challenge. David Philip.Cape Town: 97-140.

Butcher, K and Rouse, C. 2000. A Study of Wage Impacts of Unions and Industrial Councils in South Africa. Working Paper no. 442, Industrial Relations Section. Princeton University.

Carter, M and May, J. 1999a. Poverty, Livelihood and Class in Rural South Africa. In: World Development, vol. 27, no. 1: 1-20.

Case, A and Deaton, A. 1998. Large Cash Transfers to the Elderly in South Africa In: Economic Journal, vol. 108, no. 450: 1330-1361.

Cichello, P, Fields, G and Leibbrandt, M. 2000. Which African Workers Have Gotten Ahead and by How Much? The Story of Kwa-Zulu Natal, South Africa: 1993-98. Unpublished Report, School of Economics. University of Cape Town.

DOF. 2000. Budget Review 2000. Department of Finance, South Africa.

Duflo, E. March 2000. Grandmothers and Granddaughters: The Effects of Old Age Pension on Child Health in South Africa. Mimeo, Massachusetts Institute of Technology. .

Kingdon, G and Knight, J. April 1999b. Links Between Unemployment and Poverty in South Africa. Presented at the Conference of Poverty in Africa, Centre for the Study of African Economies. University of Oxford.

Klasen, S and Woolard, I. 1999. Levels, Trends and Consistency of Employment and Unemployment Figures in South Africa. Development Southern African, vol. 16, no. 1.

Leibbrandt, M, Bhorat, H and Woolard, I. May 1999. Understanding Contemporary Household Inequality in South Africa. Development Policy Research Unit, University of Cape Town, DPRU Working Papers No.99/25.

McGrath, M. 1983. The Distribution of Personal Income in South Africa in Selected Years Over the Period from 1945 to 1980. Unpublished Ph.D. dissertation, University of Natal. Durban.

McGrath, M, Janisch, J and Horner, C. 1997. Redistribution Through the Fiscal System in the South African Economy. Paper presented to the Economics Society of South Africa Conference. Potchefstroom.

Nattrass, N. 2000. The Debate about Unemployment in the 1990s. In: Studies in Economics and Econometrics, vol. 24, no. 3.

Nattrass, N and Seekings, J. 1997. Citizenship and Welfare in South Africa: Deracialisation and Inequality in a Labour-Surplus Economy. Canadian Journal of African Studies, vo1. 31, no.3: 452-81.

Moll, P. 2000. Discrimination is Declining in South Africa But Inequality is Not. In: Studies in Economics and Econometrics, vol. 24, no. 3.

OECD. June 1998. Recent Labour Market Developments and Prospects: Special Focus on the Patterns of Employment and Joblessness from a Household Perspective. In: Employment Outlook: 1-30.

Olivier, M *et al*. 1999. Social Insurance and Social Assistance: Towards a Coherent Approach. Report for the Department of Welfare.

Posel, D. 2000. Altruism, Kin Selection and Intra-Family Transfers: Evidence from Remittance Behaviour in South Africa. Unpublished paper, Princeton University, Princeton. New Jersey.

RSA. 1994. South African Statistics: 1994. Government Printer. Pretoria.

Schultz, TP and Mwabu, G. February 1998. Wage Premia for Education and Location, by Gender and Race in South Africa. Economic Growth Centre, Yale University, Center Discussion Paper no. 785.

Schultz, TP and Mwabu, G. 1998b. Labor Unions and the Distribution of Wages and Employment in South Africa. In: Industrial and Labour Relations Review, vol. 51, no. 4, pp. 680-703.

Seekings, J. 2000. Visions of Society: Peasants Workers and the Unemployed in a Changing South Africa. In: Studies in Economics and Econometrics, vol. 24, no. 3: 53-72.

Simbi, T and Aliber, M.September 2000. The Agricultural Employment Crisis in South Africa. Paper presented at the TIPS Policy Forum. Muldersdrift.

South Africa: Transformation for Human Development-2000. South Africa Human Development Report, United Nations Development Programme. Pretoria.

Van der Berg, S. 2000. An Analysis of Fiscal Incidence of Social Spending in South Africa, 1993-97. Report of the Department of Finance.

Whiteford, A, Posel, D and Kelatwang, T.. 1995. A Profile of Poverty, Inequality and Human Development. Human Sciences Research Council. Pretoria.

Whiteford, A and Van Seventer, D. 2000. Understanding Contemporary Household Inequality in South Africa. In: Studies in Economics and Econometrics, vol. 24, no. 3.

ENDNOTES

[1] This trend was evident and discussed at a meeting of technical experts representing approximately 15 countries contributing to a Forum on Progressive Governance in Stockholm in June2001

[2] See for instance demographic trends in Human Development Reports produced by the United Nations Development Programme—1999-2001

[3] Statistics South Africa, 2000

[4] Dorrington *et al*. 2001. The impact of HIV/AIDS on adult mortality in South Africa. Medical Research Council: Tygerberg. September 2001

[5] Dorrington *et al*. 2001:6

[6] Dorrington *et al*. 2001. Page 5

[7] Henry Kaiser Family Foundation, 2001. Impending Catastrophe Revisited: An update on the HIV/AIDS epidemic in South Africa. ABT Associates

[8] EPRI 2001

[9] Castles, 1998

[10] Nattrass and Seekings, 1997

[11] Whiteford, Posel and Kelatwang, 1995; Whiteford and Van Seventer, 2000

[12] Whiteford and Seventer, 2000:17

[13] Posel, 2000: 9

[14] Ardington and Lund, 1995: 571; Baber, 1999: 103, 163

[15] Seekings, 2000

[16] Schultz and Mwabu, 1998a, 1998b; Moll, 2000,;Butcher and Rouse, 2000

[17] Schultz and Mwabu 1998a

[18] Moll, 2000

[19] Schultz and Mwabu, 1998b; Butcher and Rouse: 2000: 19

[20] Whiteford and Van Seventer, 2000: 14-19

[21] Bhorat and Hodge, 1999

[22] Simbi and Aliber, 2000: 7

[23] The Stats SA publication *Unemployment and Employment in South Africa* (Orkin, 1998, p58) states that 32 per cent of African households contained no employed people. The total number of African households (5 950 992) comes from Leibbrandt, Woolard and Bhorat (2000, p.49). These authors used the 1995 OHS The total number of households in the Leibbrandt et al piece (8 801 993) accords well with the 1996 population census number of 9 060 000 (Report No. 03-01-12 [1996], p.86. Note that this excludes institutions and hostels. The number of workerless African households in 1999 comes from a report using the 1999 OHS by Michael Samson of the Economic Policy Research Institute. There were 3 069 897 such households, 2 859 167 of them containing working adults, 210 730 containing either pensioners only or pensioners and children (skip-generation households). The total number of African households in 1999 (7 985 000) is taken from the 1999 OHS (SNR P0317, 31 July 2000, p.40). It appears that 'institutions and hostels' are excluded from this total as well. The listing of 'Dwelling types' contains no reference to either, and has only 29 000 households in the category 'unspecified'. The publication does, however, note that the sample frame was extended to include workers in mining hostels. This issue will be pursued with Stats SA.

[24] Nattrass,N 2001:8

[25] The 1999 OHS disclosed the existence (using the official definition) of 33 000 university educated unemployed. Of them, 25 000 were African, 13 000 men and 12 000 women. Age distributions for these people have not been taken out, but it is likely that most of them were young.

[26] Van der Berg, S, 2000:15 Department of Finance, Government of South Africa

[27] Budlender, 2000: 128-9.

[28] Olivier *et al*, 1999