

## Section 2. An overview of inequality, poverty and growth in SA

This section examines the state of inequality and poverty in SA today, describes how inequality has changed over the decade since the democratic transition in 1994, and examines the composition of inequality and poverty based on a number of horizontal indices including race, gender, region (province) and urban-rural location. The historical origins of the situation described here are spelled out in the following section. The section also presents a range of indicators of economic growth and changes in economic structure, including output and employment.

### (i) Basic indicators.

Table 1 presents basic demographic data for 1991 and 2001.<sup>2</sup> The population growth rate from 1991 to 2001 was 2.3% *per annum*.

Table 1: South Africa's population

	1991	2001
Total population (millions)	36.2	44.5
<b>Population groups as % of total:</b>		
African	70	79
White	16.5	9.5
Coloured	10.5	9
Indian	3	2.5

Source: Stats SA (2002c), p1.1; (2003a), p10.

Table 2 presents development statistics for South Africa relating to the Millennium Development Goals for various years in the early 1990s and early 2000s, the year indicated by the superscript. GDP grew at about 1.7% per annum between 1990 and 2001, less than the population growth rate, so that GDP per capita declined slightly during this period. The Human Development Index remained constant between 1996 and 2000, while South Africa's rank in the UNDP's dropped from 61<sup>st</sup> (of 140 countries) to 111<sup>th</sup> (of 175 countries). Life expectancy has declined precipitously while infant

<sup>2</sup> The apartheid racial categories are necessarily used throughout this paper, but this should not be taken to constitute endorsement of the categories.

mortality has increased substantially, both a consequence of the HIV/Aids pandemic. It is estimated that 11.4% of South Africa's population was HIV-positive in 2002 (HSRC, 2003, p46). The drop in the primary enrolment rate may also be linked to HIV/Aids and the increase in the number of Aids orphans in the country, estimated to be 660 000 in 2001 (World Bank, 2003b). The HIV/Aids pandemic is the major factor which has moved South Africa backwards since 1990 in terms of Millennium Development Goals 2, 4, 5 and 6, those concerned with health and education.

Three million people, 7% of the population, were living on less than \$1 a day in 2000, and ten million people, 23% of the population, on less than \$2 a day (World Bank, cited in Woolard, 2002). Bhorat (2003a) estimates that in 1999, 32% of households in South Africa were below a poverty line of US\$251 per month per household (1995 prices), equivalent to US\$81 per month per individual. Using the same poverty line, the poverty gap<sup>3</sup> was 13%.

Table 2: South Africa: Millennium Development Goals, early 1990s and post 2000

	Early 1990s	Post-2000
a. GDP per capita 1995, ZAR	14806 <sup>90</sup>	14554 <sup>02</sup>
b. GDP per capita 1995, US\$	4082 <sup>90</sup>	4013 <sup>02</sup>
c. GDP per capita, current PPP US\$	8282 <sup>90</sup>	9401 <sup>00</sup>
d. Human Development Index	0.69 <sup>96</sup>	0.695 <sup>00</sup>
e. Life expectancy at birth (years)	62 <sup>90</sup>	47.1 <sup>01</sup>
f. Under 5 mortality rate (per 1000 live births)	73 <sup>90</sup>	85 <sup>02</sup>
g. Maternal mortality rate (per 100 000 live births) <sup>4</sup>	150 <sup>92-98</sup>	n.a.
h. Adult Literacy rate (% of people 15 & over)	81.2 <sup>90</sup>	86.0 <sup>02</sup>
i. Net primary enrolment rate (% of age group)	103 <sup>91</sup>	89 <sup>01</sup>
j. Urbanisation (% of population)	53.7 <sup>96</sup>	56.1 <sup>00</sup>

Sources: a, b: SA Reserve Bank, [www.sarb.co.za](http://www.sarb.co.za); c, e, f, h, i: World Development Indicators; d. Stats SA (2001), p9; g. SA Dept. of Health (1998), p118; j. DBSA (2000), p5. The superscript indicates the year to which the data applies.

<sup>3</sup> The difference between the average income of poor people and the poverty line, as a proportion of the poverty line.

<sup>4</sup> This is a conservative estimate, but is considerably higher than for developed countries. Maternal deaths are responsible for 5% of deaths of women of child-bearing age (8% for 15-19 yr olds and 11% for 20-24 yr olds).

(ii) *Inequality and Poverty.*

Table 3 shows that the Gini coefficient for South Africa declined markedly during the 1990s, indicating an improvement in the overall distribution. This is borne out by the significant shift in the distribution amongst quintiles away from the top quintile to the middle 40% in particular, though the bottom 40% of the distribution have also gained slightly relative to their position in 1991. Overall income distribution had deteriorated significantly between 1975 and 1991 for the bottom 40%, who lost one-quarter of their share of income in that period, but they have more than regained this during the 1990s.<sup>5</sup> In 1995, households in the top quintile had incomes which were more than 7.63 times the incomes of households in the lowest quintile, but by 2000, the ratio had dropped to 5.78 (Stats SA, 2002a).

Table 3: Indicators of household inequality: Total population.

	1975	1991	1995		2000	
Gini coefficient, all households	0.68	0.67	0.56		0.57	
<b>Percent of total income going to:</b>						
Top decile	49.2	51.2	46.8		45.2	
Bottom decile	n.a	n.a.	0.5		0.4	
<b>Percent of total income going to:</b>						
Top quintile	70.9	70.5	65		64.9	
2nd Top quintile	23.9	25.6	18.2	27.8	20.1	29.0
Middle quintile			9.6		8.9	
2nd Bottom quintile	5.2	3.9	5.4	7.3	4.5	6.1
Bottom quintile			1.9		1.6	

Sources: 1975 & 1991: McGrath & Whiteford (1994), pp13, 17; 1995 & 2000: Stats SA (2002a), p47.

Not surprisingly, race is a significant determinant of both poverty and inequality. Based on a household poverty line of US\$220 per month in 1999, 52% of the African population was poor while 95% of poor people were African, though Africans were only 79% of the population as a whole (Woolard, 2002; Bhorat et al, 2000).

<sup>5</sup> The change in income share of the bottom two quintiles between 1991 and 1995 may be a statistical issue. According to Whiteford & van Seventer (1999, p13), using 1996 census data, the share of the poorest 40% in 1991 was 3.8% and in 1996, 3.4%, quite different from the figure of 7.3% reported by Stats SA based on the income and expenditure survey in 1995.

Bhorat et al. (2000) estimate that 40% of total inequality in 1995 was a consequence of between-race inequality across the four racial groups, a very substantial contribution by one factor.<sup>6</sup> The remaining 60% of total inequality is the result of within-race inequality, 33% due to inequality amongst Africans and 21% to inequality amongst Whites. Over the past three decades, inequality between races has declined significantly while inequality within racial groups (except Indians) has risen, as shown in Tables 4 and 5. Between the first estimates in 1917 of racial shares of income and 1970, the white share remained constant at 70% and the African share 20%. But by 1995, the white share had dropped to about 52% and the African share risen to 34% (Simkins, 1998). On a *per capita* basis, the ratio of white to African incomes was down from about 13:1 to around 9:1.

Gini coefficients by race group are presented in Table 4. The significant impact of between-race inequality means that the coefficients are lower than those for the population as a whole. Distribution both amongst Whites and amongst Africans deteriorated markedly between 1975 and 1991, but the coefficient for Africans then improved significantly.

Table 4: Gini coefficient.

	1975	1991	1995	2000
African	0.47	0.62	0.50	0.49
White	0.36	0.46	0.44	0.45
Indian	0.51	0.52	0.43	0.41
Coloured	0.45	0.49	0.46	0.48
South Africa	0.68	0.67	0.56	0.57

Source: 1975 & 1991: McGrath & Whiteford (1994) p16-17; 1995 & 2000: Stats SA (2002a). p48.

Table 5 shows the significant deterioration of intra-race inequality after 1975 more clearly. The share of the bottom two quintiles amongst Africans dropped by about two-thirds, but that of the top decile rose by about two-thirds. Amongst whites also, the top decile gained about eight percentage points of income, about the same as the bottom two quintiles loss. The lower half of the table shows that Africans substantially increased

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<sup>6</sup> Decomposing inequality into a range of independent ‘causal’ factors, Bhorat et al. (2000) estimated that race accounted for 17% in 1995, with only education accounting for a larger share.

their presence amongst South Africa’s rich during the two decades from 1975, while whites became much less dominant. Van der Berg (2002a) calculates that the top decile in the African population had per capita household expenditure of more than ZAR20000 in 1995, about twenty times the bottom decile’s expenditure level, and about two-thirds of the average white level.

Inequality and poverty depend heavily on employment status. When household income is decomposed into different components, wages account for 66% of inequality across all households and 62% for poor households. Remittances and state transfers contribute 45% of income to poor households, but only account for 28% of inequality. Fifty-two percent of poor people were unemployed in 1995, compared with a (narrow) unemployment rate of 29%. Only 22% of people living in poor households were employed. Labour force participation by poor people is also low: though it comprises 61% of the total population, only about 44% of poor people were in the labour force (Bhorat et al, 2000, p16).

Table 5: Income distribution within racial groups

	1975	1991	1996
<b>Percentage share of racial group’s income</b>			
Africans: bottom 40%	12.3	6.2	4.5
Africans: top 10%	32.5	47.8	51.3
Whites: bottom 40%	18.0	10.9	10.1
Whites: top 10%	25.9	31.8	34.8
<b>Racial composition of income deciles in total population</b>			
African % in top decile	2	9	22
White % in top decile	95	83	65
African % in 2 <sup>nd</sup> top decile	7	22	39
White % in 2 <sup>nd</sup> top decile	83	61	42

Source: Whiteford & van Seventer (1999), p14.

As these figures suggest, the South African labour market is highly segmented. Four categories can be distinguished within the working age population, as shown in Table 6. Nearly a third of the working age population is not economically active, and less than 40% is in employment. Of those employed in 2003, only 63.6% were in the formal non-agricultural sector, with 7.5% in formal (commercial) agriculture, and 28.3% in the

informal sector (unregistered businesses) and domestic service. In 2003, the ‘narrow’ unemployment rate in South Africa was 31.2%, defined as the proportion of economically active people who had actively sought work during the previous four weeks. On the ‘broad’ definition – those who want to work but have become discouraged from actively looking – unemployment was 42.1%. Unemployment rates differed markedly amongst racial groups, 47.8% of Africans being unemployed on the broad definition compared with only 9.9% of whites (Statistics SA, 2002c).<sup>7</sup>

Table 6: South Africa, working age population, 2003

	Number in '000	% of working age popn	% of eco active popn
Total population age 15-65 years (millions)	29555	100	n.a.
Employed in formal sector	8223	27.8	41.3
Employed in informal sector & domestic service	3270	11.1	16.4
Unemployed (narrow definition)	5250	17.8	31.2
Unemployed (broad definition)	8421	28.5	42.1
Total economically active (broad)	19914	67.6	100
Not economically active (broad)	9569	32.4	n.a.

Source: Stats SA (2003b).

Consistent and reliable estimates of changes in the unemployment rate over time do not exist. But unemployment is a long-term, even permanent, status for many South Africans. As discussed below, the historical pattern of industrial development resulted in low labour absorption rates, and from the late 1960s, open unemployment began to increase.

There is a clear ‘skills bias’ amongst the employed. Table 7 shows the composition of different categories of the employed and unemployed, by highest education qualification achieved. Within the formally employed workforce, 57.7% have at least school-leaving education, as compared with only 38% in the total working-age population. The formally employed workforce has a share about 2.5 times higher of those with post-secondary

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<sup>7</sup> The number of unemployed and the unemployment rate are notoriously difficult to measure in developing countries. In South Africa, the impact of constitutional changes on the definitions of statistics and their collection have compounded the difficulties over the past decade.

education: 21.8%, as against 8.3% in the total working-age population. But within the unemployed, there is also a larger share of those with school-leaving education than in the population as a whole: 37.2% vs 29.7%. The possible emergence of a problem of ‘educated unemployed’ was confirmed by an assessment of the characteristics of the unemployed in the mid-1990s, which found that only 15% had both education and past work experience, while 36% were young with no employment experience. By contrast, 28% were poorly educated rural residents and 18% poorly educated urban residents (Klasen & Woolard, 1997, cited in May, 2000, p82). As one would expect, employment in the informal sector and in domestic service is dominated by lower education categories, as are those no longer economically active, outside the labour force proper.

Table 7: Shares of educational category within employment status

ALL Groups	Up to Gr 4	Gr 5-10	School-leaving	Post-sec	TOTAL
Working age pop	14.1	47.9	29.7	8.3	100.0
Empt total	13.9	38.7	31.0	16.4	100.0
<i>Consisting of:</i>					
Empt formal	9.0	33.2	35.9	21.8	100.0
Empt informal	24.3	50.4	21.7	3.6	100.0
Empt domestic	30.7	58.5	10.8	0.0	100.0
Unemployed (broad)	12.3	46.7	37.2	3.8	100.0
Not eco active (broad)	15.8	60.1	21.6	2.5	100.0

Source: Calculated from Stats SA (2003b).

Table 8 looks at the composition of each of the four education categories, in terms of employment status. Amongst the working age population with some post-secondary education, nearly three-quarters (73.6%) are employed in the formal sector, and the unemployment rate in this category is only 14.6%, much lower than the overall unemployment rate though still high in international comparative terms. Amongst those who have completed high school or its equivalent, the employment rate is about the same as in the full population, but a much larger share of those employed are in the informal sector than is the case for people with post-secondary training. This underlines the issue of educated unemployed. A larger proportion of this group remains in the

labour force than for those with fewer years education (35.7% vs 27.8%), though the broad unemployment rates are the same. Interestingly, those with at most Grade 4 education have a higher employment rate and a lower unemployment rate than those with a few additional years education, but a majority of those employed amongst the least-educated are in the informal and domestic service sectors.

Table 8: Shares of population within educational category

ALL	=< Gr 4	Gr 5-10	School-leaving	Post-sec	TOTAL
Working age pop	100	100	100	100	100
Empt total	38.6	31.5	40.7	77.3	39.0
<i>Consisting of:</i>					
Empt formal	17.8	19.2	33.6	73.2	27.8
Empt informal	13.1	8.0	5.6	3.3	7.6
Empt domestic	7.4	4.1	1.2	0.0	3.4
Not eco active (broad)	36.4	40.7	23.6	9.6	32.4
Broad unempt (share of pop)	25.0	27.8	35.7	13.2	28.6
Broad unempt rate (share of EAP)	39.3	46.9	46.8	14.6	42.3

Source: Calculated from Stats SA (2003b).

Turning next to gender, the disastrous legacy of South Africa's migrant labour system – with men going to work in the cities and mines, leaving women and children in the rural areas – remains sharply evident in the data.<sup>8</sup> The poverty rate amongst female-headed households in 1995 was 60%, double that for male-headed households, and was linked to the concentration of female-headed households in rural areas and their fewer working age adults. Unemployment amongst women is higher – the national broad unemployment rate for women was 46.4% in 2001 compared with 35.3% for men, while in rural areas 53.6% of women were unemployed versus 42.2% of men (Statistics SA, 2002c).

<sup>8</sup> Although this overview focusses on South Africa, it is worth noting that the country's migrant labour system stretches well beyond its borders into the entire Southern African region. In 1906, South Africa only provided 23% of its 81 000 mineworkers, and in 1973 the share had dropped to 20% of 422000 workers. By 1986, South African made up 60% of 536000 workers. Lesotho and Mozambique were historically the biggest regional sources of labour.



Table 9: Gender in the labour force

	1995	1999
<b>Women employees as a percentage of men employees, by occupational group</b>		
Legislators, senior officials and managers	22	25
Professionals	40	46
Technicians and associate professionals	54	53
Clerks	64	65
Service workers, shop and market sales workers	41	44
Craft & related trades workers	12	15
Plant & machine operators and assemblers	15	15
Elementary occupations	46	54
Total	39	42
<b>Wages</b>		
Women's hourly wage	9.35	9.97
Men's hourly wage	12.01	15.19
Women's hourly wage as % of men's	77.9	65.6

Source: Stats SA (2002b), p83 & 147

Women's participation in the labour force is much lower than that for men. In 1995, only 17% of African females were in wage employment, compared with 43% of African men. Forty-five percent of white women were in the labour force, compared with 63% of white men. Nine percent of African women were self-employed, but only 4% of African men and 7% of white women (though 15% of white men were self-employed, this has a different connotation than for other groups) (Bhorat et al, 2000, p20). However, Table 9 shows that between 1995 and 1999, women increased their share of employment overall and in six of the eight occupational categories. It would appear that employment security for women is somewhat greater than for men, but this may be due in part to the wage gap, which Table 9 shows deteriorated significantly over the same period.

There are also significant disparities between urban and rural areas with regard to inequality and poverty. In rural areas, 62% of the population is poor, compared with 13% in metropolitan areas and 25% in secondary cities. Disparities are found also amongst South Africa's nine provinces defined in 1994 to replace the apartheid sub-national arrangement of nine black 'bantustans' and four 'white' provinces. Of the nine provinces, only three – Western Cape, Gauteng and Northern Cape – did not have former

'bantustan' areas incorporated within their territory. The Northern Cape has a significant share of rural 'coloured' people whose living conditions were similar to those of the bantustans, though there was no official jurisdiction. The Free State province includes areas which were formerly predominantly within white South Africa.

Table 10: Provincial\* characteristics

	EC	FS	Gau	KZN	Lim	Mpu	NW	NC	WC	SA
% of population, 2000	15	6	18	21	12	7	8	2	10	100
GGP per capita, 1998 ZAR '000	6.3	11.6	26.3	9.2	3.7	14.6	8.5	12.1	18.4	12.6
Urbanisation (% pop), 2000	43	69	98	45	12	42	36	77	91	56
Literacy, 1996	73	85	94	85	74	76	70	81	95	82
Infant mortality (per 1000 live births), 1996	55	45	35	44	54	40	42	31	25	41
Broad unemployment, 2002	39	41	36	47	55	42	46	41	26	41
Poverty rates <sup>9</sup> (% pop), 1996	74	54	32	63	78	64	61	58	29	57
<b>Percent of households with access to essential services, 2001</b>										
Direct water supply to house	45	71	84	57	46	63	82	59	85	66
Phone (landline/cell) in house	29	35	56	39	28	38	42	35	63	42
Sanitation (flush/septic tank)	33	46	82	42	16	38	66	35	86	52
Weekly refuse removal	36	59	84	49	14	39	69	37	88	55
Electricity for lighting	50	74	81	61	64	68	76	70	88	70
Electricity for cooking	28	47	73	48	25	40	59	45	79	51
Electricity for heating	23	40	70	47	27	39	54	45	73	49

Source: Rows 1-4: DBSA (2000); Row 5: Stats SA (2002c); Row 6: Whiteford & van Seventer (1999), p32; Row 7-13: Stats SA (2003a).

\* The provinces are Eastern Cape, Free State, Gauteng, KwaZulu Natal, Limpopo, Mpumalanga, North West, Northern Cape and Western Cape.

As can be seen from Table 10, the Western Cape and Gauteng, centred on Cape Town and Johannesburg respectively, are much better off than the provinces which include former bantustan areas. These two provinces are almost fully urbanised, and have much

<sup>9</sup> Based on BMR Minimum Living Level of R950 per month per household of four (1996), equivalent to approximately \$1.80 per day per adult.

lower unemployment and poverty rates than the other provinces. These two provinces also have a far higher percentage of households with access to services than the other provinces. The poorest provinces in terms of both the prevalence of poverty and access to services are the Eastern Cape and the Limpopo province, both of which are dominated by former bantustans in terms of land area and population composition.

Table 11: Prevalence of HIV for people 15 & older, 2002

	Total	African	White	Coloured	Indian
<b>By measure of disposable income</b>					
Not enough money for basics	13.9	14.5	6.2	7.6	1.9
Enough for basics, short for others	14.0	16.1	6.4	4.4	3.7
Enough for most important things	6.5	9.4	3.7	7.8	0.5
Some money for extras	5.0	10.3	4.6	2.7	0.0
<b>By education</b>					
No School	8.3	8.7	0.0	5.2	0.0
Primary School	12.1	12.6	10.7	8.3	1.2
High School	14.9	17.2	7.7	5.1	0.8
Matric	15.3	21.1	4.4	6.4	3.0
Tertiary Education	6.5	10.2	3.6	2.7	0.3
No School	8.3	8.7	0.0	5.2	0.0

Source: HSRC (2003)

Table 11 presents data on HIV prevalence in South Africa.<sup>10</sup> As indicated above, the survey found that the overall prevalence rate in the population (older than two years) was 11.4%. Amongst Africans, the figure was 12.9%, amongst whites 6.2%, coloureds 6.1%, while for Indians it was very low at only 1.6%. women and girls are more vulnerable than men/boys, the female prevalence rate being 12.8%, compared with 9.5% for males. The data suggest that all socio-economic groups are at risk, not just poor people, though they face a higher risk. Amongst Africans, the data show no clear trend even after further statistical analysis, and better-off people have the same levels of risk as those who are poor. The lower half of the table shows that the risk of infection increased amongst people with higher levels of schooling, though tertiary education appears to lower the risk. This reinforces the impression that HIV/Aids is not simply a

<sup>10</sup> The table is drawn from the first household survey in South Africa which involved testing respondents for HIV status, carried out in 2002. The survey did not include detailed measurement of income levels amongst the respondents, only a proxy measuring adequacy of household income for necessary expenditures.

‘poor peoples’ disease’ since poverty and educational attainment are closely correlated. However, the *impact* of the disease clearly varies considerably with socio-economic status, since poor people are far less able to cope with the loss of earnings, the increased medical costs, the potential disruption to children’s (especially girls’) schooling due to increased domestic responsibilities and other consequences in the household.

*(iii) Redistribution.*

In a series of valuable papers, Servaas van der Berg and collaborators (2001a & b, 2002; van der Berg & Burger, 2002; van der Berg & Bredenkamp, 2002) have shown that the fiscus, and its expenditure side in particular, has been used very effectively as an instrument of redistribution in South Africa since 1994, continuing a pattern established from the mid-1970s. Up until then, whites were the primary beneficiaries of public expenditure, receiving well over 50% of all social spending – health, education, welfare, as well as housing, water and sanitation and, after 1994, land reform – while black social expenditure per capita had remained constant at about 12% of the white level. From the late 1970s, expenditure on Africans began to rise, first in response to increasing political instability from 1976, which led to rising education spending. Between 1990 and 1993, expenditure on Africans accelerated sharply as the apartheid government desperately tried to buy black support during the constitutional negotiations for the forthcoming universal franchise election.<sup>11</sup>

Table 12: Social spending from fiscus

	1975	1990	1993	1997
African share of social spending	28	51	67	80
White share of social spending	55	33	17	9
Per capita level: African % of white	12	28	69	n.a.

Source: vd Berg (2001a, 2002)

Table 12 shows the dramatic changes in the racial allocations over this period. African per capita spending rose by 40% while spending on whites, Indians and Coloured

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<sup>11</sup> These increases contributed to a rapid rise in the national government budget deficit during the period, from 3.2% of GDP in 1990 to 10.1% of GDP in 1993 (SA Reserve Bank).

people dropped by 17%, 21% and 10% respectively. By 1997, the racial spending allocations were roughly proportionate to population shares.

The impact of social spending on inequality is summarised by calculations of the Gini coefficient . When only earned income is taken into account, the coefficient for the population as a whole for 1995 is 0.68.<sup>12</sup> Taking taxes into account reduces this to 0.64, and taking transfers and other social spending into account, the Gini drops again to 0.44 (van der Berg, 2002). Between 1993 and 1997 overall per capita social spending (health, education and welfare, plus housing and water) increased by 23.8% in real terms. But there was significant redistribution across income and racial groups. The lowest income quintile experienced a per capita spending increase of 28%, and the next two quintiles 56% and 31% respectively, while the top quintile dropped by 20% (Van der Berg, 2001b).<sup>13</sup>

Table 13: Distribution of government budget. (Fiscal years, ending March 31)

Percentage share of budget	1990/1	1995/6	1998/9	2000/1	2002/3
<b>Social services:</b>					
Education	18	21	22	21	20
Health	9	10	11	11	11
Social security & welfare	6	10	12	12	14
Housing & other social services	13	5	3	2	4
<b>Social services total</b>	<b>46</b>	<b>46</b>	<b>48</b>	<b>47</b>	<b>49</b>
Protection services	20	17	16	17	17
Economic services	14	11	8	8	12
Interest	12	19	20	19	15
Other	8	7	8	9	7
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: National Treasury, National Expenditure Survey, various years

Table 13 shows that nearly half of all social spending goes to social services, the three percentage point increase since the beginning of the 1990s being re-allocated in effect

<sup>12</sup> This figure is higher than the Gini in Table 2 because social transfers received mainly by poor people such as pensions are excluded.

<sup>13</sup> Because of the distribution of pensions and social assistance, total spending on the lowest quintile is significantly higher than the higher income quintiles, so that the 3<sup>rd</sup> and 4<sup>th</sup> quintiles experienced increases from a lower base.

from protection services (defence, police, justice). Education receives the biggest single share, but the proportional increase in the allocation to social security has been greatest, while housing & other services, which include land reform, water and sanitation, have declined.

The social security system in South Africa, including social insurance and social assistance, is substantial in international terms, but still has gaps in coverage. Social insurance for retirement and unemployment is very closely tied to employment status, with three-quarters of formal sector employees covered making up just under half the labour force (45%). The substantial number employed in the informal sector, domestic service and agriculture are not covered. Social assistance schemes provide for those without insurance. A means-tested social pension (ZAR640 per month at the start of 2001, about US\$90 at the time) was provided to more than three-quarters of the elderly, with more than three times as many women as men receiving this grant. This scheme is critical in providing some income to poor people - nearly a quarter of African households (23.7%) received a pension, and two-thirds of recipients are in rural households. As a result, poverty amongst the aged is actually lower than amongst children, whose families receive a child support grant of only ZAR140 per month per child.<sup>14</sup> The scope of the South African social assistance system is underlined by the fact that 2.1% of GDP was spent in 1999, well above the Western European average *for 1980* of 1.54%, when the UK's level was 1.75%. Nonetheless, many households are excluded from access, with those least assisted being female-headed households, discouraged workseekers and (until 2003) households with children between 7 and 14 years old.<sup>15</sup>

#### *(iv) Economic growth and employment*

Growth and employment are critical for welfare and poverty status. GDP growth between 1990 and 2002 averaged only 1.7% per annum. Since the population growth rate was 2.0%, per capita income dropped from 1990 to 2002 (Table 1). Between 1994 and 2002, GDP growth was 2.73%, so that on a per capita basis, growth was positive but low at 0.7% per annum.

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<sup>14</sup> Until age 6 up to the March 2003 Budget, when it was extended to age 14.

<sup>15</sup> This paragraph is based on van der Berg & Bredenkamp, 2002.

Between 1990 and 2002, there were significant shifts in the composition of output, shown in Table 14. The shares of both mining and manufacturing declined, as did ‘other industry’ (construction and utilities), while services increased, with transport and communications and financial services growing particularly strongly. Within manufacturing, there were also composition shifts. Labour-intensive sectors (food & beverages, textiles & clothing and footwear) grew slowly at around 0.2% per annum, and declining from 23% of manufacturing value-added (MVA) in 1990 to 20% in 2000. At the same time, basic metals, wood products and chemicals were the fastest-growing sectors, basic metals and wood growing by more than 4% per annum and increasing their shares of MVA, basic metals by over three percentage points to 16%, and wood by half a percentage point to 3.9% of the total (Kaplan, 2003).

The shift to more capital-intensive sectors was linked in part to international trade. The share of exports from capital-intensive sectors rose from 56.1% in 1993 to 60.8% in 1997, while import penetration in labour-intensive sectors rose from 55.5% to 67.5% in the same period, squeezing domestic production and employment (Edwards, 2001).

Table 14: Sectoral output shares, 1995 prices

	Share of Gross Value Added, percent			Growth rate, 1990-2002
	1990	1994	2002	
Agriculture	5.0	5.0	4.3	0.8
Mining	7.3	7.4	5.4	-0.5
Manufacturing	22.0	20.5	20.2	1.3
Other Industry	6.9	6.7	6.6	1.7
Transport & Communication	7.9	8.3	11.7	5.5
Financial services	15.6	16.3	19.6	4.0
Govt. & community services	16.0	16.5	13.5	0.6
Trade & other Services	19.4	19.3	18.8	1.8
Total	100.00	100.00	100.00	2.0

Source: SA Reserve Bank, Quarterly Bulletin, various issues

Table 15 shows the change in the sectoral composition of merchandise exports between 1990 and 2002, in particular the significant shift from minerals to basic processed goods and to machinery and equipment. This reflects in large measure the growth of domestic

beneficiation of natural resources to allow the export of materials rather than raw ores and resources. Basic processed goods includes chemicals and plastics, wood products and basic metals. Machinery and equipment shows the biggest increase in export share. This category includes vehicle components, exports of which have grown rapidly since the mid-1990s in the context of the Motor Industry Development Plan. The overwhelming bulk of component exports have been catalytic converters and leather car seats, constituting 48% (1994: 9.4%) and 13% respectively of motor exports in 2001. Both the converters (ceramic moulds imported until 2000 and platinum-coated in South Africa) and the seats are beneficiated natural resources rather than assembled products. Since 1999, the South African auto industry has also rapidly increased its exports of assembled vehicles, these rising from 25900 in that year to over 100000 by 2001, a level which has been maintained (Black, 2002). But critics of the programme argue that the sector has seen a limited rise in productivity growth and international competitiveness, with the export success due to the MIDP subsidy whose cost is ultimately borne by South African consumers (Kaplan, 2003).

Table 15: Percentage shares of merchandise exports, by sector

	1990	1995	2000	2002
Agriculture	4.5	4.9	4.1	5.5
Minerals	61.3	50.7	45.6	36.1
Food, beverages	3.0	3.1	4.0	4.3
Textiles and clothing	3.1	3.1	2.7	3.1
Basic processed goods	21.9	28.1	27.4	29.7
Machinery & equipment	5.9	8.5	14.7	19.3
Other manuf goods	0.1	1.6	1.5	2.0
Total	100	100	100	100

Source: TIPS (2003).

Lewis (2001, p46-7) argues that there is “some evidence to suggest that trade liberalisation and increased trade ...have induced a structural change in production towards capital-intensive sectors... South Africa has a low and declining share of exports that use unskilled labour, and a high share using more skilled labour”. This is a counterintuitive outcome given the abundant supply of unemployed and unskilled labour, and underlines the high degree of segmentation in the labour market. The sectoral shifts in output growth and exports were reflected in employment changes on a sectoral basis,



as shown in Table 16. The last column of the table shows that employment grew by more than 10 percent overall between 1995 and 1999, a net increase of 970 000 jobs.<sup>16</sup> Labour force growth was however greater at 13.2% during the period, so that unemployment also rose. Employment grew rapidly in the two fast-growing sectors in output terms – financial services and transport and communications – but these sectors together employ only about 15% of the employed labour force. Construction, included in ‘other industry’ and ‘trade and other services’ also increased their employment shares, though the growth in the latter may have included a significant rise in the number of domestic workers being counted for the first time.

Table 16: Employment by sector

	Share of Employment %		Employment increase, % 1995 - 99
	1995	1999	
Agriculture	12.4	10.9	-3.3
Mining	6.2	4.5	-19.4
Manufacturing	14.9	14.4	6.7
Other Industry	5.4	6.2	25.2
Transport & Communication	4.9	5.2	15.8
Financial services	6.1	8.9	61.4
Govt. & community services	22.5	19.1	-6.7
Trade & other services	27.6	30.9	23.2
Total	100.00	100.00	
Number	9.557m	10.529m	10.2

Source: Calculated from OHS 1995 & 1999

The shifts in output and trade across sectors have contributed to a ‘skills twist’ in employment growth, as the occupational structure of employed labour shows in Table 17. In proportionate terms the major gainers are the managerial and professional categories, with the biggest decline in the elementary category.<sup>17</sup> Edwards (1999) shows that the main driver of the decline in employment in the relatively unskilled job categories has been labour-displacing technical change (see also Bhorat, 2003b). This structural change favours those with higher levels of education and entrenches

<sup>16</sup> More recent comparable data was not available.

<sup>17</sup> Skilled agriculture & domestic also gained substantially, but many of these are likely to be domestic workers.

inequality, given the links discussed earlier between inequality, poverty and employment status.

Finally, we look at wages. Table 19 shows that there was a significant shift from wages to profits in the overall income distribution during the 1990s, the share of profits in national income growing by nearly six percentage points, from 42.8% to 48.6%, with an equivalent fall on the wage side (employees' remuneration). While there is not a direct relationship with inequality, this provides a strong indication of distributional trends. On the other hand, even though the wage share declined, those who retained their employment in the formal sector gained on average, because real wage rates have risen rapidly in the economy as a whole since 1990, driven initially by increasing public sector wages, and from 1995, by the private sector even more strongly. Unfortunately, reliable sectoral data on wages was unavailable.

Table 17: Occupational distribution

	1995	1999
Managers	5.3	6.6
Professionals	3.4	5.3
Technicians	11.0	10.0
Clerks	12.0	10.2
Service & sales	11.2	11.8
Skilled agriculture & domestic workers	8.5	12.5
Craft	12.1	13.0
Machine operators	11.7	10.4
Elementary	23.4	18.3
Unspecified	1.4	1.8
Total	100	100

Source: Based on OHS 1995 & 1999 and Census 2001

Table 18: Employment indices by skill category and sector, 1985, 1995 & 2002 (1985 = 100)

Sectors	Semi-/Unskilled			Skilled			Highly Skilled		
	1985	1995	2002	1985	1995	2002	1985	1995	2002
Agriculture	100	91	77	100	121	130	100	197	284
Mining	100	78	52	100	96	77	100	145	127
Manufacture	100	90	76	100	104	97	100	145	145
Utilities	100	59	47	100	79	84	100	173	227
Construction	100	86	51	100	83	50	100	98	68
Trade	100	82	80	100	103	111	100	117	140
Transport/comms	100	62	43	100	66	51	100	117	120
Financial services	100	94	105	100	123	131	100	165	196
Govt & community	100	87	99	100	126	125	100	128	125

Source: TIPS, South African Standardised Industry Indicator Database

Table 19: Trends in wage share

	1985	1990	1995	2000	2002
<b>As percent of GDP at factor cost:</b>					
Wages (Employees' remuneration)	57.1	57.2	55.8	53.9	51.4
Profits (Gross operating surplus)	42.9	42.8	44.2	46.1	48.6
<b>Trends in real wages (1995 prices):</b>					
Private sector	102.3	100.9	100.0	118.9	123.4
Public sector	79.1	78.8	100.0	108.6	112.8
Whole economy	92.2	91.3	100.0	115.2	119.4
<b>Growth rates of real wages (% p.a.)</b>					
	1985-2002		1985-1995		1995-2002
Private	1.11		-0.23		3.05
Public	2.11		2.37		1.74
Total	1.53		0.82		2.57

Source: SA Reserve Bank, Quarterly Bulletins, various issues.