

# Challenging inequalities in South Africa

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Winter school

Faculty of Theology



# Plan

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- Why should we care?
- Let's check the data
- What has policy achieved?
- Where can we do better?

# Talking about inequality is not so easy

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- We can be unequal along a number of different dimensions
  - income, consumption, assets, opportunities, education, influence, abilities
- There are different concepts of inequality
  - We can measure gaps between the top and bottom
  - Or try to measure the entire distribution
  - Or sensitive parts of the distribution
  - Or the persistence of the distribution over time

Why should we care about inequality?

# Normative reasons

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1. Inequality may reduce happiness
2. You might consider inequality to be morally objectionable as such
  - Economists have always distinguished between market inequality and the inequality that arises from exploitation on the other

# Positive reasons

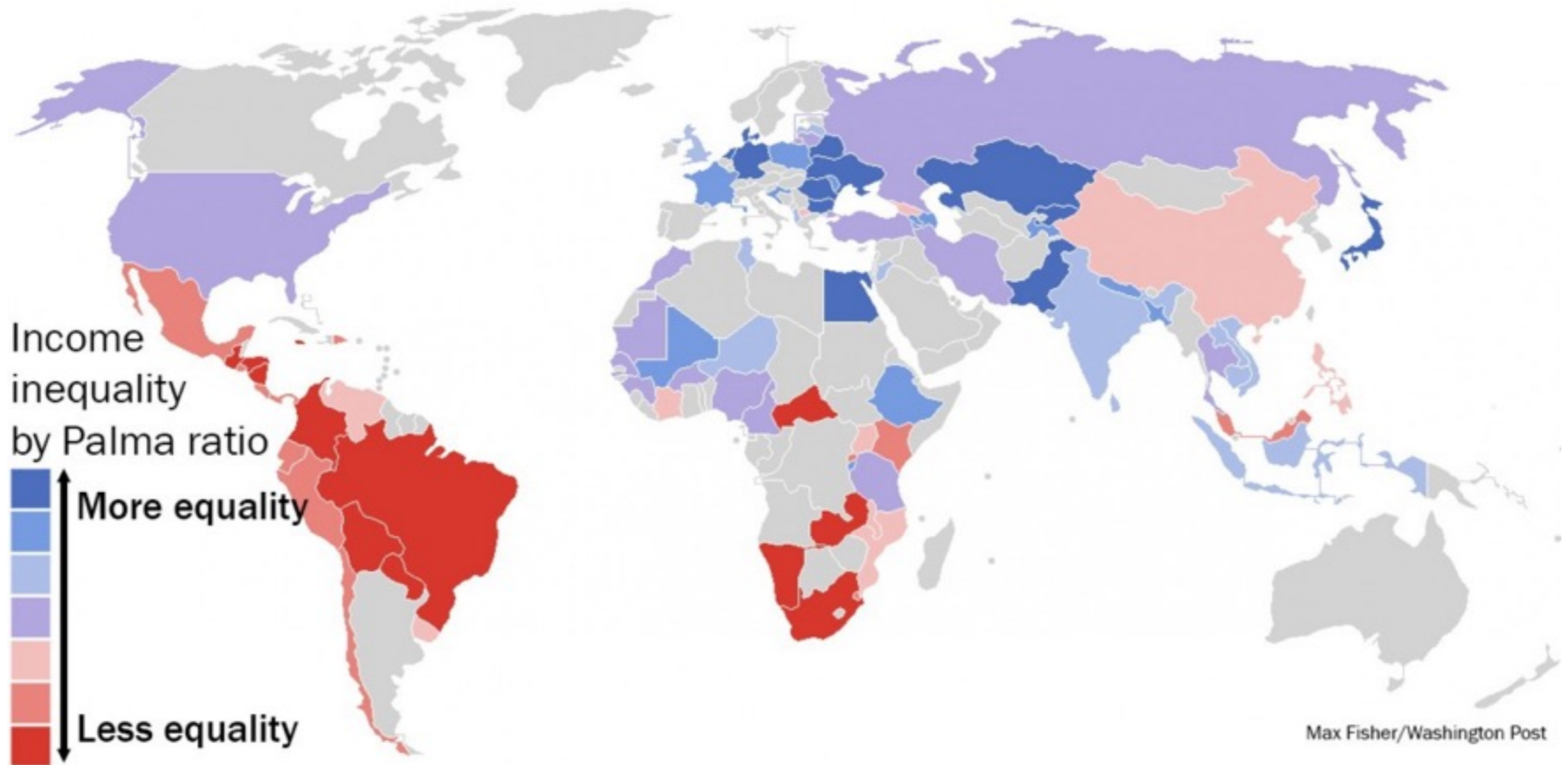
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1. Inequality may undermine social stability
  - and/or encourage leisure as opposed to work\*
2. It may lower economic growth\*\*
3. It is associated with persistent poverty
4. It may distort the political system - through special interest politics and the creation of an oligarchy

\* Piketty, T.S., 2014. Capital in the 21st century

\*\*Ostry, J., et al. (2014) Redistribution, Inequality and Growth, IMF Staff Discussion Note. Washington: IMF

Let's check the data



Global inequality

Source: Washington Post



# Inequality in South Africa

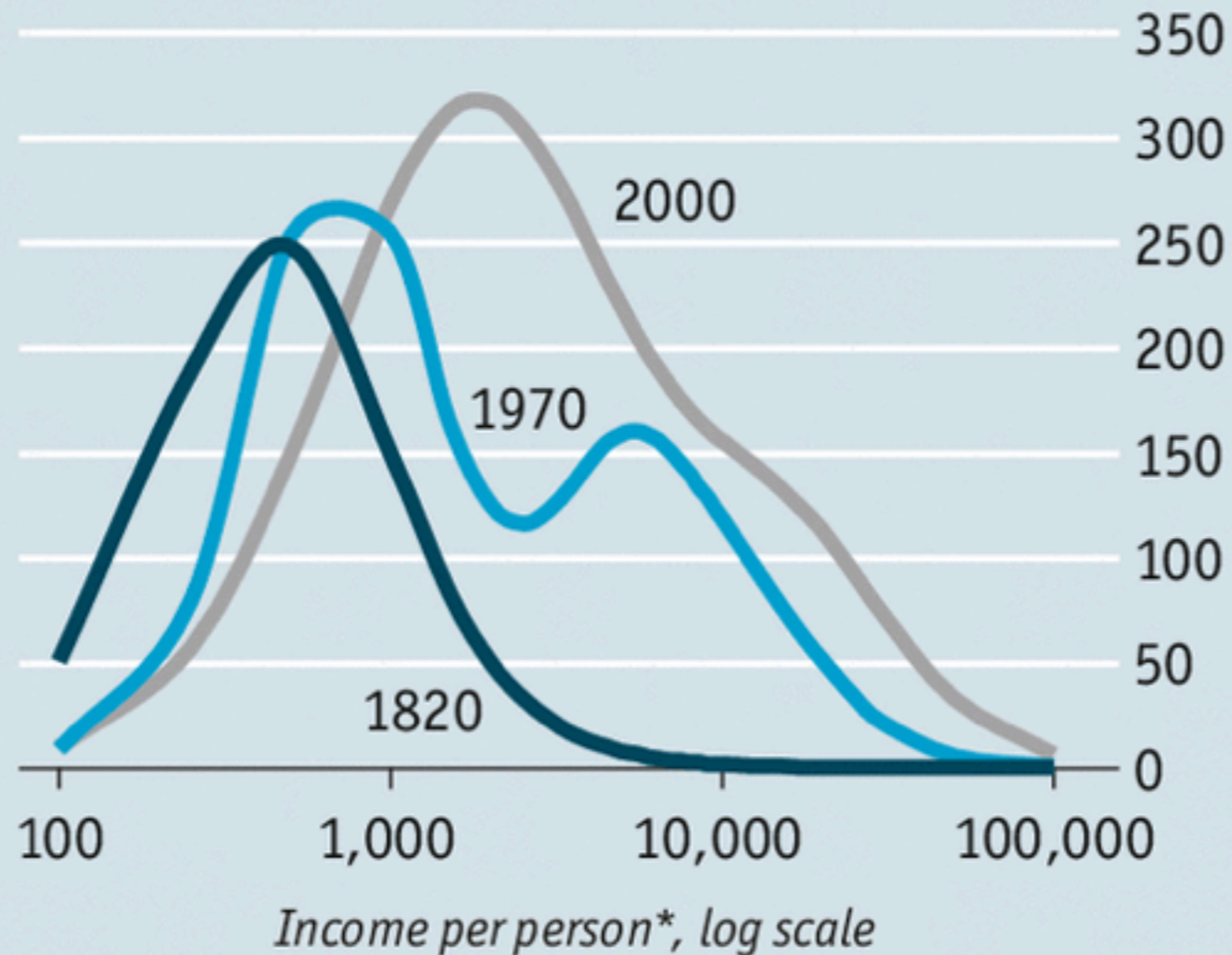
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- Undoubtedly high, though the precise level is a matter of contention
- Much more agreement on the trend since 1994 though: rising until about 2000 and stable since then
- This stability at the aggregate level mask a sharp rise in within-group inequality and a sharp drop in between-group inequality (between group inequality now accounts for 35% of total inequality down from 61% in 1993)
- The labour market is now the major source of income inequality in SA
- And education the major source of labour market inequality

## One hump or two?

Global income distribution

Number of people at each level of income, m



Source: OECD

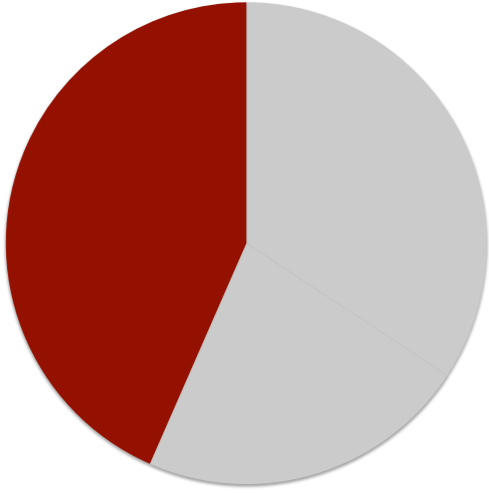
\*1990 \$ at purchasing-power parity

Let them eat  
cosmopolitanism!

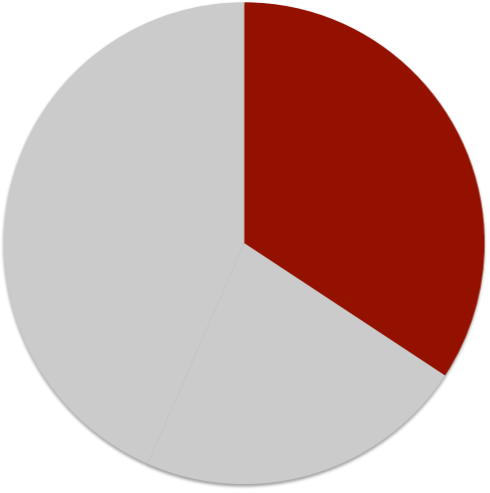
Source: The Economist

What has policy achieved?

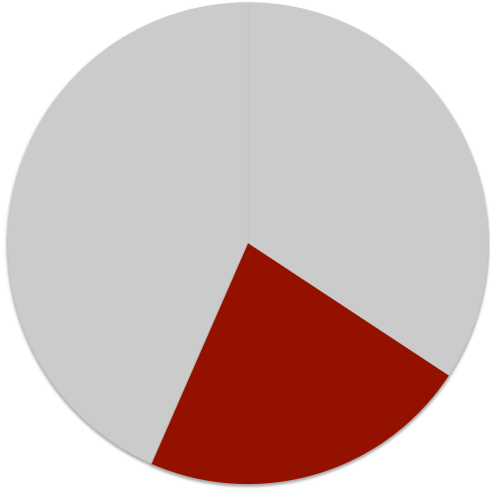
Direct taxes (e.g. VAT)



Personal Income Tax



Corporate taxes

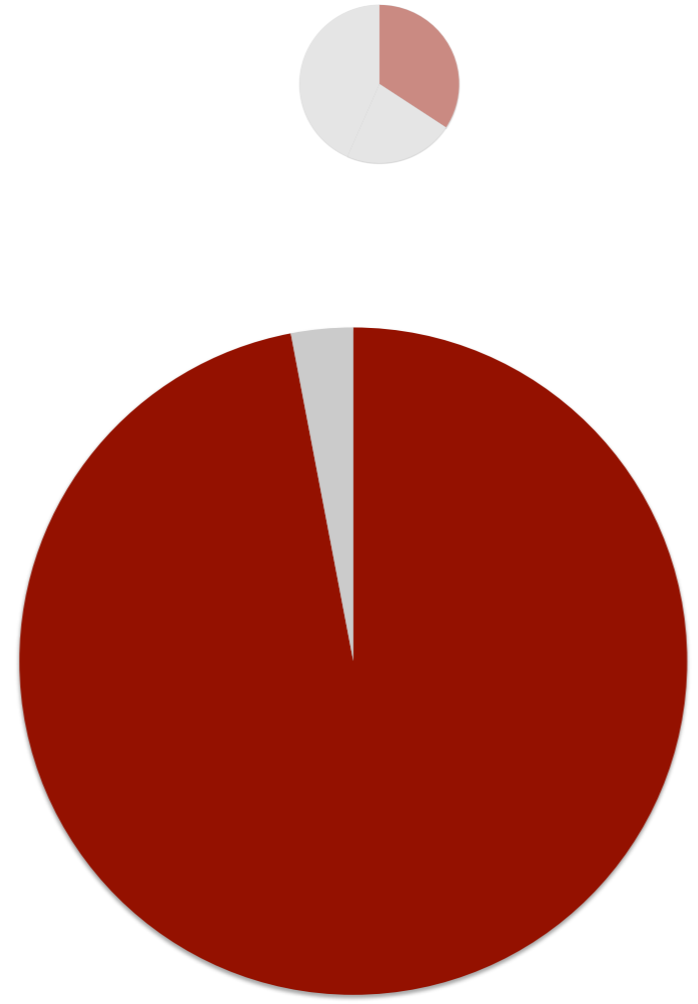


SA has the tax structure of a developed economy

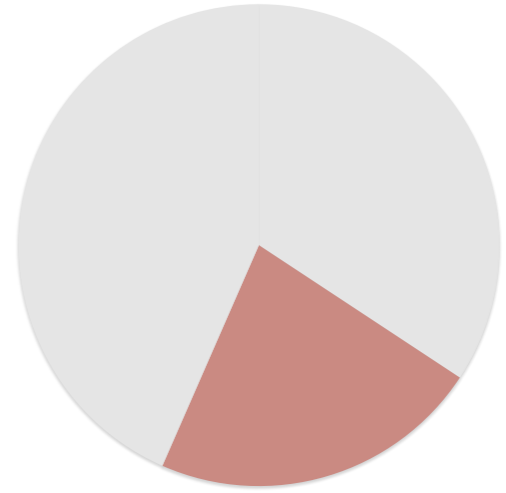
Direct taxes (e.g. VAT)



Personal Income Tax



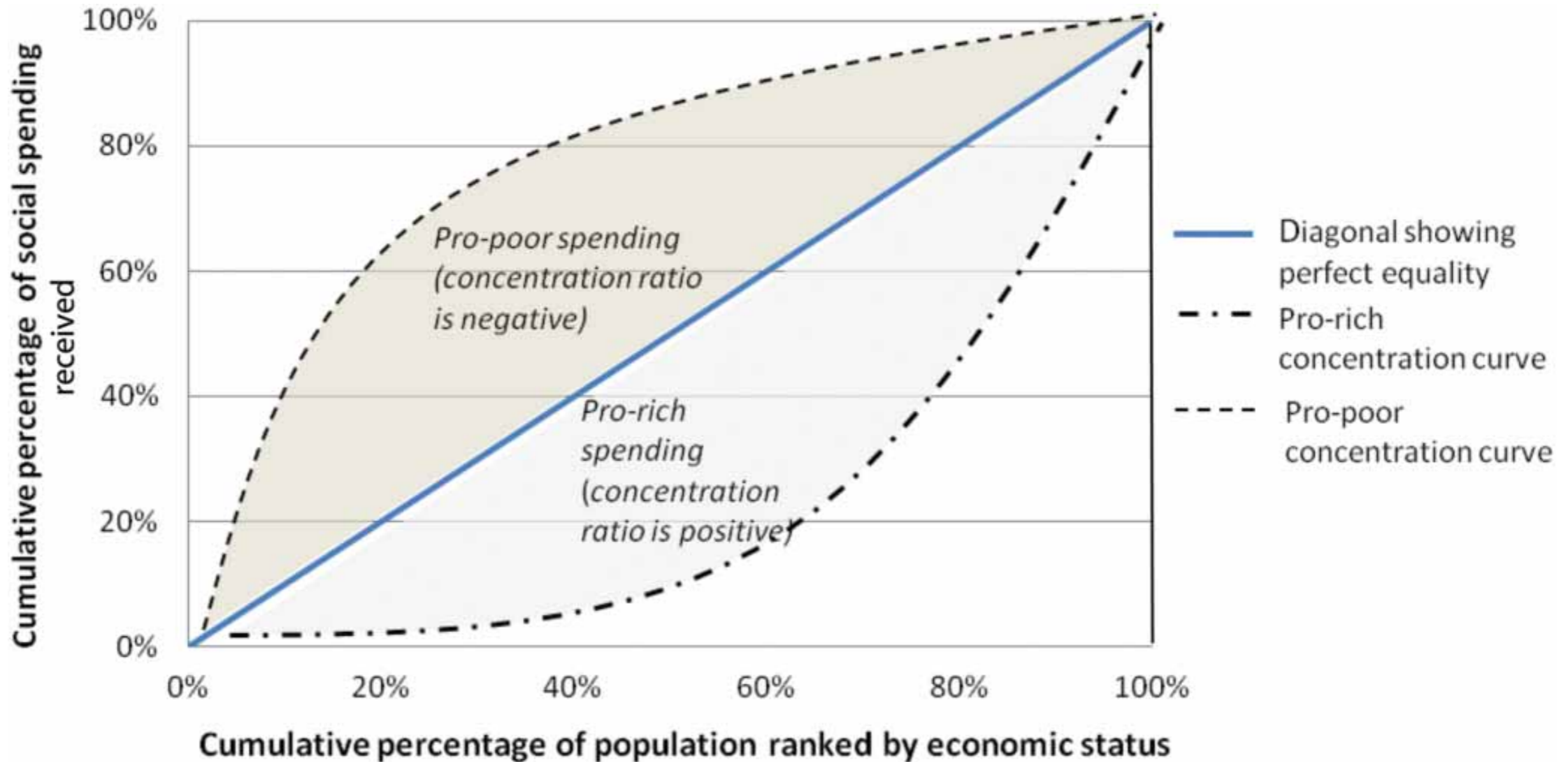
Corporate taxes



■ 1  
■ 2

Proportion of income tax paid by richest 20% Income Tax

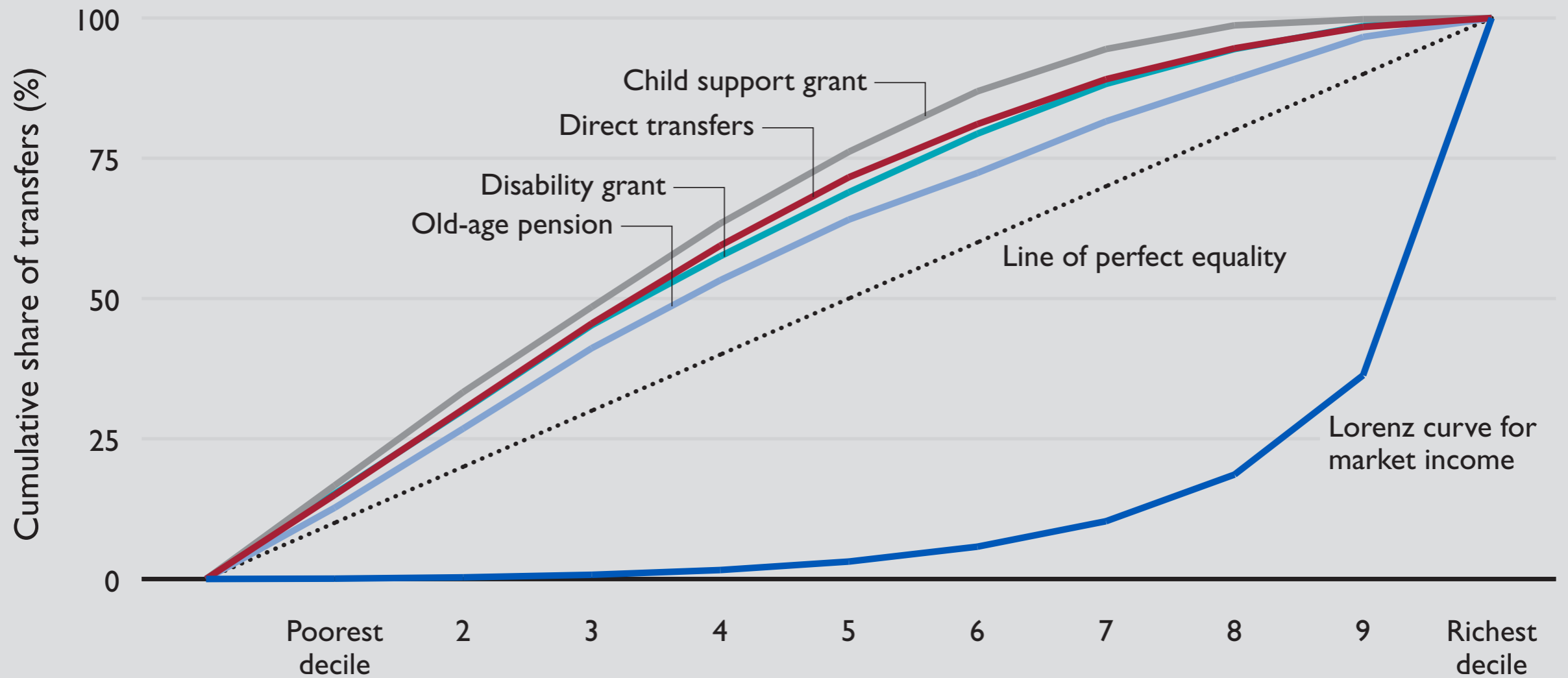
Personal income taxes are highly progressive



## The distributional impact of public expenditure

Source: Van der Berg, S and E Moses, (2012). How better targeting of social expenditure affects social delivery in South Africa, *Development Southern Africa* 29(1), 127-139

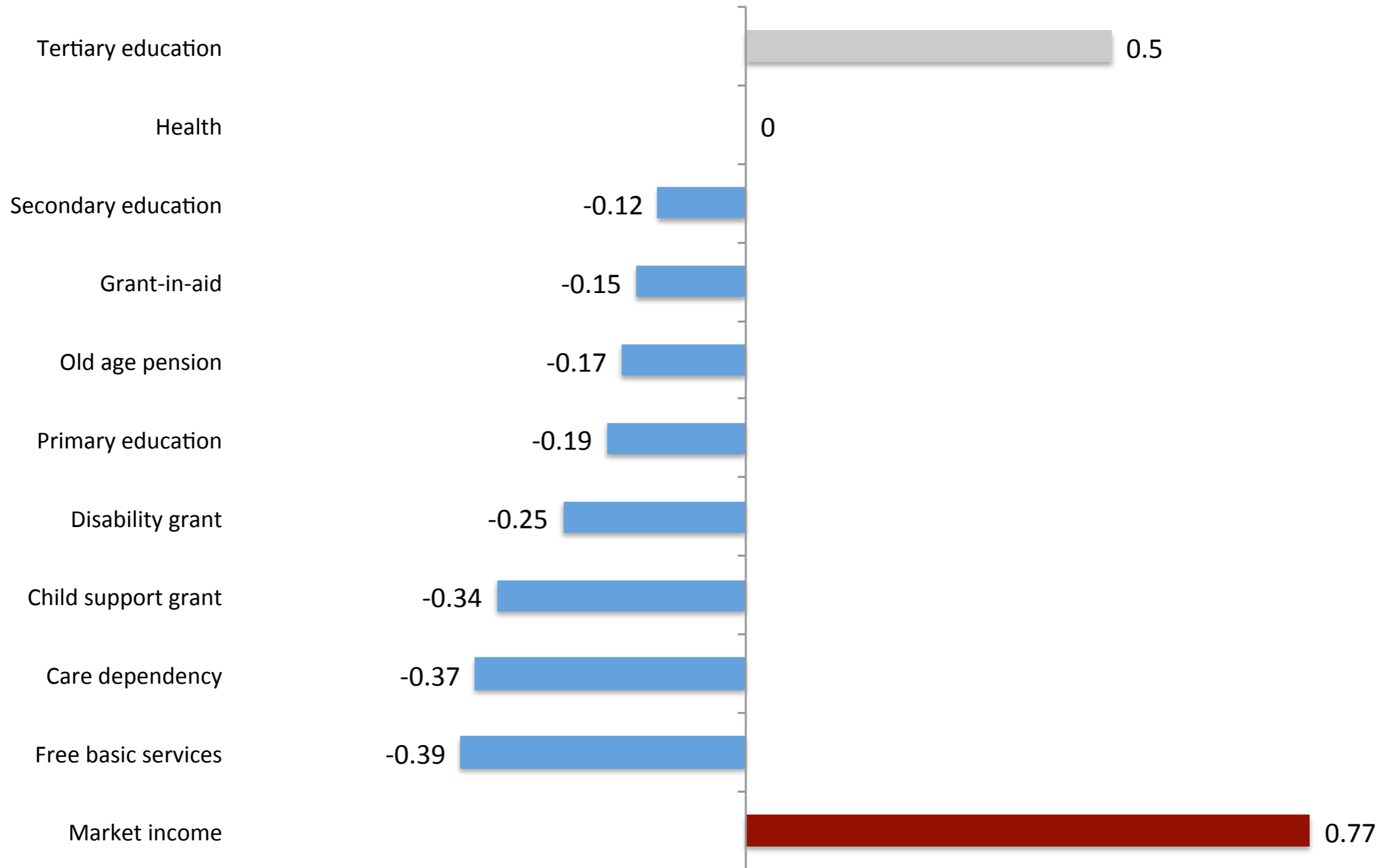
## A. Large cash transfer programs



Incidence of large cash transfer programmes

Less inequality

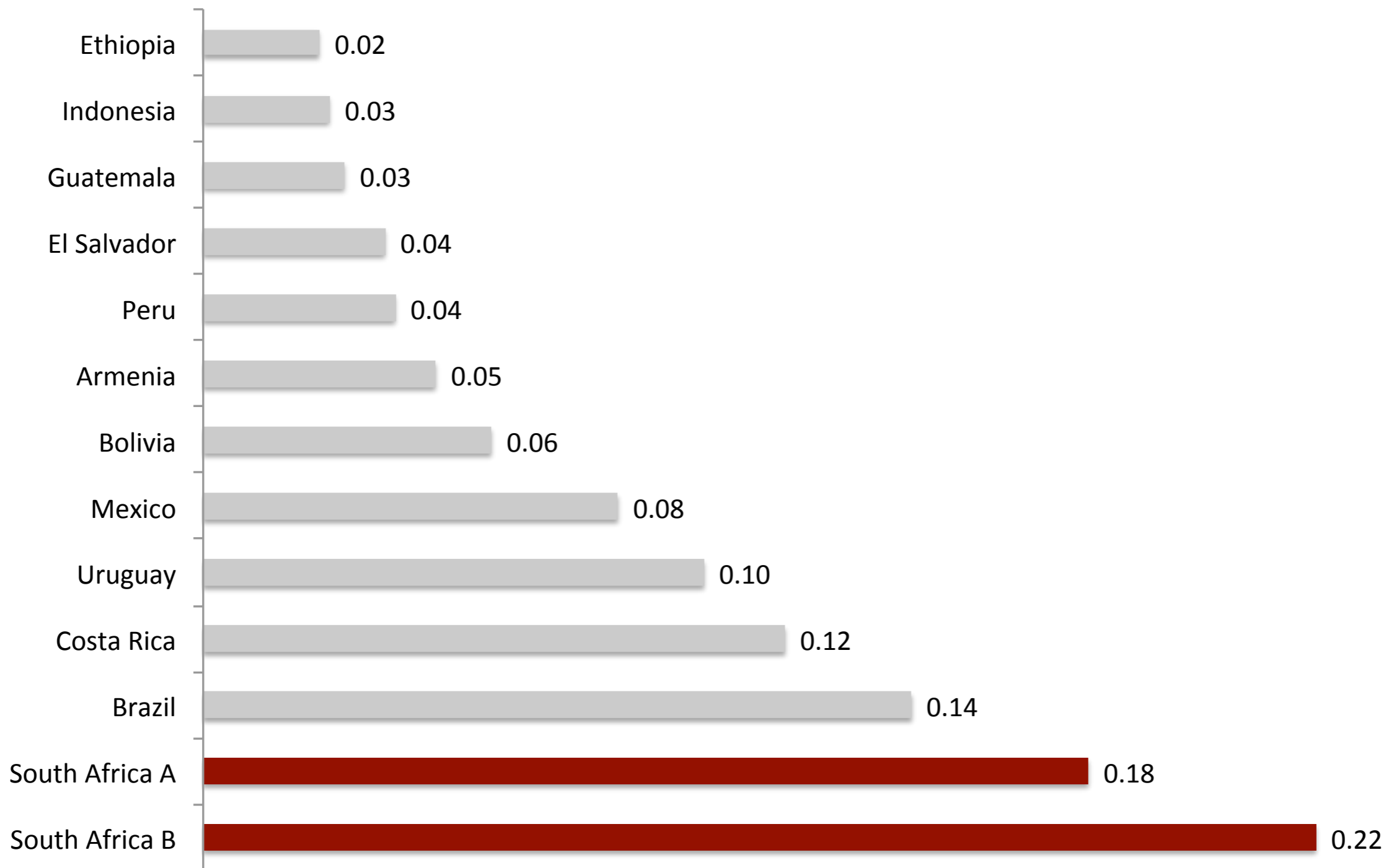
More inequality



Incidence of government's social spending

SA government spending is highly progressive



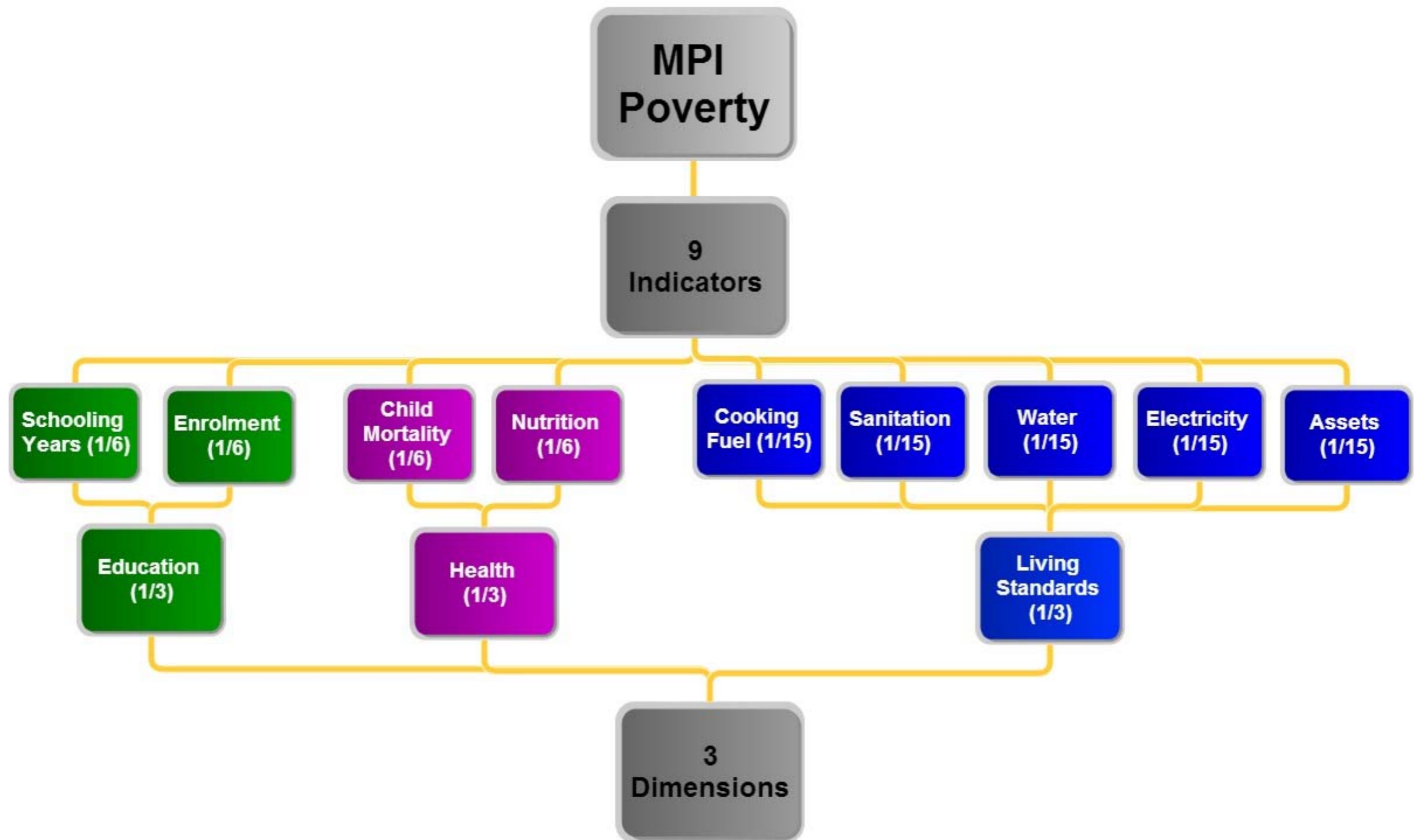


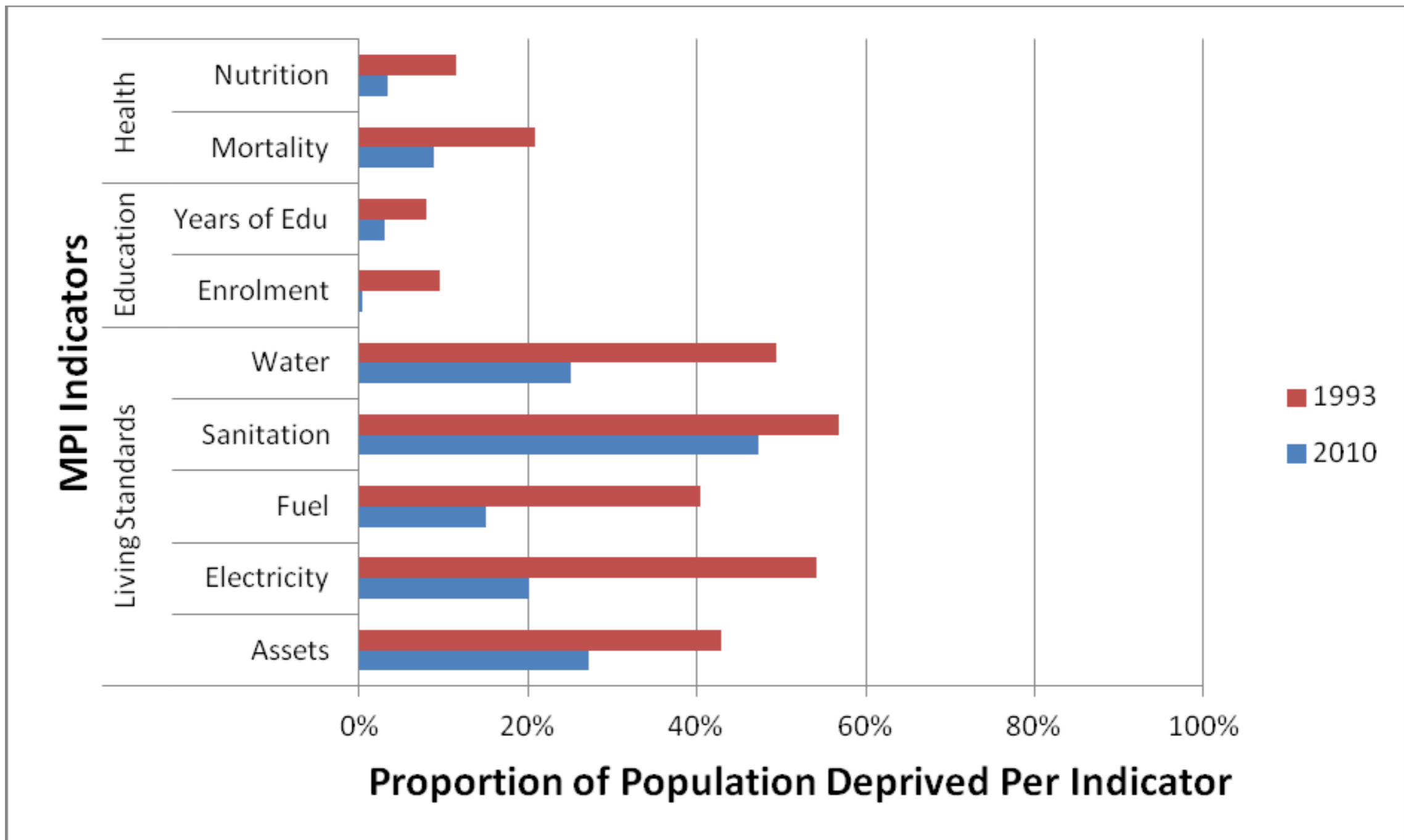
Inequality reduction on an international comparison

SA achieves a greater reduction in inequality than any other middle income country

# Multi-dimensional poverty

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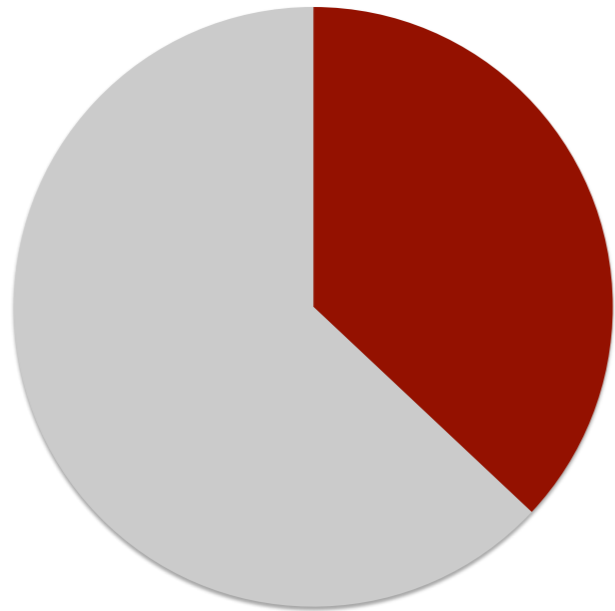




Sources of deprivation in the SA population

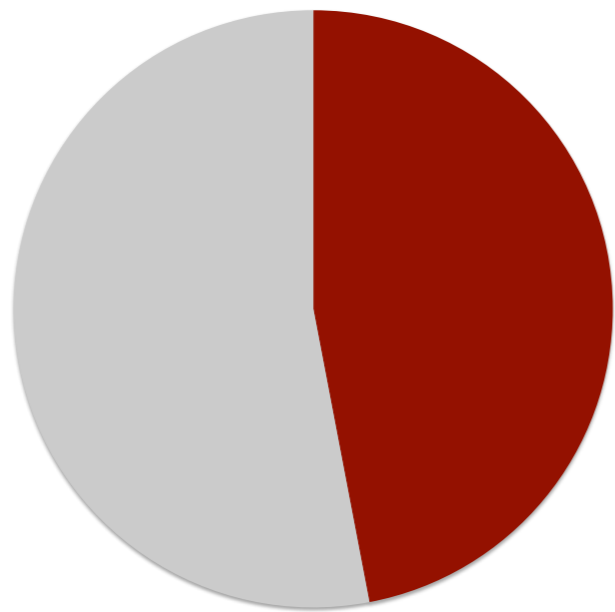
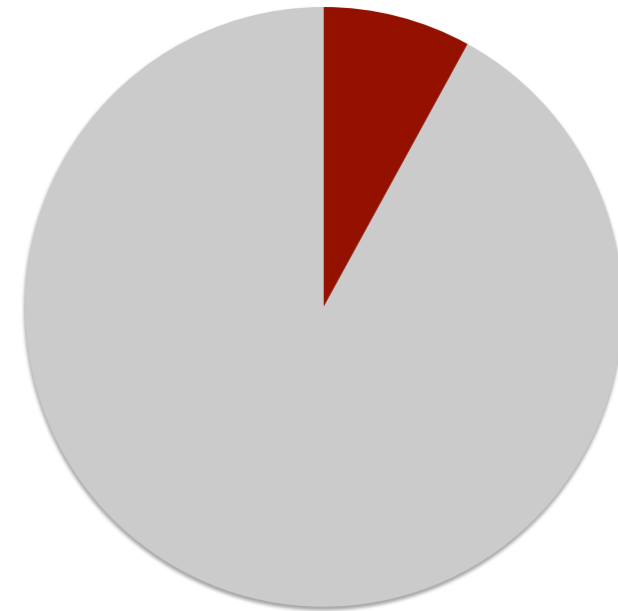
Multidimensional poverty has declined along many dimensions

1993

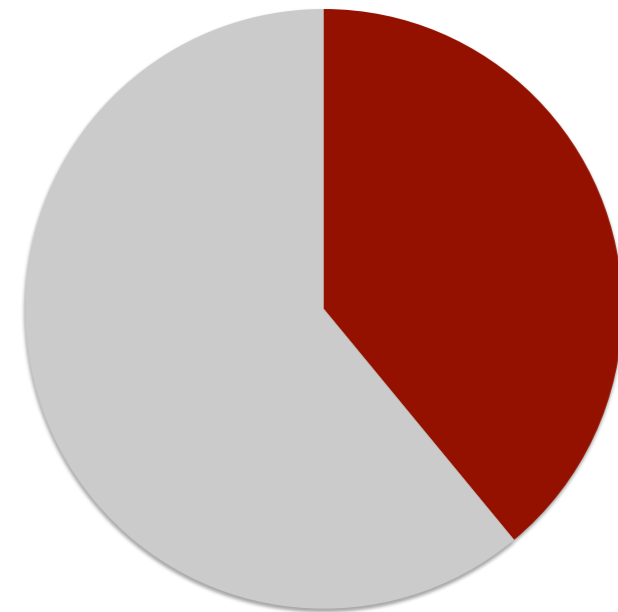


Poverty headcount

2010



Poverty intensity



Decline in poverty headcount and intensity

Poverty measured using the multidimensional measure

1993

population 40 million



2010

population 50 million



Decline in SA's poverty  
headcount

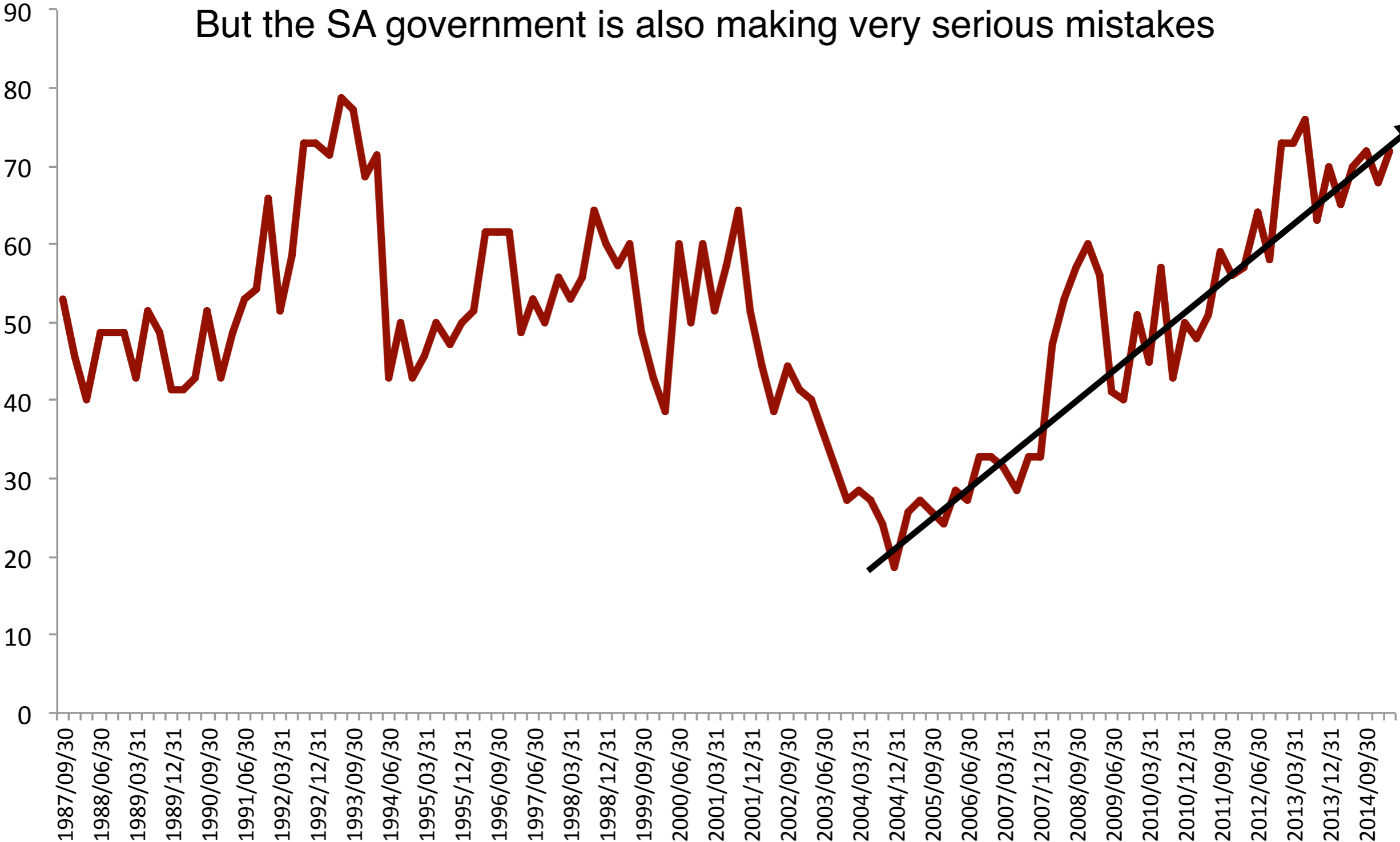
Millions  
Poverty measured using the  
multidimensional measure

# Fiscal policy is really pro-poor

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- Three quarters of the highly redistributive impact of our budget is via the expenditure side of the budget, mainly through various grants, education and health
- More than a quarter of the SA population receives some form of social assistance grant. No other developing country has such a large social assistance programme, and even amongst developed economies, only Denmark spends a larger proportion of GDP on social assistance
- Fiscal policy has had two very significant effects:
  1. It has reduced inequality
  2. It has been very effective as an anti-poverty strategy

But the SA government is also making very serious mistakes



# Greed and Grievance

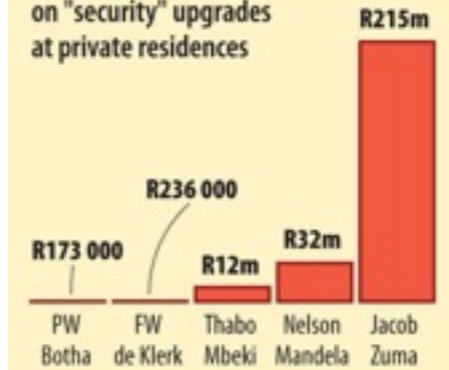
BER manufacturing survey  
Proportion of firms citing "political climate" as an obstacle to investment

# ESKOM SELFIE



## Five presidents' houses

State money spent on "security" upgrades at private residences



Graphic: JOHN McCANN Research: AMABHUNGANE

## SO, in A NUTSHELL...



Examples of the weakness of the South African state



Conclusion

# Conclusions

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- SA remains a highly unequal country
- But it is wrong to say we have done nothing about it; on the contrary, through fiscal policy we have done more to reduce inequality than any comparable country has ever achieved
- The expenditure side of government's budget not only reduces inequality, but has also been effective in reducing poverty
- The income side of government's budget is progressive and is the vehicle by which the rich ensure the sustainability of the redistribution on the expenditure side
- The major shortcoming in this policy area is the quality and efficiency of government services, including the large public utilities, and the emerging evidence of the weakness of the state

the **end**