



A Fair Share

Reflecting Essays on Economic Inequality in SA

NICO KEYSER (Ed)



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UJ Press

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Chapter 1

Introduction

Nico Keyser 

Introduction

Why all the fuss about economic inequality? Why does economic inequality matter? Is it just a political theme used to support (or win over) the have-nots? Or, at the very extreme, is it driven by socialists whose goal is to establish a utopia of a supposed ‘equal society’, eventually resulting in a pure communist state? Or is it, at the fundamental level, simply a (serious) threat to economic sustainability and social stability?

Yes, inequality does matter. The high levels of poverty and inequality in the world and South Africa justify that these related challenges matter and require continuous analysis, debate, reflection, and discussion. Poverty and its close relation to inequality, the likely increase in conflict and civil war, and the search for social justice need more inquiry into the complexity of inequality’s relationship with other economic variables. In this book, which targets the general public, policymakers, and anyone interested in inequality, the following essays will reflect on different aspects of economic inequality in South Africa, specifically focusing on the period after 1994. The chapters focus on the following topics: how to measure inequality, wealth inequality, wage inequalities, land distribution, access to banking services, inequality in service delivery, socioeconomic inequalities in health, and inequality in education. The final chapters focus on the informal sector, the consideration of a universal basic income grant, and economic inclusivity as some remedies for inequality in South Africa.

Conceptual Clarity and Origins of Inequality

The concepts of poverty and inequality are very often treated as synonyms. Although these concepts are closely related, their analyses require an in-depth study of each phenomenon. Different types of economic inequality exist, but inequality is generally regarded as an obstacle to economic growth and economic development, and correlates with multiple forms of social problems, such as poor health, mortality, substance abuse, and the breakdown of social structures. The various kinds of economic inequality include:¹

- income inequality: the extent to which income is distributed unevenly in a group of people or between different groups of people;
- wealth inequality: the unequal distribution of assets (e.g., property, stocks, bonds, etc.) in a group of people or between different groups of people; and
- remuneration inequality: the difference between people's remuneration for doing the same work, which may occur within one company or across all remuneration received in a nation/community. For instance, gender differences in remuneration in the workplace is known as the 'gender pay gap'.

Inequality seems to have originated during the period of man's moving into the era of hunter-gatherers.² The period that followed – farming and herding – further entrenched inequality where wealth could be accumulated by producing surpluses, thus escalating the potential of wealth creation for those who could produce surpluses. Two determinants are vital in establishing inequality: (1) ownership of land and assets and (2) the ability to transfer wealth to the next generation. Over time, numerous factors that contribute to inequality can be identified. These include political inequality (which reinforces economic inequality); empire-building; imperialism and colonialism; industrialisation; commercialisation; urbanisation; financial sector innovation; concentration within market structures; trade; globalisation; and greed. Ironically, several factors have also contributed to the leveling or reduction of inequality, such

as wars, revolutions, economic and financial crises, epidemics, education, public policies and spending, democracy, trade, tax policies, and economic development.

When the first significant overall gap in human inequality emerged after the 1st Industrial Revolution, distributive inequality differences were not yet substantial. They have been widening ever since, though not in a steady fashion. Estimates of the income gap between the fifth of the world's people living in the wealthiest country and the fifth in the poorest were as follows:

- 1820: 3 to 1;
- 1870: 7 to 1;
- 1913: 11 to 1;
- 1960: 30 to 1;
- 1990: 60 to 1; and
- 1997: 74 to 1.³

Global inequality, measured by the Gini coefficient, averaged between 0.50 and 0.61 from the 1st Industrial Revolution until World War I.⁴ Between the two world wars until 1950, a decline in inequality was observed, but the rise continued worldwide. The global Gini index rose to 0.64 after 1950. From 1980 to 1990, slow growth in China and India and the collapse of Eastern Europe increased global inequality. The downward inequality trend reversed as economic growth in China and India increased and the size of their middle-income groups increased.

By 2007, the top 0.1% of USA households had an income 220 times larger than the bottom 90%. The top 1% owned over a third of the nation's wealth. The global income Gini coefficient in 2005 has been estimated to be between 0.61 and 0.68. By 2020, it was 0.67, with the average income of the global top 10% 38 times higher than the average income of the bottom 50%.⁵ Figure 1 provides a perspective on the historical progression of this trend from 1820 onwards. Although global income inequality seems to have peaked around 1980, current levels of inequality – given the record number of people (global population) involved – exacerbate the crisis.

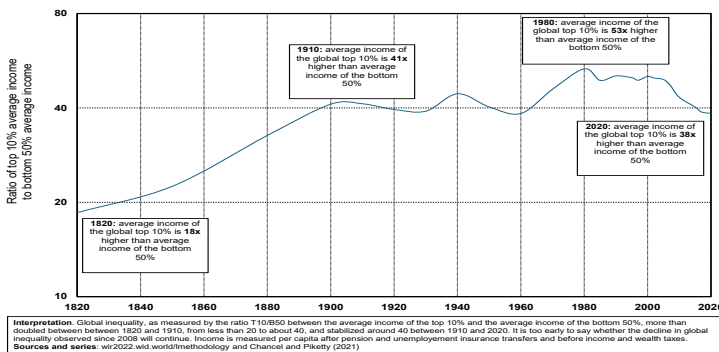


Fig. 1 Global inequality between top 10% and bottom 50% (1820–2020). Source: Chancel *et al* (2022:55)

The increase in global inequality is worrisome despite some countries recording improved Gini measures, such as India’s 37.8 (1997) to 33.1 (2013), China’s 49.1 (2008) to 42 (2013), and Brazil’s 55.3 (2001) to 54 (2013).⁶ Some countries recorded worsening Gini coefficients, such as South Africa’s 59.3 (1994) to 63.1 (2013), and Russia’s 36.9 (2001) to 40.9 (2013). Most countries with the highest indexes – which are therefore most unequal – are in Africa, Latin America, and Eastern and Northern Europe. Estimates of the current Gini coefficient globally can be seen on the map in Figure 2.

The fact that there is no consensus on the direction of global inequality and overall discrepancies in income and wealth are huge and without conceivable justification.⁷ Statistics reveal that over 3 billion people, almost half the world’s population, live on less than \$2.50 daily.⁸ It is estimated that at least 80% of humanity lives on less than \$10 a day, whereas the wealthiest 20% of the world accounts for three-quarters of world income. About 1% of the world’s population holds 46% of its total assets, while the wealthiest 10% of earners own 86% of all wealth, and the bottom half owns less than 1%.

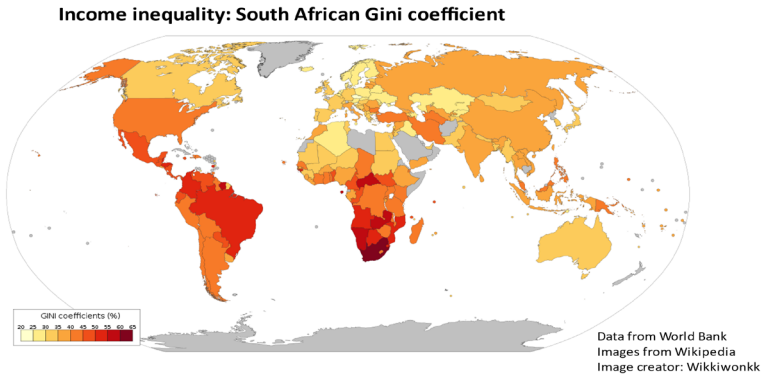


Fig. 2 Income inequality – global Gini coefficient comparisons.
Source: World Bank (2022)⁹

South Africa's newly obtained political freedom in 1994 created expectations for a transformation of the economy to move out of poverty, create employment, and reduce inequality. However, political freedom did not deliver economic freedom. As stated in the Freedom Charter of 1955, the ideal, "The people shall share in the country's wealth", has not been achieved.¹⁰ The fact is that high levels of inequality and poverty, rooted in historic injustice, provide a basis for conflict. Xenophobia attacks on foreigners, #FeesMustFall, #ColonialismMustFall, #RhodesMustFall, and various other social unrests are symptomatic of a society that is fighting for economic freedom and an inclusive economy for all.¹¹ Poor South Africans express their frustration publicly in so-called 'service delivery protests.' The need for a just and inclusive economic system has become paramount to ensure the alleviation of poverty, improve the circumstances of the marginalised, and sustain political freedom to benefit all.

In South Africa, it is estimated that more than 30% of the population lives in extreme poverty, and half of the population is in chronic, persistent poverty. Inequality amongst and between race groups has been high and persistent since 1994. Estimations are that the top 10% of the population owns 86% of total wealth.¹² The effects of COVID-19 and a contraction of 7% in economic growth during 2020 caused an increase of 2 million people living

below \$5.50 per day. Poverty levels decreased from 68% between 2005–2010 but increased to 57% in 2015 and to 60% in 2020. South Africa is an example of one of those countries that is rich (relatively speaking), but whose government is poor. According to the World Inequality Report of 2022, the top 10% in South Africa earn more than 65% of total national income, and the bottom 50% earn just 5.3%.¹³ The top 10% own close to 86% of total wealth, while the share of the bottom 50% is negative, meaning that the bottom 50% has more debts than assets. Since 1990, the average household wealth for this group has remained under zero.

Levels of inequality differ and vary throughout history. According to Scheidel, the most dramatic leveling of inequalities occurred through violence, specifically mass mobilisation of warfare, transformative revolutions, state failure, and lethal pandemics.¹⁴ Unfortunately, in these cases, the effectiveness of the levelers is determined by the scale and intensity of the occurrence. The period between World War I (WWI) and World War II (WWII) has already been indicated as a period of declining levels of inequality. Similar trends were recorded during pandemics (such as the Black Death in 1347), economic crises, and revolutions. The COVID-19 pandemic and the Great Financial Crisis (GFC) of 2008 have been notable exceptions to this trend.

Communist revolutions such as the Russian Revolution (1917), China's revolution in the 1930s, North Vietnam's revolution (1945–1953), and the Cambodian revolution (1917–1970) led to the restructuring of societies, but also physically destroyed wealth, and expropriated and redistributed assets and resources violently. All this is at the cost of millions of human lives and the wiping out of a tremendous amount of wealth.¹⁵ Although these revolutions resulted in a decrease in inequality to some extent, extreme poverty levels increased and led to the deaths of millions of people.

Research has shown that for 99% of the world's history, 99% of humankind was poor, hungry, dirty, unwise, sick, and unpleasant.¹⁶ However, everything has changed in the last 200 years, especially since 1880 (during the 2nd Industrial Revolution). Humanity has become wealthy, well fed, clean, safe, intelligent,

healthy, and beautiful. On average, humanity is currently experiencing the highest standard of living ever in history.¹⁷ This is attributed to how land, capital, labour, and technology have been applied to meet our unlimited needs and wants. Technological advancement has contributed immensely to raising living standards, yet unfortunately, to the deterioration of the environment and at a high social cost. What stands out the most is that, despite the advanced lifestyles and abundance of goods and services, there are still extremely high levels of poverty and inequality globally.¹⁸ This is a significant concern as we move into the 4th Industrial Revolution (4IR).

In 1800, over 80% of the world lived in what we would today consider extreme poverty (see Figure 3). At the time, only a small number of predominantly Western countries, such as Australia, Canada, and the United States (US), saw meaningful economic growth. Research found that between 1 CE and 1800 CE, the majority of places around the world saw minuscule economic growth (only 0.04% annually).¹⁹ By 1975, global income distribution became *bimodal*. Most citizens in developing countries lived below the poverty line, while most in developed countries lived above it, with incomes nearly ten times higher on average. Post-World War II, growth was unusually rapid across developed countries, opening a great divide between the haves and the have-nots of the world. The various (global) financial crises that have ignited in different parts of the world significantly since the 1990s have exacerbated this great divide – not only between the developed and developing countries, but within these countries – to alarming degrees. COVID-19 further aggravated this situation. According to the IMF, the severe impact of the COVID-19 pandemic is reflected in the numbers: more than 3.1 million deaths and rising, 120 million people pushed into extreme poverty, and a massive global recession. As suffering and poverty have risen, some data show an increase in another extreme: billionaires' wealth.²⁰

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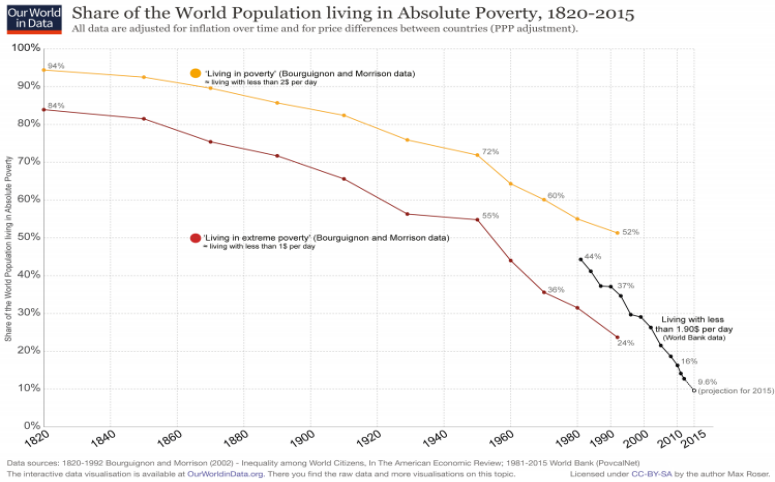


Fig. 3 Share of the world population living in absolute poverty (1820–2015). Sources: Bourguignon & Morrisson (2002); University of Oxford (2022)²¹

As global income distribution started to even out, economic output has trended in the opposite direction. GDP *per capita* was much more equal across regions in the 19th century, when it lingered around \$1,100 *per capita* globally, as Figure 4 shows. Despite many people living below the poverty line during these times, the world also had less wealth. In 2021, the global average GDP *per capita* was \$12,263, almost 12 times higher, but it is less equally distributed.²² At the highest end of the spectrum are Western and European countries. Strong economic growth, greater industrial output, and sound legal institutions have helped underpin higher GDP *per capita* figures. Meanwhile, countries with the lowest average incomes have seen different levels of growth. This highlights that where one lives heavily influences poverty, economic prosperity, and equality of opportunity.

Introduction

GDP per capita, 1820 to 2018

GDP per capita adjusted for price changes over time (inflation) and price differences between countries – It is measured in international-\$ in 2011 prices.

Our World
in Data

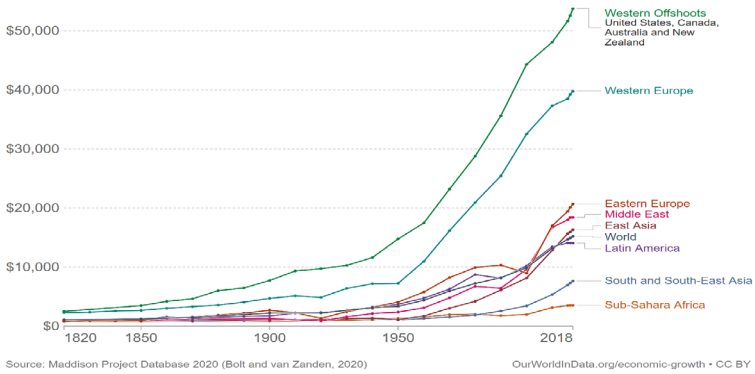


Fig. 4 GDP per capita (1820–2018). Source: Bolt & Van Zanden (2020)²³

In his book, *A Brief History of Equality*, Thomas Piketty explains that from 1780 until the 2020s, the world has become more democratic than at any period in history.²⁴ Conflicts and revolts against injustice led to the replacement of structures by new institutions to create new social, political, and economic rules. The peasant revolt of 1788–1789 (events of the French Revolution) led to the abolishment of noble privileges; the slave revolt in Saint-Dominique (Haiti) in 1791 marked the beginning of the end of the Atlantic slavery system; the civil war in the United States resulted in the end of slavery; and the two world wars are examples of these conflicts and revolts. In addition, economic and financial crises and pandemics also served as turning points where power relationships were redefined. Institutional arrangements, such as equality before the law, universal suffrage and parliamentary democracy, free and obligatory education, health insurance, progressive taxes, and freedom of the press led to what Piketty calls the “Great Redistribution” of 1914–1980 and to more equality in the world.

Piketty argues that the Washington Consensus of 1980–1990, which emphasised a minor role for the state, budget austerity, commercial liberalisation, and financial deregulation, is not contributing to an egalitarian society.²⁵ Also, the Global

Financial Crisis (GFC) of 2008 indicated the need to replace the imbalanced neoliberal system. Fast forward only 40 years to 2015, and world income distribution changed again. As incomes rose faster in poorer countries than in developed ones, many people were lifted out of poverty. Between 1975 and 2015, poverty declined faster than at any other time. However, still, severe inequality persisted.

Statistics from the World Bank indicate that extreme poverty declined over the past 25 years, but it is expected to rise in 2022 and 2023 as the impact of the COVID-19 pandemic takes its toll.²⁶ Globally, extreme poverty rates fell to 9.2% in 2017 from 10.1% in 2015. This equals 698 million people living on less than \$1.90 daily. Using higher poverty lines, 24.1% of the world lived on less than \$3.20 per day, and 43.6% on less than \$5.50 per day in 2017. In 2018, four out of five people below the international poverty line lived in rural areas. Women represented most low-income people in most regions and among some age groups. About 70% of the global poor aged 15 and over had no schooling or only some primary education. Almost half of poor people in Sub-Saharan Africa (SSA) lived in just five countries: Nigeria, the Democratic Republic of Congo, Tanzania, Ethiopia, and Madagascar. Of the 28 poorest countries in the world, 27 are in SSA. More than 40% of the global poor live in economies affected by fragility, conflict, and violence, and that number is expected to rise to 67% in the next decade. Estimates are that climate change will drive 132 million into poverty by 2030.²⁷ Climate change is a particularly acute threat for SSA and South Asian countries – the regions where most of the global poor are concentrated. In several countries, a large share of people with low incomes lives in areas affected by conflict and facing high exposure to floods – for example Nepal, Cameroon, Liberia, and the Central African Republic.

COVID-19 has unleashed a worldwide economic disaster whose shock waves continue to spread. Without an adequate global response, the cumulative effects of the pandemic and its economic fallout, combined with armed conflict and climate change, will incur high human and economic costs well into the future. Under these conditions, the goal of bringing the global

absolute poverty rate down to less than 3% by 2030 and reducing all forms of economic inequality – which was already at risk before the crisis – will be out of reach if appropriate economic policies and systemic changes are not implemented to turn the tide.

Reactions to Inequality

Voices of disapproval and dismay with the current situation in the world regarding the way goods and services, wealth, and opportunities are being shared have been echoed from all corners. The youth uprising which started in 2010 in Tunisia, then spread to Egypt and then to other Middle Eastern countries (known as the Arab Spring), indicated how people are willing to voice their unhappiness about what is happening in their countries and the world. The power of social media to organise protests in the 2000s has been particularly evident. These uprisings led to more protests, such as ‘Occupy Wall Street’ in 2011 in the USA, because many Americans lost their jobs and houses during the GFC of 2008–09.

Although the grievances of the protests differ from country to country, the common thread is that the current economic and political system is failing most people and is regarded as unfair and unjust.²⁸ Trust is lost, and the social contract is broken. The themes echoed worldwide are that markets are not enough, political systems have failed to deliver, and there is an urgent need to correct market failures. The heart of the matter is that current political and economic systems do not reflect fair play. Ordinary citizens are not protected against the existing political and economic forces at work, which allows the enrichment of the wealthy at the expense of the rest of society. There is no problem with creating more wealth, but taking it from others is not fair play. The political ripple effects of inequality entail that protesters are voicing their concerns – often quite violently – against market and government failure, with severe implications for social stability.

Around the world, a new consciousness is emerging for social justice, fairness, and political and economic systems to

provide equal opportunities for all. Unacceptance of inequality due to unjust policies, wars, and discrimination is evident in the protests opposing such policies, especially where inequality is predominantly visible amongst different racial, religious, and cultural groups. However, it should be noted that some inequality is inevitable because some individuals work harder, have different abilities, and should be rewarded differently. This is called 'constructive inequality'. People are not born equal, but they have different talents, characteristics, abilities, and goals in life, and therefore outcomes would not be the same. 'Good' inequality incentivises people to study and work harder, become entrepreneurs, and create wealth. Therefore, inequality amongst individuals is also more acceptable than inequality amongst groups. However, continuing unjust and unfair policies should be eliminated and replaced by a shared value system acceptable to society. The issue is called 'destructive inequality,' which relates to inequality of opportunity, limited social mobility, and inhibition of growth.²⁹ What must also be remembered is that complete equality is the socialist's denial of actual differences in any community. At the same time, unlimited inequality is the capitalist's denial of interdependence and true community solidarity. On balance, it is the exploitative effects of inequality that must be dealt with, particularly those which entrench systemic poverty.

We live in a world where market forces still play an important role in answering the economic questions of (1) What to produce? (2) How to produce? and (3) To whom it is distributed? A different approach to answering the distribution problem is needed. Market forces or the price mechanism is regarded as efficient in determining the most needed products and services by consumers and allocating resources to the most needed goods and services. However, a more efficient and fairer society must apply just and fair principles in distributing goods and services. In this context, the question of efficient distribution, or how to ensure that economic distribution becomes more inclusive, is critically important.

Conclusion

There is an urgent need for a paradigm shift from the current economic system to a fair and just economic framework. Pope Benedict XVI called for “integral human development” in the global economy in the publication of *Caritas in Veritate*, the first social encyclical of the 21st century.³⁰ The pope objected to the excesses of an unrestricted market economy. He stated that our social and economic policies must be guided by a radical devotion to the welfare and dignity of human persons, which must account for the present economic conditions that marginalise so many of the world’s people. According to the pope, economic models and political institutions are not morally neutral, but are vehicles for our moral commitments and reflect our commitment to human freedom and justice.

The reflecting essays in this book were written by scholars who are experts in their specific fields or research areas. The essays attempt to provide more insights, policy recommendations, and contributions to the debate on inequality in South Africa (and the world). Not all aspects of inequality are covered in this book. However, the book seeks to provide and stimulate more collective wisdom, reflections, discussions, and different perspectives on critical aspects of inequality in South Africa after 1994. Enjoy the reading.

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Chapter 2

Measuring Inequality

Cecile Duvenhage 

Introduction

The theories on inequality are imperfect and dynamic, and the measurement of inequality is multidimensional, as Section 2 will explore. This chapter aims to give the reader insight into what scholars have to say about inequality, the measurement of inequality, and the current stand in South Africa.

What do Economic Theory and Scholars Say about Inequality?

Economics studies the problem of scarcity in terms of limited resources and unlimited needs.¹ In dealing with the problem of scarcity, people are required to direct their behaviour towards meeting their needs. In addressing the economic problem of scarcity, economic activities in society are directed to answer the questions of (1) What must be produced, (2) How it must be produced, and (3) To whom it is distributed. The three questions are also referred to as the allocation, production, and distribution problems.²

Economic literature distinguishes between two broad perspectives in answering the allocation, production, and distribution questions: the free-market economic system (capitalism) or the command system (socialism). The free-market system will, as Adam Smith theorised,³ guide economic behaviour by self-interest, without interference from authorities, and by ensuring private property rights. The interaction of markets will, like an invisible hand, allocate scarce resources, produce the most effective way, and distribute goods and services effectively. Under public ownership and a centrally planned economy, the state answers what must be produced, how, and to whom.⁴

The distribution problem refers to how goods and services or income are distributed amongst the population, either locally, nationally, or internationally. The two fundamental questions of distributive justice are: (1) Who shall receive benefits or burdens from society? and (2) On what principles shall benefits and burdens be distributed?

The Free-market System (Capitalism) and the Distribution Problem

Capitalism continues to generate high economic growth rates, excellent benefits and opportunities, diverse goods and services, and innovation as well as addressing business cycle fluctuations in different economies.⁵ A common criticism of the free market, or capitalism, is that it does not produce a 'just' income distribution or distribution of goods and services. Inequality seems to be an inevitable product of capitalist activity, as some individuals and communities exploit the opportunities offered by capitalism more than others. Capitalism does not conform to *a priori* principles in distributing income to individuals. Income is distributed to the production factor (entrepreneur, capital, labour, technology), which is scarce, urgently needed, and highly rewarded. The distribution of income is also fundamentally affected by ability, differences in intensity of work, schooling, distortive starting positions, inherited wealth, compensating wage differentials, and the result of taking risks in individuals' choices.

The fall of the Berlin Wall on 9 November 1989 had significant global ideological implications. Because of the fall of communism and the zeitgeist in the West, a perception emerged that capitalism and liberal democracy are the only successful models for development and modernisation and that no alternative for neoliberalism and globalisation should be considered for the global economy.⁶

Neoliberal thought was founded by establishing the Mont Pelerin Society in 1947, dedicated to implementing liberal and free-market policies. At the time, with Europe in ruins, the Keynesian ideas of a welfare state and socialist policies (the New Deal in the US) were eagerly accepted. However, the founders of

the Mont Pelerin Society – Milton Friedman and Fredrich Hayek – continued to blame all the world's economic problems on government intervention and participation in the economy. In his book *Capitalism and Freedom*, Friedman's solutions to economic problems were based on free markets, individual freedom, and privatisation to ensure a better and prosperous future. Fredrich Hayek was concerned about the rise of the totalitarian state, especially the socialist planning and administrative regulation of the economy. He advocated a balanced approach between the state and markets, where the state only addresses externalities and provides public goods, a safety net, and social insurance to limit inequality.

Command System (Socialism) and the Distribution Problem

Karl Marx believed that the history of society is all about a struggle between different classes.⁷ He identified six stages throughout history: tribal communalism, slave labour, feudalism, capitalism, socialism, and communism as the final utopia. During each stage, capital accumulation leads to the concentration of wealth. A different stage replaces each stage after some form of revolution. During socialism, the means of production would be seized from the 'bourgeois' by the 'proletariat', and hence society would be eradicated of class distinctions based on private property. Only public ownership, as the means of production, could guarantee distributive justice.⁸ In order to achieve equal distribution, the principle of remunerative distribution should be replaced by distribution according to people's needs.

Distributive Justice

Distributive justice refers to a process whereby a society allocates certain rewards and resources to persons based on a moral belief or set of moral beliefs. Literature indicates that there needs to be a consensus on the criteria or foundation of a just distribution. In addressing distributive justice, the debate criteria revolve around effort, merit, need, and social contribution.

Adam Smith, in his book *The Theory of Moral Sentiment*, theorises how individuals are naturally inclined to be concerned about the fate of the wealthy and the poor.⁹ The primary role of self-interest will influence human sentiments and direct ethical behaviour.¹⁰ Friedman and Adler,¹¹ and Crusto¹² warn that capitalism in its current form, based on greed and only the pursuit of self-interest, will only cause harm. They argue that Adam Smith, in his book *The Theory of Moral Sentiments*, envisaged economic growth within a moral context. Friedman and Adler propose that moral capitalism, founded on biblical principles such as material wealth and not greed, industriousness, social responsibility, and human dignity, should replace the current capitalist system.

The utility theories initiated by economists like JS Mill, A Marshall, and A Pigou state that injustice consists of the loss in utility compared to what could have been achieved.¹³ Utility is regarded as some measurement of a person's pleasure or happiness. In an unjust society, people are less happy than they need to be. The utility theories tend to ignore inequalities in the distribution, and no importance is given to claims of rights and freedoms.

John Rawls's egalitarian theory, *A Theory of Justice*, is built upon safeguarding liberty.¹⁴ Classes of rights, from personal liberties to property rights, are to have complete precedence over the pursuit of social goals. Ensuring that each person has fundamental freedoms will lead to maximum social welfare. Actions will be considered fairer if no one is placed in a worse financial position than before by the action. A society that maximises members' welfare in the worst circumstances or functions to the most significant benefit of the least advantaged are considered most just. Emphasis is given to procedural priorities, irrespective of the consequences.

Robert Nozick's libertarian theory relies on no interference with people's freedom of choice, minimum state intervention, and protecting life, liberty, and property as prerequisites for justice.¹⁵ According to Nozick, the state's duty is to protect citizens from invaders, enforce contracts, and secure free markets in property,

capital, and labour. Justice is not connected with distribution but is associated with liberal rules applied in the marketplace of society.

Jurgen Habermas and Theodore Adorno, as part of the Frankfurt School's rethink of Marxism under new social and historical conditions, conceptualise a way of achieving consensus amidst individuality, difference, and diversity.¹⁶ By advocating a social justice of communication, which focuses on the communicative processes, citizens can make just decisions about their needs and social order. The right to speak and be heard provides a communication procedure for reaching a consensus on social justice.

Amartya Sen argues that,¹⁷ in providing equal opportunities, interventions are needed to strengthen an individual's capabilities to lead the life a person has reason to value. Emphasis on human development and targeting resources to specific kinds of persons will address capability deficits. The efficiency of the market mechanism is acknowledged, but does not guarantee distributive equity. Creating essential social opportunities for social equity and justice must supplement the market mechanism.

Thomas Piketty's Analysis of the Distribution Problem

Literature indicates that different forms of inequality exist within countries, amongst countries, and in world regions.¹⁸ More recently, Piketty revealed the rising share of capital's income share compared to that of labour. Terreblanche believes that the vast inequalities between "the West and the Rest" can be attributed to Western empire-building and Christianity's application of their four sources of social power: ideological, economic, military, and political relationships through centuries. According to Terreblanche, poverty and inequality in the world have increased due to the continuation of the American-driven, neoliberal economic system.

In Piketty's *Capital in the Twenty-First Century*, he compares the average return on capital: profits, dividends, interest, rents, and other income (r) with the rate of growth in the economy (g).

His research shows that, during the 19th century, the rate of return on capital exceeded the rate of growth and income ($r > g$), leading to an increase in inequality. This period is followed by a reduction in capital's share of income, due to the occurrence of the two world wars (1914–1918; 1939–1945), the Bolshevik Revolution (1917), and the Great Depression (1929). The reverse of the trend – a rise in capital's share of income – is attributed to Margaret Thatcher and Ronald Reagan coming to power, the collapse of the Soviet Bloc in 1989, and financial globalisation and deregulation. Piketty notes that the divergence is even higher when economic growth is weak, resulting in a high return on capital despite a low growth rate, and implying that wealth accumulated in the past grows more rapidly than the economic growth rate. Piketty acknowledges that the history of inequality has been shaped by economic, political, and social factors, and cannot be reduced to economic mechanisms only.

A distinction is made between forces of convergence – such as knowledge, skills, and technology – in decreasing inequality, and forces of divergence and the accumulation and concentration of wealth. Different theories that have evolved have theorised the factors of convergence and divergence. Thomas Malthus, Arthur Young, and David Ricardo theorised that overpopulation would result in the stagnation of wages and the increase of rent on scarce land. This would result in inequality, as the rate of return on capital would be larger than the rate of return on labour. Piketty distinguishes between theories of capital accumulation (Karl Marx, David Ricardo) leading to the concentration of wealth and theories where growth, competition, and technical progress (Simon Kuznets, Robert Solow) lead to reduced inequality in later stages of development.¹⁹ Kuznets and Solow believe the inclusion of technology and improved productivity would counter the accumulation and concentration of capital.

Piketty is not interested in denouncing inequality or capitalism, but rather in organising society, institutions, and policies to achieve a just social order. Justice to be achieved under the Rule of Law should be applied to all and derived from universally understood statutes subject to democratic debate. Piketty proposes that institutions regulate capitalism justly and

efficiently on a global basis. Piketty proposes a global tax on capital or the net value of assets or wealth of individuals to regulate capitalism, stop the increase in wealth inequality, and impose effective regulation on the financial and banking system to avoid crises. Piketty foresees the state's inevitable more significant role in introducing a tax on wealth to regulate capitalism.

According to Piketty, capitalism automatically generates inequalities. Democratic ways are to be applied to regain control over capitalism to ensure that the general interest takes preference over the private interest. By referring to “democracies” and the “will of the people,” it is assumed that Piketty's foundation for a fair and just distribution will be determined by democratic consensus. Piketty's failure to provide a clear foundation for establishing a just and fair distribution necessitates a debate and dialogue in searching for a foundation or criteria to measure, assess, or determine what is a fair and just distribution.

Piketty's views and findings led to a reaction.²⁰ Moreover, the author uses “capital” and “wealth” interchangeably. The accepted definition of wealth is a household's net worth, which is calculated by assets – liabilities. On the other hand, capital is regarded as a production factor used to produce products and services.

Rent-seeking

The theories and views of researchers and scholars range between the far right (minimum government participation in the economy) and the far left (maximum government participation in the economy) to views between the two perspectives. The common ground for the outrage against inequality can be summarised and explained by rent-seeking. Rent-seeking is how the current political process helps the rich become wealthy at the expense of others. Rent-seeking takes on many forms, such as hidden and open transfers and subsidies from the government, laws that make the market less competitive, not enforcing competition laws, and allowing big corporations to take advantage of others or to pass costs on to the rest of society.

Acemoglu and Robinson think that a balance of power is needed, a state with the capacity to enforce laws, control violence, resolve conflicts, and provide public services controlled by a well-organised society.²¹

Measuring Inequality

Worldwide, there is a growing concern that inequality is on the increase. According to the World Bank (2009),²² inequality is partially due to the global shift in dynamics driven by the fast-growing economies of the developing world. As economies grow, economic inequality tends to follow suit. Inequality is seen between various groups, including genders, population groups, and neighbourhoods.

In South Africa, the labour market is heavily racialised and gender biased. The most significant contributor to overall income inequality comes from the labour market at 74.2%.²³ On average, female workers earn approximately 30% less than male workers. Furthermore, males are more likely to be employed and have relatively better-paying jobs than females.

The earnings distributions starkly depict the heavily racialised inequality in the South African labour market. In addition to having the worst employment outcomes, black Africans also earn the lowest wages when they are employed. Whites, in contrast, earn substantially higher wages than all the other population groups. To put racialised inequality into perspective, the mean actual earnings per month between 2011 and 2015 amongst employed workers, according to Stats SA,²⁴ were:

- R6 899 (actual earnings) for black Africans
- R9 339 for Coloureds,
- R14 235 for Indians/Asians,
- Moreover, R24 646 amongst whites (more than three times as high as black Africans).

Income inequality is not only seen in race and gender, but is also depicted in neighbourhoods, as seen in Figure 1.



Fig. 1 South Africa is the most unequal country. Source: *Time* Magazine, 13 May 2019

The cover image of *Time* in Figure 1 shows two neighbourhoods outside of Johannesburg, with wealthy Primrose on the left and the informal settlement of Makause on the right. The picture is evidence of inequality in SA, but how is income inequality measured?

This section provides a conceptual analysis of the inequality indices. The conceptual analysis for income inequality will focus mainly on the Gini coefficient and Palma ratio. Reference will also be made to other income inequality measures, including General Entropy (GE), with reference to Theil's index and some

asset indices. However, the Gini coefficient will receive more attention in the following discussion since South Africa's National Development Plan lists reducing inequality – measured using the Gini coefficient – as one of its fundamental objectives.²⁵

The Gini Coefficient

The Gini coefficient is used as a measure of income inequality in a country. It has been one of the most used measures of inequality in South Africa. The Gini coefficient ranges between 0 and 1. The value of 0 indicates a state of perfect equality where all individuals have identical incomes. The value of 1 indicates a perfect inequality where one person has all the income while the rest does not. It is widely used as it has some advantages, such as giving one value reflecting the overall income differential, providing for international comparison, and for decomposition analyses at the local level. If a country's Gini coefficient is closer to 1, it indicates inequality in the population. When it is closer to 0, it indicates a more equal population.

Figure 2 below is used to explain the measure of inequality using the Gini coefficient and Lorenz curve.

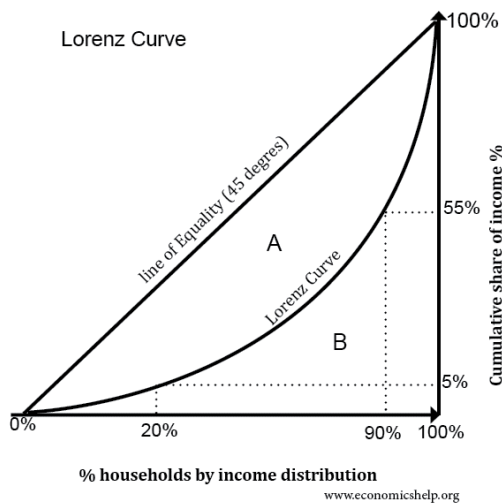


Fig. 2 Gini coefficient and Lorenz curve

In Figure 2, according to the Lorenz curve, the poorest 20% of households have 5% of the nation's total income, while the poorest 90% of the population holds 55%. That means the wealthiest 10% of income earners gain almost half (45%) of total income. The Gini coefficient is calculated as follows:

The Gini coefficient is area $A/A+B$

Thus, should the Lorenz curve be precisely on the line of equality, the value of area A would be 0, and the Gini coefficient would be 0.

In the mid-2010s, South Africa was among three countries that reported Gini coefficients over 0.60, while the majority were between 0.30 and 0.49.²⁶ In 2018, according to World Bank data, SA ranked as the most unequal country globally, with a Gini Coefficient of 0.67. Except for Lesotho, the Gini coefficients of all other SACU countries (Botswana, Namibia, and Swaziland) exceeded 0.50.²⁷

According to Stats SA (2022), South Africa is in the top five most unequal countries globally, as the Gini coefficient of household *per capita* income was measured at 0.63 in 2022. The settlements in the Eastern Cape, KwaZulu-Natal, and Limpopo²⁸ are the most deprived and associated with impoverished areas. In addition, studies show that expenditure inequality increased in Limpopo and the Eastern Cape from 0.56 and 0.63 (in 2006) to 0.61 and 0.65 (in 2015) respectively.²⁹ This might shed light on the argument that people with lower incomes are getting poorer.

The implication of massive poverty in South Africa leads to government dependency. According to Statistics South Africa,³⁰ the bottom 60% of households depend more on social grants and less on income from the labour market. In contrast, there was greater reliance on income from the labour market in the top deciles. While labour market income is overwhelmingly the most significant contributor to income inequality compared to other income sources, social grants and remittances have played a crucial role in reducing the income inequality gap between the bottom and top deciles over the years in South Africa.

The Gini coefficient, however, is sensitive to changes in the middle group, where shifts in income less frequently occur. The Palma ratio can give a broader perspective on inequality than the Gini coefficient. The Palma ratio will be explained in the next section.

The Palma Ratio

It may be argued that the main driver of inequality is that the richest get richer and the poorest get poorer. This section explores this argument using the Palma ratio.

The Palma ratio is the ratio of the national income and expenditure shares of the top 10% of the population compared to the bottom 40%. The Palma ratio has been steadily increasing since 2005, suggesting that South Africa's inequality is worsening. According to Stats SA (2020), the top 10% of the population spent 8.6 times more than the bottom 40% in 2006.³¹ The Palma ratio for South Africa was 8.4 in 2019, indicating a very high degree of inequality. This figure is much higher than the average for the European Union, which stands at only 3.7.

The Palma ratio can also be used to explore income inequality in terms of gender over time. The Palma ratio corroborates the Gini coefficient in that more inequality exists among individuals living in male-headed households than in female-headed households. According to a Stats SA report (2019)³² regarding inequality trends, there was a significant drop in the Palma ratio for individuals living in male-headed households from 8.9 to 7.7 (between 2006 and 2015), while the Palma ratio for those living in female-headed households slightly decreased from 6.1 to 6.0 during the same period. The significant drop in the Palma ratio for individuals living in male-headed households was due to the transfer of expenditure share from the top 10% to the middle 50% of this population, with the bottom 40% also having minimal gains in their expenditure share. On the other hand, while the middle 50% of individuals living in female-headed households increased their expenditure shares, the bottom 40% and the top 10% of this population decreased their expenditure. Thus, a

minimal drop in the Palma ratio for individuals living in female-headed households during the analysis period was indicated.

The consistent trend of the Palma ratio to the Gini coefficient resulted from an increase in the share of expenditure going to the middle 50% of the population, which led to a decline in the share of expenditure for the top 10%. In comparison, the bottom 40% kept their spending share constant.³³ Thus, we may ask: Is the rich (top-10) getting wealthier over time, or is 'poverty' distributed more equally?

The following discussion explains how General Entropy (GE) – specifically the Theil index – aims to identify the source of income inequality.

GE: Theil's Index

Theil's indices can be categorised under the generalised entropy inequality measures (GE (α)), which are based on ratios of incomes to the mean. Theil's L index (or mean log deviation) and Theil's T index (often referred to as the Theil index) are the most popular GE indices. Both indices are equal to 0 in the case of perfect equality and increase as the distribution becomes more unequal, but unlike the Gini coefficient, they are not capped at 1. The Theil index is not a relative measure of inequality; thus, its values are not always comparable across populations of different sizes or group structures.

Alpa (α) is the weight given to distances between income and expenditure at different income or expenditure distribution points. The α parameter can only be absolute values that equate to 0, 1, and 2.

When the α equates to 0, then:

GE (0) index = Theil's L index

GE (1) index = Theil's T index

GE (2) index = the coefficient of variation (CV)

Another feature of these two indices is that Theil's L is sensitive to changes at the bottom of the income distribution, while

Theil's T is sensitive to changes at the top. Thus, comparing the evolution of the two measures can be informative for identifying which part of the distribution is driving the observed changes in inequality. When the α is positive and significant, the GE index will react more to movements at the upper tail of the income and expenditure distribution.

While the Theil index does not have an intuitive explanation, it is often used in empirical studies because of its decomposability. Suppose the population can be divided into several sub-groups (e.g., based on age, education, region, etc.). In that case, the Theil index can quantify how much income inequality is due to differences across individuals *within* and *between* these groups. This is valuable for policymakers in trying to identify the sources of inequality. For example, the Theil T index can decompose global inequality into between- and within-country inequality, showing that about 70% of global inequality is explained by the between-country component. For South Africa, the Theil index shows inequalities in peripheral areas of metropolitan areas, mainly historically black, residential areas.³⁴

Atkinson Index

The Atkinson index identifies the percentage of total income a population would sacrifice to have more identical income shares between its people. Atkinson (1970) proposed an inequality measure based on welfare called Atkinson's class of inequality measure ($A(\epsilon)$).

Where:

ϵ = inequality aversion and can range from 0 to infinity.

The greater the ϵ (aversion parameter), the greater the inequality aversion in the stipulated society. The Atkinson index, therefore, is more focused on the base of income and expenditure distribution. The greater the ϵ indicates that the Atkinson index becomes more sensitive to changes at the end of the income distribution.

This index can be used to compare different countries and regions and to track inequality changes over time. The Atkinson

index is important for understanding the level of inequality in South Africa. It can be used to determine the impact of different economic policies on inequality and to identify areas where interventions can be made to reduce inequality. This can help to develop effective strategies for reducing poverty and improving the lives of the poorest in society.

Besides income (as a flow concept), assets (as a stock concept) contribute to inequality in SA.

The Asset Index, Wealth Index, and the Returns on Financial Assets (including Home Ownership)

In South Africa, asset inequality is a significant issue that the coronavirus pandemic has exacerbated. The asset index uses 18 assets comprising public and private assets to calculate asset indices. The smaller 18 indices are used to statistically establish an overall asset index to identify the disparities in wealth. The smaller asset indices vary in the composition of indicators and the weights used to generate the overall asset index. Congruent to income inequality measures, the Gini coefficient for the calculated asset index ranges between 0 and 1 and is interpreted the same way as income inequality.

The gap between the wealthiest and poorest households has widened even further. In 2019, the wealthiest 10% of households owned 61.2% of all assets, compared to 56.7% in 2018. The poorest 40% of households owned just 1.5% of all assets, a decrease from 2.0% in 2018.

The financial value of assets owned by individuals and households dictates the level of wealth that they accumulate. Wealth inequality in South Africa is more significant than income inequality and requires more attention. Over 60% of private wealth is in assets such as bonds, life insurance, deposits, pension funds, and equities. In South Africa, the top 1% of the population's income from shares and financial assets equates to roughly 50% of their total income, accentuating the disparities in income inequality. The income from the capital for the top 5% grows faster than the economy, which also perpetuates wealth inequality. It is of paramount importance that policymakers understand the

wealth and returns on financial assets to formulate relevant policies to counteract growing wealth inequality.

In terms of financial assets, the wealthiest 10% of households own 84.2% of all financial assets, compared to 81.2% in 2018. Conversely, the poorest 40% of households own only 0.2% of all financial assets, a decrease from 0.3% in 2018. This indicates a growing wealth gap between the wealthiest and poorest households. In terms of non-financial assets, the wealthiest 10% of households own 66.3% of all non-financial assets, compared to 61.3% in 2018. Conversely, the poorest 40% of households own only 1.5% of all non-financial assets, a decrease from 2% in 2018. This indicates that the wealthiest households are accumulating more non-financial assets.

The profiling of inequality in asset ownership can be used to measure wealth inequality. This measure provides a broader scope of the level of welfare of households and individuals in South Africa. The measure looks at the trends of 18 assets broken down into public (3) and private (15) assets to gauge household asset ownership.

According to the Inequality Trends in South Africa report (2020),³⁵ black Africans reported the most significant increase in the average number of assets owned. A consistent increase in average asset scores for black Africans led to a decline in asset inequality between groups. Despite this increase, within-group asset inequality for black Africans has increased.

Limitations of Inequality Measures

The South African economy has reflected great inequality in recent years. Despite the government's focus on reducing inequality, several limits exist to the efficacy of inequality measures in South Africa. One of the primary limitations of inequality measures in South Africa is that they often need to capture the full extent of the problem. This is because much of the inequality in the country is hidden and not accounted for in traditional measures. For example, inequality may be hidden in access to resources or wealth (not captured in unemployment or poverty statistics). This means that traditional inequality measures may overlook the

problem's true extent. Another limitation of inequality measures in South Africa is that they may need to reflect the experiences of different groups of people accurately. This is because the data used to measure inequality often fails to capture the experiences of certain groups, such as women and racial minorities. This means the true extent of inequality between these groups may need to be considered or addressed. Finally, the lack of reliable data can limit the use of inequality measures in need of more Africa.

Despite the comparative strengths and weaknesses of the available measures, empirical studies demonstrate that they are mainly in agreement when comparing inequality differences across countries. However, the evolution of inequality within a country or the effectiveness of a specific policy can be perceived differently depending on the specific metric under consideration and the variable being measured. For instance, if policymakers care more about what happens to people experiencing poverty, they should use the Palma ratio instead of the Gini coefficient as their inequality measure and focus on consumption instead of income data.

Remedies

No single country can measure itself out of misery. Therefore, the challenge for countries that experience inequality is to institute pro-poor policies that will make people's living standards more uniform across space. The National Development Plan (2011) is an example of such an initiative by the South African government, which has aimed to reduce poverty since the end of apartheid. Other efforts by the democratic state to address these challenges centred on improvements in core government services. Dominated government programmes are focused on the following:

- improving government services and providing cash transfers to poor households;
- protecting labour rights and instituting minimum wages; and
- enhancing representativity in business ownership and senior management through broad-based Black Economic Empowerment (BEE) policies.³⁶

While government services improved significantly in low-income areas, they remained heavily inequitable. One of the reasons for the failure of government programmes is that the state needed to undertake substantial innovation in most delivery systems outside of social grants and the development of lower standards for municipal services in low-income communities.

To successfully reduce inequality in South Africa, several remedies must be implemented. The government must address poverty. South Africa has a high level of poverty, inflation, and weak currency, with roughly 50% of the population living below the poverty line. Many of those living in poverty are from marginalised communities, such as black and Coloured South Africans. The government must implement policies that improve access to education, healthcare, and job opportunities to reduce poverty. This can be done through increasing access to social welfare programmes, providing incentives for businesses to employ from poorer communities, and increasing access to education through free tuition and grants.

In addition, the government must address discrimination. South Africa has a long history of discrimination that has led to several disparities in outcomes, such as access to education, job opportunities, and healthcare. To reduce discrimination, the government must implement policies that promote equality and inclusion, which ensure that marginalised communities are represented at all levels.

Fiscal policy needs to be used effectively to reduce inequality. A progressive tax system and effective social safety net decrease overall inequality (relative to the market income). However, South Africa's high debt level has further reduced the government's scope to leverage fiscal policy as a redistributive tool.

Economic growth is essential for more job opportunities, lower poverty, higher inclusion, and equal distribution of limited income and opportunities. Subdued growth has jeopardised efforts to support inclusion. With growth stagnating over the past decade, the economy needs to create more jobs to absorb the unemployed and new entrants to the labour market. Broad-based

growth that generates more low-skilled jobs for the unemployed will support inequality reduction.

In the future, South Africa will need further fundamental reforms for more robust and inclusive growth. The focus must be on creating a business environment more conducive to private investment and job creation. This requires improved governance, reducing business costs, making goods and services markets more open to competition, allowing firms to compensate workers in line with their skills and productivity, and making state-owned service providers more efficient. Policies will also be needed to create opportunities to support the marginalised population through improved education, health, and transportation quality.

Conclusion

This chapter provided an overview of what scholars say about inequality and the different measurements of inequality. In South Africa, inequality manifests through skewed income distribution, unequal access to opportunities, and regional disparities. Low economic growth and rising unemployment have contributed to the persistence of inequality.

The South African government has used different tools to tackle the stubborn levels of inequality that have plagued the country, including progressive fiscal redistribution. However, progress has stagnated in the last decade.

Efforts to reduce inequality have focused on higher social spending, targeted government transfers, and affirmative action to diversify wealth ownership and promote entrepreneurship among the previously marginalised. These measures must be complemented with reforms promoting private investment, jobs, and inclusive growth.

Structural challenges and weak growth have undermined progress in reducing poverty, heightened by the COVID-19 pandemic. The achievement of progress in household welfare is severely constrained by rising unemployment. According to the Quarterly Labour Force Survey (QLFS), SA's unemployment rate in the last term of 2022 was 32.7%.³⁷

South Africa remains a dual economy with one of the highest and most persistent inequality rates in the world, with a Gini coefficient of 0.63 in 2022.³⁸ High inequality is perpetuated by a legacy of exclusion and the nature of economic growth, which is not pro-poor and does not generate sufficient jobs. Inequality in wealth is even higher, and intergenerational mobility is low, meaning inequalities are passed down from generation to generation with little change over time.³⁹ This becomes a vicious circle.

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Chapter 3

Income and Wealth Inequality

Ivan van der Merwe

Introduction

Over the last 50 years, the world has experienced an increase in the pace and extent of change, both for the good and the bad. Negative developments include the occurrence of viruses like HIV, pandemics, climate change, financial crises, and low economic growth.¹ Positive developments include the rise of economic disruptors like China, information technology, and new developmental goals, but also the fall of catastrophes like communism, infant mortality and global poverty. Despite the strides that have been made to reduce poverty levels (see Figure 1) the world no longer seems to be on track to meet its goal of ending extreme poverty by 2030.² A contributing cause for this is the upsurge of wealth inequality, which is steadily rising back to levels not seen since World War II (Figure 2).

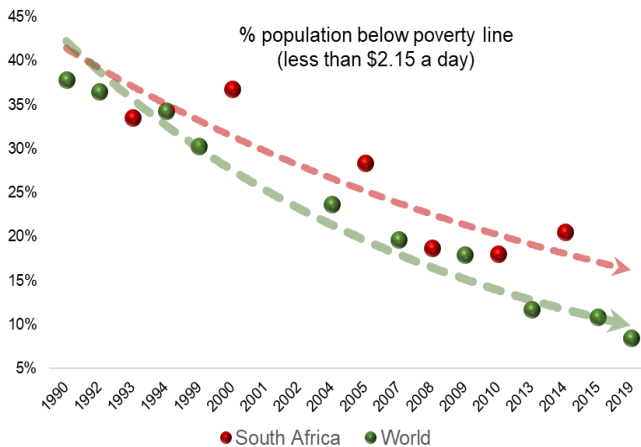


Fig. 1: Global poverty reduction. Source: Hasell *et al* (2023)³

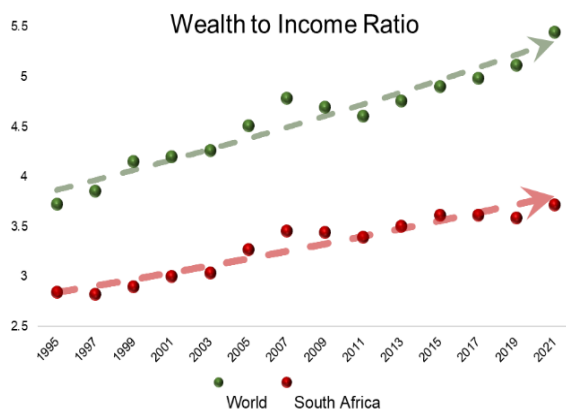


Fig. 2: Global rise in wealth inequality. Source: World Inequality Database⁴

Inequality has several dimensions and rarely are those dimensions as pertinent as in South Africa, where, almost 30 years since the dawn of democracy, the country is still plagued by declining economic growth, increasing unemployment, high income inequality, and extreme levels of wealth inequality. While income inequality measures the distribution of income received by households in the form of salaries, wages, interest, and profits, wealth inequality measures the distribution of household assets that were either accumulated by past savings and investment, or through transfer or inheritance between generations.⁵ The purpose of this chapter is to focus on the state of wealth inequality in South Africa and to reflect on why reducing it is crucial for the country's future.

Wealth is measured as the difference between household assets and debts, as defined in the United Nations System of National Accounts (SNA). Assets consist of financial assets like cash, bank deposits, pensions, life insurance, bonds, and shares, and non-financial assets that mostly reflect housing and business ownership. Debts, in turn, mostly include liabilities like mortgages and various types of personal loans.¹⁶

1 For income, an often-used measure is the amount people earn before income and wealth taxes are deducted, and after pension

Wealth inequality has many aspects, but literature on the matter often highlights some persistent and interrelated issues, including the following: 1) high levels of wealth inequality globally, 2) a high correlation between wealth and income inequality, 3) more wealth inequality than income inequality, 4) higher growth in wealth inequality, and 5) limited policy options to solve wealth inequality.⁷ What follows is a brief overview of these five issues, with specific focus on the South African case.

Issue 1: High Wealth Inequality Globally

Wealth inequality is a global occurrence, and this has been the case for centuries.⁸ For instance, using the Gini index for net personal wealth as an inequality measure shows that wealth inequality has been extremely high (above 0.7) in developed nations like France, the US, and the UK for at least the last two centuries (see Figure 3).

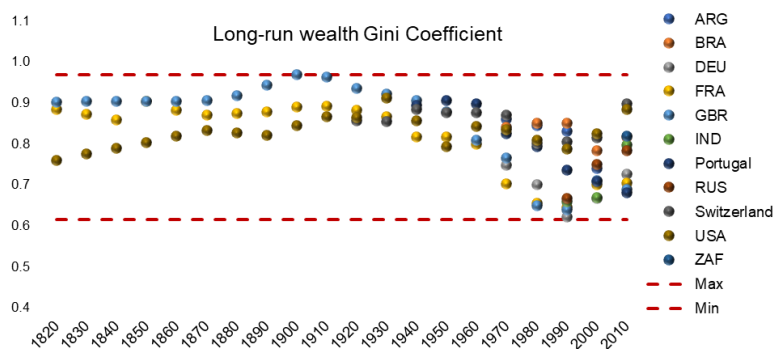


Fig. 3: Wealth inequality over the long run around the world.
Source: Alfani and Schifano (2021)⁹

While the occurrence of the Great Depression and two World Wars during the first half of the 20th century caused global wealth inequality to gradually reduce, it started to reverse course since the 1980s.¹⁰ This change in direction gained traction in the mid-1970s when the developed world started experiencing sluggish economic growth and higher inflation. The reason for low growth,

and retirement transfers are added. However, after-tax measures are also used.

according to Thatcherism and Reaganomics, was the result of leftist policies such as high minimum wages, strong unions, regulation, and high taxes. Accordingly, the period that followed focused on policies to reduce these perceived hinderances, including less progressive taxation, lower inheritance taxes, and deregulation in the financial sector. One consequence of this is that it resulted in market share concentration, causing few firms to capture large market share, individual investors to become super-rich, and the overall rise in both inter-country and intra-country wealth inequality. The rise of the financial sector also played a role, particularly in terms of income inequality, since employees in the financial sector received more than other workers with comparable skills.¹¹ The growth in wealth inequality was also compounded by increasing life expectancy rates, which caused the aging population to accumulate more wealth for longer.^{12,13}

On the developing side of the world, China's market reforms and India's liberalisation of their economy in the 1980s resulted in tremendous economic growth and reduced poverty levels in those countries. Countries like Taiwan, South Korea, Thailand, and Indonesia also showed rapid growth, but the inverse link between economic growth and inequality was not universal in these countries.¹⁴ For instance, in many countries around the world, people in the bottom income quintiles found themselves in a poverty trap that inhibited the intergenerational mobility of income, human capital, and wealth, thereby also limiting wealth accumulation.¹⁵

The result of all the above factors was large and growing levels of global wealth inequality. This is evident from global wealth ownership percentages that show that just over 1% of the world population owns almost half of the world's wealth, while half of the world owns less than 1% of the wealth (Figure 4).

Income and Wealth Inequality

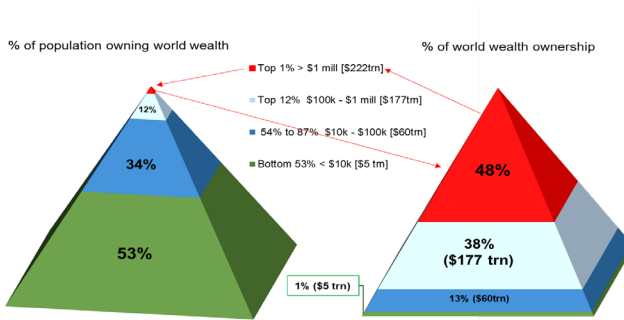


Fig. 4: Small percentage of world population has majority wealth ownership. Source: Credit Suisse (2022)¹⁶

The fact that only a few million individuals own so much wealth is exacerbated by the fact that most of that wealth belongs to individuals located in a few countries. More than 50% of the world's wealth belongs to the United States and China, while a small developing country such as South Africa has less than 0.2% (see Figure 5). This also reflects in the fact that most individuals around the world exhibit wealth levels that are much lower than those living in North America, Europe, and China (see Figure 6). As such, it is also important to measure and monitor wealth inequality between countries (inter-country inequality) and not just inequality within a country (intra-country inequality).

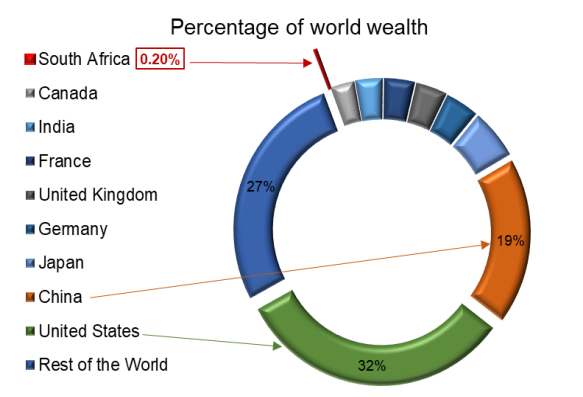


Fig. 5 Wealth distribution by country. Source: Credit Suisse (2022)

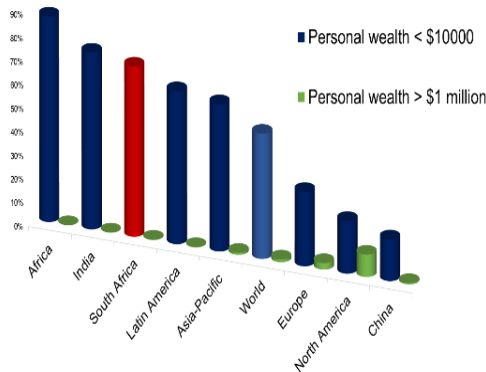


Fig. 6: Wealth inequality in world regions Source: Credit Suisse (2022)

Although South African citizens own only around 0.2% of total world wealth, the level of wealth concentration is quite extreme, which contributes significantly towards making South Africa the most unequal country in the world. What compounds this problem is the fact that, since the start of democracy in 1994, there has been no change in the percentage of wealth owned by the bottom 90% of the population.¹⁷ As shown in Figure 7, this percentage of net personal wealth has been stable at around 15% for the last 26 years, while wealth of the top 10% remained at around 85%.

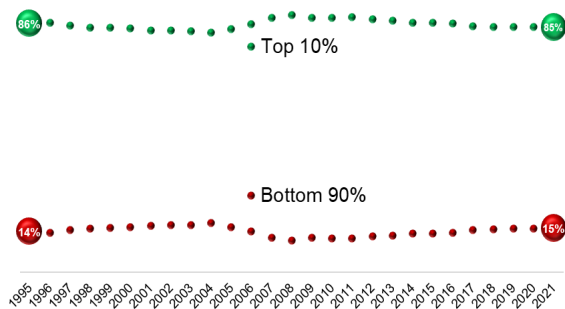


Fig. 7: Wealth distribution in South Africa – top 10% versus bottom 90%. Source: World Inequality Database¹⁸

Income and Wealth Inequality

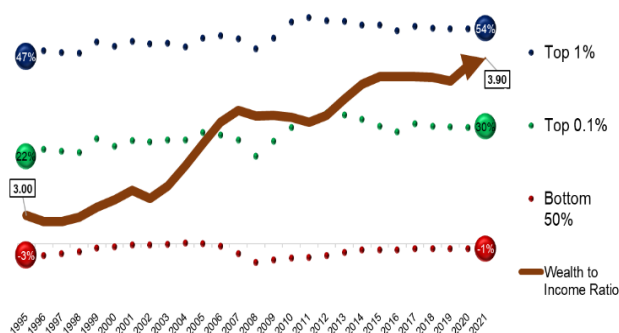


Fig. 8: Wealthiest in South Africa are getting wealthier. Source: World Inequality Database¹⁹

Perhaps more sobering are the statistics that relate to the wealthiest of the South African adult population. As of 2021, the top 1% owned more than half of South Africa's household wealth. This means that the average wealth level of this group is 340 times larger than that of the average adult in the bottom 90%. A more extreme statistic relates to the fact that roughly 3 500 adults in South Africa (the top 0.01%) collectively have more wealth than 32 million individuals who make up the bottom 90%. Given such extreme wealth advantage, it becomes self-fulfilling that the wealthy cohort is getting even wealthier when measured with metrics like South Africa's wealth-to-income ratio. This would perhaps not be so disconcerting if it was not for the fact that, since 1994, the bottom 50% consistently experienced a negative net wealth figure, where more than half of them have liabilities that exceed their assets (see Figure 8).²⁰

Issue 2: High Correlation Between Wealth and Income Inequality

It has been well documented that South Africa has become probably the most unequal country in the world in terms of both wealth and income inequality.²¹ The fact that these two measures coincide is not unique to South Africa, and both inequality measures are relatively highly correlated in many regions of the world, especially where overall inequality is high (Figure 9).

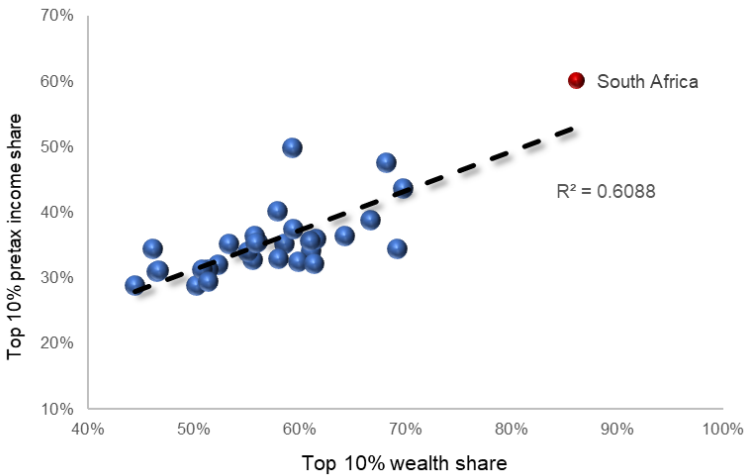


Fig. 9 High correlation between wealth and income inequality.
Source: World Inequality Database²²

Such high levels of inequality also tend to reflect in other measures of overall wellbeing and quality of life. The data confirm that, for a country like South Africa, the extreme level of inequality also reflects in other quality-of-life measures like human development and education, which also shows how much South Africa lags behind many countries (Figure 10).

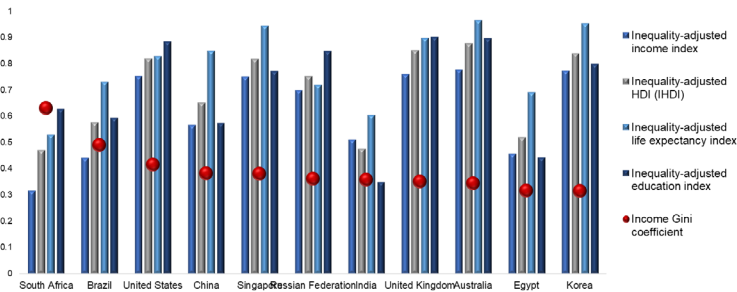


Fig. 10: Relationship between inequality and other quality of life indicators. Source: UNDP (2022)²³

The high correlation between wealth and income inequality does not necessarily mean that one causes the other or *vice versa*.

However, the presence of both causes the web of inequality to stretch out even further. For example, countries with low incomes – and, by implication, less wealth – also tend to work longer hours. In South Africa, full-time employees work around 2 100 hours per year, while their richer counterparts in the US and Europe only work around 1 750 and 1 550 hours per year respectively (Figure 11).²⁴ This means that inequality of income earned per hour is even worse than a more general income inequality measure.²⁵

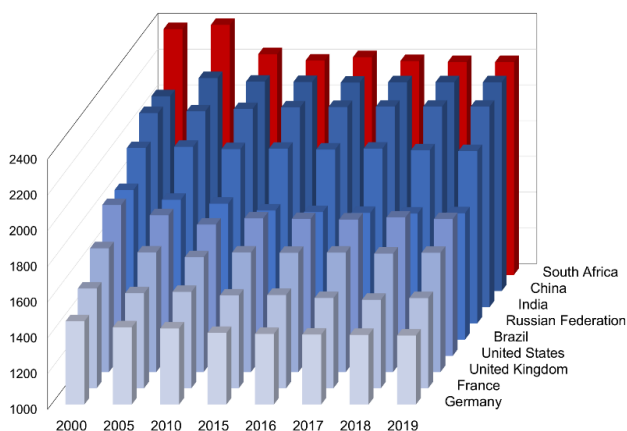


Fig. 11: Average annual hours worked in selected countries around the world. Source: Penn World Table (PWT 10.01)

Economic theory states that more labour (hours and workers) is required whenever productivity is lower due to factors like insufficient physical capital (e.g., machinery, equipment, and technology) and/or insufficient human capital (e.g., skills, health, and education). Less productivity, in turn, leads to lower wages, income, and wealth levels. Based on the economic theory perspective, it seems reasonable to conclude that an increase in capital endowments of low-income groups presents a solution to reducing global inequality. It thus seems obvious that the only realistic way this can occur would be if sufficient wealth transfer occurred to facilitate more investment in human and physical

capital to benefit the poorest. The challenge lies in finding the political will to initiate and facilitate this type of wealth transfer.²⁶

Issue 3: Wealth Inequality is Much Worse than Income Inequality

Wealth inequality is more severe than income inequality, and this has been the status quo for at least the last 35 years. Factors like a rapidly growing and skewed wealth distribution in places like China and Russia are causing wealth inequality to become more extreme. This occurs globally and is reflected not only in the increased concentration (narrowing range) of wealth inequality measures like the wealth-Gini coefficient, but also in the widening difference between such inequality measures for wealth and income respectively (Figure 12).



Fig. 12: Wealth inequality versus income inequality in countries around the world. Source: Our World in Data²⁷ and World Inequality database

Figure 13 provides another perspective on how extreme wealth inequality overshadows income inequality around the world. While the bottom 50% of the world earns about 9% of the income, their wealth percentage is far less, at only about 2%. This stands in stark contrast to the wealth amassed by the wealthiest top 10% of the world, which stood at 76% in 2021, while their percentage

of income earned was only 52%. The difference between income and wealth in the middle-40% segment is also striking. While this segment earned about 40% of world income in 2021, they only amassed 22% of the wealth.²⁸

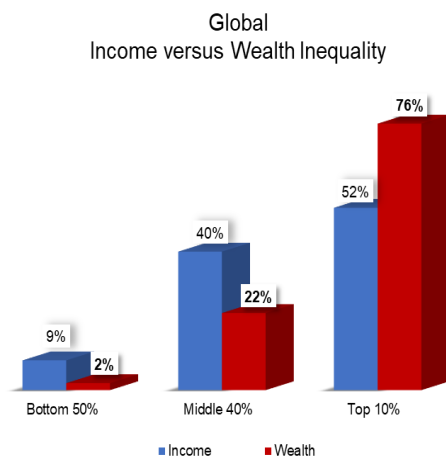


Fig. 13: Global income versus wealth inequality. Source: World Inequality Report 2022

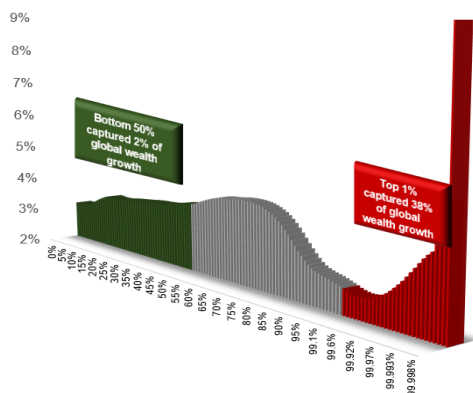


Fig. 14: Inequality around the world. Source: World Inequality Report 2022

Not only is wealth inequality much higher than income inequality in absolute terms, but also in terms of their growth rates. During the period 1980–2016, the poorest 50% of the world experienced real income growth of between 60% and 120%, causing them to earn about 12% of total income growth over this period.²⁹ Although a positive result, it predominantly reflected the rise of emerging economies like China and India and, combined with the fact that income growth of the richest 1% was more than twice as much over this period, confirms that income inequality is growing.³⁰ However, this difference in income growth between rich and poor pales in comparison with growing wealth inequality. For instance, over the period 1995–2021, the wealthiest 1% in the world experienced real growth in their wealth of around 9% per year, causing them to achieve average growth in wealth over this period that was almost 20 times larger than that of the bottom 50%, which only captured 2% of the wealth growth (see Figure 14).

Although empirical research still focuses mainly on income inequality, the issues raised above accentuate why the scale and scope of wealth inequality is perhaps more serious and in need of more concrete research and effective policy decision-making. This rings particularly true in South Africa, where the country maintains its status of being the most unequal society in the world in terms of both inequality measures.

Issue 4: Wealth Inequality is Growing

Another disconcerting phenomenon is that, over the last four decades, many countries in the world are exhibiting growing levels of wealth inequality. For instance, Figure 15 illustrates that the richest 1% is getting richer in all the BRICS countries, notably India and Russia. Even in China, a previously highly socialist country, rapid inequality growth has caused the top 1% and the bottom 90% to now own roughly the same wealth percentage. Figure 16 indicates how this pattern is not only occurring in BRICS countries such as Russia, but also in Western countries like the United States. Globally, the richest 1% has accumulated almost 50% of all new wealth over the last decade, and just since 2020 they amassed nearly two-thirds of all new wealth (\$26 trillion of

the estimated \$4.2 trillion) – almost twice as much as the bottom 99% combined.³¹

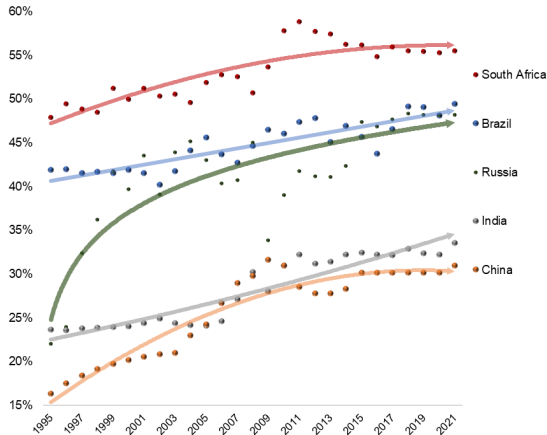


Fig. 15: Wealth share of top 1% in BRICS countries. Source: World Inequality database

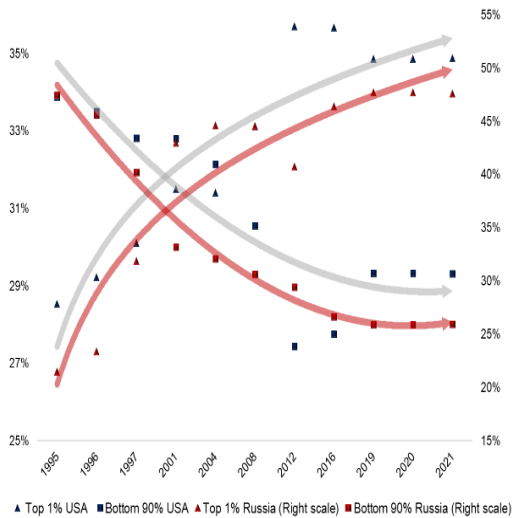


Fig. 16: Growing wealth inequality from East to West: Russia vs the US. Source: World Inequality database

In South Africa, growing wealth inequality (particularly of the top 1%) over the last three decades has also been noticeable, especially since this occurred after the end of apartheid and during a period when South Africa experienced positive real income and wealth growth.³² A major reason for this stems from the fact that wealthy individuals have much more wealth and income to start with, and thus they save more than poorer individuals. Thus, when the wealthy earn returns on their assets, their balance sheets grow even more. Piketty (2014) notes that wealth inequality increases whenever the rate of return on capital exceeds the growth rate of GDP.³³ This assertion fits the narrative for South Africa over the last decade very well, especially since most assets performed much better than the domestic growth rate and the wealthiest 10% own more than 50% of all assets, including about 60% of housing property and almost 100% of direct share and bond holdings (Figure 17).

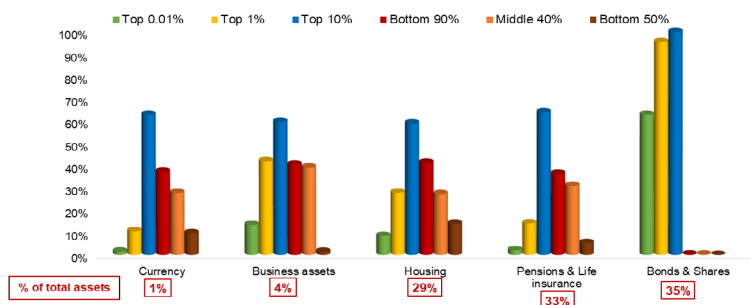


Fig. 17: Asset ownership in South Africa (2017). Source: Chatterjee, Czajka & Gethin (2020)³⁴

This substantial asset ownership, combined with accommodating monetary policy since the 2008 global financial crisis, provided the perfect background for wealthy individuals to earn attractive rates of return on assets like real estate and equity, and to experience rapid wealth accumulation in the years following the crisis.³⁵ In contrast, since the poorest 50% of the population have almost no direct holdings of shares, bonds, and property, and

own only 5% indirectly through life insurance and pension fund investments, they benefited minimally.³⁶

This increase in wealth inequality is also visible in most other parts of world, and the trend is not showing any signs of slowing down. Figure 18 indicates how the percentage of wealth owned by the bottom 90% is decreasing globally, while that of the top 10% is increasing.

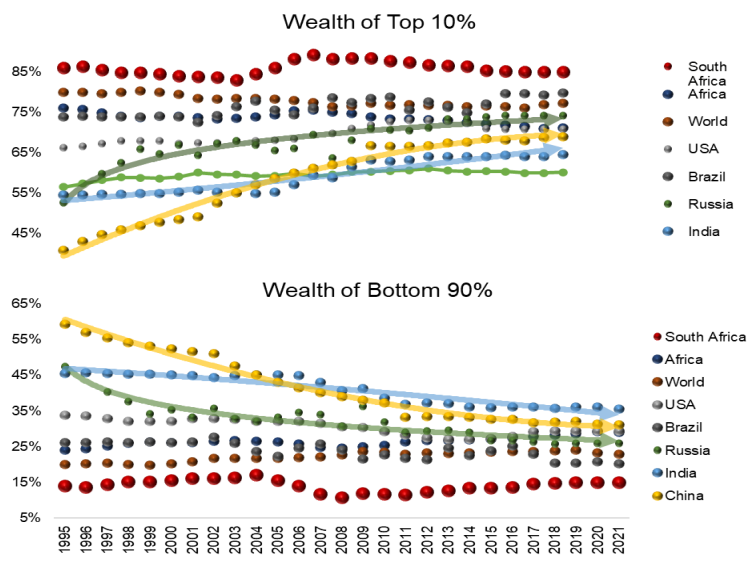


Fig. 18: Asset ownership in South Africa (2017). Source: World Inequality database

Even though South Africa has the highest wealth inequality, countries like Brazil and Russia are catching up quickly. In Russia, for instance, wealth owned by the top 10% increased from 50% to about 70% in just 25 years, while China doubled its inequality level in just 30 years. Countries like Singapore also exhibit similar levels of extreme wealth inequality as SA, but much lower unemployment, more economic growth, and a bigger tax base allows Singapore to manage the impact of this inequality much better. Although extremely concentrated wealth levels are thus quite common around the world, a distinguishing factor for South

Africa is the absence of any wealth concentration at the bottom half of the scale.

The increasing nature of wealth inequality is also prevalent in another dimension, namely large transfers from public to private wealth. This leads to a widening difference between private and public wealth. Public wealth refers to all the assets (financial and non-financial) that a government owns, minus all government debts. This includes all public-owned infrastructure such as roads, railways, buildings, and state-owned enterprises (SOEs), but also all public-owned financial investments in private companies. Figure 19 indicates that, although global wealth levels are rising, this increase is dominated by private wealth, while public wealth is actually decreasing. This occurs mainly due to increasing government debt levels, but also because of some privatisation initiatives that mainly benefit small groups like the oligarchs in Russia or Black Economic Empowerment initiatives in South Africa. For some countries, like the US and UK, the ratio of public wealth to national income has even become negative (Figure 20). This means that, even if these countries sold all their assets to repay existing debts, there would not be enough assets to settle outstanding debts, and thus private wealth would theoretically own all public assets. This would effectively be an extreme form of privatisation, with immense power transfer to the wealthy private sector. Many are of the view that such power transfer is already present due to the currently extreme levels of wealth concentration.

Income and Wealth Inequality

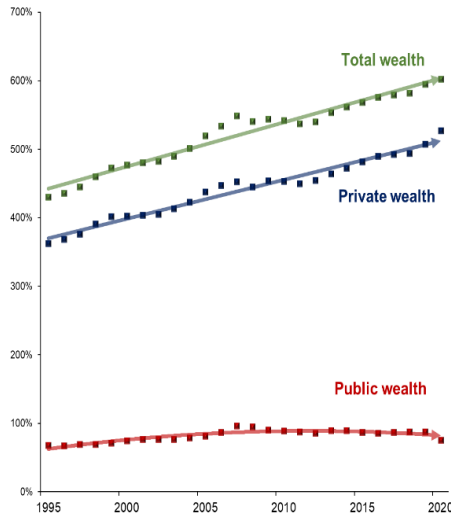


Fig. 19: Global wealth relative to global income (1995–2020).
Source: World Inequality database

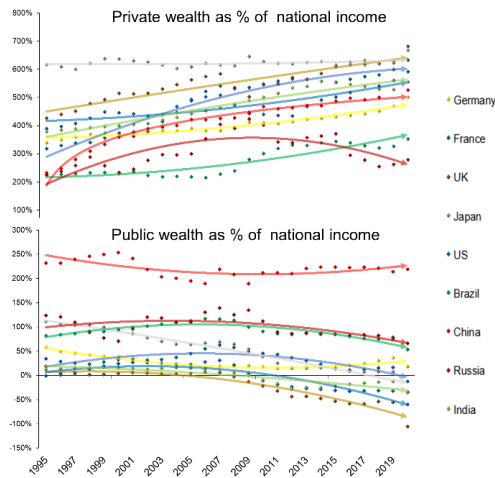


Fig. 20: Rising private wealth and declining public wealth in countries (1970–2020) Source: World Inequality database

Issue 5: Limited Scope for Inequality Reduction by Using the Existing Income Tax System

The income tax system in South Africa has had a significant redistribution effect, resulting in the largest reduction in income inequality of all countries measured in the World Inequality Lab database. This assertion stems from data that estimate a reduction of 60% in the ratio of earnings before taxes of the top 10% relative to the bottom 50% (T10/B50), after factoring in taxes (see Figures 21 and 22).³⁷

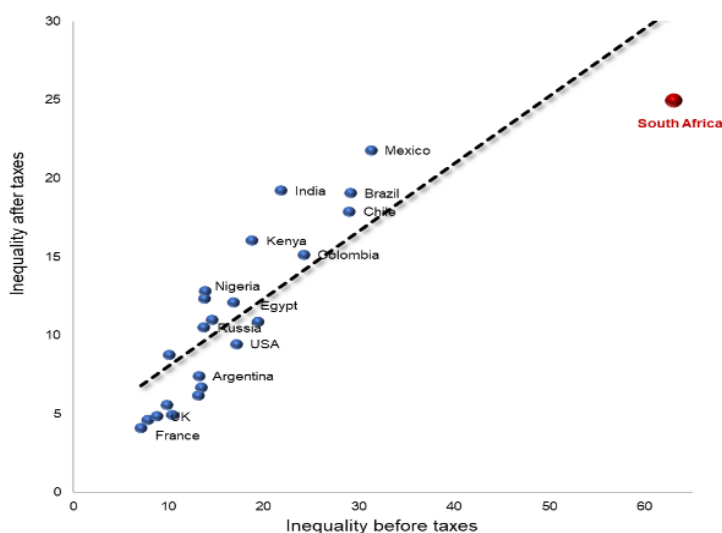


Fig. 21: Inequality (T10/B50 income gap) before and after taxes 2018–2021. Source: World Inequality Report (2022)

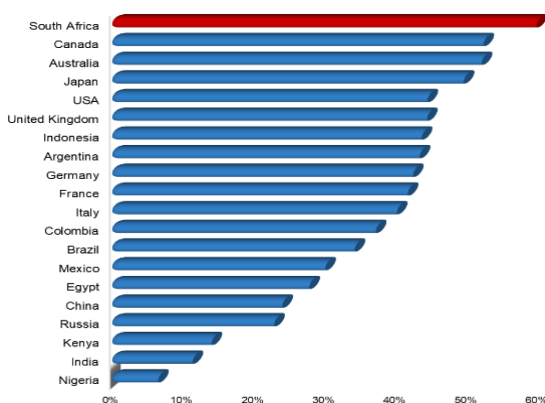


Fig. 22: Income inequality reduction due to taxes 2018–2021.
Source: World Inequality Report (2022)

However, with a T10/B50 ratio of 25 after the redistributive effect of taxes, the income gap in South Africa is still significantly larger than Central Asia or the US, where this gap reduces to about 10, or Europe, where it reduces to about 6.28. The problem facing a country like South Africa is that it is limited in terms of raising more funds through indirect and income taxation. In recent decades, governments increased indirect taxes on goods and services, which disproportionately impacts low-income individuals. In South Africa, the use of value added tax, a fuel levy, and excise duties greatly affects the poorest 50%, and this limits government's ability to use such taxation more. Similarly, the high level and progressive nature of income taxation that prevails leaves limited scope for expansion. The highest marginal income tax rate has been increased from 41% in 2016 to 45% in 2018, and personal income tax already accounts for about 45% of gross domestic product and 40% of total tax revenue.^{38, 39} Although these income tax percentages are lower than in other developed parts of the world, it hides the fact that only about 50% of registered taxpayers in South Africa pay tax, due to extreme unemployment. This figure reduces to about 30% if the SARS taxpayer registration policy as adopted in 2010 is used.⁴⁰ The high unemployment rate and tax burden partly explains why, even with a growing tax-paying population, the number of expected

tax assessments is decreasing (see Figure 23). More importantly, the high level of taxation could also partly explain why a growing number of individuals cease to be South African tax residents and why income declared and tax payable in South Africa by these wealthy individuals decreased by 48.5% over the last decade (see Figure 24).⁴¹

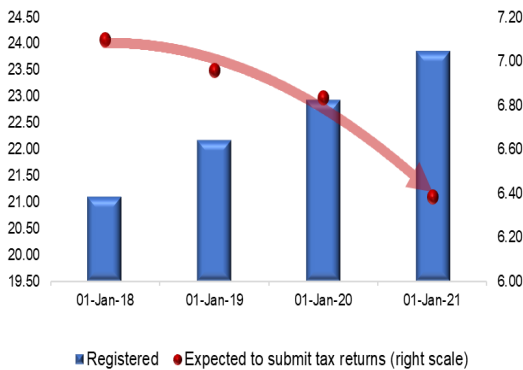


Fig. 23: Registered taxpayers vs expected tax returns, 2018 – 2021 (millions). Source: National Treasury and South African Revenue Service (2023)⁴²

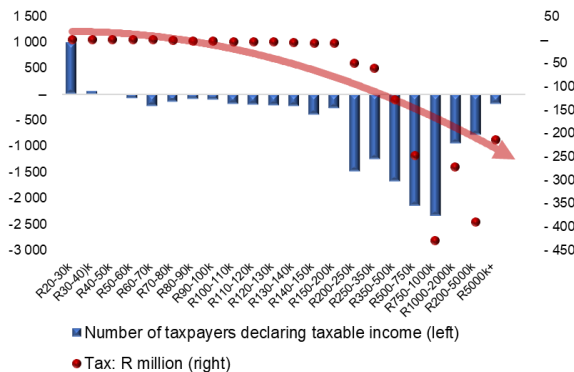


Fig. 24: Tax (per income group) from individuals who changed SA residence status (2021 vs 2012). Source: National Treasury and South African Revenue Service (2023)⁴³

There are clearly limits to the extent that government can use indirect and income taxes to increase state coffers, since it already has a significant effect on both top- and low-income groups.⁴⁴ In addition, the extent to which redistributive income tax strategies have managed to reduce wealth inequality, especially racial wealth inequality, has been negligible. The conclusion that must be made is that, with limited scope for increasing income taxes, the South African government is running out of options and should consider alternative avenues such as implementing some kind of progressive wealth taxation system.

Wealth Tax as a Possible Solution for Reduced Wealth Inequality

As mentioned at the start of this chapter, wealth includes all financial and nonfinancial assets, minus any debts. Accordingly, wealth tax refers to taxes levied on such wealth of individuals, and this tax is usually progressive and annual. Progressive tax means that a higher tax percentage is paid by those that are wealthier.⁴⁵ The idea of wealth taxation, especially on the extremely wealthy, is, in principle, an ideal solution to alleviating wealth inequality. For instance, recent research suggests that implementing a “moderate” wealth tax on the richest 1% of South Africans could raise approximately R130 billion per year. This equals about 40% of all value-added tax collected and would be enough to cover about 85% of South Africa’s massive debt-service costs, or about 60% of all social protection expenditures (including social grants), or almost 75% of health spending.⁴⁶ Such research results make a convincing argument in favour of wealth taxation. It does, perhaps, also create the impression that such taxation is easy to implement and will automatically be an effective process. However, the next section briefly highlights some challenges with a wealth tax system.

Challenges with a Wealth Tax System

If wealth taxation is such a clear and simple solution to reduce inequality, one would expect this type of taxation to be prevalent globally, but the opposite seems to be true. Ever since the

Reagan and Thatcher eras from the early 1980s, there has been a significant and global reduction in wealth taxes. For instance, the number of Organisation for Economic Co-operation and Development (OECD) member countries that collect wealth taxes has reduced from 12 in 1996 to only five in 2020. In these countries, wealth tax revenues also made up only about 1.5% of total revenues in 2020, and some countries, like France, are reducing this tax even further by limiting it to property only. As a result, it is estimated that only 4% of global tax income now comes from outright wealth taxes (Figure 25).⁴⁷

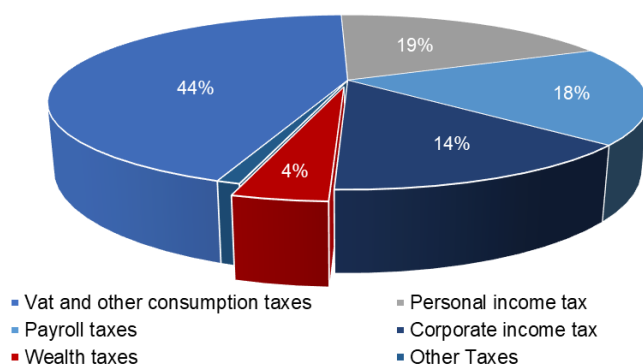


Fig. 25: Global tax revenues by category Source: Oxfam

An immediate issue relates to the definition and measurement of wealth. It is not so straightforward to determine the value of assets, which – unlike liabilities, such as loans – often have values that are difficult to determine. A seemingly simple solution would be to use asset values as determined by prevailing market forces of demand and supply. However, how does one determine the market value of, say, a house or other property if it is not actually “supplied” in the market to obtain a realistic “demand” offer? Similarly, financial assets like shares can often experience extreme value changes within days, while long-term bonds are very sensitive to small interest rate changes. Many of these assets are also not easily valued because of lack of liquidity, or because

they are not publicly listed. These are important issues, since most wealthy South Africans' wealth consists largely of direct holdings of financial assets like bonds and shares.

Several related issues exist and must first be addressed before wealth taxation can become an operationally viable and effective system. For instance, should pensions and other similar retirement savings be taxed? How would wealth held abroad or in legal entities that are difficult to trace be assessed and taxed? Since wealth tax is usually a progressive tax system, it also requires that wealth thresholds be set to distinguish those who should pay such tax from those who are exempt. Should a wide taxation 'catching net' approach be followed, or should it be restricted to include only the extremely wealthy? How would the wealth increments that determine wealth tax brackets be determined? How would this taxation system be administered to ensure that individuals above the non-exempt threshold do not 'manage' their wealth assessment to fall below the threshold? A country like South Africa already has an extremely complicated tax system. The implication of this is that wealth tax already exists in the form of taxes on interest, dividends, capital gains, estates, and the transfer of property. As such, the base of all these taxes largely overlaps with the base for wealth taxation.

A solution to many of the above-mentioned issues would be to suggest that a realistic, reasonable, and acceptable wealth tax should only apply to the extreme upper tail of wealth distribution. However, at what level would "extreme wealth" be classified? The top 1% or top 0.1% or top 0.01%? Proposals for any additional wealth tax should also head the arguments against wealth taxation. For instance, casting the wealth tax "net" too wide could be detrimental to entrepreneurial spirit and risk-taking, harm innovation, new business ventures and foreign investment, and reduce sustainable employment and growth. An example to learn from is France, where the recent reduction in wealth taxes was largely driven by the need to attract more foreign investment.⁴⁸ In South Africa, an obvious elephant in the room also relates to the maladministration of public finances. Wealth taxes would make the proverbial cookie jar much larger, but will it make inequality

less? These are all crucial factors to consider before implementing any form of wealth tax, especially in a country like South Africa.

Conclusion

Wealth inequality can lead to several potential negative consequences, including the empowerment of the wealthiest to influence policymakers and institutions, strengthening anti-competitive behaviour, eroding social cohesion, and resisting more equitable distribution of wealth and income to the poor.⁴⁹ Reducing wealth inequality will undoubtedly improve overall social welfare and cohesion in the most unequal country in the world. This will require commitment from the high-wealth segment of the population to help redistribute wealth and resources, but also trust in the government to apply such a system effectively. Of these two crucial elements, it is perhaps the latter that is currently the major obstacle. What is clear is that, if the status quo is maintained, government will remain unable to facilitate sufficient transfer of resources and the reduction of poverty and inequality, especially if they are forced to cut public spending due to low or no economic growth.

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Chapter 4

Cities are at the Centre of South Africa's Wage Inequalities

Justin Visagie  & Msawenkosi Dlamini 

Introduction

Transformation of the South African labour market is imperative for building a more equitable and prosperous future. The 'triple challenge' of inequality, poverty, and unemployment all have their roots in a slack domestic labour market.¹ Yet, to date, the majority of scholarly work on labour market outcomes in South Africa has focused on micro supply-side issues, or, in other words, on the barriers that exist in the lives of workers, particularly among the youth.² Demand-side macro factors, by contrast, such as the impact of technological change, globalisation, and urbanisation, have been largely neglected.

A key dimension in understanding the demand for work is the evolving geography of wages and employment, particularly in cities. The migration of workers from farm to factory and from countryside to city underpins many traditional theories about how economic development is expected to unfold.³ A central idea is that workers benefit from moving from low-wage, low-value agricultural activities to higher-wage, higher-value industrial production, which is located in cities. Yet, in many parts of the world, including South Africa, urbanisation has not been associated with industrialisation, but rather mass unemployment.⁴

Contemporary economic theory goes further, to suggest that urbanisation itself can drive national development, rather than just being associated with industrialisation. This is because the dense concentration of firms and workers geographically can lead to positive benefits that would not exist if production was spread out evenly (but thinly) across the country (referred to as

‘agglomeration economies’). Agglomeration is such an important ingredient in economic development that economists commonly measure the impact of city size on firm-level performance. For example, the World Bank (2009)⁵ estimate that a doubling of city size can increase firm-level competitiveness (typically measured by ‘productivity’, which is the efficiency in turning inputs into outputs) by between 3% and 8%.

There are a variety of ways in which spatial concentration might offer economic benefits, although the relative importance and mechanics of the relationship is the source of ongoing debate. This goes all the way back to Adam Smith’s *Wealth of Nations* (a founding treatise on modern economics), where Smith explains the importance of specialisation in boosting production. Physical proximity in local markets – which connects a critical concentration of firms, workers, suppliers, and raw materials – is the basis for deepening specialisation. In general, larger markets tend to operate more efficiently than smaller markets, because of tighter matching between demand and supply. Firms share in the collective benefit of a richer pool of local resources, such as access to scarce skills and experience in the workforce or the quality of their suppliers. In this way, many cities develop reputations as production hubs in a particular sector or ‘cluster’ of economic activity.

In addition, economic concentration can also offer advantages for firms, not only in terms of their depth (i.e., specialisation), but also breadth (i.e., diversification). The biggest cities are often attractive for investment because of the capacity for innovation which is often related to crosspollination across industries. The spread and spillover of knowledge between local actors is often dependent on physical proximity because of the complex manner in which new (inherently unstructured) information is explored and exchanged. As a consequence, the economy is usually most dynamic and diversified in large cities.⁶

Despite the importance of agglomeration for economic development, many scholars caution against a simplistic or deterministic view of ‘bigger is better’. There are clearly negative consequences to urbanisation if population growth is not matched

by large investments into the built environment that can ensure adequate service delivery and connectivity. There are obvious limits to how much any city can grow, because of rising levels of congestion, contagion, crime, and pollution.⁷

South African cities are no exception, with growing concerns over the lack of maintenance and new investment in transport, housing, and service infrastructure.⁸ The influence of geography on labour market outcomes is bound to be amplified because of the legacy of apartheid spatial planning. For instance, South African cities continue to disadvantage the bulk of the poor black population because of the physical separation between where they live and work.⁹

To the best of the authors' knowledge, there is no prior research which examines the role of South African cities in (re) producing wage or income inequalities. This is surprising, given that approximately 65% of all formal jobs in the country are concentrated in the metropolitan municipalities (metros), with 38% in the Gauteng metros alone (according to our estimates from the Spatial Tax Panel). The sheer size of the pool of labour in cities means that national trends are dominated by, and skewed towards, outcomes in these places. Earning potential is intertwined with a range of local factors, including the structure of industry, quality of infrastructure, transport and related costs of living, among others, all of which have been neglected in studies of the South African labour market.

The goal of this chapter is to better understand the position of cities in contributing to wage inequalities in South Africa. A key question is: Are wage inequalities particularly high in the metros in comparison to the rest of the country? A follow-up question is: do earnings differ comparing cities of different sizes? How is this related to their industrial composition? Lastly, how have wage inequalities evolved over time in each of the metros?

The Role of Cities in Wage Inequality

There are good reasons to study urban inequalities alongside – or, at least, in addition to – national inequalities.

An individual's perception or experience of inequality is dependent on where they live: how standards of living change within their neighbourhood, district, city, and country.¹⁰ For example, there is evidence that rates of crime are better explained by the degree of local inequality than absolute levels of deprivation.¹¹ The same is true of civil unrest in South Africa, which is not simply correlated with poor service provision but with the disparity between neighbourhoods and communities.¹²

Another distinctive feature of spatial inequality is the importance of class-based segregation. The sorting of individuals based on income and affordability compounds inequalities because the "...more skilled not only take home more money, but also benefit from better neighbourhoods, superior amenities, and better schools".¹³ Neighbourhood-based patterns of advantage or disadvantage are persistent, and can have a strong influence on individual and inter-generational mobility.¹⁴ In contrast, national measures of inequality are not affected by the extent of spatial segregation. Therefore, an exclusive focus on national levels of inequality risks ignoring a fundamental mechanism of class-based privilege which has a distinct spatial element. This is particularly relevant for South African cities, which have among the highest levels of segregation in the world.¹⁵

A related concern is that the policy levers for addressing local or area-based inequality are not necessarily the same as when reducing national levels of inequality.¹⁶ The relative ease of mobility between city administrative boundaries means that local authorities might struggle to enforce redistributive measures, in contrast to national policies. So the relationship between national and area-based inequality, along with the deeper drivers of spatial inequality, warrants explicit attention.¹

A review of the international literature on global inequality highlights a few key trends which have implications for

1 Ironically, higher levels of segregation can result in lower levels of local inequality if inequality is measured at a very disaggregated scale. To illustrate, the extreme case of total segregation between rich and poor communities could actually produce perfect 'local' equality because everybody has the same income level in that region/area.

labour market outcomes in cities. One important theme is the polarisation of wage distribution, or, in other words, the rise in concentration of both high-wage and low-wage jobs.¹⁷ This has been the experience of many post-industrial cities located in the Global North because of the globalisation and off-shoring of manufacturing jobs to cheaper locations such as China. These lost blue-collar work opportunities had previously occupied the middle band of wage distribution, resulting in a 'hollowing out' of wage distribution.

A closely related issue is skills-biased technological change which has also exacerbated inequalities.¹⁸ Not only have blue-collar jobs been lost in advanced economies, but competitive advantage has fundamentally shifted towards new forms of knowledge-based capitalism. Large multinational and national corporations maintain their lead positions within global value chains by command of knowledge-intensive activities, including R&D, branding and marketing, dissemination of lead technologies, access to finance, and setting standards and certifications.¹⁹ This has disproportionately increased demand for high-skilled work such as professionals, managers, technicians, scientists, and so forth.

Cities feature prominently in the rise of the knowledge economy as the main organising units for pools of talent.²⁰ While there is debate about whether workers relocate in response to the location of firms, or rather, that firms relocate in response to the location of talent, in either case, the role of agglomeration is central.²¹ The influential research by Sassen (2001; 2006)²² on global cities similarly describes the growing spatial polarisation between high- and low-wage earners in prominent cities. This is related to high earnings for skilled professionals involved in financial and modern business services alongside localised demand for services of low-skill, low-wage workers involved in non-tradable activities such as personalised care, retail trade, the preparation of food, and entertainment. For example, Baum-Snow and Pavan (2013)²³ have shown that there is a strong positive relationship between overall city size and inequality for metros in the USA.

The discussion about cities and inequality is usually studied from the perspective of cities in the Global North. More research is needed to uncover themes for emerging cities in developing countries such as South Africa. For instance, countries in East Asia such as China have benefited from the outsourcing and relocation of blue-collar work from advanced economies, but this has not yet been the case for Africa or Latin America.²⁴ It is also not clear whether firms located in cities in developing countries can compete at the frontier of the knowledge economy.

Only a handful of studies about the South African labour market deal explicitly with spatial inequalities, although rural-urban estimates are sometimes available.²⁵

Mudiriza and Edwards (2021)²⁶ examine regional wage disparities across magisterial districts in South Africa and find that former homeland regions continue to pay workers less even after controlling for important differences in workforce education or city size. David *et al* (2018)²⁷ produce municipal level estimates of poverty and inequality based on the Census 2011. The study helps highlight the significant variation in development indicators across municipalities, but focuses mainly on regional poverty trends in former homelands, rather than on cities. Visagie (2018)²⁸ underscores the challenge of measuring regional labour market outcomes from labour force surveys because of the reduced sample size. Yet, despite a blunt instrument, high levels of spatial inequality still allow for spatial patterns to be identified. None of these studies examine the role of cities or urban labour markets specifically, nor their contribution to wage or income inequalities in South Africa.

Overall, the contribution of cities to wage inequalities is still an emerging theme within the international literature.²⁹ Most research is limited to studies of the USA, Canada, the UK, and other Western societies.³⁰ Yet disparities in the physical characteristics of emerging and advanced cities respectively are very noticeable and could have a significant impact on labour market outcomes. South Africa is no exception, where the legacy of apartheid continues to exacerbate inequalities in standards of living and service delivery between rich and poor communities.

Data and Methods

A lack of research about the spatial dimensions of wage or income inequality in South Africa is partly driven by the absence of reliable data for sub-national analysis. This chapter draws upon a new source of spatial data which is constructed from tax data, known as the Spatial Tax Panel.³¹ An advantage of administrative data (as opposed to survey data) is the potential breadth of coverage which, in this instance, provides information on tax-paying individuals in all 213 local municipalities in South Africa – including each of the metropolitan municipalities. This level of spatial detail has not been possible, except in the decennial population Census.

The Spatial Tax Panel provides an impressive range of labour market indicators, including total employment, employment by wage band, the wage Gini coefficient, and median wage levels. The ‘wage’ data is defined here broadly to include a wide range of labour-related earnings and benefits including salaries, allowances, medical expenses, bursaries, retirement contributions, etc.³² The tax data covers anyone earning more than R2 000 *per annum* (the legal threshold for companies filing IRP5/IT3a certificates) and so offers comprehensive data on workers from across the income spectrum – even if a person earned too little to actually contribute to Pay-As-You-Earn (PAYE) tax. In many instances, the database goes even further to allow for cross tabulations by industry (at a five-digit standard industrial classification (SIC) level), age, and gender, among others.

However, a noticeable gap in the Spatial Tax Panel is the absence of informal firms and workers (i.e., where no tax certificates are generated) as well as individuals who fall outside of the workforce (i.e., individuals who are not economically active or unemployed).² For instance, this would mean the

2 In addition, tax data represent the total number of employer-employee relationships, rather than total employment in the labour market, because some individuals are employed by multiple firms at the same time and hence generate more than one IRP5 tax certificate. Whilst individuals may transition between firms (or become unemployed) within a tax year, IRP5 certificates have been converted to full-time equivalents for that year to avoid double counting.

exclusion of most domestic workers in South Africa. Despite this limitation, South Africa has relatively low levels of informality when compared with the rest of Africa. As such, employment in the formal sector represents as much as 94% of Gross Domestic Product and approximately 83% of national employment.³³

The methodological approach in this chapter is descriptive, as an initial step towards better understanding spatial patterns of wage inequality in South Africa. It is important to note that estimates of wage inequality presented here represent labour market outcomes *among the employed*, which are further limited to *formal workers*. By contrast, estimates of income inequality include all households or individuals (i.e., both employed and unemployed) and all sources of income (i.e., earnings, social grants, remittances, etc). Therefore, income inequality is a more comprehensive concept than wage inequality, although there is a strong correlation between both measures. The bulk of labour market inequality in South Africa is from inequality in earning distribution, rather than households with no access to employment.³ That said, the correlation between wage and income inequality might be weaker for many rural municipalities, which lack a formal economic base. A focus on wage inequality is a good place to start with the available data.

Results

The geography of employment and wage inequality in South Africa

Figure 1 shows the geographical spread of total (formal) employment across the country, based on tax data. The results are striking and clearly show the heavy concentration of employment in the eight metros compared with the rest of the country. In fact, the four largest job centres – Johannesburg (JHB), Tshwane (TSH), Cape Town (CPT), and eThekweni (ETH) – account for 52%

3 Leibbrandt *et al* (2012) decompose income inequality for households and find that 38% and 62% of household wage income inequality is attributable to households with no employment (i.e., zero wage income) and inequality amongst wage earners, respectively.

of total formal employment in the country. The clear implication is that what happens in each of these urban labour markets would have a disproportionate impact on national employment outcomes. It also reaffirms the central position of cities as drivers of national labour demand and points to the importance of spatial concentration or ‘agglomeration economies’ for national economic development.

Do cities also exhibit higher levels of wage inequality? Figure 2 shows the geography of earning inequality (among formal wage workers) across the country, as measured by the Gini coefficient in each local municipality.⁴ While the wage Gini is high across the whole country, metropolitan municipalities consistently fall into the top two tiers in wage inequality rankings among municipalities (in other words, in the 4th or 5th quintiles). The exception is Buffalo City (BUF), which falls into the middle (3rd) quintile, probably because of a concentration of unionised and protected government jobs.⁵ There is also a fair share of variation in wage inequality between municipalities, with the Gini rising from a lower score of 0.42 at the 10th percentile to an upper score of 0.65 at the 90th percentile. The reason why some municipalities have higher or lower wage Gini scores requires more detailed investigation, yet the key point is that the metros are associated with higher levels of earning inequality compared with the rest of the country.

4 The Gini coefficient is a statistical measure, ranging from 0 to 1, used to quantify income inequality within a population, with 0 representing perfect equality and 1 indicating extreme inequality.

5 Tshwane also had a slightly lower Gini score than the other metros, probably for the same reasons as Buffalo City, but still managed to fall within the 4th quintile.

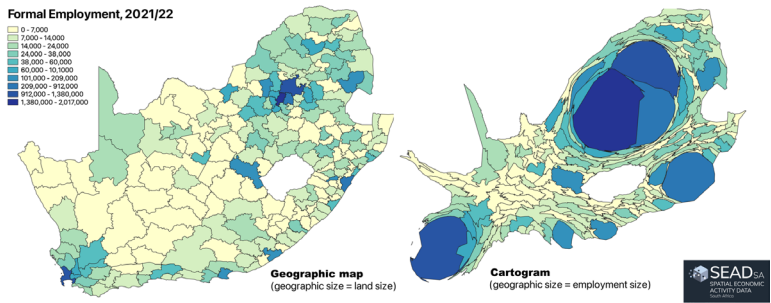


Fig. 1 Total formal jobs by municipality, 2021/22; Source: Nell, A. and Visagie, J. (2023). Spatial Tax Panel 2014–2022, Version 3

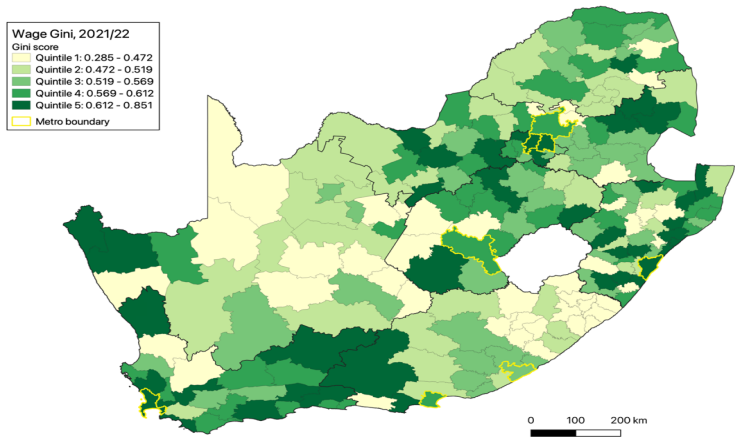


Fig. 2 Wage inequality by municipality, 2021/22; Source: Nell, A. and Visagie, J. (2023). Spatial Tax Panel 2014–2022, Version 3

Wage inequality and wage levels between South African cities

A main question is whether there are any noticeable disparities in wage inequalities between metropolitan municipalities. Looking more closely at wage inequalities in each of the metros, we find that inequality appears to be higher overall for larger metros, notwithstanding some year-on-year fluctuations. Figure 3 shows

how levels of wage inequality can be ranked by the four largest and four smallest metros (by population size). This matches up with empirical findings of cities in the USA where inequality is similarly correlated with city size.³⁴

Higher wage inequalities in larger cities might be attributed to their mature industrial profiles, which attract workers with a wide range of skill sets and experience. In contrast, the government is typically the primary employer in smaller metropolitan areas, offering more consistent wages. Among the metros, Johannesburg consistently displayed the highest levels of income inequality. This is understandable, considering Johannesburg's role as a prominent financial and business service centre, and a headquarters for big business.

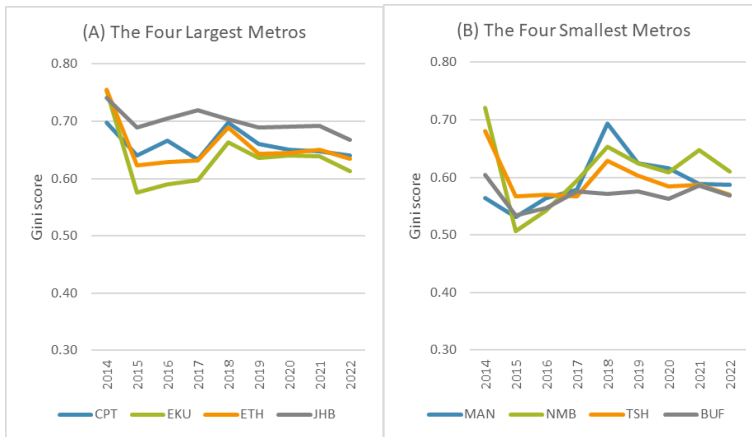


Fig. 3 Wage Gini coefficient by metro, 2013/14–2021/22; Source: Nell, A. and Visagie, J. (2023). Spatial Tax Panel 2014–2022, Version 3

In addition to overall levels of earning inequality, Figure 3 also reveals the trends over time in wage inequality between 2014 and 2021. While the degree of inequality is more volatile over time for the smaller metros than for the larger metros, none of the metros show much of a discernible trend over time. We find no clear evidence that wage inequalities are decreasing in any of the eight metros. The exception might be Johannesburg, where the Gini

falls slightly, from 0.74 to 0.67, although Johannesburg is still the metro with the highest earning inequality overall. This change seems to have occurred during a period of economic stagnation for South Africa's largest city, rather than as a positive outcome of structural transformation. A longer time horizon would help confirm the trend.

Median wages are another useful way of comparing labour market returns between regions. Median income is a calculation of the midpoint in the earning distribution, where half of all workers earn more, and half earn less, than the median wage. A main advantage of the median is that it is not influenced by extreme high or low values, whereas a small number of exceptional income earners can inflate *average* (mean) wages. Figure 4 shows the levels and trends in median wages by metropolitan municipality over time. Wages have been adjusted for inflation in order to take into account that costs of living rose over time.

The disparity in average earnings across metros is a distinctive feature of the figure. The ranking or hierarchy in the levels of median income is fairly stable over the period (despite the downward trend discussed in the next paragraph). The larger (or smaller) metros do not necessarily offer higher (or lower) median wages. Tshwane offers the most favourable median wage level; second is Johannesburg, followed by a cluster in the middle comprising Ekurhuleni, Nelson Mandela Bay, and Mangaung. The bottom three are Buffalo City, Cape Town, and finally, eThekweni. The difference between median wages for the top (Tshwane: R14 607) and bottom (eThekweni: R8 152) ranked metros in 2021/22 is surprisingly large at more than R6 000 per month. This once again reinforces the reality of significant geographical earning differences between different parts of the country – even when comparing metros.

Another important finding is evidence of what appears to be a serious erosion in median wages across all of the metros over the past eight years. This figure implies that the 'average' wage worker in South African cities is getting poorer because wages at the middle have not kept pace with inflation. A number of studies point to a polarisation or hollowing out at the middle of the South

African earning distribution.³⁵ More careful research is needed to confirm the trend and its applicability across the rest of the distribution. Yet the overall impression from Figure 4 is clear: average worker earnings across the metros have deteriorated over the past eight years, which is consistent with South Africa's sustained poor economic growth.

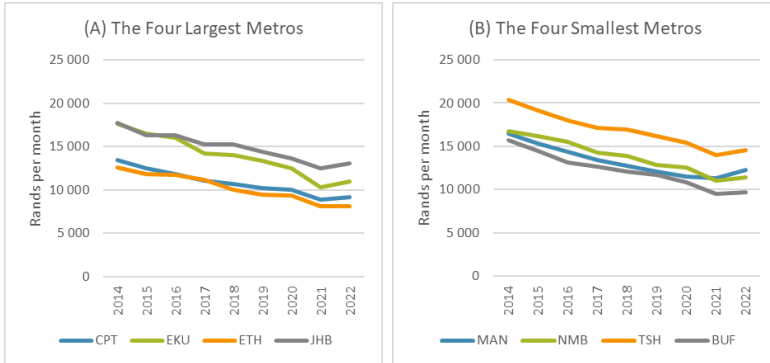


Fig. 4 Median wage by metro (constant Dec 2021 prices), 2013/14–2021/22; Source: Nell, A. and Visagie, J. (2023). Spatial Tax Panel 2014–2022, Version 3

Note: adjusted to constant prices according to the Consumer Price Index (base: Dec 2021)

Gini coefficients and median wages are summary measures to understand the evolution of wages. A fuller picture of labour market earnings is offered by wage bands, as contained in Figure 5. This shows the full range of earning or wage ‘distribution’ from low to high earners. The results are understandably more nuanced, but generally reinforce the point that there are important differences between metros.

A few important subtleties in the wage distribution are worth mentioning.

First, Johannesburg has double the percentage of earners in the highest earning bracket when compared to other metros, with approximately 4% of workers earning more than R100 000 per month. This corresponds with Johannesburg’s higher Gini score

when compared to other metros, which is evidently driven by a concentration of top-paid executives.

Second, eThekweni (39%) and Cape Town (36%) have greater shares of people earning less than R6 400 per month. The high concentration of low-wage earners in these coastal cities is difficult to interpret. It could be related to the prominence of tourism and retail sectors, which generally offer lower wages due to factors such as lower skills requirements, higher levels of competition, and the seasonal nature of some jobs.³⁶

Last, the metro wage distributions appear to lack a consistent peak, with the heaviest concentration of earners in some cases falling in a low R3 200–R6 400 monthly wage band (such as in eThekweni, Buffalo City, and Cape Town), and sometimes falling in a high monthly wage band of R25 600–R51 200 (such as in Tshwane). Ekurhuleni had the highest concentration of workers in the middle wage band, with 46% of workers earning between R6 400 and R25 600. The same middle tier made up less than 37% of all workers in Buffalo City. A stronger middle wage tier in Ekurhuleni is consistent with the larger share of manufacturing or ‘blue-collar’ workers in Ekurhuleni. Notwithstanding the fact that wage bands offer a fairly crude representation of the earning distribution, the evidence does suggest that too few individuals fall into the middle, which is symptomatic of high levels of wage inequality.

The role of industry specialisation in explaining wage inequalities between cities

There are clear differences in earning potential across South African cities, as presented in the section above. A key question is the extent to which differences in wage levels can be explained by differences in the industrial profile of each city. We expect the industrial mix to matter for wages because of differences in occupations and skills demanded by different sectors. Alternatively, do local conditions have a decisive influence on what workers earn, irrespective of sector? This could be because of the quality of local infrastructure, the degree of specialisation,

good governance, and ultimately differences in productivity between cities.

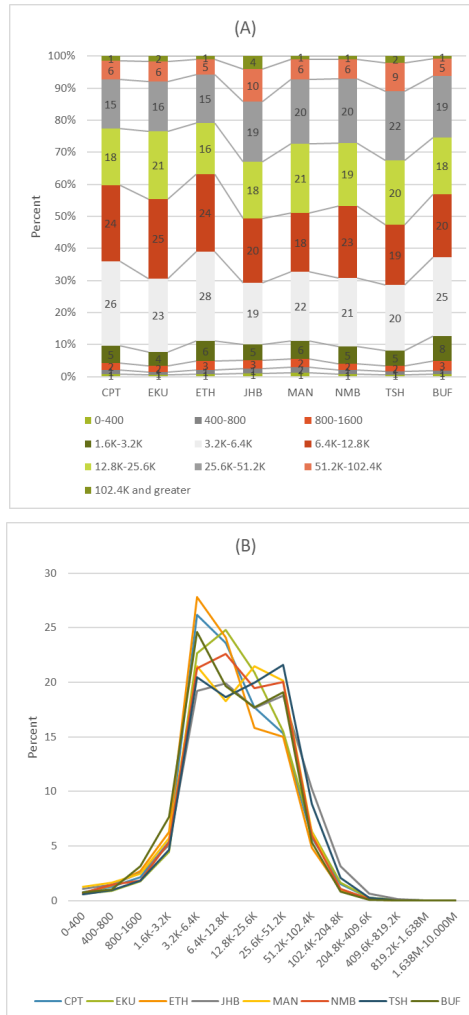


Fig. 5 Employment by wage bands and by metro, 2021/22;
Source: Nell, A. and Visagie, J. (2023). Spatial Tax Panel
2014–2022, Version 3

Note: Diagrams A and B are different representations of identical data, using different visual tools to enhance clarity.

Table 1 combines information about average wage levels across metros together with information about average wages in industries to allow for a comparison of wages by sector between metros.

As seen in the table, economic sectors play an important role in driving wage differences between cities because not all sectors of the economy pay the same. In general, the highest-paying sectors (in terms of formal employment) include utilities, finance, and mining, with average wages in excess of R40 000 per month in some places. The lowest-paying sectors include administrative services, tourism, retail, and agriculture, which frequently pay less than R15 000 per month on average.

Yet the table also reveals the insufficiency of the industrial composition as the only reason behind wage inequalities. When comparing average wages between cities in the *same sector*, the differences can be striking. For instance, the average monthly wage level in utilities is as high as R59 312 in Johannesburg but as low as R11 479 in eThekweni. This probably has to do with the influence of Eskom, which has its head office in Sandton. The same is true of financial services, which pays, on average, R51 147 in Johannesburg but only R21 413 in Buffalo City. Again, Johannesburg is headquarters to most of the big banks in South Africa.

In other words, while some sectors pay better than others, it is also true that some cities pay better than others, even when comparing differences within sectors. The descriptive evidence suggests that, in general, workers from Johannesburg receive higher average wages in any sector, while workers in the smallest metros (Buffalo City and Mangaung) seem to experience some wage penalty. Further research is needed to unravel the role of place-based factors from that of a range of important demographic and demand-side features, including industry, occupation, education, age, and experience.

A final approach to understanding wage differences between cities is a focus on top earners. Table 2 shows the top three economic sectors in each metro, ranked according to the greatest concentration of highly paid workers – workers earning

Table 1 Mean monthly wages by sector and by metro (in rands), 2018/19. Source: Nell, A. and Visagie, J. 2023. Spatial Tax Panel 2014–2022: Version 3

Note: Mean wages are calculated by imputing the mid-point of each wage band. This is a rough approximation of the mean wage.

Sector	All Metros	JHB	EKU	TSH	CPT	ETH	NMB	BUF	MAN
ALL	22 187	29 198	23 274	26 664	20 190	18 852	21 957	20 850	21 550
AGRIC	16 091	19 033	13 431	18 709	14 133	18 161	14 639	8 397	11 751
MINING	41 377	52 019	35 689	30 227	51 314	33 763	14 402	14 043	24 701
MANU	25 223	31 976	27 480	24 912	18 026	22 026	26 340	15 801	15 446
UTILITIES	46 804	59 317	23 670	19 871	31 466	11 479	14 583	21 178	41 643
CONST	18 240	23 353	22 868	15 582	14 911	13 532	15 018	12 810	13 814
RETAIL	15 880	19 115	19 670	16 157	13 340	13 496	14 305	13 370	14 529
LOGISTICS	27 773	34 138	28 343	25 752	22 066	25 317	18 109	17 526	17 284
ICT	39 578	45 061	36 534	45 330	27 982	28 172	31 714	30 920	26 072
TOURISM	12 416	14 511	12 548	11 059	11 770	11 904	9 361	9 364	10 660
FIN	43 558	51 147	28 469	40 100	38 577	25 686	28 454	21 413	29 549
PROF SERV	34 469	40 941	28 369	34 755	31 768	24 651	24 670	25 748	23 502
ADMIN SERV	10 742	10 495	11 244	12 493	12 976	8 768	9 835	7 000	9 177
GOV SERV	37 143	36 018	35 519	39 315	36 750	36 260	37 258	35 337	35 889
HEALTH&EDU	21 131	21 804	18 942	22 967	19 866	21 179	19 800	18 955	17 788
OTHER	17 484	21 974	17 896	15 939	15 919	12 930	13 142	13 714	12 035

more than R51 200 per month. In addition to the absolute number of highly paid workers in each sector, we also calculate the share of highly paid workers against the total workforce in that sector. This is the relative intensity of highly paid workers amongst all workers in that sector. A greater intensity means that the economic sector offers a greater proportion of workers with high earnings.

Table 2 Workers earning R51 200+ per month by sector and by metro, 2021/22

	Rank	Sector	Total	Intensity (%)
JHB	1	FIN	63,738	31.6
	2	ICT	33,213	29.4
	3	MANU	1,351	17.5
EKU	1	MANU	23,494	12.1
	2	RETAIL	9,026	8.4
	3	GOV SERV	7,143	11.5
TSH	1	GOV SERV	43,332	17.0
	2	HEALTH&EDUC	12,982	10.3
	3	PROF SERV	11,768	18.7
CPT	1	GOV SERV	16,795	11.4
	2	RETAIL	16,563	4.6
	3	FIN	16,484	17.2
ETH	1	MANU	12,767	9.2
	2	GOV SERV	11,928	9.4
	3	RETAIL	6,679	3.9
NMB	1	MANU	5,403	11.2
	2	GOV SERV	4,182	11.6
	3	RETAIL	1,462	5.3
BUF	1	GOV SERV	5,601	11.7
	2	MANU	966	6.3
	3	RETAIL	648	4.0

	Rank	Sector	Total	Intensity (%)
MAN	1	GOV SERV	5,263	12.4
	2	HEALTH&EDUC	1,930	8.6
	3	FIN	885	16.9

Source: Nell, A. and Visagie, J. (2023). Spatial Tax Panel 2014–2022, Version 3

Note: Intensity represents the percentage of all workers within the sector earning R51 200 or more per month.

A noticeable feature of the table is how the ranking of the top three sectors for highly paid workers changes across metros. This is useful in recognising the specialisation of each metro economy. For instance, Johannesburg can be characterised as a financial centre (finance is ranked first), Ekurhuleni as a Manufacturing-logistics centre (manufacturing is ranked first), Tshwane as a national government and professional services centre (Government services is ranked first and Professional services third), etc. Each city’s strength is rewarded in the labour market.

It is also interesting to see how the intensity of high-income earners by sector fluctuates across the metros. In other words, what percentage of the workforce in each sector falls into top earning brackets. For instance, within manufacturing, 17.5% of workers earn above R51 200 per month in Johannesburg, compared with just 6.3% of manufacturing workers in Buffalo City. The same is true of finance, where 31.6% of workers in Johannesburg fall into the top-paying bracket, compared with 16.9% in Mangaung. The large number of high-paying jobs in government services is apparent in most metros, fluctuating between 9.4% in eThekweni and 17% of public sector jobs in Tshwane. Overall, Johannesburg and Tshwane stand out with both the largest number and greatest intensity of top-paying jobs in their three top-ranked sectors.

Conclusion

The poor performance of the South African labour market is one of the greatest puzzles of our time. We have made the case that

cities are central in reproducing wage inequalities. The sheer size of employment concentrated in the largest metros implies that local conditions should not be ignored. Firms and workers must interact in their local environment, which is often distinctive in terms of the size of the market, industry mix, quality of the built environment, and influence of local actors including government, organised labour, local business forums, universities, and civil society. This reinforces the need for a holistic approach to labour market reform.

We repeat some of the key insights emerging from our analysis of wage inequality in formal employment based on tax data. First, wage inequalities tend to be higher within cities, compared with the rest of the country. The role of cities in driving wage inequalities is amplified by the sheer concentration of employment in South Africa's bigger urban centres. In addition, wage inequalities are persistently high over the period 2013/14 to 2021/22, with little sign of improvement. In fact, median wages (in constant prices) declined significantly over the period because wages did not keep pace with inflation. Further research is needed to establish whether this was an issue for earners at the middle of the earning distribution, or more widespread.

Second, there is evidence of a hierarchy in degrees of inequality and wage levels between cities. For instance, wage inequalities are highest in Johannesburg, which also paid better median wages and had double the percentage of top earners (above R100 000 per month), compared to other metros. On the other hand, earning inequalities are lower in Buffalo City and Tshwane. The median wage level in Tshwane was as much as R6 000 per month higher than in eThekweni.

Third, the structure of industry explains some of the wage variation between metros, but is insufficient as the only reason behind earnings differences. While certain industries offered higher salaries than others, it is equally true that specific cities offered higher wages than others, irrespective of industry. The same message is repeated when looking at the concentration and intensity of top-income earners by sector, which showed significant variation both within, and between, cities and

sectors. Johannesburg and Tshwane stand out with the highest concentration of top earners.

The implication of our findings for policymaking is that it makes sense to bear in mind the unique characteristics of local labour markets when tackling labour market reforms. This could start with an evaluation of the goals of local industry plans and their knock-on effects for wages and labour absorption in the local economy. Education and training programmes could also be designed in close collaboration with local business in order to better align with workplace demand. Another opportunity is for deeper exploration of wage profiles by sector (and sub-sector) as a way of identifying potential hotspots of non-compliance with regulatory protections. Any of the above interventions would depend on further investment in research and experimentation in order to design and test a more targeted approach. A key conclusion is that applying generic formulae to labour market reforms across all cities and regions is unlikely to have the intended outcomes, in light of their distinctive characteristics.

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Chapter 5

From Van Riebeeck to Ubuntu: Exploring South Africa's Land Legacy

Lizelle Janse Van Rensburg 

The land is thus an example of historical injustices
colliding with demands for contemporary fairness.
– James Gibson

Introduction

South Africa – a nation brimming with natural beauty, cultural diversity, and a turbulent history – is a glaring example of land inequality. Amidst its post-apartheid era, the scars of a deeply entrenched system of racial segregation continue to haunt the nation's socioeconomic fabric.

Outsiders might be surprised that tensions caused by economic inequalities focus on land, although farming has not been South Africa's key industry for decades. The issue of land distribution and people's access to land has consistently held a prominent position on South Africa's political agenda, fuelling emotionally charged debates. The intensity of these discussions stems from the profound significance of land for many South Africans. "...for South Africans, 'land' is a symbol of far more than an expanse of soil. For most people, it has nothing to do with agriculture."¹ It transcends mere resource value, embodying symbolic solid meaning, fostering a deep attachment to place, and symbolising notions of freedom.² This multidimensional importance encompasses spiritual, political, and economic dimensions. However, from a narrower economic perspective, land is often viewed as one of the four production factors, with the neoclassical school of thought (which has been

dominant in Western economic reasoning) considering it a subset of capital rather than an independent factor. Within this framework, land is regarded as a fixed and immovable input to production, akin to a form of capital.³ The divergent viewpoints surrounding land intertwine economics, politics, and ideologies. When an object simultaneously holds spiritual significance and is treated as a commodity, it becomes a fertile ground for entrenched differences and potential conflicts over who should make decisions regarding land and how those decisions should be made.⁴

This chapter aims to provide a concise overview of the complexities of land inequality in South Africa, exploring its historical underpinnings, contemporary manifestations, and the multifaceted implications it poses for social cohesion, economic development, and the pursuit of justice.

Overview of South African Property Distribution

Land distribution refers to allocating and arranging land among individuals, communities, or entities within a given society or geographical area. It involves dividing land into different parcels or plots and determining the rights, ownership, and use of those parcels. Land distribution can occur through various mechanisms, such as inheritance, purchase, lease, or government allocation.

Snapshot of the current situation regarding land ownership

The total surface area of South Africa is 122 million hectares, of which 77.580 million hectares is farmland. Notably, only 17% to 20% of the total 77.580 million hectares of farmland is suitable for field crops, irrigation, and horticultural production. The majority – around 55% – is primarily ideal for extensive grazing, characterised by poor and arid conditions where animals can roam freely (such as the Karoo region). An additional 20% of the land is suitable for intensive pastures and animal production, with good rainfall and pastures for grazing (as found in the KwaZulu-Natal Midlands).⁵ The government's land audit report in November 2017⁶ records that South Africa had 114.2 million hectares registered at the title deeds office. The government owned

17.1 million hectares, while trusts owned another 29.3 million, and companies owned 23.1 million. These figures demonstrate the limited potential for utilising farmland to create full-time sustainable livelihoods.

Figures 1 and 2 represent the South African land area and ownership composition.

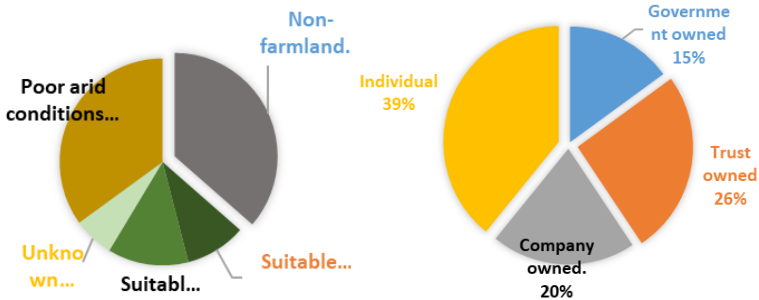


Fig. 1 Quality of land in SA

Fig. 2 Land ownership in SA

According to statistics from Stats SA⁷, agriculture holds strategic importance and plays a critical role in the economic development of South Africa. The sector has been a significant employer, providing job opportunities primarily in rural and farming areas. Between 2018 and 2022, the agriculture sector employed an average of 843 177 people annually, accounting for approximately 5.4% of total employment in the country.

There has been a gradual decline in the agricultural sector's contribution to the country's Gross Domestic Product (GDP) over time. The World Bank (2023)⁸ and Stats SA (2023)⁹ report that the sector's contribution to GDP dropped from 9% in 1960 to 3.4% in 1994 and declined to 2.5% in 2021. This decline aligns with the theory of economic development, which suggests that the share of the primary industry diminishes as the economy progresses, with secondary and tertiary sectors gaining prominence. In 2021, the industry and services sectors contributed 24.5% and 63.02% of the total value added.

Despite the decreasing share in GDP, the agricultural sector has witnessed substantial real-term growth in output over the

past 28 years, doubling its production.¹⁰ This growth has occurred alongside structural changes within the sector. Since 1994, South Africa has experienced shifts towards higher-yielding agricultural varieties, adaptation to climate change, and the adoption of modern farm machinery and irrigation technologies. Additionally, trade policy liberalisation resulted in removing agricultural subsidies, leading to a deregulation process in the mid- to late-1990s and establishing a free market system. As a result, the sector has seen improvements in efficiency, terms of trade, and farm profits.

Although the overall productivity growth has slowed compared to previous periods, the agricultural sector has recorded positive job creation, exports, and output developments. The sector plays a vital role in rural development, foreign earnings, and employment generation.¹¹

Forty thousand, one hundred and twenty-two (40 122) commercial farms are registered for VAT, which requires them to have an annual turnover of at least R1 million. Additionally, 202 099 farmers may be involved in commercial farming but must meet the VAT registration threshold. These farmers depend on commercial agriculture as their primary source of income, while some also do farming on the side. In total, there are 242 221 households involved in commercial agriculture.¹²

Determining the racial composition of commercial farmers is challenging. However, Kirsten and Sihlobo¹³ analysed various data sources – such as the 2011 population census, the 2017 agricultural census, and the 2016 community survey – and concluded that estimations indicate that most of the commercial farm enterprises are black-owned. Only 18% of these households are estimated to be white. White commercial farmers own approximately 44 000 out of the 242 221 farming units, which amounts to 61 million hectares. This represents 78% of privately owned farmland, or half of all the land in South Africa.

The attestation that commercial agriculture is characterised by large-scale, white farmers arises from a misunderstanding of the terms ‘commercial’ and ‘scale’ in agriculture. It is crucial

to separate discussions about the scale of farming operations from the racial identity of farmers to understand better the diversity and dynamics within South Africa's commercial agriculture sector.

Commercial agricultural production refers to farming practices that extend beyond subsistence needs, with a significant portion of the produce sold in the market. This typically involves the purchase of inputs like seeds and fertilisers.

However, commercial production can occur at various levels or scales. The scale of farming is not determined by the size of the land but rather by the gross farm income or turnover of the farming enterprise. Land size alone does not indicate the scale of the farming operation. For instance, a small 10-hectare irrigation farm can generate substantial turnover, while a vast 10 000-hectare extensive grazing farm is unlikely to surpass R1 million annually.

Examining the census of commercial agriculture reveals that commercial farming in South Africa primarily consists of small-scale, family-based operations. Nearly 90% of all VAT-registered retail farming businesses can be classified as micro or small-scale enterprises, with turnovers below R13.5 million. However, it is also true that there are slightly over 2 600 large farms (1.1% of the total) with an average turnover above R22.5 million per year. These farms account for 67% of all farm income and employ more than half of the agricultural labour force.

When considering farms that are not registered for VAT, it becomes evident that 98% of all farming operations in South Africa are small-scale. However, it is mistaken to assume that all white commercial farmers operate on a large scale while all black farmers are limited to small-scale operations. Many discussions on South African agriculture should have clarified the operation's scale with the farmer's race.

Most white commercial farmers in South Africa operate as small-scale, family-based enterprises. Only a minority (2 600 farms, or 1.1%) are categorised as large-scale operations, mostly owned by white farmers.

Why is a more equal distribution of land such an issue?

A substantial volume of international research pushes the narrative that a more equal land distribution can alleviate social inequality and poverty and bring about inclusive economic growth. Although many authors sporadically acknowledge that high levels of inequality in asset ownership are challenging to reverse or even do more harm than good, the arguments for a more equal land distribution enjoy overwhelming support.

At the front and the most-cited argument is the one of historical injustices. The narrative states that land distribution in South Africa has been marked by a history of colonialism and apartheid, leading to significant land dispossession and inequality among different racial and ethnic groups. Equality of land distribution can promote reconciliation by providing marginalised communities – mainly black South Africans – with access to land and resources that were historically denied to them.

Furthermore, a more equal land distribution can foster social cohesion and reduce social tensions by addressing the deep-rooted inequality and land ownership disparities in South Africa. It can help build trust and promote community belonging, leading to a more inclusive and cohesive society.

Given the high poverty levels in South Africa, it is argued that access to land can be instrumental in poverty alleviation. Equal land distribution provides marginalised communities with opportunities for sustainable livelihoods, food security, and economic empowerment. It can help break the cycle of poverty and uplift the living standards of vulnerable populations.

Eventually, economic development can be obtained by providing small-scale farmers and landless communities access to land to unlock their potential and stimulate economic activity at the local level. It can increase agricultural output, job creation, and overall economic growth.

However, equality of land distribution may raise concerns about property rights and undermine the principle of private ownership. Protecting property rights is essential for economic growth and attracting investments. A sudden and extensive land

redistribution without due consideration for property rights would negatively affect the economy and discourage investment.

Rapid land redistribution without sufficient planning and support can disrupt agricultural production and decrease productivity. Many commercial farms in South Africa are highly efficient and contribute significantly to the country's agricultural output. Care should be taken to ensure that land redistribution does not negatively impact food production or compromise the country's agricultural sector.

Redistribution of land may lead to market distortions and inefficiencies. Suppose land is redistributed without proper planning and support for agricultural infrastructure, training, and market access. In that case, it can result in decreased productivity, inadequate resource allocation, and challenges in the functioning of agricultural markets.¹⁴

Implementing a fair and effective land redistribution programme requires careful legal and administrative processes. The complexities of identifying rightful beneficiaries, resolving disputes, and ensuring equitable distribution can pose significant challenges. Poorly designed and executed land redistribution efforts can lead to corruption, bureaucracy, and legal uncertainties, hindering the intended outcomes.¹⁵ It is crucial to approach the issue of land distribution in South Africa with sensitivity, considering the unique historical context, socioeconomic factors, and the need to balance social justice with economic considerations.

It should be noted that, although a large volume of research regarding equality of land distribution and redistribution exists, their results vary regarding the overall success of redistribution efforts and resultant economic development for the country. The research usually suggests a theoretical potential to increase economic growth and development. This does not mean that the theoretical arguments in favour of land distribution cannot be realised in practice; it serves as proof of how complex the topic is, with many other variables also playing important roles. Each country has a unique set of variables that play differing roles in land distribution efforts and their aftermath. Additionally,

the time window considered in the research renders some land redistribution efforts economically unsuccessful in the short run. At the same time, positive results are obtained when a long-run perspective is taken. Given these variations and differences in research methodologies, Cipollina, Cuffaro and D'Agostino¹⁶ found in their meta-analysis of works on land inequality and economic growth, empirically controlling for publication biases and other shortcomings, evidence that land inequality hurts economic growth, particularly in the long term. Furthermore, such an impact is more substantial for developing countries. Suppose we can agree that a more equitable land distribution is preferable. In that case, we can explore fair means to achieve this outcome that will be well received by all stakeholders, regardless of their racial background.

It should also be noted that increased land ownership inequality tends to be an international trend. A recent report published by the International Land Coalition¹⁷ states that land inequality is growing in most countries. It alleges that 1% of the world's farms operate 70% of crop fields, ranches, and orchards. This trend started in the 1980s as control over the land became more concentrated directly through ownership and indirectly through contract farming, resulting in more monocultures and fewer carefully tended smallholdings.

Historical Context

To fully understand the land distribution issue in South Africa, it is essential to contemplate the country's unique historical background. However, it should be acknowledged that providing a justified, comprehensive historical account would require extensive text. Historical events cannot be viewed in isolation, as they are intertwined within a dynamic and evolving context. Additionally, historians' retelling of these events is influenced by their personal and political biases of the era. It is essential to consider that these events were impacted by significant international and geopolitical changes, such as the transition from feudalism to industrialisation, colonisation, the commercial revolution, and groundbreaking scientific discoveries. The reality of South Africa's historical backdrop, as it relates to land

issues, is far more intricate and influenced by many seemingly unrelated events than what is commonly acknowledged by many authors on the subject. The following section briefly notes a few of these events raised and questioned in discussions about land distribution. The aim is to provide an overview of the 'conventional' history as recorded by the first historians, as well as the recent interpretation and resultant narrative that some influencers follow.

Whites stole the land – different interpretations of early history

Archaeological findings suggest that for over 1 000 years before the Dutch arrived at the Cape of Good Hope, Iron Age farmers and late Stone Age peoples had been living in the interior of South Africa. These earliest distinct groups of inhabitants are referred to as the Khoisan.

It is widely accepted that a significant migration of black peoples occurred from the Great Lakes Region of Central Africa, moving southward until they reached Southern Africa, where they encountered indigenous populations already residing in these regions. According to the Institute Pasteur,¹⁸ this migration of black people spanned over a thousand years. This migration is corroborated by recent DNA research and manuscripts of historic Portuguese sailors and Arabic slave traders.¹⁹

Some authors describe this pre-colonial era²⁰ as a period in which land was plentiful, essential for livelihoods, had little exchange value, and was vested in groups. All members of the group had rights to land access and land tenure. The tenure systems' shared use of resources, grazing, and water was a vital feature. Land rights and tenure had a close relationship to the political and social status of the individual. The pre-colonial period's land relations remained socially embedded.

The first permanent Europeans came to the Cape in 1652 to establish a settlement where passing ships could get fresh produce. Until 1671, white settlement was limited to the Cape Peninsula, but as the need for farmland grew continuously, it began to expand into the interior. Individuals owned farmland in the European sense of the word, while the Khoisan did not 'own'

land because it was not part of their culture. In their culture, a region with unclear borders belonged communally to the tribe. This led to the first clashes between the 'free burghers' and the indigenous peoples.

In February 1713, a devastating smallpox outbreak, brought by a Dutch ship's crew, struck the Cape's refreshment station. The Khoisan had no prior exposure to this foreign disease, and thus had no access to indigenous remedies or treatments. One year later, the few remaining Khoisan survivors reported to the Cape's governor that less than 10% of the original Khoisan population in the southwestern Cape had survived the epidemic. Entire clans were wiped out in many cases. In others, the surviving individuals could not rebuild coherent clans as even their leaders had perished and forever altered their communities and way of life.²¹

Coinciding with the migration of the Bantu people from the north and the movement of the settlers from the south is the period of the recently debated *Mfecane/Difaqane* (Zulu and Sotho languages respectively), which means "The Crushing". It refers to a period of heightened military conflict and near-genocidal wars amongst black people that depopulated portions of the land and sparked a chain reaction of violence as fleeing groups sought to conquer new lands.²²

It is argued that the smallpox epidemic and the *Mfecane* led to large tracts of land being uninhabited. The settlers learned about this land without owners and moved there. Even in places where they encountered resistance from the local people, the *Mfecane* had already weakened those kingdoms, and the Dutch either negotiated for land or defeated the inhabitants and moved into the interior. At the time of these events (conclusion of treaties and conquests), the white people – with their European background and knowledge – regarded this as a valid acquisition of land. At the time, land was expropriated in both legally correct and socially and politically legitimate ways.²³

The *Mfecane*, its lead-up, and its aftermath are often used to explain historical land ownership and support certain aspects of the apartheid regime during the 20th century. On the other hand, some historians deny the occurrence of the *Mfecane* or

blame white settlers for causing it, to justify land expropriation and reform today.

In a series of unpublished and published papers written since the early 1980s, Julian Cobbing has challenged the notion that such a thing as the *Mfecane* ever happened.²⁴ The *Mfecane*, he has maintained, was in origin a “colonial myth” to conceal white wrongdoing and to justify historic land expropriation. Several South African researchers have lent support to the thrust of his critique. These anti-*Mfecane* writers argue that these upheavals were a result of colonialism and an increased white demand for African labour. In short, these historians either reject the occurrence of the *Mfecane* or argue for an alternative narrative opposing the long-standing ‘orthodoxy’.

In reaction to the new interpretation of historical events, historians like Omar,²⁵ amongst others,²⁶ have put forward an analysis that shows that the anti-*Mfecane* historians’ arguments are unsubstantiated. They conclude that history cannot be re-imagined by ignoring primary sources and cherry-picking from past events to create a politically correct past.

The unequal distribution of land between blacks and whites can be traced back to the earliest years of contact, and the different views of land tenure of that time. Judgement of the events of a hundred or more years ago cannot take place from a modern point of view. However, the new narrative gained traction, especially amongst liberal scholars and opportunistic politicians who quote phrases like “the empty land myth in South Africa” and “Whites stole the land” from the ‘indigenous’ black population.

Historical events through the 19th century

The historical events throughout the 19th century that shaped the country’s political, social, and economic landscape were characterised by the colonisation, tensions, and wars between the British, Zulu, Xhosa, Sotho, Tswana, and Boers and the dispossession of property by the victor, the establishment of independent Boer republics, British expansion and settlement, and the emergence of mining industries and resultant immigration. These processes laid the groundwork for later racial

segregation and land inequalities, which would have long-lasting effects on the country's socioeconomic and political dynamics.

Tembeka Ngcukaitobi,²⁷ in his book *Land Matters*, explains that boundaries for African countries were constructed in 1883 by Otto von Bismarck, the German chancellor. The British entrenched its control and sovereignty of land in South Africa after the 1899–1902 Anglo-Boer War. When the war ended, the Native Reserve Location Act was passed to form the basis for settlement and land ownership. Cooperation between the Dutch and British settlers led to the formation of the Union of South Africa in 1910. Still, the black population was denied voting rights and property rights in specific areas.

After having studied the historical course of land distribution in South Africa, Changuion and Steenkamp conclude that land tenure and the segregation of the two main population groups at the time were unavoidable to a large extent. However, colonial exploitation and the systemised oppression under segregation left a racially skewed distribution of property ownership in South Africa. This resulted in 93% white-owned land and 7.5% black 'reserves'.

Reserves served as political exclusion and home base for migrant labourers. Attempts were made by colonialist authorities to provide individual titles in some of the black 'reserves' with legislation such as:²⁸ the Native Locations and Commonage Act of 1879 and the Glen Grey Act of 1894. These acts were instead seen as ensuring the cheap supply of labour for the mining industry, as the size of plots was too small to sustain a proper livelihood.

The period from 1910 in South Africa introduced and systemised a rigid apartheid urban structure and a dualistic agrarian structure.²⁹ The agrarian rural structure consisted of a white capital-intensive commercial farming sector with large-scale production linked to international markets, and the black homelands characterised by low-input, labour-intensive subsistence production. The Land Act No. 27 of 1913 did not create the 'reserve' system as much as entrench the existing locations and overall land distribution. The Land and Trust Act of 1936 added another 6% of the country where blacks would be allowed

land rights. This resulted in white ownership of 87% and 13% black land ownership in South Africa. The Fagan Commission, after the Second World War, recommended that African workers in the secondary industries be settled in 'white' areas permanently. However, the Bantu Authorities Act of 1951³⁰ confirmed the establishment of tribal authorities and traditional rule in the black homelands. The Bantu Laws Amendment Act of 1952 provided the state president power to appoint, depose, and define jurisdictions and to limit or extend the powers of individual chiefs. This act also introduced the 'Permission to Occupy' (PTO) certificates issued to blacks to utilise a specific piece of land in the 'reserves'. Reserves excluded Africans from holding or leasing land in the 'white' areas, and served as a base for the migrant labour system and underpinned the political policy of segregation.

The apartheid policy of the National Party, which came into power in 1948, was a continuation of the policy of segregation based on different ethnic groups. The difference was that laws were introduced to enforce social, residential, cultural, economic, and political apartheid. Property ownership and settlement were based on the Group Areas Act No. 41 of 1950, and the Reallocation of Natives Act No. 19 of 1954, which created separate suburbs for race groups.³¹ Despite the industrialisation of the economy and the urbanisation of all race groups, black urbanisation was not acknowledged as a permanent phenomenon. The Tomlinson Commission, which published its report in 1956, concluded that the policy of integration would lead to racial tensions and recommended that ethnic groups should be developed separately. The commission also recommended that the black homelands and border industries be developed to make homelands economically viable and stop the inflow of people to the urban areas.³² The National Party's policy led to the removal of Africans from farms, 'white' areas, and 'white' cities in accordance with the Bantu Laws Amendment Act of 1952 and the Natives Urban Areas Consolidation Act of 1945. Thousands of Africans were convicted, under the so-called pass laws, for not qualifying for Section 10 rights. Section 10 rights permitted Africans to be present in 'white' areas on the following conditions: being residing in a prescribed area since birth, working continuously for one employer for ten

years or living with more than one employer for at least 15 years. These rights were extended to the wife and children of qualified people. By 1981, 50% of the urban black labour force qualified under Section 10 rights and township housing.

The Nationalist government neglected the demand of blacks for political participation in a common system, urban housing and infrastructure for blacks, and subsistence farming in the reserves. This resulted in a constant inflow of Africans to the 'white' areas. Despite the influx-control measures by the state, the inflow of people to the cities continued as the economy of South Africa industrialised.

Post-apartheid land distribution

South Africa's first democratic election in 1994 celebrated the end of a struggle for political freedom. Political freedom led to a land reform programme in South Africa.³³ The purpose of the land reform included:

- redressing the injustices of apartheid;
- fostering national reconciliation and stability;
- underpinning economic growth; and
- improving household welfare and poverty alleviation.

Two critical pieces of legislation were developed to address these issues. They were the 1994 Restitution of Land Rights Act and the 1997 Land Reform White Paper. Together, they provided a framework for a policy based on three pillars: restitution, redistribution, and tenure reform.

Restitution involves people claiming back land taken away from them after June 1913, or compensation for their loss. The act provided for establishing the Land Claim Commission and the Land Claims Court. It granted communities dispossessed of property after 1913 the opportunity to lodge a claim for restitution of that property or comparable redress.

Land redistribution involves acquiring and transferring land from white to black farmers for various purposes, including farming and settlement. The Land Reform (Labour Tenants) Act No. 3 of 1996 was introduced to protect the property rights of

labour tenants. The Extension of Security of Tenure Act (ESTA) of 1997 introduced protection from unfair eviction for people who live on land. The Interim Protection of Informal Land Rights Act No. 31 of 1996 protected people from their former homelands against abuses regarding property rights.

Due to the colonialist and apartheid policies applied before 1994, it can be argued that property ownership in South Africa allocated between the different races can be estimated at 13% to blacks and 87% to whites. The new dispensation after 1994, in terms of legislation, urbanisation, and structural changes, led to a dramatic change in ownership patterns. The property right is enshrined under Section 25 of the Constitution of the Republic of South Africa Act of 1996, stating that nobody may be deprived of property in terms of law of general application, and no law may permit arbitrary deprivation of property. The following section analyses the land reform programme, changes, and trends of agrarian and urban property ownership.

South Africa's Land Reform Programme

From 1994 to 1999, the primary focus in addressing past imbalances was the market-led 'willing seller, willing buyer' approach. From 1997 to 1999, Settlement and Land Acquisition Grants (SLAGs) were introduced to assist poor households in acquiring farming land.³⁴ A grant of R16 000 per household enabled individuals and groups to buy land directly from willing sellers. The size of the grant required households to merge with other households to be able to buy farming land. The merging of households and ownership required a diplomatic approach to the property's decision-making and management process. This attempt failed to provide sustainable solutions, and many projects became poverty traps.

In 2001, the Land Redistribution for Agriculture Development (LRAD) initiative tried establishing a class of black commercial farmers. Grants between R20 000 and R100 000 were made available to establish black farmers. The LRAD made grants available to individuals, meaning that more than one individual per household could apply for the grant. In 2006, the

Pro-Active Land Acquisition Programme (PLAS) was launched to replace LRAD. The government obtained land ownership, and beneficiaries could get ownership after a period.

The government's land reform programme aimed to transfer 25 million hectares of farmland (30% of the total) to black communities by 2014. Chanquion and Steenkamp note in their concluding remarks that this objective aligns closely with the estimate that these indigenous black nations originally inhabited around 33% of the land before the arrival of the white settlers.³⁵

Tracking progress and debunking myths

The government needs to catch up on the goal of transferring 30% of the total farmland to Previously Disadvantaged Individuals (PDIs) and communities, and critics have chastised it for the sluggish progress of land redistribution and the steep cost of land restitution. At first, the 'willing seller, willing buyer' (WSWB) principle was blamed for the slow progress and high cost of land redistribution and restitution. Consequently, the WSWB principle was abandoned.

Another debating point revolves around the actual progress made. The government reported, after nearly three decades of democracy, that around 9% of commercial farmland has been transferred through restitution and redistribution. In contrast, independent researchers like AfriForum, AgriSA, notable figures such as Wandile Sihlobo and Professor Johann Kirsten, along with others, argue that around 24% of all agricultural land has either been redistributed or land rights have been restored considering restitution, redistribution, private transactions, and state procurement transactions.³⁶

This inconsistency in data interpretation highlights significant data flaws, a concern shared by most participants in the land reform conversation. Data reside in a very fragmented way, with different government departments, organs of state, or parastatals as data custodians in South Africa. To illustrate one aspect of the complex data discrepancies, consider Afriforum's thorough examination of 11 sources that revealed South Africa's land size. While seemingly close with less than 0.8% difference,

these datasets show a substantial discrepancy of 960 949 hectares. To put this into perspective, imagine a density of 20 housing units per hectare, each occupying 500 m² and an average of three people per unit. This calculation leads to a staggering 19 218 981 potential housing units, accommodating over 57 million people – more than the estimated population of 56 million in 2016.

The issue extends to deeds registry data, where an apparent disparity emerges between official records of black landowners in rural and urban areas and the actual situation on the ground. Attempting to link race to property ownership in any credible way is also hampered by the challenges of obtaining more data. More information on race and land is needed to make a link that can satisfy the land debate. Even in the most recent Land Audit Report (2017)'s own admission, the process needs to be revised, for instance recognising that using people's names as the basis for racial classification is inadequate for an objective and fair assessment.

In general, the lack of accurate information on land reform and the rural economy allows much of the public debate to be misinformed and is a severe constraint on policymaking. A formal comparison and evaluation of the various datasets, their shortcomings, and methodological flaws fall beyond the scope of this chapter.

Another problem is the politicisation of land reform, with different stakeholders holding varying views on how it should be carried out. Shifts in government policies, political priorities, and debates over constitutional amendments have created uncertainty that hindered progress. Consider, for instance, the decision of the 2017 ANC National Policy Conference to amend Section 25 of the Constitution. The political rationale was that this would enable the expropriation of land without compensation under specified conditions, which, in turn, would accelerate land reform. However, most experts in the field agree that the failure to implement the land reform policy should be attributed to weaknesses in the state, such as capacity constraints, a lack of political will on the part of the government, corruption, and

mismanagement. The state blaming the Constitution for the slow pace of land reform is misplaced. Land reform is pre-eminently driven by the state, and it's been indicated that the state has been captured by elite interests.

However, land ownership has changed since 1994. Land classified as agricultural land in 1994 amounted to 79.3%, of which PDIs and the government owned approximately 14.9%, including communal land from the previous dispensation. The amount of land classified as agricultural decreased to 76.3% in 2016, while that owned by PDIs and the government increased to 26.7% based on transactional data. The reduction in land classified as agricultural land can be linked to the expansion of urban areas, conservation areas, forestry, and mining. The diagram below (Figure 3) compares agrarian land ownership in 1994 with 2016 per province (physical size Ha).

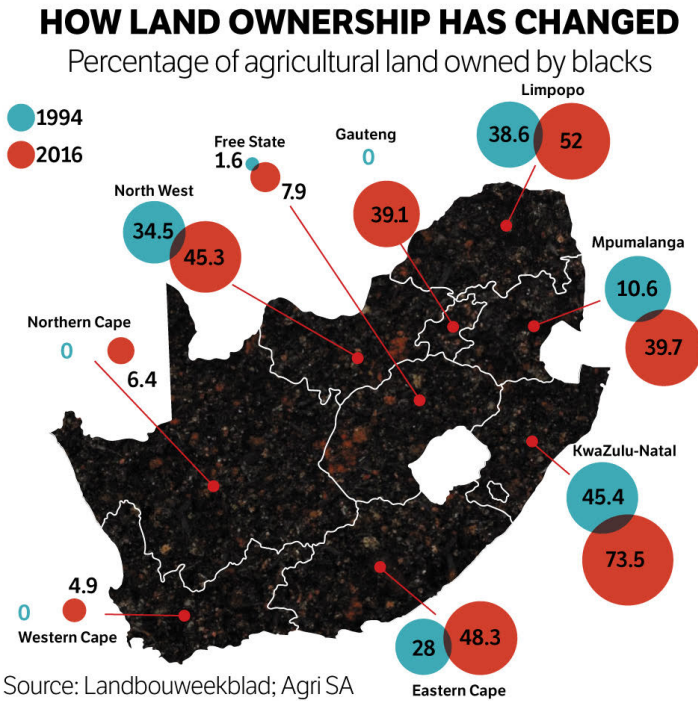


Fig. 3 Change in land ownership

When comparing land ownership, the argument follows that the monetary value of the land and its potential should be considered. For instance, a large piece of land with low potential or fertility – such as some areas in the Northern Cape – will yield less than a smaller piece of land with a high potential or fertility. Thus, comparing land ownership in terms of the size in hectares does not account for differences in the potential or fertility. When we assess ownership by PDIs and the government, factoring in both the value and potential of the land, the ownership share increases significantly. In terms of monetary value, the share amounts to 29.1%, and considering the land's potential, the share rises to 46.5%. This is notably higher compared to the 26.7% ownership share based solely on hectares owned. At the provincial level, these statistics are summarised and compared to PDIs' and the government's hectare ownership shares in Table 1 below.

Table 1 Land Potential in SA Source: Agri-SA Documents – Politicsweb

Province	Hectare	Value	Land Potential
Western Cape	4.9%	7%	11.3%
Northern Cape	6.4%	7%	12.3%
Free State	7.9%	15%	18.7%
Eastern Cape	48.3%	45.7%	54.1%
KwaZulu-Natal	73.5%	59.6%	76.1%
Mpumalanga	39.7%	34.4%	44.7%
Limpopo	52%	50.6%	64.7%
Gauteng	39.1%	38.8%	23.6%
North West	45.3%	48.8%	36.8%

These broader statistics indicate a greater level of ownership by PDIs than is commonly suggested in debates arguing for extreme transformation policies and laws.

Policies before 1994 introduced rigid apartheid town and city structures. Economic development and urbanisation resulted in the fast urbanisation of all race groups in South Africa. By 2010, 62% of South Africans lived in urban areas, up from 52% in 1990.

The influx of the new black middle class, the lack of restrictions on settlement, low interest rates, and a long, uninterrupted period of economic growth before the Great Recession of 2007 have led to radical changes in the ownership of urban residential properties.

The Statistics South Africa Household Survey (2014)³⁷ indicates that Africans claim to own 52% of the land if measured by the value of occupied houses and the land size in private hands (see Tables 3 and 4).

Table 3 Value of owner-occupied houses in South Africa by race.
Source: www.economist.co.za

African	52%
White	35%
Asian	6%
Coloured	7%

According to the survey, most first-owned properties are African-owned; more than ten times the number of Africans stated that their formal property is fully paid off compared to other races. Africans own 94% of second properties.

Data released by the General Household Survey of 2015³⁸ indicate home ownership by race as follows: African 79.2%, White 11.1%, Coloureds 7%, and Asian 2.7% (see Table 4), and changes in type of dwelling from 1996 to 2015 by race (see Table 4).

Table 4 Homeownership by race (proportions), 2015. Source: Stats SA, General Household Survey 2015

Status	African	Coloured	Asian	White	Total
Owned and fully paid off	84.1%	6.4%	2.1%	7.4%	100%
Owned, but not yet paid off to the bank	42.9%	11.9%	7.2%	38.1%	100%
Owned, but not yet paid off to private lender	58.8%	7.1%	4.1%	30.0%	100%
Total	79.2%	7.0%	2.7%	11.1%	100%

Culture matters

The Ingonyama Trust was established in 1994 by the erstwhile KwaZulu government in terms of the KwaZulu Ingonyama Trust Act (Act No. 3KZ of 1994) to hold all the land owned or that belonged to the KwaZulu government. The mandate of the trust is to have all this land for the “benefit, material welfare, and social wellbeing of the members of the tribes and communities” living on the land. The sole trustee to land under the Ingonyama Trust is the Zulu king.

In 2021, the court ruled that the Ingonyama Trust Act does not have the authority to convert Permission To Occupy (PTO) certificates granted to residents in the former Zululand Bantustan into leases.³⁹ The court ruled that the leases were unconstitutional, and that – according to Zulu culture and law – the land belongs to the people, and the king is seen as the administrator of the land, and not the owner. Therefore, paying rent to the king was unheard of, and ownership was instead vested in the families that occupied the land. Individual and exclusive ownership is necessary under Zulu culture and law. This also implies that PTO certificates should be converted to full title ownership instead.

Indeed, there is a lot of evidence that the ANC government wants to upgrade the security of tenure for people living on communal land. These rural residents face numerous challenges due to traditional authorities’ governance of communal lands. They need to gain land ownership to use the land as collateral and investment, which could improve living standards.⁴⁰ Nonetheless, the endeavour by the government to secure tenure rights for communal residents is a hot-button issue because the traditional leaders hold significant political power and are unlikely to react positively to any attempts to limit their authority over the land they administer.

The Ingonyama Trust generates revenue from mineral rights and commercial leases from businesses operating on land it controls. By 2022, the trust was earning more than R20 million a year from the land reform department.⁴¹

Conclusion

The success of any land reform policy and progress can only be determined if accurate quantitative measures exist. The Department of Rural Development and Land Reform published its latest Land Audit Report in 2017, which aimed to provide information on private land ownership by race, nationality, and gender as of 2015.⁴² However, many commentators in the discourse on land criticised the methodology employed and the resulting accuracy of the data.

Ultimately, a strategy that avoids compromising food security, investment, and economic growth is essential; agriculture is a cornerstone of the South African economy. Legal clarity and proper procedures will reassure all landowners, regardless of their racial background. South Africa requires a feasible resolution that tackles the increasing demand for land in both rural and urban regions. Land ownership is intricate and ever-evolving; however, the historical displacement effects cast a significant shadow. Persistent challenges of poverty, unemployment, and inequality continue to pose substantial and lasting threats to South Africa's stability and economic prosperity. The government must articulate a more precise vision outlining how it intends to achieve the most significant benefit for most of the population.

The problem of fair land distribution will likely become progressively more complex over time, since the population has increased drastically and will continue to do so in the future, but the land has not increased. Land reform in South Africa will only succeed if implemented fairly and honestly, if the provisions of the Constitution are complied with, and if there is no deviation from the regulations for law enforcement. Everyone needs to recognise that land reform is necessary, while also understanding that land ownership is a right for all citizens of the country, regardless of their race.

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Chapter 6

Are Banks Doing Enough to Address Inequality?

Johan Coetzee 

Introduction

President Ramaphosa indicated in the 2023 State of the Nation Address that a state bank “will provide financial services to SMMEs, youth- and women-owned businesses, and underserved communities” on the back of the Postbank’s infrastructure and a pending banking licence.¹ This ‘developmental agenda’ has been reiterated by several government officials in recent years, including former South African Reserve Bank Governor Tito Mboweni² and current Secretary General Fikile Mbalula,³ although Minister of Finance Enoch Godongwana stated in 2022 that South Africa cannot afford such a bank.⁴ At its core, such a state bank is seen by the South African government as a key enabler to address the inequality problem in South Africa as part of their broader developmental policy agenda.

There has been a lot of to-ing and fro-ing with the idea of a state bank. This is mainly because the management of State-Owned Enterprises (SOEs) has been nothing short of deplorable. Yet, it is seen as providing a solution to addressing gaps that commercial banks have failed to address – or failed to address speedily enough. Driven by excessive mismanagement and looting,⁵ the bailouts of SOEs by the fiscus has totalled R331 billion since 2013/14, with the national power supplier Eskom accounting for 55% of this amount.⁶ The constant channelling of taxpayer money to save delinquent government-managed institutions does not bode well for the likely success of such a state bank. Understandably, commercial banks themselves have also questioned proposals for it, especially if it is expected to abide to the same (stringent) prudential requirements expected from

these commercial banks.⁷ If there is ample evidence of failing SOEs constantly under financial distress due to corruption and poor management,⁸ what would make a state-owned bank any different? Virtue signalling from ministers such as Mbalula stating the “uncompromising, unapologetic role of the interventionist role of the state” *vis-à-vis* the state bank, has become par for the course. The proof is in the pudding, as they say.

It is all good and well to propose such an intervention, but does it say something about the strides that South African private commercial banks have made – or, perhaps more aptly, not made – with regards to this broader developmental agenda? Notwithstanding the notion of a well-run state bank, the private commercial banks are commonly regarded as being one of the shining lights in an otherwise lacklustre South African economy, internationally regarded as being well managed and capitalised. So, if such a state bank is indeed necessary, have the South African commercial banks not done enough? In this chapter, I address this question.

The South African Banking Industry

The South African banking industry is highly complex and well developed,⁹ and plays a critical role in facilitating financial transactions and promoting economic growth. In a country that performs poorly in most macroeconomic spheres, its role to allocate resources to the most vulnerable cannot be underplayed.

The banking industry provides a wide range of services and products catering to the diverse needs of individuals, businesses, and the public sector. These include consumer banking, corporate and commercial banking, investment banking, and complementary financial product offerings such as insurance, financial planning, and fiduciary services.¹⁰ Under consumer banking, individuals are serviced and range from those with high net worth (wealth) to the typically rural-based mass market where banks have increased their reach in recent years.¹¹ Banks also extend insurance products encompassing life insurance, health insurance, and general insurance through the so-called ‘bancassurance’ strategy that has been inherent to the business

model adopted by South African banks.¹² Other types of banking representation include development banks whose primary purpose is to offer financing for development purposes of various forms. These include the Industrial Development Corporation (IDC), the Development Bank of Southern Africa (DBSA), and the Land Bank. Mutual banks also offer simple transaction accounts and minimal loan facilities, targeting specific communities.¹³

The industry itself is well regulated and has a robust infrastructure¹⁴ comparable to the best in the world, especially in terms of its soundness and ability to meet the needs of local business.¹⁵ Table 1 provides a summary of selected indicators relating to the South African banking industry.

Table 1 Selected indicators for the South African banking industry¹⁶

Indicator	2019	2020	2021	2022	2023
Market share of assets* (R billions)	90.37	89.99	89.84	89.55	89.44
Total assets (R billions)	5769.3	6457.3	6562.3	7020.1	7342.5
Total capital adequacy ratio (%)	16.53	16.21	17.49	17.68	17.80
Total loans and advances (R billions)	4249.5	4542.5	4643.1	4984.0	5282.6
Impaired advances to gross loans and advances (%)	3.8	4.7	4.9	4.5	4.7
Return on equity (%)	15.31	10.22	10.62	14.27	14.91
Operating expenses to gross income (%)	58.22	58.26	58.73	58.09	56.66
Interest margin to gross income (%)	56.80	58.17	58.65	58.77	59.52
Liquidity coverage ratio (%)	146.9	142.2	144.1	145.7	149.8

* Five largest banks: Standard Bank Group, FirstRand, Absa Bank, Nedbank, and Investec Bank.

The indicators in Table 1 show that the industry is highly concentrated, with five main banking groups, namely the Standard Bank Group, FirstRand, Absa Bank, Nedbank, and Investec Bank holding most of the assets. While this is the case from an assets point of view, Capitec Bank has a substantially larger customer

base, serving almost one-third of the South African population by the end of February 2023.¹⁷ In the retail banking context, Capitec Bank has the dominant presence in terms of customers.

The industry is also well capitalised, complying to the Basel Committee on Banking Supervision (BCBS) and the South African Reserve Bank (SARB)'s regulatory requirements pertaining to – amongst others – capital adequacy and liquidity coverage. This aspect is particularly noteworthy and often cited as one of the main factors that define a resilient South African banking industry.¹⁸ Until recently, the South African banks – and the financial sector at large – have been regarded as some of the most developed in the world, where banks have consistently been ranked in the top ten most sound banks globally (see Figure 1). The more recent dropping off has been driven predominantly by the sovereign credit downgrade to non-investment grade¹⁹ and the Steinhoff corporate fraud debacle that particularly questioned corporate governance and ethical practices.²⁰

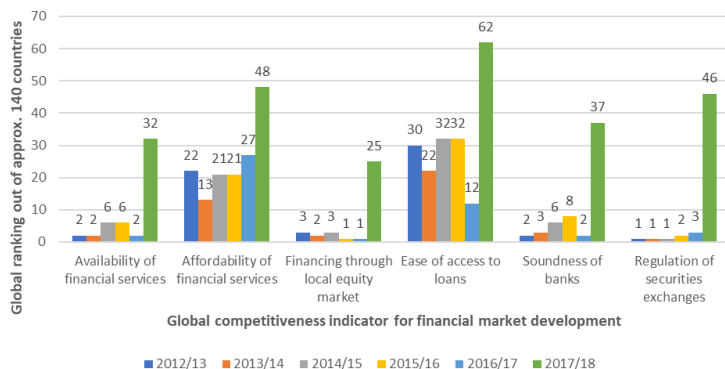


Fig. 1 Selected financial market development indicators for South Africa indicating global competitiveness

The operating expenses to gross income (or cost-to-income) ratio is also better than the universally considered 60% benchmark, and is driven primarily through disciplined cost management and a digitally led focus to streamline technological architecture in the operating models of banks.²¹ Furthermore, the liquidity coverage

ratio exceeds the 100% required by the Prudential Authority to abide by the Basel capital requirements as from 1 January 2019.²²

The evidence above therefore suggests that not only are the banks profitable and efficient in what they do, but they are also well regulated and resultantly comparable to banks in much larger and more developed economies than South Africa. Although smaller in size and global influence, this is no mean feat.

Banks and Financial Inclusion

Banks are critical institutions in any economy as they provide a means to build wealth through the provision of access to financial products and services. Evidence, however, suggests that this follows a U-shape: inequality is initially reduced, after which surpassing a so-called 'optimal' level, inequality increases.²³ This raises an interesting question: should banks focus more on equal opportunity of access, or on equal opportunity of outcome due to access? In other words, through the process of financial intermediation and what it represents (access to accounts, transaction ability, loans, financial advice, etc.), should banks be more focused on providing equal opportunities to access these facilities, or rather be more focused on the outcome of the use of these facilities? The former implies that banks must do all that they can – within the confines of the regulatory and compliance requirements to which they are subjected to – to ensure equal and fair opportunity to access financial products and services for all South Africans; the latter implies that, once the access to these financial products and services has been provided, they ensure that the outcome of the access is maximised *vis-à-vis* more favourable socioeconomic outcomes.

What are these socioeconomic outcomes? Ultimately, access results in economic empowerment through, for example, a reduction in inequality, poverty alleviation, or wealth creation and captures the economic dimension of financial inclusion. Coupled with these explicit economic benefits are qualitative benefits such as feeling part of society, personal pride, providing for your family, and so on. Figure 2 reflects this continuum of financial

inclusion from having access through to the ultimate benefit – economic empowerment.

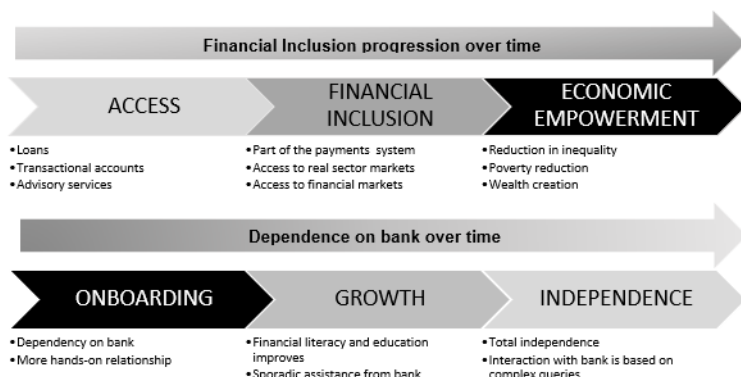


Fig. 2 The financial inclusion continuum and the dependence of banks²⁴

There is another dimension to this financial inclusion continuum relating to the dependence on the bank. This dependence by customers, especially if they come from impoverished backgrounds where there has been no or minimal interaction with banks, is one of *learning* due to a lack of trust. Initially there is onboarding, where the bank – through its staff – is very hands-on to ensure that the use and benefits of using banking products and services are effectively conveyed. As time passes, customers learn to use bank products and services, thereby becoming more financially literate, with assistance from the bank becoming more sporadic and less committal in nature. Over time, the customer becomes totally independent and the hands-on involvement by the bank dwindles. Ultimately, the more empowered customers become due to the benefits of financial inclusion and financial education paying off, the less involved banks become in allocating resources to support the process of economic empowerment. Banks can therefore contribute to reducing inequality by not only providing access to financial services, but also by promoting financial literacy and education. By equipping customers with the knowledge and skills to make more informed financial decisions, they promote economic empowerment to better manage their

finances, save, invest, and plan more effectively. There is therefore an inverse relationship between economic empowerment through financial inclusion and the allocation of resources by banks to address this socioeconomic objective.

Having said this, there is a distinctly important issue that needs to be considered when the historical imbalances of the past define the economic situation of the financially excluded. This is best described by considering Figure 3, which presents the typical life-cycle phases of relationship banking. The life cycle encompasses the four phases that bank customers go through – dependency, growth, maturity, and retirement – where they earn income, spend on consumption, accumulate wealth over time, and then consume the wealth in retirement. As consumption (C) increases over time through the life cycle, so too does savings – both of these are a function of disposable income (YD_1 , YD_2 , and YD_3) which also peters off as the retirement phase is entered. Tracking the trajectory of consumption is the accumulation of wealth (or net asset value, NAV) which typically accumulates in the first three working phases but is utilised (used up) as a function of the respective petering off of disposable income (NAV_{YD1} , NAV_{YD2} , and NAV_{YD3}). As can be seen in the figure, central to the ultimate accumulation of wealth at retirement is the consistent application of savings in the growth and maturity phases. For the financially excluded (see the red functions), this is not always possible given their likely economic status as living in poverty and having sporadic or low incomes.²⁵ By implication, therefore, their level of dissaving will tend to continue beyond the dependency phase into the growth and maybe even maturity phase (C_{FE}). Upon retirement, there may not be sufficient wealth accumulation and retirement (NAV_{FE}) in the traditional sense – that is, to discontinue working and live off the accumulated wealth is not an option.

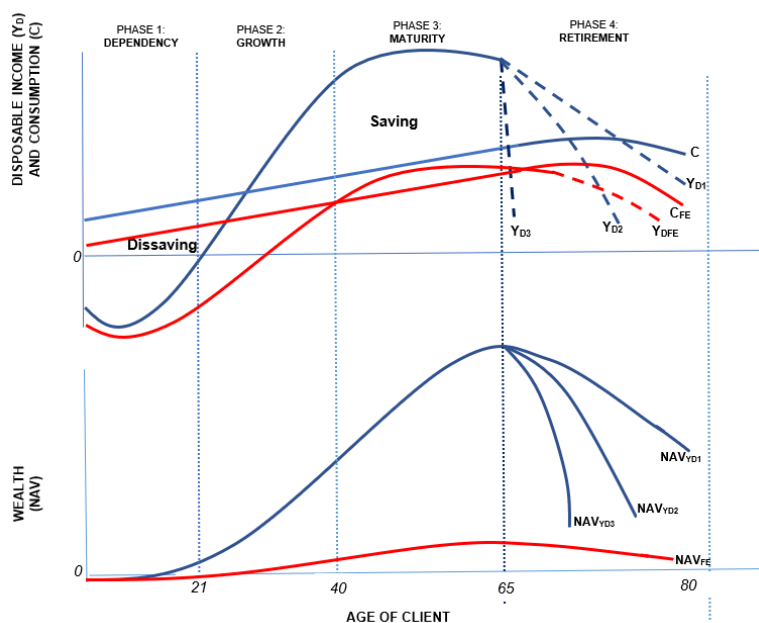


Fig. 3 The life-cycle phases of relationship banking²⁶

Why is this important? Because banks provide not only the *access* to financial products and services but also their *use*. In other words, financial inclusion is not only defined by access – it is also defined by usage, and thus the resultant empowerment. This is no more reflected than in the realities regarding the Mzansi account – a cheap, minimal-functionality transaction account offered by South African banks to ‘bank the unbanked’. Although seen to be successful in terms of the number opened, usage was low, resulting in a large proportion of dormant accounts²⁷ and its ultimate demise in the early 2010s.²⁸ Access driven by banks is therefore not the sole and exclusive determinant of economic empowerment. Customers also need to have jobs, to have sustainable incomes that service the loans borrowed from the banks. And these jobs are in turn a function of the state of the economy. In a South African economy that still has deeply entrenched inequalities, coupled with poor economic growth, high unemployment levels, and excessive poverty, the proposed

savings and wealth accumulation as depicted in Figure 3 is not as achievable for the majority of South Africans where this is a reality. By implication, therefore, banks – and what they offer in the inequality debate – are only part of the larger puzzle of socioeconomic inequality in the broader sense. It is a much more complex and pervasive issue. The ultimate responsibility in the inequality debate must therefore not be shifted disproportionately to the banking industry due to deficiencies in the progress made from a policy perspective, and specifically, a fiscal policy perspective.

How Do Banks Address Inequality through Financial Inclusion?

Although technological advancements such as digital banking and fintech innovations present opportunities to enhance efficiency, reach new customer segments, and provide innovative financial services, the socioeconomic constraints facing the majority of South Africans who are financially excluded makes the role of banks more complex.

As argued above, financial inclusion is not *only* about having access to financial products and services. It relates explicitly to being part of the financial system – to participate in it and have equal access to opportunities to improve standards of living²⁹ by potentially eradicating poverty, boosting economic prosperity, reducing systemic inequalities, and promoting financial development.³⁰ To be more specific, access to financial services requires four pre-requisites: the options available; the reliability of the financial services; the flexibility they offer; and the continuity of access provided.³¹ In South Africa, the challenge is therefore beyond merely ‘providing banking products’ or ‘banking the unbanked’. It has a deeper socioeconomic and morally driven purpose related to addressing deeply rooted inequalities. This creates several challenges for banks. For one, access typically requires accessing physical bank branches, but due to geographic constraints or limited banking infrastructure in rural areas, this is not always possible. Affordability of traditional banking services has also been a problem due to the fees associated with

maintaining a bank account and making transactions being too excessive. In the past, this resulted in banks offering the Mzansi account, which was an attempt to reduce fees, but at the same time functionality was limited.³² Further problems like the lack of adequate documentation (such as identification documents or proof of address) has made it more difficult for banks.³³ Moreover, the preference for informal financial instruments such as *stokvels* has discouraged the historical uptake of formal banking services, largely due to the embedded lack of trust in the formal banking industry, as well as strong cultural ties that rely heavily on a savings culture within informal rural communities.³⁴ Although banks such as FNB have aggressively marketed group savings options through digital adoption and attracted over R1.8 billion from over 102 000 *stokvel* members,³⁵ uptake has been predominantly from households with higher income levels.³⁶ Added to these studies, this suggests that financial exclusion is characterised by distinct features: smaller, uneducated, black households, not headed by middle-aged and employed family members.³⁷ This further re-enforces the entrenched demographic characteristics attached to the financially excluded. Recent evidence does, however, suggest improvement. A 2021 report released by the World Bank indicated that 85% of adults in South Africa had bank accounts, rising from 54% in 2011,³⁸ with technology contributing largely to this uptick. As long as people have cell phones, be it through USSD technology on less sophisticated devices³⁹ or apps on smarter devices, the access to mobile money in its various guises has become common practice.

Given this background, how do banks address inequality? There are typically three main ways: access to financial products and services, support for SMMEs, and the provision of financial education.

From an access point of view, the infrastructure of banks facilitates transactions amongst different participants in the economy, enabling various functions such as the transfer of remittances to rural areas and across borders, as well as the distribution of social grants.⁴⁰ The payments system ensures that workers are able to access wages, and debit and credit cards enable convenient transacting at any store with point-of-

sale devices.⁴¹ Figure 4 indicates that the average proportion of banking accounts by South Africans is favourable when compared to global averages. In fact, South Africa exceeds the global average by nine percentage points (85% vs 76%). This is in fact a remarkable achievement, given that in 2001/2, only 37% of the adult population was banked.⁴²

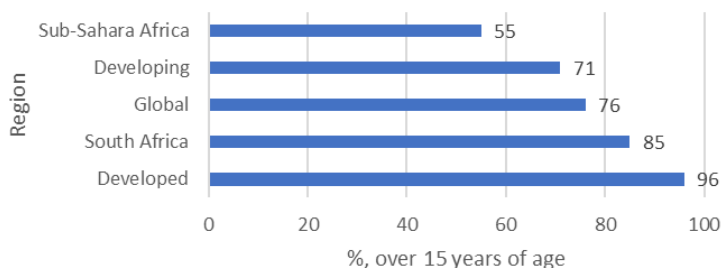


Fig. 4 Average proportion of banking accounts⁴³

Although a large proportion of the unbanked live in remote, rural areas with limited physical bank representation,⁴⁴ South African banks have substantially improved access by expanding their branch networks. In 2004, there were 4.7 commercial bank branches per 100 000 adults, with this number almost doubling to 8 in 2021 after peaking at 10.8 in 2014⁴⁵ (see Figure 5). Those who live in low-income, deeply rural communities are, however, severely hampered by a lack of access, especially if they are less likely to adopt digital platforms to do their banking.⁴⁶ This potentially not only widens the wealth gap, but also prevents full participation in the formal economy through a lack of access to the financial system.

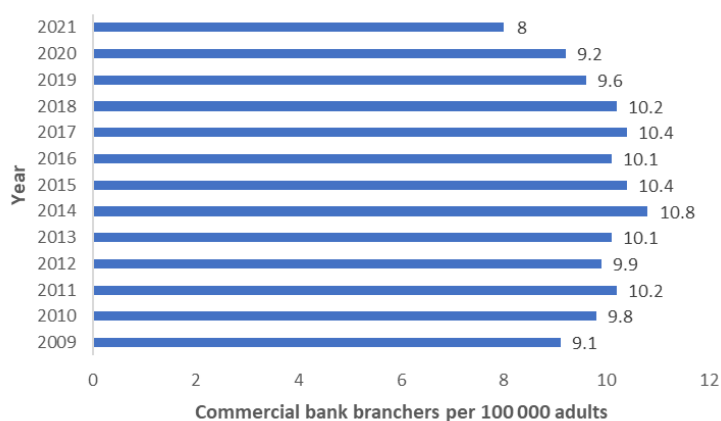


Fig. 5 Commercial bank branches per 100 000 adults in South Africa⁴⁷

Through the expansion of branch networks, banks can provide a means of contact with the marginalised, and improve access to financial products and services. However, a challenge relates to the use of digital platforms to access these products and services due to limited internet availability in deeply rural South Africa – especially the rural mass market. Coupled with this is the trust deficit that the mass market has as innovation in this digital space is constantly bringing new applications, processes, and features to the fore that require constant adaptation. As stated by one of the major South African banks, physical representation is a crucially important strategic consideration to address trust concerns: “Through all this innovation, one key factor for acquiring clients is, however, being lost: consumer trust. As technology advances, financial services companies are becoming increasingly distant from the person who is buying the product or service. Because of this lack of personal connection, the sales funnel suffers...[and] the reason people don’t buy these [financial services] in rural South Africa is because they can’t ‘see’ the provider, as they are forced to engage electronically.”

Support for SMMEs is a further way that banks can address inequality. Due to people living in rural areas having limited access to financial services, those who do not have a credit history or who

have a poor credit history may have difficulty obtaining credit or loans, which in turn hinders their ability to start businesses. Further reasons – such as the lack of financial and management skills, poor business plans, low levels of education, and poor or non-existent technical expertise – are the most common reasons cited to justify the rejection of loans to prospective SMMEs.⁴⁸ Added to this, the lack of documentation of financial records by existing SMMEs has been a major reason for South African banks' unwillingness to provide loans.⁴⁹ As can be seen in Table 2, SMMEs play a vital role in South Africa, contributing substantially to the number of jobs in specifically the trade and accommodation industries. Given a total of approximately 16 million employed South Africans as of the 1st quarter in 2023, SMMEs account for approximately 63% of South Africa's total employed. Taken even further, with approximately 10 million, they employ roughly 91% of South Africa's employed in the formal, non-agricultural sector.⁵⁰ There is no doubt that SMMEs are a major driver of economic activity in South Africa and contribute substantially to job creation and the reduction of inequality. The role that banks play in providing access to credit to SMMEs is therefore without question.

Table 2 Selected indicators of SMMEs in South Africa⁵¹

	2016Q3	2020Q3	2022Q3
Number of SMMEs	2,343,058	2,363,513	2,683,602
Number of formal SMMEs	657,707	653,530	792,838
Number of informal SMMEs	1,593,816	1,580,355	1,791,317
Number of jobs provided	9,683,639	10,058,355	n/a
% operating in trade & accommodation	40.30%	39.00%	39.20%
% operating in community services	13.00%	12.90%	14.60%
% operating in construction	15.10%	14.30%	14.40%
% operating in financial & business services	12.60%	13.10%	12.10%
% black-owned formal SMMEs	71.80%	75.20%	75.70%

	2016Q3	2020Q3	2022Q3
% contribution of SMEs* to turnover of all enterprises#	41.20%	38.60%	36.10%

** excludes micro enterprises; # excludes agriculture, financial intermediation, insurance, and government institutions*

Access is, however, only part of the problem to ensure sustainable SMMEs, as banks can develop specialised initiatives to not only provide financing, but also offer mentorship, training, and financial education. The major South African banks all offer some sort of initiative pertaining to this: ABSA offers development finance and business development support;⁵² First National Bank offers the Fundaba initiative that provides local business owners with a holistic business education journey;⁵³ Nedbank offers a fully tailored solution to meet the needs of up-and-coming SMMEs through its Small Business Services portal;⁵⁴ and Standard Bank offers a comprehensive business resource platform called Bizconnect that offers a full range of business support resources, industry trends, and customer success stories.⁵⁵ This support in its various forms enables business owners from disadvantaged backgrounds to establish and grow their businesses with the added mentorship and guidance of expertise from banks. This not only increases the opportunities for business owners to ultimately reduce inequality, but also allows banks the opportunity to reduce loan delinquencies through the improvement of the skills required to better manage the ongoing business operations, especially given that South African SMMEs functioning in the early stages of their life cycle are more likely to have access to finance as an obstacle for growth.⁵⁶

South African banks have also become more explicit in their role in promoting financial literacy through, for example, consumer education programmes,⁵⁷ and financial health initiatives related to budgeting, savings, understanding credit, education planning, insurance, bank fees, and money-related tips.⁵⁸ Financial education therefore not only ensures the development and education of its customers, but in doing this, they implicitly reduce the likelihood of delinquent customers, to resultantly reduce the risk profile of their customer base

and improve profitability.⁵⁹ More specifically, the inability of borrowers to make *prudent* rather than poor decisions (such as deciding to default on a loan), is a common reason explaining loan delinquency.⁶⁰ The sensibilities that financial education bring to the fore therefore extend beyond merely being more informed, but also result in a wiser and increasingly more cautious approach to handling finances.

Banks and Risk-aversion

The notion that banks exclusively offer *only* banking products and services is no longer the case. In fact, the word 'bank' is somewhat of a misnomer in that they are essentially a one-stop financial services provider, offering a wider range of financial services products and services.⁶¹ This no doubt implies a wider regulatory net that they must comply to, and adds to the daily complexity in the management of operations and customer service. By implication, the very nature of banking implies the management of risk, and doing so has many dimensions.

The regulatory environment for banks has changed dramatically over the past decade. The South African Reserve Bank (SARB) is responsible for maintaining financial stability in the financial sector. It oversees monetary policy, banking supervision, and the regulation of the payments system. The introduction of the Twin Peaks Framework resulted in respectively the prudential and market conduct regulation splitting into two separate regulators: the Financial Sector Conduct Authority (FSCA) – which oversees market conduct – and the Prudential Authority (PA) – which oversees prudential requirements for banks, insurers, co-operative financial institutions, financial conglomerates, and certain types of market infrastructures.⁶² The prudential requirements for banks are stringently based on the Basel Capital Accords from as early as 1992.⁶³ These require banks to adopt an explicit risk management approach that incorporates capital requirements based on credit, liquidity, market, interest rate, and operational risks. In addition, capital buffers are required to reduce systemic risk on the back of business and credit cycles.⁶⁴ The purpose of the Capital Accords is

to voluntarily impose standardisation across the world in terms of regulatory requirements and the assessment, measurement, and interpretation of risk. In effect, by complying, the South African banking industry ensures that it is comparable to other countries who also comply, and from a global point of view, this allows regulators to better manage systemic risk situations that could be to the detriment of global economic and financial system stability. Compliance to the Basel capital standards is one of the main reasons that the South African banking industry is commended on its stability and soundness.

Having said this, banks can contribute to inequality by promoting risky financial practices that benefit a certain group of people at the expense of others. For example, predatory lending practices, similar to those offered to subprime customers in the lead-up to the Global Financial Crisis (GFC) of 2007/8,⁶⁵ implied granting loans to those who either 1) could not afford the loan, or 2) were not able to service the loan. This led to financial distress for the borrowers and resulted in excessive non-performing loans for banks that ultimately had systemic implications. To 'rid' balance sheets of the risk within these subprime loans, banks engaged in complex securitisation practices to sell off the risk to fellow financial institutions willing to take on the excessive risk. What followed was the GFC and the burden ultimately fell onto governments to bail out under-capitalised banks. Effectively, the taxpayer paid for the predatory lending practices. There is thus always a cost to engaging in more risky behaviour. The issue is therefore not whether more risk should be taken *per se*, but to what extent this risk can be mitigated. In the case of the GFC, the risk was too excessive to justify.

South Africa was largely unscathed – at least directly – by the GFC. Several key legislative changes occurred prior to it that essentially prevented South African banks from taking on excessive and unmitigated risk. Besides the obvious compliance to the Basel Capital Accords, the Financial Advisory and Intermediary Services Act (FAIS), the Financial Intelligence Centre Act (FICA), and the National Credit Act (NCA) all resulted in a more risk-averse local operating environment.⁶⁶ Practically, this resulted in an explicit drive towards providing more appropriate financial

advice, more transparency in transactions, and more stringent credit-granting criteria. The Basel II capital requirements of 2006/7 re-enforced this regulatory environment. South African banks were therefore more resilient, and – because the industry is relatively small in global terms, and not that competitive globally in the corporate and investment banking space⁶⁷ – they were largely able to withstand the severe aftermath of the GFC. South African banks can therefore be regarded as being largely risk averse.⁶⁸

Does this resilience suggest that there is more room for South African banks to take on riskier projects and invariably increase their tolerance for risk?

Being risk averse suggests that the industry as a whole is less likely to be susceptible to systemic shocks, as it is more likely to be well capitalised, resulting in less risky projects being financed. By implication, the safety of customer deposits would be maintained, which in itself promotes the overall financial stability in the economy.⁶⁹ In general, the macroeconomic operating environment would be more stable and disciplined, and risks would be well mitigated and ring-fenced in policies and procedures that err on the side of caution and conservatism within the policies and procedures of banks.

When one considers that the primary function of banks is to act as an intermediary between surplus and deficit units to efficiently allocate (financial) resources from ‘passive’ savings to asset-purchasing lending, one can understand the pro-growth, developmental, and wealth-generating role that they fulfil. Credit provided by banks allows borrowers the opportunity to access resources for wealth creation and purchasing goods beyond their means. This ‘wealth creation’ function is facilitated through the process of financial intermediation and, if done responsibly (which in turn is a function of a robust internal risk management environment that ensures regulatory compliance), empowers people to improve their standard of living and accumulate wealth by investing, expanding business opportunities, and acquiring valuable assets to build personal wealth. In doing so, credit empowers individuals to enhance their quality and standard of

living.⁷⁰ The issue for a bank is therefore not the act of lending as such, but rather the risk attached to the borrower when granting the loan, and how the risk is mitigated (through effective management and credit policies on the one hand, and through effective compliance to regulatory requirements on the other). As such, the higher the assessed risk of a particular borrower, the higher the risk premium banks allocate to the borrower. By implication, riskier borrowers have more stringent criteria attached to the loan's conditions, that include higher fees and interest rates, higher collateral requirements, or shorter payback periods. As indicated in Figure 6, there are four possible outcomes at play here.

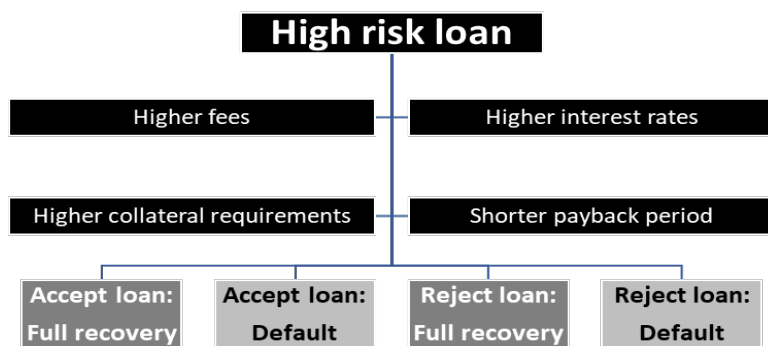


Fig. 6 The risk-return tradeoff for high-risk loans

High-risk loans, like all other loans, follow a credit review process, where the risk is assessed and then priced into the contractual agreement. Higher-risk loans have a higher risk premium, and this risk premium is priced into the monthly payments. For higher-risk loans, the monthly payments will be higher, driven by all the conditions (fees, interest rates, collateral requirements, payback period), to compensate the bank for the higher risk. The borrower can subsequently pay back the loan in full as per the conditions, or default (either partially or fully) on the payback. If a loan application is rejected, the bank has an opportunity cost equalling the full recovery (capital plus interest) or does not incur the losses associated with the possible default. *Ceteris paribus*, a higher-risk loan is more profitable than a

lower-risk loan. However, due to the higher risk, the probability of default is higher. This does not mean that higher-risk loans necessarily incur greater losses per loan, but rather that the probability of defaulting is higher per loan, which is more likely to translate into higher credit losses for a bank. A non-performing loan, whether high or low in risk to the bank, incurs the same losses – the difference has to do with the probability of the loss incurring. By implication, the more higher-risk loans a bank approves, the higher the probability of default for the portfolio, and thus the larger the potential credit losses. In and by itself, a loan portfolio with disproportionately higher-risk loans has a higher probability of incurring greater losses, and therefore requires greater mitigation measures to be put in place, such as holding more capital according to the Basel Capital Accords.

The concern for banks is therefore not the higher risk of a loan *per se*, but rather its ability to mitigate the risk of this (or a portfolio of these) loan(s), as failure to do so results in higher capital requirements, which is costly. This suggests that, for banks, it is not an issue of not being willing to take *on* risks, but rather that they are not willing to take on certain *types* of risks that will result in unwieldy costs, whether in loss of profit or extra capital requirements.

Future Challenges and the State Bank

Although South African banks have shown themselves to be resilient, they face several challenges that are out of their direct control. For example, load shedding has placed immense pressure on their ability to maintain service delivery to their customers. The number of equivalent full days of load shedding has increased from six days in the entire year of 2018 to 136 in the year-to-date in May 2023 alone.⁷¹ Load shedding has placed immense pressure on the South African economy, resulting in depressed economic activity, lower agricultural output, a weaker exchange rate, rising input costs in the manufacturing sector, supply chain disruptions, and reduced job creation,⁷² to name only a few. Load shedding therefore provides a real threat to not only the survival of SMMEs, but also to the sustainability of jobs and livelihoods of many South Africans, especially those at the lower end of the income spectrum.

Following this, macroeconomic challenges in South Africa are pervasive and play directly into inequality. Dealt with elsewhere in this book, the triple challenges of poverty, unemployment, and inequality are a direct result of a poor economic climate that is, by all accounts, worsening.⁷³ Without decisive leadership from policymakers that ensures an environment conducive to growth, the macroeconomic challenges will not be addressed. Naturally, this economic environment adds pressure on borrowers to service their debt with banks, which may further exacerbate inequalities.

Having said this, banks themselves can also contribute to inequality through discriminatory lending practices, limiting access to financial services, and promoting risky financial practices. Human biases in decision-making processes may place additional pressures on regulatory bodies and the government to promote equal opportunities and access to financial services to build wealth to participate fully in the economy, as banks have in the past discriminated against certain groups of people, including racial and ethnic minorities, women, and people with disabilities. Artificial intelligence (AI), for example, may be seen to address these human biases, but their outputs are a function of the data inputted into them and have raised ethical concerns.⁷⁴ In fact, AI has been known to exhibit racial biases more predominantly in banking and financial services through algorithmic discrimination in lending.⁷⁵ This has put into question the moral and ethical soundness of AI and become increasingly concerning for ethicists, given its role in promoting misinformation, racial, and gender biases.⁷⁶

In South Africa this is particularly concerning, given that wealth inequality has been estimated to be worse than income inequality⁷⁷ (albeit the latter is regarded as being of the worst in the world, driven, primarily, by the legacy of apartheid).⁷⁸ According to a World Bank report, the distribution of household wealth in South Africa reveals significant inequality – the wealthiest 10% of the population possesses over 85% of the total wealth, while most of the population holds more liabilities than assets.⁷⁹ These figures underscore the stark wealth disparity, emphasising the concentration of wealth amongst a small portion of the population (who are predominantly from the

white population group).⁸⁰ Further to this, in February 2023, the Financial Action Task Force (FATF) placed South Africa on the so-called 'greylist', which identifies countries with strategic deficiencies in their Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) systems.⁸¹ This greylisting has put into question the integrity of the South African financial system to counter money laundering and terrorist financing. Driven predominantly by state capture, corruption, and inadequate record-keeping, the greylisting puts severe pressure on investment opportunities and capital flows into South Africa.⁸²

Where does this leave us with regard to the banks' willingness to grant loans to the financially excluded market segment that exhibits all the features of what would characterise a high-risk loan: high probability of default, sporadic incomes, unemployment, previous loan defaults in a macroeconomic environment characterised by massive inequalities and challenges? Is it that South African commercial banks are not willing to service this market segment, or rather that they have not done it adequately enough to address the development agenda of the government? The answer is clearly the latter, as the arguments and evidence provided in this chapter argue that South African banks *are* engaged and committed to financial inclusion. The state bank, however, is seen by the government as an alternative option to speed up the development agenda.

As things stand, I do not believe that a state bank will be successful. I provide four reasons for this.

First, if the state bank is to be defined and function as a bank in South Africa, it will need to comply with the regulatory requirements set for all banks. This includes, *inter alia* and arguably most importantly, complying to the Basel capital standards. In its simplest form, these capital standards work on the principle that banks need to hold more capital as the risk they hold on their balance sheet increases. By implication, having a more concentrated loan book – both in terms of type of borrower and risk type – will require the state bank to hold more capital. The state bank will not be able to comply with the stringent capital requirements set by the Basel Capital Accords because it

is both costly and imposes a restrictive environment by implicitly discouraging higher-risk lending practices. Does this therefore imply that the state bank will not have to comply to the same regulations that the commercial banks have to?

Secondly, the management of SOEs in South Africa has been poor. The management of banks requires rigorous application of corporate governance principles, as well as the adoption of internal capital adequacy standards aligned to prudent risk management according to the Basel capital standards. What will make the state bank any different, specifically given the credibility that government has? Failure will result directly in further potential bailouts paid by taxpayers' money.

Third, the financial system is built on trust, and banks cannot survive with a lack of it. Coupled with the devastating effect of the so-called 'state capture' era, the downgrade of South Africa's long-term foreign currency credit rating to 'junk status' in recent years does not bode well for promoting trust. By implication, there are potential systemic risk implications at play here, suggesting even more capital requirement. The evidence suggests that a state bank will not encourage an environment that is conducive to building trust that promotes systemic stability in an extremely vulnerable South African economy.

Finally, South African commercial banks are efficient at what they do and how they do it – the Postbank, which is the infrastructure that the state bank is planned to function upon – is not. Irregular expenditure,⁸³ poor IT systems,⁸⁴ and poor administration for the payout of social grants⁸⁵ are but a few of the operational concerns attributed to the Postbank. With the seeming urgency that government is placing on getting the banking licence approved in 2023, one has to question its economic merits rather than the politicking taking place, given that the next national election will be held in 2024. If the state bank has been on the government's agenda for the best part of the past decade, why the sudden aggressive drive to establish it? To me, this commitment will be measured rather by the government's (perceived) commitment to its establishment after the 2024

national elections, rather than by what is being portrayed in the lead-up to the election.

The establishment of a state bank raises more questions than it answers. These four reasons that I use to argue against the current implementation of a state bank all imply a higher appetite for risk that has the potential to spread to the rest of the financial system and threaten financial stability. To mitigate this, more stringent capital requirements would be required, which by themselves inhibit the ability of such a state bank to service a market that commercial banks do not find financially viable. Surely, if commercial banks found these markets viable business propositions, they would already be servicing them and there would be no need for a state bank. Therefore, one must assume that, by implication, the market that the state bank proposes servicing is risky, if not highly risky. How will this risk be managed if the state bank does not have to comply with the capital standards expected from commercial banks? Following this, if the state bank does not have to comply, what regulatory requirements will be put in place to ensure that it is run in such a way that taxpayers are not the ultimate losers? A state bank will merely put more pressure on state coffers and, ultimately, the South African taxpayer.

Concluding Thoughts

Is it the banking industry's responsibility to explicitly address the socioeconomic challenges in South Africa? The answer to this is two-pronged in nature. On the one hand, the answer is yes because they are critical in providing the means to access financial products and services that promote poverty eradication through access to financial markets and wealth creation – in effect, they facilitate financial development through access to the financial system. Financial inclusion is, however, beyond merely access as it also includes usage, quality, and welfare. This is crucial, as banks play a critical role in providing financial services such as loans but can simultaneously contribute to economic inequality by perpetuating discrimination, limiting access to financial services, and promoting risky financial practices. For this reason, governance – both external by regulators and supervisors, and

internal by management and compliance functions – is essential to ensure a robust and efficient banking industry.

On the other hand, however, banks are *not* responsible for ensuring that the access itself ensures the expected outcome of the use. Yes, they must promote financial literacy and educate to the extent that better and more-informed decisions are made in order to fulfil the potential use embedded within the respective financial product or service – but no, they are not responsible to explicitly reduce poverty *per se*. Rather, banks should be enablers of this developmental agenda. They are indeed a vital cog within the chain required to empower the marginalised, but the outcome itself of financial development is an issue deeper entrenched in the socioeconomic challenges embedded in the inequality faced by so many South Africans. The government, therefore, is the ultimate custodian of this socioeconomic upliftment and, without a prudent and well-managed fiscal policy agenda, the work conducted by banks cannot manifest into making concrete inroads into addressing inequality.

Having said this, a state bank is not the answer, as it will be required to abide to the same prudential requirements expected from commercial banks. If this is the case, why allow the establishment of such an SOE that, from all historical evidence, will most likely follow similar management practices as those SOEs in deep financial decline now? This does not bode well for establishing a sense of trust in the economy and especially in the financial sector – a feature inherent to ensuring a stable economic and financial system.

So, where does this leave us?

In my view, it is quite simple. The government needs to be more deliberate, decisive, efficient, and prudent in the implementation (that is policy development *and* the delivery thereof) of its macroeconomic policies. The South African economy needs policy certainty that will create an environment more conducive to allaying the fears of investors. Decisions that make economic sense (within the budgetary constraints that the country faces) need to be given preference over short-sighted, politically driven decisions that have manifested themselves in

the broader South African political landscape, and specifically in the management of SOEs. If this is realised, there will be no need for a state bank and the potential risks of further burdening the South African taxpayer.

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Chapter 7

Service Delivery Inequality

Constance Motsitsi 

Introduction

Service delivery is the fundamental responsibility of governments all over the world; moreover, the provision of public services has a direct impact on people's lives and thus enhances their wellbeing. Service delivery and inequality have always been a central focus in South Africa, pre-democracy and post-democracy. In the last 30 years, South African public service delivery has gone through transformation systems, all aimed at enhancing equality in the provisioning of service delivery. However, 30 years later, public service delivery remains utterly poor and unequal among the citizens of South Africa. Nnadozie (2013) is of the opinion that the "current socioeconomic inequalities in service delivery are the effects of the apartheid regime," which unfortunately continue to haunt the South African service delivery system.¹

Democracy promised a better life for all, and although the democratic government has achieved the objective of providing more access to services than during apartheid, the quality of these services remains poor in most parts of the country.² The South African government is bound to provide equal service delivery. It is a right enshrined within its Constitution so as to enhance human dignity and achieve quality goods and services.¹ The government of the day has successfully extended essential services to poorer areas, towns, and rural communities, which were previously "ignored". However, the quality of these services remains unequal and more disastrous in some areas. Nkomo (2017) further indicates that these "service delivery deficits reflect the apartheid era's spatial design of most towns" resulting from a lack of racial and class integration and equality, which negatively affects the daily lives of many South Africans.

The current government has taken steps and decisions that continue to derail the achievement of effective service delivery.

Service delivery inequality is often reviewed using basic services, as these are services that are essential and crucial for the quality of life of all citizens. These services are provided mainly by local governments. This discussion uses the Service Delivery Inequality IPIO framework (Inputs, Processes, Indicators, and Outcomes) by focusing on four indicators in which service delivery inequality is measured, namely, refuse removal, water, electricity, and sanitation.

Service Delivery Inequality IPIO (Input, Process, Indicators, and Outcomes) Framework

There is no universally acclaimed formula, framework, or structure for measuring service delivery inequality. However, international and South African researchers use the basic services established in the Constitution to measure and review service delivery inequality. As a result, this chapter discusses the process that has led to service delivery inequality in South Africa by establishing a new framework: The Service Delivery Inequality IPIO Framework. This framework focuses on the following:

1. **Input:** Who are the role players responsible for providing these services?
2. **Process:** This relates to the policies implemented to ensure equal service delivery.
3. **Indicators:** These are the services used to measure service delivery inequality.
4. **Outcomes:** These look at the causes and effects of service delivery inequality.

The following figure is an illustrative diagram of the framework the study will follow in discussing service delivery inequality in South Africa (Figure 1).

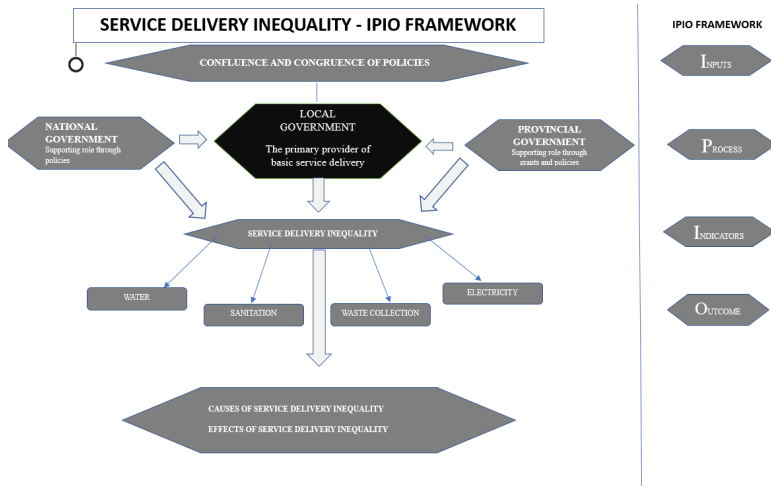


Fig. 1 Service delivery inequality – IPIO framework. Source: Author's Compilation

Following the IPIO framework above, the chapter follows a retrospective literature review.

Inputs

Legislative Frameworks in Essential Service Delivery

The Constitution

The transformation of the new democracy aimed to achieve improved service delivery through implementing the local government, which is required to affect essential transformation in the legislative frameworks, institutional structures, and processes. With the newfound democracy, the first legislative framework implemented by the democratic government was the Constitution of the Republic of South Africa. The Constitution is the heart of democracy and the most critical legislative framework. Thus, any legislative framework inconsistent with the provisions of the Constitution is considered null and void.

The provisioning of services is enacted in the Constitution. Chapter 2 of the Constitution introduces the Bill of Rights, which

establishes the human rights of South Africa and thus enforces the government as the gatekeeper in ensuring these rights are protected. Providing essential services is linked to the basics necessary for a dignified human life, thus giving relevance to Sections 10 and 11 of the Constitution. Thus, providing the essential services enlisted in the Constitution is mandatory for the government.

The Constitution further enables the formulation and implementation of policies, reforms, and measures to ensure equality in the people's lives. Section 152 of the Constitution charges the local government as the primary provider of essential service delivery, as it is the government division closest to the people. To achieve the objective of local government to transform and promote the new vision enshrined in the Constitution, the government subsequently implemented various legislations and policies that replaced former fragmented apartheid approaches, such as the Municipal Structures Act and the Municipal Systems Act that further give the processes, mechanisms, and core principles aimed at developing local economies and enhancing service delivery.

The White Paper on Local Government

In 1998, the government implemented the White Paper on Local Government. It has been the primary driver of service delivery and the restructuring of local government, and supports the developmental role of the municipalities. The White Paper on Local Government introduced the amalgamation and restructuring of the municipal administration, which subsequently led to the formulation of the new local government system to help adopt and extend government structures and functions without bringing instability.

The White Paper on Local Government channelled the implementation of various policies – such as the Reconstruction and Development Programme, the Population Policy of South Africa, the Growth, Employment and Redistribution Strategy, and the Black Empowerment Equity Act – all of which aimed to establish a South Africa that would provide equal services to each citizen, while simultaneously empowering the previously

disadvantaged. The White Paper on Local Government further charged municipalities with ensuring that they are accessible to the community and provide the community with a minimum level of service delivery that is affordable, convenient, timely, safe, and accessible continuously. The White Paper on Local Government remains the driving policy behind local government development.

Intergovernmental Fiscal Relations Framework Act and Intergovernmental Relations Framework Act

Section 40 of the South African Constitution establishes three spheres within the government system: national, provincial, and local. The duties and responsibilities of these three divisions were established in the Intergovernmental Relations Framework Act of 2005. These three spheres of government are distinctive, interrelated, and interdependent; as a result, no division can exist without the other.³ Moreover, to reduce the inequality gap, these three divisions of government must work together to provide public services. Thus, when reviewing service delivery inequality, it is essential to do this in all three levels of government, as all three divisions are responsible for implementing service delivery. Therefore, service delivery is the responsibility of all these three divisions of government, and the effectiveness of government depends on the proper co-ordination and facilitation within all three divisions.

The Intergovernmental Relations Framework Act of 2005 gives exclusive and concurrent powers, functions, and responsibilities to the three divisions of government. Moreover, the Intergovernmental Fiscal Relations Act was established to effect Section 214 of the Constitution and to establish a framework for how nationally raised revenue must be shared amongst the three divisions of government through an equitable share system. However, the '*per capita*' system used to share nationally raised revenue has contributed to the inequalities in service delivery due to the system's imbalances.⁴

Process

Local government

The local government was established as having the prime responsibility for essential service delivery. Section 152 of the South African Constitution advocates the local government as the engine for essential service delivery. This is because service delivery plays a greater role in local government, as the division closest to the people. Thus, local government is entrusted with creating an atmosphere of social inclusion, and thus improving the lives of the poor majority previously disadvantaged by the apartheid government. If it fails to achieve this, then it forfeits its existence. Therefore, the local government was established as the gatekeeper of essential services, delegated to reduce poverty and facilitate economic development opportunities within municipalities.³

The local government is the provider of the four fundamental service delivery indicators. Electricity, water, sanitation, and waste removal are considered. These essential services are intended to be a tool to reduce poverty and inequality, raise living standards, and facilitate economic opportunities.⁵ However, the national and provincial departments support the local government in providing these services. The Constitution established three categories of municipalities, through which services are delivered to communities concerning the type of municipality concerned. The three categories of municipalities include metropolitan municipalities (Category A), local municipalities (Category B), and district Municipalities (Category C). The Municipal Infrastructure Framework further classifies local municipalities under four categories:

1. **B1 municipalities** consist of urbanised, secondary cities with large populations and budgets.
2. **B2 municipalities** are made up of large towns, which are made up of large populations and have sustainable budgets.
3. **B3 municipalities** comprise small towns, with proportions of large towns.
4. **B4 municipalities** consist mainly of rural areas with communal tenure and several small towns.

The natures of these municipalities differ, and the factors influencing municipalities differ from one municipality to the next. As a result, the provisioning of services by each category varies. This is because the allocation of services is mostly prioritised in areas with more economic potential, where the provisioning of service delivery can be matched to tax contributions. Therefore, B1 and B2 municipalities fall under urban municipalities. These municipalities consist mainly of large populations that can maintain their living standards and pay municipal service charges. These municipalities can generate large amounts of municipal revenue, which makes it easier for municipalities to provide goods and services to their communities consistently. Subsequently, most B3 and B4 municipalities fall under rural municipalities. Most of the population under these municipalities live in poverty; they cannot pay for municipal services and depend on government social grants. Thus, these municipalities need help generating municipal revenue collection, which negatively affects the provisioning of services. This subsequently affects the delivery of essential services and creates service delivery inequality amongst the different municipalities.

National and provincial government

The national government is the highest sphere of government. It is primarily responsible for formulating policies, determining regulations and legislative frameworks, and monitoring and evaluating provincially implemented programmes. The national government is entrusted to mainly and exclusively provide public services such as water and electricity resources, national defence services, criminal justice, and higher education and training.⁹ However, the national government has shared responsibility with the provincial division in providing public health, primary education, social welfare, housing, and agricultural services, etc. Regarding essential services signified by the Constitution, the national and provincial governments are responsible for providing health and education services to their citizens. Policies have enabled free education and healthcare systems for those unable to pay for such services. However, many South Africans

still need access to safe water, which forms part of the national and provincial governments' obligations.⁶

The overall service delivery inequality at the national and provincial levels has significantly decreased with the introduction of democratic legislative frameworks and reforms. These reforms have significantly improved the lives of the previously advantaged by providing essential services; however, inequality remains high in the South African public sector. Unfortunately, service delivery inequality at the municipal level is reflected at the provincial level, as there is a pattern of inequality between the rural and urban provinces.

Although the local government is the provider of the four essential services identified, the national and provincial governments support these services through policies, reforms, and conditional grants. Through policies and reforms implemented at both the national and provincial levels, these government spheres are mandated to support municipal services through the financial support of conditional grants such as the Municipal Infrastructure Grant, the Implementation of Water Services Project (Capital) Programme Grant, the Consolidated Municipal Infrastructure Programme, and many others. These grants assist municipalities in developing, repairing, and maintaining their functionality regarding these essential services. For example, provinces support water provisioning in municipalities through the Water Services Infrastructure Grant, which assists in developing interim and intermediate water supply aimed at reducing backlogs in water and sanitation provisioning.

Indicators

Four indicators are used to illustrate service delivery inequality within the public sector.

- **Access to water** – providing clean and consistent water is a universal priority and a human right the South African government has committed to providing to every citizen.
- **Access to sanitation** – providing sanitation services is essential to having a healthy, dignified, and clean

environment, and the government has obligated itself to provide such an environment to all South Africans.

- **Access to refuse removal** – providing an environment that is safe and clean to live in requires the removal of solid waste from communities, to promote sustainability and pollution-free communities.
- **Access to electricity** – Schedule 4B of the Constitution entrusts the local government with the authority to distribute electricity to municipalities through provincial and national legislative frameworks. Thus, municipalities are entrusted with ensuring fair and equal access to electricity within their jurisdictions.

To measure service delivery inequality at the local level, we view statistics (from the General Household Survey 2002–2017, in conjunction with the Census 2002–2017 and the Inequality Trends in South Africa Report). Refuse removal inequality between the different municipalities is observed in the 2017–2021 statistics. At the provincial level, 2002–2021 statistics are reviewed. At the national level, racial service delivery inequality is reviewed using 2002–2022 statistics in different variations. The statistics were limited to the available GHS statistics from Statistics South Africa.

Access to water

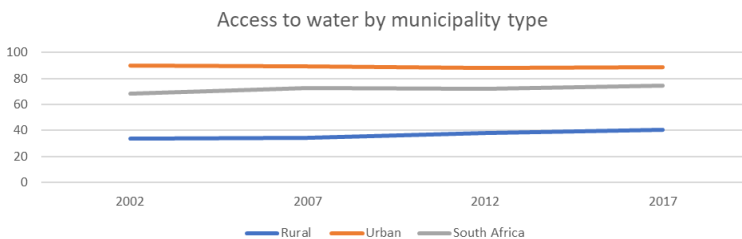


Fig. 2 Access to water by municipality type. Source: GHS, 2021–2022; Statistics South Africa, 2019

Figure 2, above, illustrates the unequal access to water by municipality type. Rural municipalities are still lagging with only

50% access to water, while urban municipalities are trending with 80% access to water.

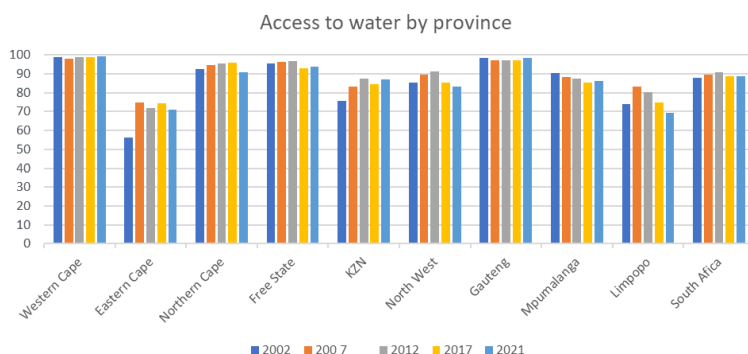


Fig. 3 Access to water by province. Source: GHS, 2021-2022; Statistics South Africa, 2019

Figure 3 shows inequality in access to water service delivery at the provincial level. There has been a substantial increase in water access overall. However, inequalities remain in rural municipalities. Limpopo and the Eastern Cape need to catch up, with around 70% access to water, while urban provinces such as the Western Cape and Gauteng have over 90% access to water.

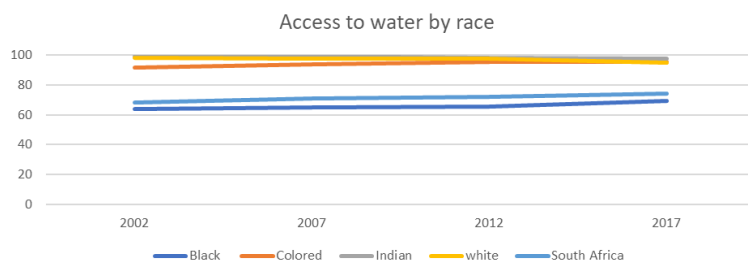


Fig. 4 Access to water by race at the national level. Source: GHS, 2021-2022; Statistics South Africa, 2019

From Figure 4 above, it is evident that service delivery inequality by race is still prominent 30 years post-democracy, as the black population still lags with less than 80% access to water

in comparison to the other races, who have over 90% access to water.

Access to sanitation

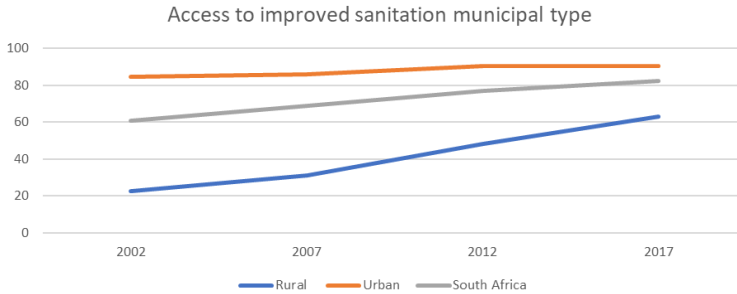


Fig. 5 Access to sanitation by municipal type. Source: GHS, 2021–2022; Statistics South Africa, 2019

Figure 5 further draws on the pattern of service delivery inequality between rural and urban municipalities. Although there has been an increase in sanitation within rural municipalities, there remains a vast difference in access to improved sanitation between rural and urban municipalities. While rural municipalities have reached 62.8% access to improved sanitation, urban municipalities have achieved 90.2% access to improved sanitation. There is a vast difference of access to sanitation of 27.4% between the two types of municipalities.

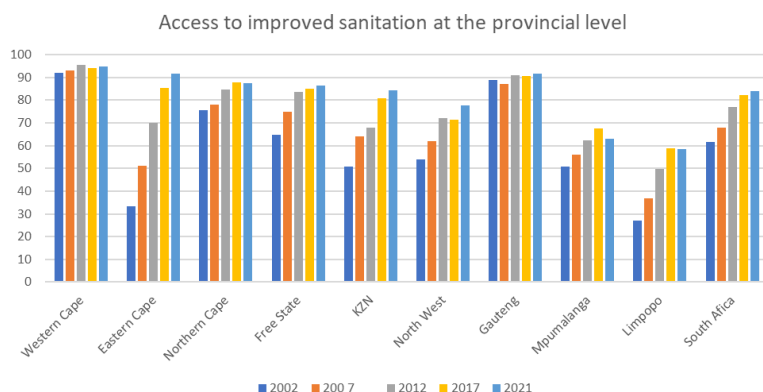


Fig. 6 Provisioning of sanitation service delivery at the provincial level. Source: GHS, 2021–2022; Statistics South Africa, 2019

At the provincial level, the difference in access to improved sanitation remains significant between local, rural, and urban provinces. While overall access has improved in every province over the years, rural municipalities once again have the lowest access to sanitation. However, not all rural provinces are low. The Eastern Cape and the North West province have achieved over 90% improved sanitation, though they are rural provinces. However, Limpopo still needs to reach 60% access to sanitation, while Mpumalanga achieved 63.8%. Conversely, Gauteng and the Western Cape achieved over 90% improved sanitation.

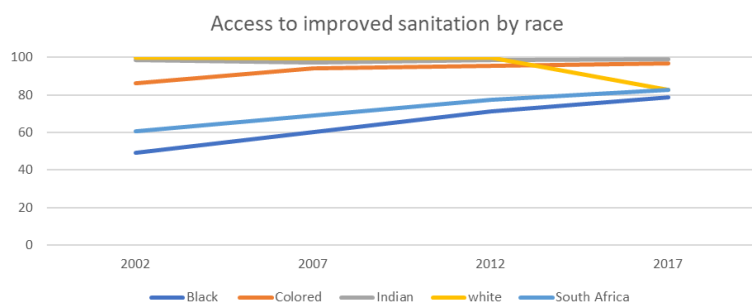


Fig. 7 Provisioning of sanitation by race. Source: GHS, 2021–2022; Statistics South Africa, 2019

Access to improved sanitation by race remains unequal. However, there has been significant progress, and the inequality gap has reduced significantly. While the black population has increased access from 49.2% in 2002 to 78.7% in 2017, the white population's access has decreased from 100% in 2002 to 82.5% in 2017. It is important to note, however, that the provision of sanitation amongst the Coloured and Indian populations has remained steady at over 90% between 2007 and 2017.

Access to refuse removal

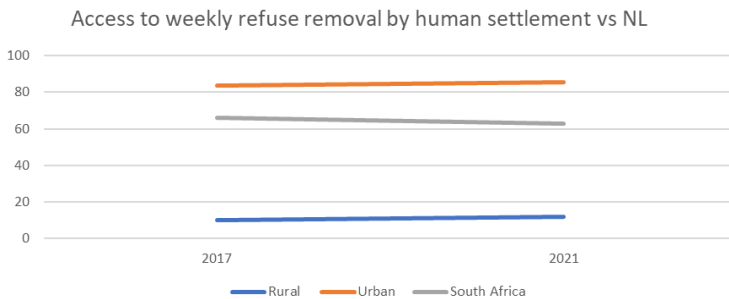


Fig. 8 Provisioning of refuse removal service delivery by municipality type. Source: GHS, 2021–2022; Statistics South Africa, 2019

Figure 8, above, indicates a massive service delivery inequality in refuse removal between the urban and rural municipalities between 2017 and 2021. While rural municipalities are behind with 18% access to weekly refuse removal, urban areas have achieved over 80% weekly. There is a huge gap in the delivery of these essential services.

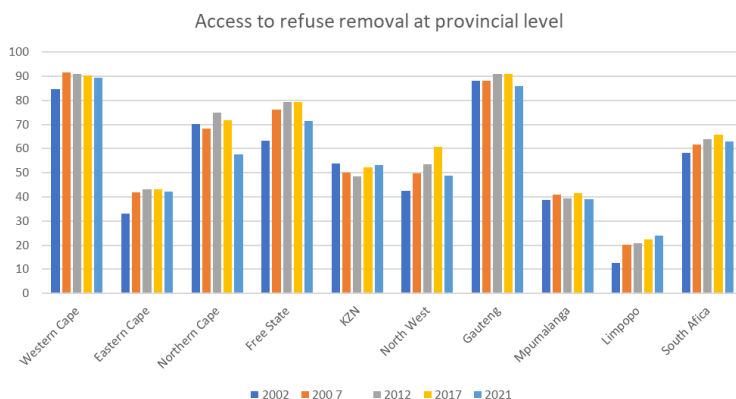


Fig. 9 Provisioning of refuse removal service delivery at the provincial level. Source: GHS, 2021–2022; Statistics South Africa, 2019

The difference between weekly refuse removal of urban and rural municipalities, and between provinces, is as significant. While Gauteng and the Western Province essentially receive over 80% of weekly refuse removal, the rural municipalities barely receive 50%. Limpopo trails behind with 22%, while the Eastern Cape is at 41%, and Mpumalanga’s refuse removal falls behind with 39%.

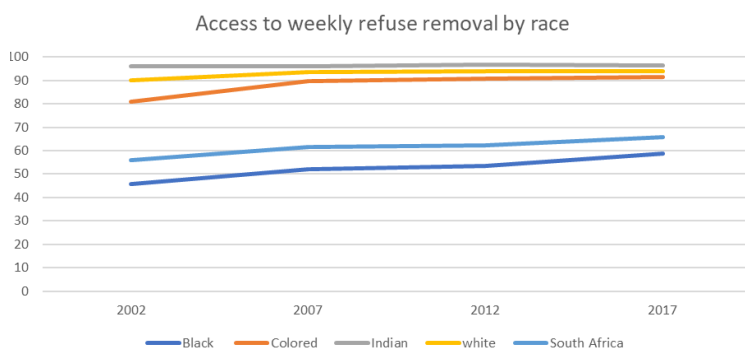


Fig. 10 Provisioning of refuse removal by race. Source: GHS, 2021–2022; Statistics South Africa, 2019

Figure 10, above, further highlights the service delivery inequality between the different races in South Africa. The pattern of the

black population at the bottom of the chain continues, with blacks achieving 58.8% refuse removal, while the Coloured population, Indians, and whites have steadily achieved over 90%.

Access to electricity

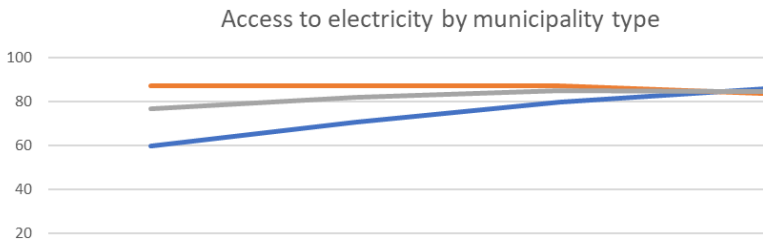


Fig. 11 Provisioning of electricity service delivery by municipality type. Source: GHS, 2021–2022; Statistics South Africa, 2019

The provision of electricity has increased throughout the years, thus closing the gap that existed between rural and urbanised areas. Electricity access in rural municipalities increased from 60% in 2002 to over 85.8% in 2017. At the same time, access to electricity in urban municipalities has decreased from 87.2% in 2002 to 83.7% in 2017. The gap between rural and urban areas in electricity provisioning has reduced over the years. Access to electricity within the country has improved overall from 76% in 2002 to 84.47% in 2017.

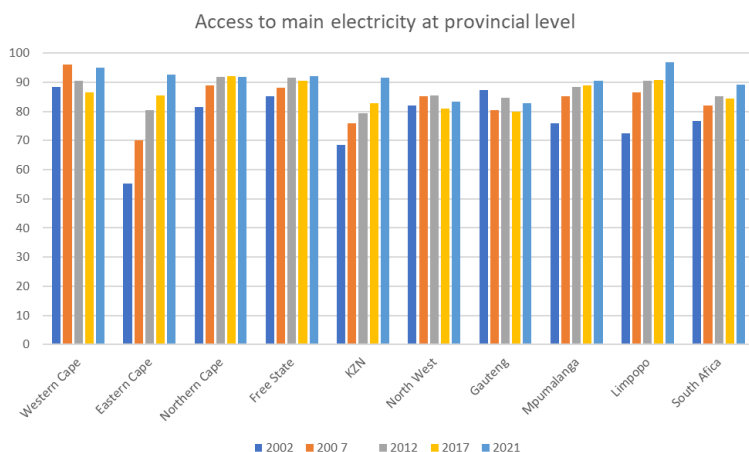


Fig. 12 Provisioning of electricity at the provincial level. Source: GHS, 2021–2022; Statistics South Africa, 2019

Figure 12 shows a reduction in the gap in the inequality of electricity-related service delivery. It is important to note that electricity provisioning in rural provinces is higher than in urban municipalities. Over the years, electricity provisioning in rural areas and urban municipalities has increased. There are several reasons for this; however, one of the critical factors is that when people migrate to urban areas, they settle in informal settlements with no electrical connections, thus reducing access to electricity within these areas. Moreover, statistics relating to racial differences were limited and thus not included.

Service delivery inequality

Over the years, the local government has failed to provide basic public services that meet the essential needs of its citizens – more especially in poor municipalities, as the residents of such municipalities are unable to pay for services, thus impairing the municipality’s ability to collect revenue and deliver effective and efficient services.¹⁰ Municipal service tariffs are intended to form the bulk of local government’s operating expenditure. However, many municipalities maintain that the actual costs of providing services are five times higher than the expenditure estimated

by the national government. For this reason, they fail to deliver services to as many households as possible, which only curbs the local government's objectives and delays improvement in people's lives.¹ Additionally, high levels of corruption and a lack of skilled leaders and officials in rural municipalities lead to worse conditions.⁷

In a study conducted by Sartorius and Sartorius (2015), the authors find that "the best levels of service delivery are found in richer municipalities, and the poorest municipalities deliver the worst services", which creates inequality amongst the residents of a municipality. This is because municipalities need to assess and plan strategically for the appropriate and effective service delivery mechanisms within each area.¹⁰ The Municipal Systems Act prioritises infrastructure development and service delivery in municipalities with the most significant economic potential, which mandates urban planners to focus on providing public services to the urbanised areas, leaving minimal essential services for the poorer communities. This creates segregation and inequality between a municipality's poor and wealthy residents.¹ The municipal administration must, therefore, choose delivery options that will ensure maximum benefit and efficiency; thus, a household's ability to access free essential services is determined by where they live, rather than by their poverty.

Rural municipalities need more funds and human resources. Moreover, protests over service delivery seem to arise from poorer neighbourhoods, informal settlements, and townships rather than in the suburban areas. These urban-rural differences reflect long-standing national policies and local decisions that the municipalities need to change before we can bring spatial equality and achieve effective service delivery.⁸

Furthermore, statistics indicate that rural municipalities, B3 and B4, experience higher disruptions in water and electricity supply than urbanised areas. Sanitation backlogs are too frequent in rural areas, and waste collection is hardly done in most rural areas. These communities have resolved to create dump sites to dispose of their refuse. More than anyone, the poor rely on the government and municipalities to provide essential services;

therefore, the government's governance affects the poor and vulnerable the most.¹³ For the poor, efficient and effective public services by the government is their way out of poverty.⁹ The inability of government institutions to provide efficient goods and services leads to lack of opportunities for the impoverished and disadvantaged, thus preventing generations from escaping poverty.

It is undeniable that service delivery in the national and provincial spheres of government has improved over the years. However, we must acknowledge high service delivery inequality in essential services between the provinces and municipalities.

Causes of Service Delivery Inequality

There are a number of causes of service delivery inequality at every level of government. Below are the three primary and most common reasons for this. They are interconnected and often affect each other. These three primary causes also create more challenges, deepening the problem.

Poor leadership and administration

The cadres within the local government require skills, competencies, and technical expertise in the administration and management of municipalities. The lack of such capabilities compromises the delivery of services by municipalities within their respective communities.^{9,10} The lack of leadership and skills has led to the financial instability of municipalities. Poor leadership has led to high levels of corruption within the public sector due to poor governance.⁶

For the past ten years, the office of the Auditor General has been warning against poor financial management and lack of skills within the municipalities. In the last five years, less than 20% of municipalities have been able to produce qualified audit opinions, with high levels of unacceptable forms of expenditure, high financial mismanagement, and corruption.¹¹ This is worse in rural municipalities, which often have the worst service delivery in the country. This is often caused by poor governance, and although poor governance is a problem in local government, it remains

poorer in rural municipalities, subsequently affecting service delivery.¹² The corruption within the leadership of municipalities has adversely affected not just service delivery but the functioning of municipalities, especially in rural municipalities, with the need for more accountability.

Poor policies

Some of the post-apartheid policies continue to exclude a large number of citizens from development.³ This relates to policies and systems that enable government officials to focus more on urbanisation, thus automatically neglecting rural areas. As a result, disparities remain high after decades of democracy and rural areas remain neglected by the government.¹ For example, the Municipal Systems Act enables municipalities to prioritise towns that pay for services, thus neglecting poor municipalities.

Households have to pay for the majority of services they receive from their municipality. This cost directly reduces their disposable income for other essential expenditures. The increase in municipal services directly affects these households. The municipality's ability to provide essential services is determined by factors such as size, growth, and distribution of households, as well as the individual citizen's ability to pay for municipal services.¹⁷ Thus, the free basic services policies implemented in all three spheres of government are, in reality, making little contribution to the white paper's goal of affordable universal access, because many of the poor households are effectively excluded and continue to live with inferior public services.

Vertical and horizontal imbalances

South Africa uses the *per capita* system, which shares the nationally raised revenue based on "a way of averaging values on a *per-person* basis to better understand each share in aggregated figures. This equitable share system has created horizontal and vertical imbalances, leading to service delivery inequality.¹³ From the equitable share, municipalities only receive 3%. They must generate most of their revenue from service charges related to municipal services, such as property rates, levies, and service charges from water and electricity provision. Unfortunately, many

municipalities struggle to collect revenue, and this is worse in rural municipalities, making it difficult for rural municipalities to develop and create economic development opportunities within their jurisdictions. This poses vertical imbalances, a challenge the national government needs to consider.

The provincial government receives 48% of the national revenue, accounting for over 90% of its budget. However, the distribution of this budget is horizontally imbalanced between the different provinces, thus creating inequality trends and patterns.²⁰ In this regard, the high-economic provinces, due to migration and high population, receive a higher distribution of revenue in comparison to rural provinces with less population.¹⁴ The systems and policies again allocate revenue by the population density. Urban provinces such as Gauteng and the Western Cape benefit from this. In contrast, rural provinces such as Limpopo, the Eastern Cape, and Mpumalanga continue to report the highest service delivery inequality and lowest mean and median expenditure within the country.¹⁵

Effects of service delivery inequality

Urbanisation

Urbanisation is a global challenge, due to people seeking to settle in places with better opportunities and development. The poorest people with poor skills, development, and training are mostly found in rural areas.¹⁶ Such people live in poverty and rely on government grants for survival. They often cannot find better opportunities within their area, so they migrate to urban areas for a better life and more opportunities.¹⁷ The South African policies and systems favour urbanised areas. Skilled people migrate to urban areas as well, leaving rural areas with mostly unskilled people. Urban areas are often better managed than rural areas. People tend to move to urban municipalities and provinces, abandoning rural areas, which they feel are neglected by the government.

Social conflicts and protests

The inequalities in service delivery between the rural and urban areas have led to social conflicts among the people of South Africa. These are racial conflicts between the black and white populations as well as conflicts between the rich and the poor. The poor people often feel left out and ignored by the government, and this has led to a rise in service delivery protests across the country.¹⁸ However, there is a pattern to these protests, as they are more frequent in rural municipalities (more specifically, B3 and B4 municipalities). Additionally, protests are unlikely in areas dominated by white populations. Protests are a way in which people display their dissatisfaction with the government.

Conclusion

There remains high inequality in delivering essential services in South Africa throughout the three divisions of government. At provincial and local governments, inequalities exist between rural and urban areas. The government policies still encourage urban development, while the rural areas still need to catch up. This has led to inequalities in service delivery within the different divisions and areas throughout the country. Service delivery inequality is affected by many factors, such as unemployment, income inequality, governance, and South Africa's political history.

The South African government has, without doubt, managed to decrease service delivery inequality that existed during the apartheid regime. However, the equitable share system and policies implemented post-democracy still need to alleviate the service delivery inequality within the country effectively. Additionally, these policies and different systems prioritise urbanised municipalities and provinces, thus leaving behind the rural municipalities and provinces. The poor leadership and governance within the South African government further widen the inequality gap in delivering these services and promote a culture of corruption. There is a need for policies and reforms that will actively and effectively address imbalances while enhancing good governance and consequence management within the government. This will promote rural development and

enhance service delivery through infrastructure development, technological advances, and better opportunities.

It is essential to note that electricity provisioning has improved throughout the country. There is higher access to electricity in rural areas than in urban areas, presenting opposite results from the other three services in the study. The IPIO Framework as discussed makes it easier to follow the process of service delivery inequality. There is a need for policies and reforms that will encourage and shape rural areas and enable equal development in both rural and urban municipalities so that the citizens at large may access equal delivery of services from the government.

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Chapter 8

Socioeconomic Inequalities in Health: The South African Story

Chijioke O Nwosu 

Introduction

South Africa is characterised by income and wealth inequalities, as well as a high disease burden typical of a developing country. Given that income is an essential determinant of health and healthcare, one can imagine that access to critical healthcare and health outcomes will depend on socioeconomic position. This chapter, therefore, presents an overview of health inequalities in South Africa as related to socioeconomic position. The focus is on the magnitude of health disparities and, where data availability permits, ascertaining whether and in what direction such disparities have changed over time. By the end of this chapter, the reader would have been sufficiently informed about the stark socioeconomic inequalities that diminish health and healthcare access in South Africa. This knowledge will hopefully encourage debate about the need and ways to tackle health inequalities in the country aggressively.

South Africa: A Land of Extreme Inequalities

South Africa is judged the most unequal country globally regarding income and consumption, with several dire statistics underlying its unenviable position. Its *per capita* consumption Gini coefficient¹ has consistently exceeded 0.6 in the post-apartheid period. Moreover, on average, the top 10% of the adult population earned more than 60 times the national income earned by the bottom 50% in 2021. This translates to the top

1 The Gini coefficient is an index of inequality, rising with higher inequality. It ranges from 0 (perfect equality) to 1 (perfect inequality).

10% and bottom 50% earning 65% and only 5.3%, respectively, of national income. Indeed, the share of incomes captured by both groups has consistently widened since the mid-1990s, implying that inequality has worsened over the post-apartheid period. A lot of this inequality is accounted for by what happens in the labour market – disparities between the employed and unemployed and between high and low earners.

Regarding the latter, the country had a net wage Gini coefficient of 0.67 around 2017. Wealth inequality is understandably worse, with the top 10% of the country owning 86% of total wealth in 2021 (compared to a negative wealth share for the bottom 50%). To underscore this point, the net wealth Gini coefficient was 0.76 in 2019.^{1,2}

South Africa's inequality is deeply intergenerational. Inequality of opportunity – disparities driven by pre-existing factors beyond an individual's control, such as race, parental education, and parental occupation – account for almost half of inequality in *per capita* consumption, with race responsible for about 39% of inequality of opportunity.³ It is, therefore, little wonder that South Africa is characterised by low intergenerational earnings mobility.⁴

A widely held belief is that more equal societies enjoy better health outcomes than unequal ones. This remains true, despite differences in beliefs about the underlying mechanisms or whether the relationship is causal. Some scholars even attribute substantial mortality to income/socioeconomic inequality.⁵ This suggests the existence of socioeconomic inequalities in health given that, at the very least, some of the hypothesised effect of socioeconomic inequalities on mortality emanates from the health disparities between different socioeconomic classes. However, before examining the nature of socioeconomic inequalities in health in South Africa, it is essential to understand the state of health and healthcare provision in the country.

Access to Health Care and Health Outcomes in South Africa

The South African health system is segmented into a private sector that resembles developed countries' health systems, and an overburdened and financially stressed public sector providing free or heavily subsidised services.⁶ Access to the well-resourced private health system is mainly funded through membership of medical aid schemes, which are unaffordable for most of the population. Unsurprisingly, medical scheme membership has a significant racial gradient. For instance, while only 16% of South Africans belonged to such schemes in 2018, only 10% of black Africans were members, while 73% of whites had membership.⁷

Differences in resources between the private and public sectors are stark. For instance, private health expenditure as a percentage of current health expenditure was 44% in 2017.⁸ Given that such a huge resource outlay was mostly accounted for by medical scheme membership, which constituted only 17% of the population in 2017,⁹ one begins to realise the huge inequalities in resources that characterise healthcare provision in the country, despite the government devoting about 15% of its budget to the health sector in the same year.¹⁰

Like many developing countries, South Africa has a substantial disease burden. The main components of this disease burden – dubbed a quadruple burden of disease – are communicable diseases like HIV/AIDS and tuberculosis, maternal and child morbidity, noncommunicable diseases (NCDs), and injury and trauma.¹¹ For instance, population HIV prevalence in 2021 was 13.7%. However, it was 19.5% for the 15–49-year age group, with women in this age group having a prevalence of 23.9%.¹² In contrast, the global 15–46-year-old prevalence was only 0.7% in the same year.¹³ Similarly, while the global incidence of tuberculosis was 127 per 100 000 people in 2020, that of South Africa was more than four times the global average, at 554 per 100 000 population.¹⁴

However, in terms of NCDs, while South Africa has a substantial burden, it has outperformed the global average in terms of NCD-related deaths. Globally, NCDs made up 74% of

mortality in 2019. In South Africa, however, they only accounted for 51% of total mortality in the same year.¹⁵

One key component of the NCD burden is obesity, and South Africa has a significant obesity problem. Adult obesity prevalence consistently increased between 1998 and 2016, with the problem more severe among women. While adult male obesity prevalence increased mildly from 10.1% to 11% over the period, adult female obesity prevalence rose sharply from 27.9% to 41%.¹⁶ The implications of these trends, especially female obesity, are dismal for the health system and economy. According to the Global Obesity Observatory, the total direct and indirect costs of obesity and being overweight for the South African economy accounted for 2% of the GDP, amounting to \$7.62 billion in 2019.

It is not difficult to imagine that the enormous income and wealth inequalities have severe implications for health outcomes and access to quality healthcare in South Africa. Thus, the above general view of the state of health and healthcare access needs to be more about the country's health distribution. Consequently, socioeconomic inequalities in health/healthcare access are examined using nationally representative datasets supplemented by additional evidence. This provides a more meaningful picture of who bears the brunt of poor health and inadequate access to healthcare in the country.

Measures of Socioeconomic Inequality

This chapter utilises three measures of inequality. Firstly, the concentration curve plots the cumulative shares of a health outcome/health access indicator against the cumulative shares of the population ranked by socioeconomic position. A 45-degree line indicates a line of equality, whereas a curve above it depicts a pro-poor distribution (i.e., the health outcome is disproportionately concentrated on people experiencing poverty). The converse holds for a curve lying below the line of equality.¹⁷

The concentration curve will be supplemented by the concentration index, which provides a summary measure of inequality. It is defined as twice the area between the line of equality and the concentration curve. A negative concentration

index depicts a pro-poor distribution, while the converse obtains a positive index.

In addition to these two measures, the top-10/bottom-50 ratio (T10/B50) will be used. In the present context, it captures the proportion of a health variable borne by the population in the top 10% of the socioeconomic ranking variable relative to the proportion borne by the bottom 50%.

Socioeconomic Inequalities in Health in South Africa

HIV prevalence concentration curves – based on the 2012 and 2017 rounds of the South Africa National HIV Prevalence, Incidence, Behaviour and Communication Survey (SABSSM data – are shown in Figure 1.

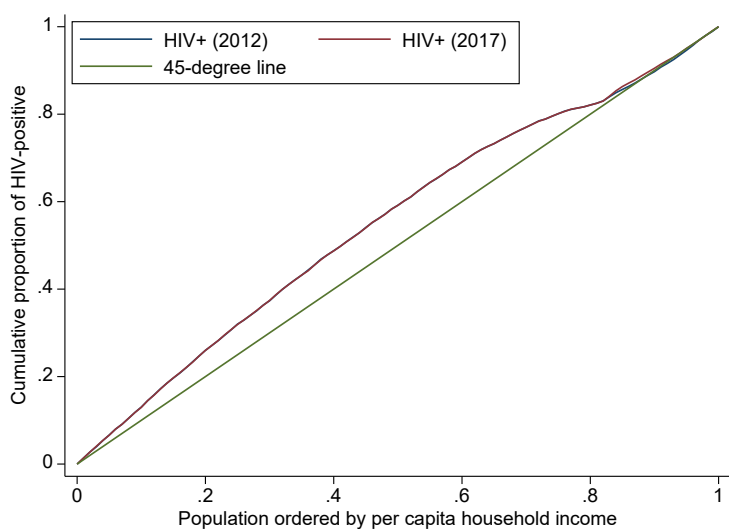


Fig. 1 Income-related inequality in HIV positivity. Author's computations. Source: SABSSM 2012 and 2017

Being HIV-positive was disproportionately concentrated in people with low incomes in both 2012 and 2017. However, while not apparent from the figure, the extent to which HIV positivity was concentrated in the poor significantly declined over the period

(the relative prevalence among the poorest 50% relative to the wealthiest 10% declined). This does not necessarily indicate a positive outcome, as it may have resulted in greater mortality among the poor. That said, the prevalence of HIV in both the rich and poor increased between 2012 and 2017 (most probably a reflection of the greater longevity of people living with HIV).

Getting people tested for HIV and reducing the number of undiagnosed cases is critical for HIV prevention. Knowing one's status (which is realised through effective HIV testing) is crucial to the realisation of the Joint United Nations Programme on HIV/AIDS' (UNAIDS) 90-90-90 target for effective HIV/AIDS control. Thus, it matters whether those who do not test for HIV are the poor or affluent. Results indicate that having never tested for HIV was disproportionately concentrated among the poor in both 2012 and 2017. This is despite testing being free in public health facilities. Such a significant concentration of non-testing in people experiencing poverty in the face of essentially free public services is possibly indicative of structural barriers to accessing care, such as spatial factors that impede, say, rural dwellers (who have higher poverty rates) from adequately testing.¹⁸

This overall picture provides an incomplete narrative of the burden of never testing for HIV. A gender disaggregation reveals that among women, while never testing was significantly more concentrated in the rich in 2012, there was no significant inequality in 2017. Most of the inequality was driven by men, where poorer men were consistently more likely to never test for HIV. Indeed, while the prevalence of never testing among women was similar for the top 10% and bottom 50% of the income distribution in both years, for men, the prevalence among the bottom 50% was approximately double that of the top 10% in both years.

In its 2022 *Dangerous Inequalities* report, UNAIDS noted that young adults are less likely to get tested globally. This is mirrored in South Africa, where young adults (15-24 years) were most likely to have never tested for HIV among the under-50 population. A surprising result is that young, affluent, adult females appear to be the group most likely never to get tested,

with a double prevalence in 2012 (70%) relative to poor, young females (35%). While this prevalence substantially declined among the former by 2017 (to 51%), the gap was still significantly high relative to the latter (36%).

Conversely, South Africa appears to have primarily achieved equality in placing HIV-positive patients on antiretroviral (ARV) therapy (the second arm of the 90-90-90 targets). The SABSSM data indicates no significant income-related inequality in being on antiretroviral therapy in 2012. Moreover, while there was a statistically significant concentration of low-income people on ARV therapy in 2017, the magnitude was trivial. That said, more recent reports show nontrivial variations in overall performance on the 90-90-90 targets across the provinces, with Kwazulu-Natal and the Free State (one of the poorest provinces) the best performers, while the North West and Gauteng (one of the wealthiest provinces) are the worst performers.¹⁹ The contrasting performances of the Free State and Gauteng suggest that while material resources are essential for healthcare delivery, non-financial elements are also essential for effective healthcare delivery.

As indicated earlier, South Africa bears a disproportionate burden of overweight/obesity compared to global averages. Figure 2 – based on the National Income Dynamics Study (NIDS) dataset – indicates that adult obesity was disproportionately concentrated among the rich in 2008 and 2017. This remained virtually unchanged over the period.

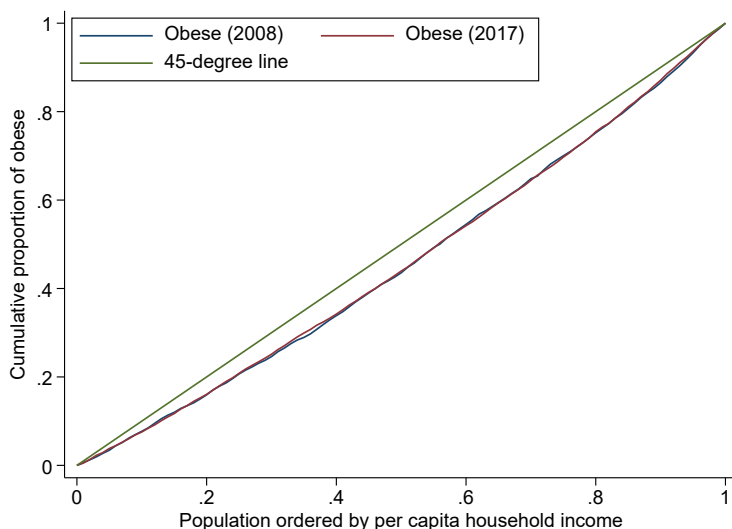


Fig. 2 Income-related inequality in adult obesity. Author's computations. Source: NIDS 2008 and 2017

The T10/B50 ratio (based on household *per capita* income) provides an even clearer picture of how much adult obesity is concentrated among the rich in South Africa (see Figure 3). The obesity prevalence rose from 20.2 to 22.7% for the bottom 50 and 29.4 to 31% for the top 10 between 2008 and 2017. Much of this socioeconomic gap was driven by men, due to low obesity prevalence among poor men (which declined from 5.9 to 4.3% between 2008 and 2017) compared to affluent male prevalence rates of 23.4 and 22.4%, respectively, over the same period. However, obesity prevalence among rich women increased from 36.9 to 42.6%, while that of poor women increased from 28.4 to 33.9% over the period. Thus, the obesity burden on rich women was almost ten times that of poor men in 2017. These results echo previous evidence regarding a positive relationship between affluence and body mass in South Africa.²⁰

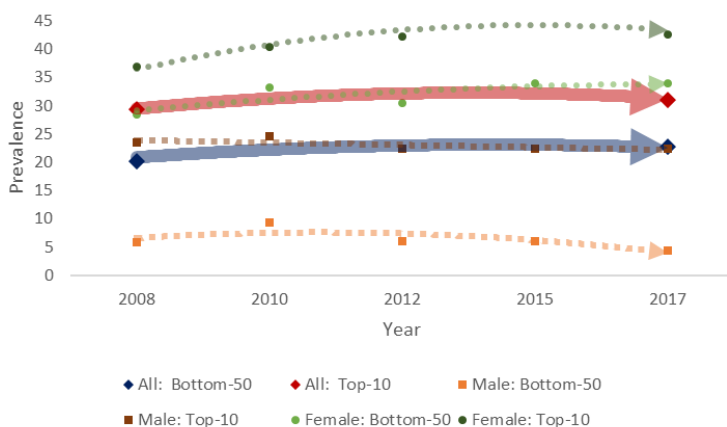


Fig. 3 Adult obesity prevalence across the income distribution. Author's computations. Source: NIDS wave 1–wave 5.

It is, therefore, clear that upper-middle-class and wealthy women are the most critical populations to target for an effective fight against adult obesity in South Africa. Most of the burden among this top female income population appears to be borne by African and Coloured women – with prevalence rates of 51% and 44% respectively in 2017. Given the enormous economic cost of being overweight and obesity, the fight against obesity must be tackled with urgency, especially given its chronicity and comorbidity with other severe conditions such as type 2 diabetes, heart disease, and certain cancers.

Another NCD that has a significant bearing on wellbeing is depression, and South Africa bears a significant burden. While the lifetime prevalence of depression in South Africa is 9.7%, the South African Depression and Anxiety Group (SADAG) reports that about a fifth of South Africans will experience a depressive disorder at least once in their lifetime. Like most mental health conditions, depression has a debilitating effect on health and the economy. A SADAG study of 1 000 currently/previously employed workers in South Africa revealed several ways in which depression adversely affects output and productivity, thereby exerting a significant cost on the economy. While 25% of respondents had been diagnosed with depression by a health professional,

those diagnosed took an average of 18 days off work due to the condition. There was also evidence of substantial productivity loss as 54% of sufferers reported taking more time to complete simple tasks, while one-half reported making more mistakes than usual at work.

Given the preceding facts, it becomes critical to ascertain where most of the burden of depression lies. Figure 4 depicts the depression concentration curves for both 2008 and 2017.

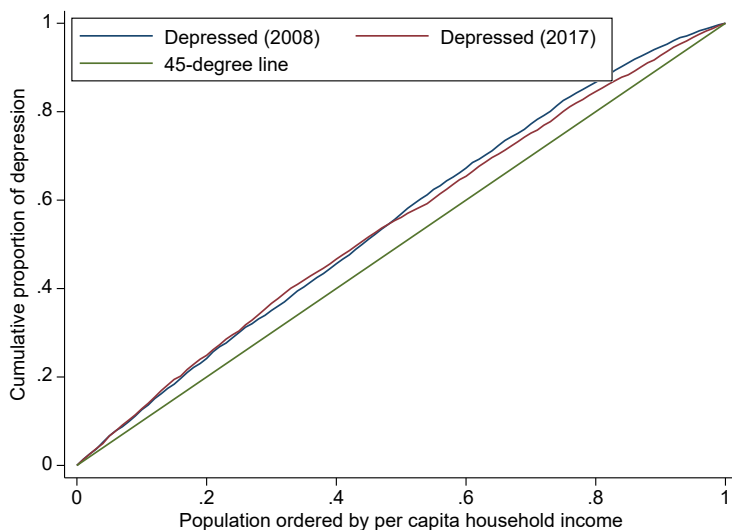


Fig. 4 Income-related inequality in adult depression. Author's computations. Source: NIDS wave 1 and wave 5

Figure 4 and other analyses not shown indicate that adult depression was significantly disproportionately borne by the poor in both periods in South Africa. This is consistent with previous evidence.²¹ However, the extent to which the condition was concentrated in low-income people lessened between 2008 and 2017. In addition, the T10/B50 ratio reveals in greater detail how the burden of depression was distributed across socioeconomic status and gender over the 2008–2017 period (Figure 5).

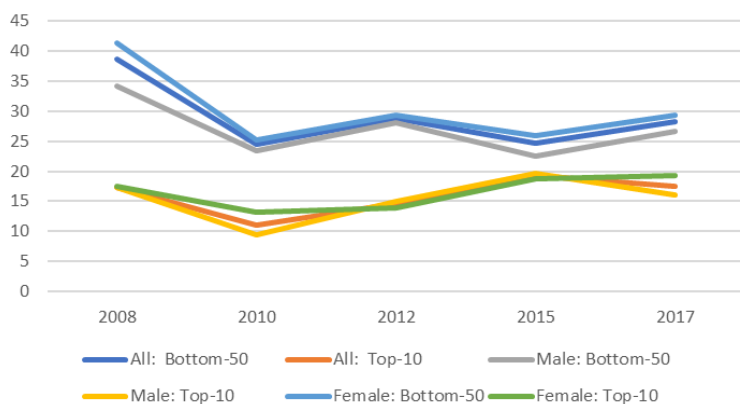


Fig. 5 Income-related inequality in adult depression. Author's computations. Source: NIDS wave 1-wave 5

Figure 5 confirms the earlier assertion that people experiencing poverty consistently bore a more significant burden of depression over the 2008–2017 period. However, more recent data suggests that this unambiguous burden of depression on the poor reversed in the early part of the COVID-19 pandemic, with the more affluent population shouldering much of the depression burden. At the same time, the relationship between the poor and affluent subsequently became largely insignificant.²² One possible reason for this outcome is that the economically better off might have had elevated fears about losing accumulated valuable resources due to the massive dislocation caused by the pandemic, an explanation supported by the Conservation of Resource theory. Tracking socioeconomic inequalities in depression remains an important area of inquiry in the post-pandemic era, with a return to normalcy.

Child health is one of the most important aspects of societal wellbeing, not just because of the intrinsic importance of child wellbeing, but because of the value of children's health for the survival and thriving of society. While South Africa has already achieved the UN Sustainable Development Goal (SDG)'s neonatal mortality target and is on track to meet the SDG target for under-

five mortality,² it is essential to ascertain whether progress is uniform across all socioeconomic strata, or whether people with low incomes are being left behind. Given that a significant amount of resources is often required to take adequate care of children, it is unfortunately not surprising that under-five (0-5 years) mortality is disproportionately concentrated in the poor. Figure 6 depicts under-five mortality rates by wealth quintile from the South African Demographic and Health Survey (SADHS) based on mothers' reports of child mortality *vis-à-vis* children ever born over five years.

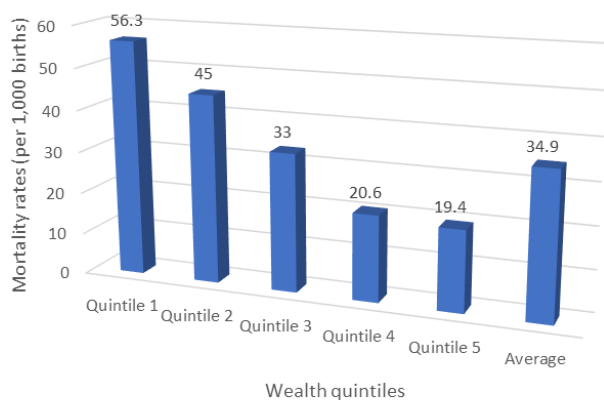


Fig. 6 Under-five mortality rates by wealth quintile. Author's computations. Source: SADHS 2016

As indicated by Figure 6, the under-five mortality rate per 1 000 births in the poorest quintile (56.3) was three times that of the wealthiest quintile (19.4). This wide disparity suggests that, as much as the country has made significant progress in improving child mortality, it appears that poor children are being left behind.

Moreover, while all nutritional health indicators – stunting, wasting, and being underweight – were disproportionately

2 The SDG targets (South Africa's 2020 rates) are 12 (10.6) and 25 (32.2) deaths per 1 000 live births for neonatal and under-five mortality, respectively – see <https://sdgs.un.org/goals/goal3> and <https://dashboards.sdindex.org/static/profiles/pdfs/SDR-2022-south-africa.pdf>.

concentrated in people with low incomes in 2016, only stunting was statistically significant. As reported elsewhere, 27% of South African children were stunted in 2016²³ – a worrying outcome, given its substantial and long-term adverse socioeconomic effects. Moreover, the prevalence of stunting among the bottom 50 of the wealth distribution (32.7%) was three times that of the top 10 (9.5%). Apart from the apparent effect of stunting on children's immediate physical and intellectual development, the fact that stunting is at least associated with lower subsequent educational attainment and earnings raises the possibility that stunting may be associated with perpetuating socioeconomic inequalities in the country.

Inequality in access to timely, quality healthcare is likely at the heart of some observed inequalities. As earlier indicated, the resources available to the relatively few who utilise private healthcare are enormous compared to what is available to the vast majority, who rely on severely overburdened public healthcare. Figure 7 plots the proportion of the top-10 and bottom-50 populations (by *per capita* household expenditure) who had private health insurance membership.

Figure 7 is a depiction of the enormous socioeconomic inequality in access to private health care in South Africa, mirroring the country's huge income and wealth inequalities. Recall that South Africa has a segmented healthcare system with a grossly overburdened public sector and a well-resourced but expensive private sector. Thus, medical aid membership is often the ticket for accessing the latter. Therefore, one can only imagine the importance of private economic resources in accessing needed healthcare timeously and effectively – a luxury beyond most of the population, despite the best efforts of a well-trained public health workforce. Though not shown here, a racial disaggregation reveals that the most significant contributors to the very low bottom-50 medical aid membership were Africans and Coloureds. Also, Coloureds experienced the most significant drop in medical aid membership among the bottom-50 between 2013 and 2018 (70%) followed by whites (49%) – the latter, obviously, from a relatively high level of membership (34% membership rate).

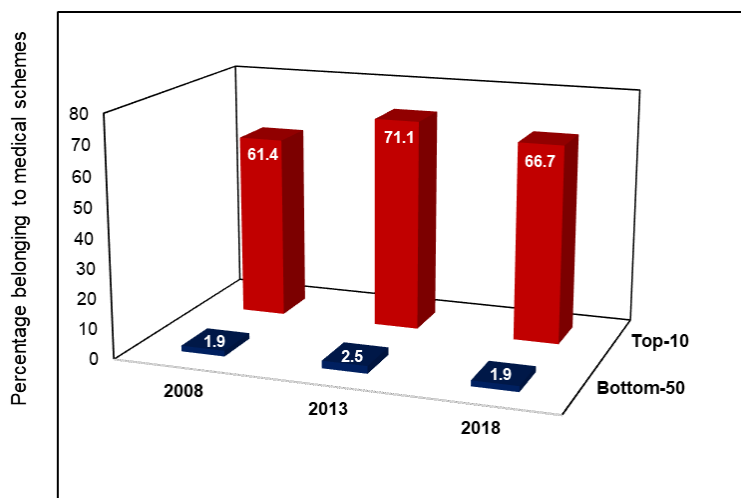


Fig. 7 Medical aid membership by socioeconomic status. Author's computation. Source: GHS

More recently, there is evidence that the COVID-19 pandemic exacerbated health inequalities linked to socioeconomic disparities. A study conducted earlier during the pandemic observed a five-fold increase in income-related health inequalities relative to what was obtained pre-pandemic.²⁴ Subsequent data does not indicate a reversal of this pattern long after the start of the pandemic. The implication is that COVID-19 might have exacerbated the already substantial socioeconomic inequalities in health, a prospect that has worrying implications for the poor. This is not surprising, given that the poor were more adversely affected by the economic fallout of the pandemic and were most likely worse off due to pandemic control lockdown restrictions.

Concluding Thoughts

Health is arguably the most critical aspect of human welfare. However, given that healthcare (an important determinant of health) is not readily available to all citizens, there is a possibility that socioeconomic inequalities may cause health disparities, mainly to the detriment of the poor. This presents a worrying set of possibilities for highly unequal societies like South Africa. To

this end, this chapter has interrogated the nature and magnitude of socioeconomic inequalities in various indicators of health and access to healthcare. The overriding message is that many health outcomes are closely related to socioeconomic position, to the detriment of the poor. This also holds for access to (mostly good quality and timely) private healthcare through private medical scheme membership. Worse still, the COVID-19 pandemic worsened socioeconomic inequalities in health. Moreover, even in instances where the country appears to be making remarkable progress – such as child health outcomes – the poor appear to be left behind.

In the face of free or heavily subsidised public healthcare, this situation indicates that merely removing user fees does not necessarily equalise health and healthcare. This suggests the possible existence of structural barriers, such as place of residence, that impede the health and healthcare of the poor. This is especially relevant given the country's history and the perpetuation of economic and spatial disparities that disadvantage a vast segment of the population. In this light, while pro-poor programmes and policies such as the proposed National Health Insurance Schemes theoretically hold promise for the realisation of universal health coverage, care must be taken to ensure that its design and implementation are efficient and effective, to avoid healthcare delivery being hindered by the same problems that currently confound public healthcare provision in the country.

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Chapter 9

Education and Inequality

Cecile Duvenhage  and *Nico Keyser* 

Introduction

South Africa is known as one of the countries with the most income inequality globally.¹ South Africa's inequality can be attributed to an intriguing relationship between inequalities in access to education, health, income, employment, and living conditions, where many citizens are living in poverty. The decline in South Africa's economic wellbeing is evident from the ever-increasing unemployment rate, lower living standards, rising poverty levels, inequality, and a sense of hopelessness. This chapter reflects on the opportunity of access to quality education in South Africa and its relevance to inequality.

South Africa's economic growth rate varied between a low of -1.5% per annum in 2009 (after the subprime crisis) and a high of 5.6% in 2006. An average economic growth rate of 2.98% was recorded for South Africa from 1994 to 2015, with a continuing downward trend until 2022. Unemployment has, since 1994, increased from 20% (1994) to 25.3% (2015) and 29.2% (2020),² indicating an upward trend (see Figure 1).

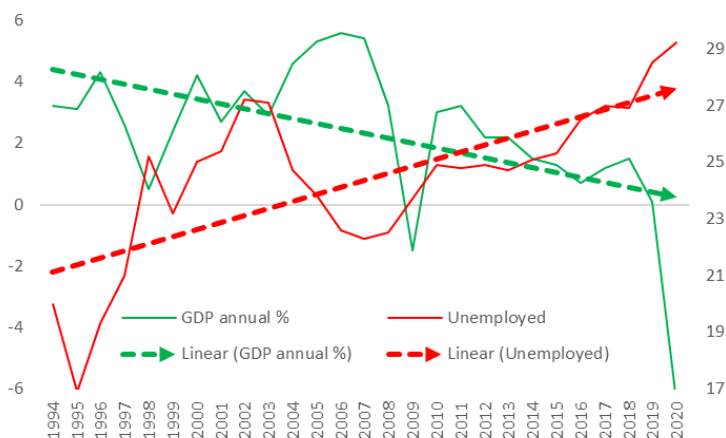


Fig1 Economic growth (percentage change in GDP) and the unemployment rate

Figure 1 shows South Africa has recorded an official unemployment rate above 20% for the past 20 years.

In preparing for the 4th Industrial Revolution (4IR) and moving to a post-industrialised phase, South Africa must be prepared to create employment in an environment with even higher levels of technology. Unemployment in SA is attributed to the country's high levels of unskilled workers. In 2022, half of unemployed individuals in South Africa had an education level below matric (Grade 12). The split of the unemployed (when education levels are utilised to categorise the total unemployment) is characterised by 51.5% with less than matric, 38.2% with matric, 6.9% with other tertiary qualifications, 2.7% graduates, and 0.7% with other qualifications. Unemployment is also exceptionally high among the youth and in rural areas. The informal sector provides job opportunities to only approximately 20% of the total employment level. Rates of entrepreneurship and self-employment are low and represent about 10% of employment versus a 30% benchmark for upper-middle-income countries. Barriers such as the concentration of industries, legal constraints, licensing, registration requirements, and zoning laws are some constraints faced by potential entrepreneurs in the informal sector. The high unemployment levels and the capacity

of the economy to create job opportunities are two key drivers of the high levels of inequality, as seen in South Africa.

In addition to job opportunities created by the government or the private sector, individuals can also invest in themselves, known as human capital. Human capital entails that human beings can increase their productive capacity through excellent education and skills training. There is a consensus that investment in human capital is good for growth and reducing poverty and inequality. However, there needs to be more discussion over the precise quantitative effects of human capital on growth, poverty, and inequality and the most efficient forms of investment in education. South Africa's education and training system will have to provide access to equal opportunities and the necessary quality and quantity of educational supply to absorb the workers in the economy and prepare to enter the 4IR. Rapid digital transformation is reshaping the SA economy, altering how the nation learns, works, trades, and accesses information. This raises the expectations of faster growth, innovative offerings, and job opportunities.

Key features of the education system in SA are the declining share of the national budget, low levels of childhood development and adult basic training (ABET), declining further education and training (FET) college students, and poor throughput rates in schools, colleges, and universities. This requires investigating SA's current education situation, allowing access to equal opportunities, and its relationship with employment, poverty, and inequality. Education is regarded as one of the reasons for high levels of income and wealth inequality, but is also seen as a possible remedy to improve income and wealth inequality. This chapter will analyse the current education and training situation in SA with a specific focus on access to education and the quality of education.

Education Spending

Spending on education becomes increasingly important over time.³ According to the World Bank, government expenditure on

education as a total (% of GDP) in South Africa was reported at 6.6% in 2021.

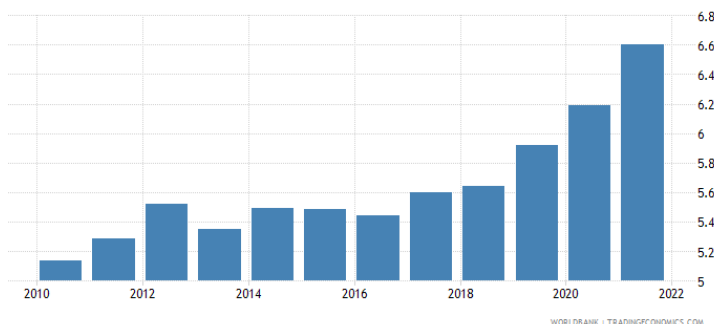


Fig 2 Education expenditure as % of GDP. Source: World Bank

The Current Allocation of SA's Budget

According to the 2023 Budget Speech, the government is expected to spend at least R1.4 trillion over the next three years (2023–2026) on higher and primary education and the sports, arts, and culture functions (as a category). The Department of Basic Education (DBE)'s spending is expected to rise from R39.4 billion in the coming financial year 2023/24 to R316.5 billion in 2024/25 and reach some R331.2 billion in 2025/26.⁴

The Department of Higher Education and Training (DHET)'s expenditure is expected to reach R135.6 billion in 2023/24, R148.3 billion in 2024/25, and R153.9 billion in 2025/26. In addition, in 2023/24, at least R50 billion will be allocated to the National Student Financial Aid Scheme (NSFAS). The projected higher spending on both Basic and Higher Education – with an emphasis on student funding – is a method of government to address both the challenges and inequalities in education.

State expenditure per learner in 1993 amounted to R1 659 per black learner, R2 902 per Coloured learner, R3 702 per Indian learner, and R4 372 per white learner. The South African Schools Act of 1997 founded equal school financing to ensure equal expenditure per learner, not based on race. Although equality of opportunity to education and equal expenditure

per learner, previously determined by race, has been achieved, the quality of education is still determined by social class. The next section explains some of the country's schooling system challenges in achieving equality in South Africa's education and training system.

Challenges in South Africa's Schooling System

In 2021, the number of schools in South Africa amounted to nearly 24 900. Most of the schools were located within KwaZulu-Natal, reaching 6 022 in all. Eastern Cape and Limpopo followed with 5 341 and 3 855 schools respectively. The legacy of apartheid and the current government's inability to implement policies to improve the education system is the result of SA's poor education outcomes. Corruption, as confirmed by the Zondo Commission, has also led to the loss of billions of rand, which could have been spent on the crumbling infrastructure of schools. Access to quality schooling highly depends on socioeconomic factors such as where you live, neighbourhood and province, parents' occupations and income, parents' wealth, and race.⁵

South Africa's unequal school system is reflected in the 20% of schools being functional and well managed, with well-qualified teachers, good infrastructure, and reasonable throughput rates. These schools – which produce Grade 12 learners who obtain the most distinctions – are well funded and subsidised by parents in high-income levels, and are situated mostly in cities and larger towns. The remaining 80% of schools need to be fixed and better managed. They have insufficient teachers, dilapidated infrastructure, and poor throughput rates. They lack funds, and are mostly situated in rural areas.⁶ This inequality is confirmed by government statistics of 2018, which made the following findings:

- 19% of public schools only had pit latrines.
- 86% had no laboratory.
- 77% had no library.
- 42% had no sports facilities.
- 72% had no internet access.

The shortage and ruined condition of physical infrastructure are challenges in providing quality instruction. Other aspects influencing the quality of teaching and learning – especially in rural areas – are insufficient transport, learners walking long distances to school, an insufficient number of teachers, and overcrowded classes where the teacher-to-learner ratio is 1:70 in comparison to the stipulated 1:35 for primary schools and 1:27 for secondary schools. Time spent on teaching and learning in SA schools is estimated at 66%, versus the 78% OECD average. Teacher absenteeism, as well as poor retention of teachers teaching maths and sciences, also influence the quality of teaching learners are receiving. Mother-tongue teaching for the first three years of schooling is also problematic in a country with multiple official languages.

Access to primary and secondary education has improved tremendously since 1994. However, of 100 learners starting school, only 50-60 will make it to matric, 40-50 will pass matric, and only 14 will attend university. South Africa needs to address the throughput rate and quality of schooling. The much-anticipated matric results for 2022 showed an 80.1% pass rate by the class arguably the most affected by COVID-19. However, at Equal Education, the throughput pass rate for the class of 2022 is calculated as the number of matric passes as a percentage of Grade 2 enrolments in 2012, with a rate of 56%⁷ – which could be better. Improved matric pass rates would allow more students access to further education, better employment opportunities, and income, thereby reducing inequality. Thus, the matric results are not an accurate barometer when measuring the health of the education system. We should have a holistic and systemic view of South Africa's education system. Thus, we need to consider several other criteria, including the dropout rate from Grade 1, repetition at particular grades, the quality of the passes, and the results of tests on numeracy and literacy in the early years.⁸

Access and the quality of teaching at the school level will contribute to learners being prepared to enter tertiary education and obtain job opportunities, which will lower inequality. The key conclusions from a Reading Report⁹ regarding Grade 4 learners, launched on 7 February 2023, include the following:

- Roughly 82% of Grade 4 learners cannot read. This figure is up from 78% pre-pandemic. Before COVID-19, it was estimated that 78% of Grade 4 learners could not read for meaning (as seen in PIRLS 2016). The latest research – based on learning losses in the Western Cape – suggests that the figure has risen to 82% because of the pandemic, specifically the closure of schools and the rotational timetables. At our current trajectory, it will take SA 86 years (i.e., until the year 2108) to reach 95% of children reading for meaning.
- SA's Grade 5 learners scored last in a study of 49 countries testing the Trends in Math and Science Study (TIMSS).
- COVID-19 has erased a decade of progress, sending South Africa back to 2011. According to PIRLS, 22% of Grade 4 children could read for meaning in 2016. Due to COVID-19, it is estimated that now only 18% can read for meaning, the same level as in 2011, erasing a decade of progress in reading outcomes.
- Research (published in December 2022) from the North West, Limpopo, and the Eastern Cape shows that less than 50% of children in no-fee schools learn all the letters of the alphabet by the end of Grade 1.
- Although the Director General has referred to a 'National Reading Plan' in parliament, stakeholders have yet to see this document. There also needs to be a national budget for improving home-language reading.
- Only the Western Cape and Gauteng – of the provinces – spent more than R100 million over three years to improve reading.
- The government has spent over R25 billion on Presidency Youth Employment Initiative (PYEI), including educator assistants (EAs), 10% of whom are Reading Champions. As part of its COVID-19 response, the PYEI has employed over 850 000 youth on temporary contracts. An estimated 250 000 youth will be appointed in 2023, and approximately 30 000 will be Reading Champions. Although this is a welcome addition, there is currently no face-to-face training for these youth, and the only requirement is that they must have passed matric.
- Twice as many children learned to read in Limpopo after a two-year intervention with trained teacher assistants and

new reading workbooks. A new evaluation of the Funda Wande intervention in Limpopo (2021-2022) showed that twice as many children learned to read in the intervention schools (34%) compared to children in comparable schools who did not receive the intervention (18%) – the most significant gains seen in SA to date.

History, race, language, geographic location, socioeconomic status, insufficient subject knowledge by teachers, and the political influence of teacher unions are factors contributing to the dismal quality of schooling in SA. Low-quality education is a poverty trap and influences the chances of impoverished people in the labour market and inequality. Policy recommendations will be discussed under the heading of SA's education system.

Private Schools in South Africa

The result of the government's failure to provide quality school education is the increase in the number of private schools in SA. The total number of private or independent schools (IEB schools) is currently close to 2 000, educating about 500 000 learners, of whom 74% are black (60% are black African). The independent schools write the IEB exams, whereas the public schools write the National Senior Certificate (NSC). The IEB schools have consistently recorded matric pass rates above 98% with an 88% bachelor entry, compared with public schools achieving a 75% pass rate with a 29% bachelor entry.

Quality school education comes at a cost that ranges between R1 900 per month to R10 000 per month and could exceed R300 000 per year at boarding schools such as Hilton College and Michaelhouse. Emigration and the high cost of living in SA have resulted in parents moving their children back to public schools. However, the increase in the number of IEB schools indicates the emphasis parents are putting on quality education and the improved opportunities for tertiary education and job prospects, which will improve inequality.

Teachers' Education

Highly qualified teachers will have a tremendous impact on the quality of teaching and learning of learners. The quality of teaching and learning depends not only on the qualifications of teachers, but also on their pedagogical knowledge and the environment in which the teaching is conducted.

The Department of Education required teachers to obtain a Relative Equivalent Qualification Value (REQV) of 13, equal to a three-year initial teacher education after school or matric plus 3. In 2004, 50% of teachers had a REQV 14 qualification.

In 2009, there were 384 938 state-employed teachers in public schools; 96% of the teachers had a Senior Certificate, 30% had some academic qualification, and 89% had a professional qualification (but, of those, only 18% were graduates, i.e., a four-year B Ed degree or a degree plus a postgraduate certificate or equivalent). To improve the quality of teachers, the Integrated Strategic Planning for Teacher Education and Development for 2011–2025¹⁰ proposed the following outcomes:

- **Output 1:** individual and systemic teacher development needs are identified and addressed.
- **Output 2:** increased numbers of high-achieving school-leavers are attracted to teaching – outputs to be led by the provincial education departments.
- **Output 3:** teacher support is enhanced locally – outputs to be led by the Department of Higher Education and Training.
- **Output 4:** an expanded and accessible formal teacher education system is established.

Data indicate a steady rise in teachers obtaining at least a bachelor's degree or higher diploma from 2021. By 2021, 89% of employed teachers qualified equal to REQV 14.¹¹ However, the increase in teachers' qualifications has yet to make the expected and much-needed impact on South Africa's teaching quality.

This section has shown that the opportunity to access school education in South Africa has improved in the past 20 years, but that the quality of school education requires urgent

attention. The following section will reflect on the opportunity to access tertiary education and its effect on inequality.

South Africa's Tertiary Education

South Africa has 26 universities in total, following the launch of three new institutions in 2014. Sefako Makgatho Health Sciences University, located north of Pretoria, was unveiled in April 2015, adding to the two launched in 2014: Sol Plaatje University in the Northern Cape, and the University of Mpumalanga. South Africa's universities accommodate more than 1 million students, with plans by the government to add 500 000 to that total by 2030. A tally of the most accurate figures shows that 25 of the 26 universities have a combined total exceeding 622 000, while Unisa, with 400 000 students, is the most prominent tertiary institution in SA.

The country's universities are divided into the following categories:

- Nine universities of technology focused on vocationally oriented education.
- Six comprehensive universities offering a combination of academic and vocational diplomas and degrees.
- Eleven traditional universities offering theoretically oriented university degrees.

Pretoria has five universities, Cape Town has three universities, and another university is nearby in Stellenbosch. Three universities service Johannesburg, while Bloemfontein and Durban each have two.

Access to Tertiary Education

The government has published a review (2019) of the last 25 years of democracy, highlighting some of their failures and successes in tertiary education. The document displays that the number of students graduating has steadily increased over the last two decades, with a total of 58 560 students graduating in 1994 compared to 210 931 students in 2017.¹² While throughput has

improved at universities, only 22% of students completed their three-year degree within three years (using the 2010 cohort). The implication is that the tertiary sector can be increased further if more students complete their degrees within the expected time. For black African students (registered for a three-year degree), 22% dropped out in the first year, compared to 15% for whites in 2011. Therefore, measures are required to ensure succession when students reach university, since it is estimated that over 40% of all first-year students in South Africa still need to complete their degrees.¹³

According to the GHS of 2021, the total number of students enrolled at higher education institutions increased by almost 57.8% between 2002 and 2021, growing to 968 109. The percentage of black African students increased by 13.3 percentage points to 73.5% during this time, while the percentage of white students virtually halved to 14.8%. Even though most students are black African, the education participation rate of this population group remained proportionally low in comparison with the Indian/Asian and white population groups. The percentage of persons aged 18 to 29 enrolled at an institution of higher education in the country increased from 4.3% in 2002 to 6.5% in 2021. Enrolment at a higher education institution was most common among whites (24.6%) and Indians/Asians (16.2%), while only 6.2% of the Coloured and 5.3% of the black African population groups were enrolled.

The question arises: Are the alarming throughput rates due to the poor quality of applicants, or the quality of education offered at higher education institutions in South Africa? Or is it a result of unequal education at the school level? Employers sometimes voice concern over the quality of graduates exiting from universities. At the same time, higher education feels that employers need to be more fully appreciative of what qualities and skills these graduates possess. There is pressure on higher education from both government and employers to produce employable graduates because they have the attributes, capabilities, and dispositions to work successfully. A survey conducted by the financial services group (on 3 304 students focused on professional degrees) found that as many as 25%

felt they needed to be more prepared for higher education. In contrast, 43% of the students said they had been moderately prepared.¹⁴ The Professional Provident Society (PPS) has warned that the government needs to do more to improve the standard of education. Only 20% of the students surveyed believe that local universities offer competitive education on par with their international counterparts. Thus, quality education at school and undergraduate levels will be required to support the government's 2030 vision to raise education and skills levels and increase workforce productivity.

The National Development Plan (NDP) for 2030 set ambitious targets for higher education and STEM (science, technology, engineering, and mathematics) subjects in particular:

- Increase the number of university science and maths entrants to 450 000;
- Increase graduation rates to more than 25% by 2030 – this involves a significant increase of graduates in STEM fields; and
- Produce more than 100 doctoral graduates per million annually by 2030 – most of these should be in STEM.¹⁵

Access to tertiary education has also improved over the past 20 years. However, the quality of student attributes to enter the labour market is questioned, as it hurts prospects of inequality. The following section discusses the role of financing tertiary studies and the opportunity to access tertiary education.

Financing of Tertiary Studies

In 2015, students at universities across South Africa protested around the issues related to funding, outsourcing of university staff, and decolonisation of the university curriculum. A 0% increase in university fees for 2016 and an increase of not more than 8% for 2017 was announced. In 2016, students took their protests to the Union Buildings and Parliament. President Zuma announced “**free education**” for students from poor and low-income families in 2017. In 2023, almost 1 million students will benefit from the R47 billion allocated for NSFAS bursaries. The

cost of the NSFAS scheme to the government and the South African taxpayers has been escalating at a rate that will soon result in the cost of the NSFAS scheme exceeding the subsidies allocated to higher education institutions. NSFAS has introduced the N+ rule, allowing four years to complete a diploma and five years to obtain a degree for students receiving NSFAS funds. However, stricter academic performance rules can be applied to ensure quicker throughput rates and money well spent.

Inequalities also exist in the allocation of NSFAS funding for tertiary education. Students from the 'missing middle' are not eligible for NSFAS funding, requiring an annual household income of R350 000 or less. These students could come from large families that cannot afford to pay for tertiary education, or could have been made responsible for funding their studies. The concept of the missing middle has gained currency within South African post-school education and training (PSET) discourse in recent years. The term has been defined as representing those too wealthy to benefit from National Student Financial Aid Scheme (NSFAS) funding, but who struggle to afford higher education. The missing middle currently refers to those students from households with annual incomes between R350 000 and R600 000. While some 6% of South African households have incomes between R350 000 and R600 000, differing participation rates and average household income levels amongst students from different race groups result in an estimated size of the missing middle in 2019 of 343 000 students out of a total PSET population of 1.4 million. The cost of funding full bursaries for all these students at 2019 prices is estimated at R19.2 billion. If a sliding scale of support is introduced, the total cost falls to R11.4 billion.

Data show that student debt has grown significantly in South Africa's university sector in recent years. The unaudited data showed that an estimated R6.1 billion was owed by students at the start of the 2021 academic year. The audited accumulated gross student debt as of 31 December 2020 is R16.5 billion. The amount includes students who have exited the universities with debt. A survey conducted by the department in 2021 showed that an estimated 56.2% of students with debt owe less than R10 000, 32.9% owe between R10 000 and R50 000, and 10.9%

owe more than R50 000. The survey also showed that NSFAS students owe R5.3 billion. Excessive student debt is a burden for both universities and the taxpayer. Students should receive equal access to tertiary finance to ensure equal opportunities for tertiary education for all income groups.

Policy Recommendations for Education in South Africa

Education policy changes since 1994 have been framed within the government's macroeconomic strategies, such as RDP, GEAR, ASGISA, and NDP, which resulted in increased access to primary, secondary, and tertiary education. Despite the increased access to education in SA from 1994 at both the school and tertiary levels, it has yet to improve economic growth or unemployment (see Figure 3).

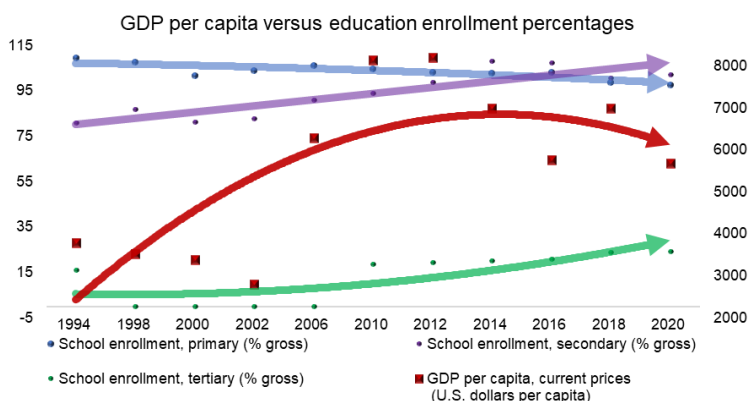


Fig. 3 Education enrolment and GDP

In line with international trends and recommendations to improve the quality of education¹⁶ in South Africa, the following recommendations are made:

- Keep to the basics in primary education, and focus on reading, writing, and arithmetic.
- It is essential to mention that the initiative to rectify the educational backlog starts from an early age. Thus, it is

recommended to provide a minimum set of reading resources to all foundation phase classrooms (Grades R-3) urgently.

- Improving and continuous teacher training would support quality teaching at all school levels. Re-introducing teacher training colleges to provide diploma courses for individuals to become teachers is needed.
- Implement measures to make the teaching profession a sought-after career choice. Increase the admission requirements for prospective teachers at colleges and universities to ensure the best students are attracted to the profession. Provide financial incentives to teachers regarding salaries and other benefits to make the teaching profession attractive as a career option. In countries like South Korea and China, teachers are well paid, and prospective teachers are selected on strict prerequisites.
- Provide financial incentives to improve teachers' performance and to attract quality teachers to the profession. Financial rewards can be connected to subjects such as maths, science, and accounting or learners' performance.
- Policies to improve school management will have to be implemented.
- Improving teacher performance and accountability will be re-introduced. Currently, subject advisors are not allowed to attend classes while teaching occurs.
- I am implementing a universal standardised reading assessment at the primary school level to improve the measurement early in learners' careers.
- Policies to increase school accountability to the community should be introduced.
- We are improving teacher performance and accountability.
- Continuous teacher training, including a university audit of pre-service teacher education programmes, should be implemented.
- Adopt policies that will ensure that teacher unions and associations' actions are not detrimental to teaching and learning practices, such as allowing subject advisors to visit classes and advise teachers to improve teaching and learning.

- Adapting a school and the implementation of the Presidential Youth Employment Initiative should be encouraged.
- The allocation of meaningful budgets to reading resources and reading interventions are required, for example a National Reading Plan and the necessary budget for its implementation.
- The use of technology and the offering of online classes improve the quality of teaching and learning in schools in remote areas.
- Academic performance requirements are to be set for NSFAS recipients and for the continuation of receiving the bursary, to ensure that students take their studies seriously. Strict academic performance requirements govern tertiary bursaries and loans granted by the Lesotho government.
- Create the capacity to train technicians, artisans, and technical-skilled people in high demand in South Africa.
- Post-1994, 80 specialist training colleges were relocated to 23 universities. Re-introducing nursing and technical colleges would alleviate the pressure on universities.

The government should prioritise education and allocate the necessary resources to ensure that every child in the country can access quality education. It should also be mentioned that such budgets must be used according to plan, to avoid underspending when there is so much need. Failing to fix the education system will have dire consequences for the country's future economic growth, development, and inequality.

Conclusion

This chapter has indicated that the South African education system has improved access at school and tertiary levels. However, the improved access did not affect economic growth, employment, or inequality in South Africa. The school infrastructure has both First- and Third-world characteristics, reflected in the 20% of schools with good infrastructure and 80% with appalling infrastructure. The quality of teaching at the primary and secondary levels still needs to be addressed urgently. Although the infrastructure and facilities at the tertiary level are

of a high quality, the quality and relevance of tertiary education still need to be questioned.

Although fixing the education system is crucial to ensure equal opportunities in education, quality education is still determined by families' income and social status. One of the steps towards achieving this is acknowledging the severity of poverty and inequality within the education system. Therefore, creating employment opportunities in a growing economy is essential to break the cycle of poverty and provide access to quality education.

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Chapter 10

Income Inequality, Employment, and the Informal Sector

Frederick CvN Fourie 

Introduction

The most critical social and economic ills of South Africa are often listed as a triad: unemployment, poverty, and inequality. These phenomena and how they are defined and measured are dissimilar, and often analysed and studied separately.¹ However, in essence, they measure and capture the dimensions of the same phenomenon: the critical challenges of a developing country. In a post-apartheid South Africa 30 years after 1994, these challenges remain intense and unrelenting – and sometimes overpowering, as witnessed in high and increasing rates of unemployment and persistent high inequality.

This chapter considers these challenges in a specific spatial-urban context, i.e., the townships adjacent to towns and cities across the country. Intuitively, when one observes life and economic activity in townships, one witnesses the manifestations and roots of all three ills, i.e., unemployment, poverty, and inequality. These ills are ingrained in – and indeed lie in – the township areas of every metro, city, and town. It is especially noticeable in towns and villages in the *platteland* (countryside), where an archetypal divided twin-town situation is often signified by separation by a main road or railway line. Importantly, this separation also exemplifies (and maintains)

1 Fourie (2011) provides a systematic overview of the South African academic, research, and policy debate on unemployment, and shows that the debate is segmented – even fragmented – into at least three different analytical ‘worlds’ that primarily operate in silos.

income, wealth, and job inequalities *within* each town-and-township economy.

A ubiquitous symbol of this inequality is the street trader, mostly selling food-related items from a meagre table or stall in a township. At the same time, one can observe the prevalence of many other kinds of micro- and small businesses in townships. Some of these are clustered in main streets and ‘hot spots’ (pedestrian and transport concentration points), but most are located throughout township residential areas. The largest group is retail shops, mainly in the grocery, food, and liquor sectors (spaza shops, tuck shops, taverns). However, many are in the services sector (haircare, shoe repair, appliance repair, phone repair, tailors, auto repair, computer training, etc.) as well as manufacturing (dressmaking, woodwork, metalwork, etc.) and construction (e.g., building trades, building material, hardware stores).^{1,2} Some may be formal businesses, but most are informal – i.e., unregistered – businesses.

This informal sector has variety, aspirations, perseverance, struggles, and hardship. Its present and potential role in providing employment and addressing poverty and inequality is the focus of this chapter.

Economic Conditions in Townships: Poverty and Unemployment – And the Need for Jobs

Statistical evidence clearly shows that poverty and unemployment have been – and still are – worse in townships compared to other urban areas. The locational dimension of poverty, inequality, and unemployment incidence has been well documented: “Socioeconomic data show clearly that most township residents are poor, and the unemployment rate is very high”.³

A special World Bank publication⁴ gives insight into the township economy in South Africa. It provides labour-market and poverty indicators for four major settlement types: urban townships, informal settlements, other urban areas, and rural areas. The data show that the official (narrow) unemployment rate in urban townships is consistently higher than in any other area – and higher than for the country.⁵ The *broad* unemployment

rate in urban townships is also higher than in any other area except rural areas (whereas 'rural areas' presumably include rural towns and their townships).

As far as poverty is concerned, in urban townships, poverty rates (the poverty headcount at various poverty lines) are higher than in other urban areas except for informal settlements.⁶ Rural areas display the highest poverty rates by far, reflecting the situation in commercial farming areas, in towns and townships in such farming areas, as well as in towns and villages in former homeland/bantustan areas.

That research also shows that, in urban townships, a significant share of income (64%) comes from wage jobs; social grants have become a second important source.⁷

From Poverty and Inequality to Jobs in Township Businesses

An essential and common element in both inequality and poverty in South African townships is the vast number of people with meagre incomes – due to joblessness or access only to low-paid wage employment. This explains high poverty rates but also the vast gap between the poorest and the richest in terms of income; this gap is the crux of income inequality.

If the economic position of poor households and individuals in townships can be improved, it would reduce inequality and poverty rates 'from the bottom up'. Some form of regular income from regular employment will make a significant difference. Apart from the public sector, such wages can be earned in households (domestic work), agriculture (farm work), and private businesses. Here, it is essential to remember that, in a private business, three groups – owners, managers, and employees – receive earnings (business income, salaries, and wages).

Typically, and traditionally, townships have not been regarded by decision-makers as places where jobs in businesses are essential. Townships were originally, and perhaps still are, regarded mainly as a convenient source of labour. From there, workers commute to the factories and businesses in the cities

to work in the *formal* economy. Accordingly, the township is not a place to work, but a place to sleep, a '*slaapstad*' (sleep city): a *labour pool* for the benefit of the formal business sector and households in the city – and decidedly not a *jobs pool* or employment pool.

Job creation by the formal business sector (private sector) in a growing economy is the *most agreed-upon* prescription for employment growth. It is essential. However, while pursuing high and employment-intensive growth is hugely important, waiting for high growth to create enough jobs has become a significant frustration, even a debilitation.⁸ Attempts to fine-tune and turbo-boost the formal-economy 'engine of growth' to absorb more labour seems to be fundamentally constrained by economic, human-resource, governmental, public-service, political, and geo-political factors. Despite many policy initiatives, the required implementation, outcomes, and growth rates still need to be achieved. South Africa's GDP growth is not – and has not been – very employment intensive. Despite decades-long policy efforts to change that, declining employment intensity over time is expected in South Africa.⁹ Essentially, this is due to the labour-saving impact of technology and increasing capital intensification. Figure 1 shows this trend for the manufacturing sector.

It is unlikely that growth in the formal economy alone will (ever) absorb sufficient numbers of workers to reduce unemployment significantly. Economic policymakers and decision-makers at all levels of government must look at additional options for generating employment and self-employment for unemployed people.

A consistently overlooked option is to increase private-sector (i.e., business-sector) employment *in the townships* – in tandem with efforts to boost employment in the mainstream formal business sector. This would mean producing jobs primarily for owners and employees in informal enterprises.

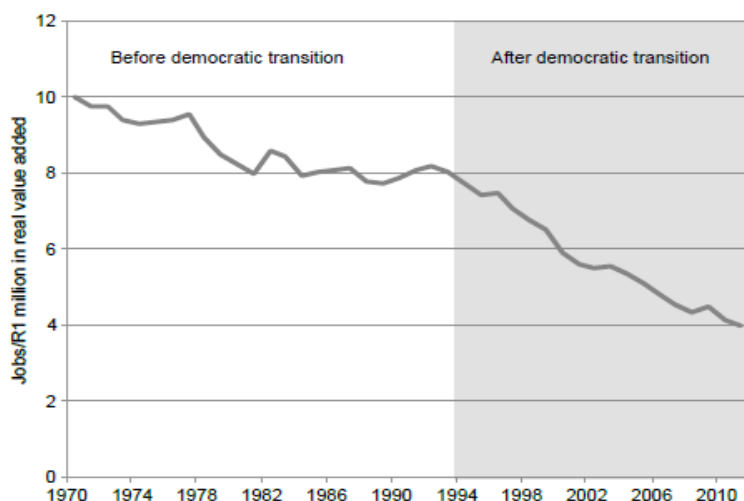


Fig. 1 The ratio of formal employment to gross value added for South African manufacturing, 1970–2011. *Source: Black & Hasson (2016)*

- Informal businesses are basic microenterprises not formally registered as an enterprise or company or for tax, etc. Most are pretty vulnerable.
- The informal enterprise is the most common form of business in townships, even though many township businesses – especially in cities and metros – are formal businesses.²
- Many informal businesses are one-person enterprises (i.e., without employees).³ However, as the statistics below show, the informal sector contributes significantly to paid employment in South Africa.

2 For a hands-on picture of the township economy in South Africa, see Charman *et al* (2021) and Alcock (2018).

3 The case of an informal one-person enterprise, i.e., one without employees, is sometimes called ‘self-employment’. It is a misnomer, since it disregards the fact that this is a *business* with a business owner-operator. (The owner also functions as the sole worker – thus executing two roles.) ‘One-person enterprise’ is a business-size category, not an employment category. In any case, a professional accountant or attorney working alone is also ‘self-employed’. ‘Self-employment’ does not uniquely signify informal or township enterprise cases.

From this perspective, initiatives are required to develop a vibrant, informal microenterprise sector (in townships and elsewhere) alongside and with the formal business sector – a two-pronged approach to job creation. Sadly, this has not been the case – the informal sector is not in the mainstream of economic policy thinking and practice.

The case of street traders on crowded sidewalks and walkways very close to formal businesses (in city centres, for example) presents a complex, problematic, and often tense situation. For formal business owners and their customers who regularly experience a strained situation in a confined spatial context, supporting informal businesses tends to provoke a frown.

A few comments are in order. First, such negative perceptions and assessments should be generalised to only some of the informal sector. It concerns a particular spatial-urban situation. Secondly, the expectation of informal business owners not to be harassed without legitimate reasons needs to be recognised, as should the expectation of formal businesses for an orderly state of affairs. A balance needs to be found.

However, the problem needs solving more informally in these cases. It is about property rights, business rights, territorial rights, and respect – especially in urban and intra-city contexts.

The controversy in such situations is often complicated by the presumed foreign citizenship or, especially, the illegal immigrant status of many such street traders. These matters need to be taken more seriously.

Following an overview of inequality in South Africa, amongst options for addressing inequality, notably in the spatial-urban context, Makgetla (2020)¹⁰ says that, in the short run, the most significant impact can be achieved through “initiating support for small business, including through ... support for township enterprise”. She proposes a dedicated fund “to provide infrastructure, services, and financial support for new business

centres in townships or industrial sites near them”¹¹ – although she may not necessarily have had informal enterprises as such in mind.

It must be recognised that there is a deep-rooted negative appointed informally in many government institutions and labour unions. Much of it can be traced to the views of the International Labour Organisation. This is rooted in a concern about informal workers *in the formal sector*, i.e., workers that are employed in formal businesses without contracts, benefits, or worker rights in *formal* businesses. However, to summarily extend that concern to the case of informal microenterprises is conceptually erroneous.¹²

A World Bank (2018)¹³ assessment of the drivers, constraints, and opportunities to address poverty and inequality in South Africa provides some pertinent pointers. Having assessed and analysed recent policy interventions by the government, such as the employment tax incentive and the national minimum wage, they find that “their impact on inequality, and thus on poverty, is very modest”. And then: “Creating good jobs for the poor will have a much larger impact on inequality and poverty”.¹⁴

It continues: “Employment and labour earning is a strong avenue out of poverty. The importance of the labour market in lifting a household out of poverty can be seen when examining the drivers of escaping poverty”. Amongst these, finding a job and earning more income substantially affects moving a household out of poverty.¹⁵

The lack of labour income – the lack of jobs – is the most significant cause of poverty and inequality. Thus, the most productive avenue to reduce poverty and inequality is to support processes and institutions in the public and private sectors that lead to employment. The question is: can this be accomplished in *the informal, private sector*?

The Scope and Potential for Job Creation and Income Generation in Informal Enterprises

The importance of getting beyond ignorance

For the uninitiated, the concept of the informal sector could be more precise. This is true of those who do not live in townships but also many local and national politicians, policymakers, and businesspeople. Many of these tend to see the informal sector as one or more of the following:

- ... mostly made up of street traders and waste pickers;
- ... mostly 'own-account workers' without employees;
- ... at most having a few unpaid family members 'helping out';
- ... mostly with few skills;
- ... merely 'survivalist';
- ... without entrepreneurial ambitions;
- ... not worth spending effort, time, and money on to support;
- ... not having much potential unless or until they become formalised;
- ... tax evaders that do not contribute to the fiscus;
- ... part of the 'underground' or 'shadow' economy, avoiding regulations and the law;
- ... an 'illegal' economy, dealing criminally in stolen goods or illegal substances.

Are these assumptions correct? As shown below, the factual situation is very different.

Policymakers: from neglect to a careful toe in the water

Primary economic policy documents largely ignore the informal sector, e.g., the National Development Plan and various stimulus

packages and job summits.¹⁶ When ‘township economy’ is mentioned at all, it is often concerning the development (or resuscitation) of industrial parks, in which *formal-sector* industries are established close to townships to create jobs for the township residents – yet again, as labour-pool residents. While the Department of Small Business Development (DSBD) has been rolling out the National Informal Business Upliftment Strategy (NIBUS) since 2014¹⁷ – combined with smaller related support programmes – it has a shallow profile. There is limited awareness of and utilisation of its support programmes among informal business owners. Its impact on informal businesses seems to be very limited.

This suggests that national policymakers do not take this sector seriously as an integral part of the ‘business sector’ or as part of the ‘solution’. Such decision-makers often share some of the perceptions listed above, revealing a thorough lack of knowledge of the nature and substance of the informal sector. Indeed, informal sector policy and legislation have been described as a mixture of repression, omission, and ambiguity.¹⁸

There might have been a change during the COVID-19 period: a sudden realisation of informal enterprises’ importance in distribution and providing employment and income. Even the president has explicitly mentioned the informal sector several times.

In addition, while not focused on the informal sector, the National Treasury is currently (2020–2023) funding a multi-year Township Economic Development (TED) project (as part of its Cities Support Programme, or CSP). The TED project has engaged a team of technical specialists⁴ to assist five selected metros in developing suitable TED strategies in one township per metro. The metros are eThekweni, Tshwane, Ekurhuleni, Nelson Mandela Bay, and the City of Cape Town. The chosen townships in these metros are Pinetown South, Hammanskraal, Thembisa, New Brighton, and Delft.

4 The Sustainable Livelihoods Foundation has been appointed the expert service provider in the TED project.

The TED Inception Report listed the focus areas as human settlements, public transport, public utilities, strategic planning, spatial planning, environmental affairs, urban management, and economic development.¹⁹ Township economic development is one component, but most of the activated elements in the TED project seem to be focused on local government services, public facilities (e.g., trader markets), and infrastructure. While these are important to create an enabling environment, direct business development support is crucial. However, in relative terms, direct business support and development seem less of a priority, even though the participation of the DSBD and small business support agencies (SEDA, SEFA) are mentioned. In the subsequent list of planned projects in each township, the enhancement and support of microenterprises are featured in only two cases, i.e., Delft and Hammanskraal.⁵

What is more or less absent (except for one township case report) is a clear recognition by local government role players of the specific challenges and support needs of informal enterprises that flow from the conditions of *deep informality*. These conditions preclude most informal microenterprises from eligibility for government support programmes such as NIBUS and its sub-programmes. “Characteristics such as formal business registration, necessary permits, and documentation are commonly not in place for informal business, yet are required as minimum conditions for support.”²⁰ This apparent orientation of the TED project is also revealed by the fact that the prominent policy component is “formalisation policies for certain sectors such as spaza shops, taverns, and educare centres”.²¹ (The intricacies of formalisation – and, specifically, the need for *intelligent* formalisation – is discussed below.)

5 A 2023 TED Overview Report notes the following specifics: Furniture manufacturers in Delft were provided with technical and product skills development training. Creative industry businesses in Hammanskraal were provided with business skills development training. Digital entrepreneurs in Thembisa were provided with training and mentorship.

The knowledge gap and need for better information

In the academic sphere, such as data analysis and research on employment and unemployment, the informal sector has only been researched recently. A decade ago, analysed information of the sector was identified as a gap in the research framework and output of macroeconomists, labour economists, development economists, poverty analysts, and policy analysts alike.²²

To address this gap, a research project, the Informal Sector Employment Project (ISEP), was launched in 2012 to thoroughly investigate the size, scope, and nature of the informal sector in South Africa. It was part of a larger national research project, REDI3x3, on unemployment, inequality, and inclusive growth.⁶ A multi-disciplinary team investigated various aspects of informal enterprises and the informal sector: its measurement, official statistics, size, scope, structure, geography and spatial dimensions, ownership, profitability, entry and exit, employment and job creation, impact on poverty, main problems and challenges in the national context as well as on a micro-level in regions, sectors (including commercial farming), cities, towns, and townships.

The collective findings of the team of South African and international researchers, published in Fourie (2018),²³ significantly raised the level and sophistication of information and analysis of the dynamics and constraints of the informal sector. These findings relate mainly to the informal sector's actual and potential role in reducing unemployment and poverty in South Africa, as well as recommended policy and other interventions.

Also important have been the pioneering contributions of the Sustainable Livelihoods Foundation (SLF), particularly by

6 The REDI3x3 Treasury funded the National Project and is based at SALDRU, at the University of Cape Town. The author was the research co-ordinator of the project as well as the convenor of the employment and unemployment focus area and a component called the Informal Sector Employment Project (ISEP). The outcomes and findings of the ISEP sub-project, with chapters covering a wide range of aspects of the informal sector, can be found in the collective work of Fourie (2018). Green (2023) provides an overview and integrated assessment of the large number of research papers produced in the REDI3x3 Project.

Andrew Charman and colleagues. Since 2010, they have carried out detailed business censuses in selected townships to pinpoint the numerical, locational, and sectoral characteristics – at ‘ground level’ – of the informal businesses in the chosen areas.²⁴ Their findings provide a fantastic range of detailed information and perspectives that were never available before – including insights into ways to support such enterprises.⁷

Armed with this information, one is much better placed to answer the question of the scope and potential for job creation and income generation in informal enterprises in South Africa.

Towards an Understanding of the Data: Basic Definitions and Distinctions

What is an informal enterprise? What is the informal sector?

In South Africa, an informal enterprise is, ironically, formally(!) defined as an enterprise (business) not registered for VAT. Not being registered for a tax like VAT (or income tax) is the leading international criterion for the definition of an informal enterprise.

The informal sector thus comprises all informal enterprises, their owner-operators (the employers), and all employees, paid and unpaid, in all economic sectors (retail, manufacturing, service, etc.). Note that the informal sector does not include domestic workers or subsistence farmers (which is defined as producing agricultural products not for the market but only for its use).⁸

In plain language, informal enterprises are small or microenterprises not registered for VAT at SARS (SA Revenue Service). This is mainly because they have not attained the necessary size, capacity, durability, financial robustness, or administrative and business proficiency to formally organise and constitute a company that can be registered as a ‘for-profit

7 The Sustainable Livelihoods Foundation (SLF) is the central contracted expert institution running the National Treasury’s TED project.

8 Official Stats SA data list formal and informal agriculture separately.

company' at the Companies and Intellectual Property Commission (CIPC).⁹

An informal microenterprise or small business has a specific character. It has typical business characteristics and functions, although it remains *informal*. Usually, the informality is due to excellent reasons. They are lacking in areas such as skills levels, business competence, financial capacity, suitable premises, access to banking and financial services, capital resources, marketing know-how, human-resource know-how, access to government support programmes, etc. amidst constrained local business and market conditions (in a township, say).

An intuitive and common-sense understanding is that they are seedling enterprises, embryonic enterprises – or emerging enterprises, or pre-formal enterprises. As we will see, most informal enterprises are one-person enterprises, but many are multi-person enterprises with paid employees (between two and three, on average).

This perspective suggests that informal enterprises should be seen from a developmental perspective as being in a particular stage or position in a developmental trajectory from an embryonic, seedling, or toddler enterprise, later becoming a 'teenager' and then an 'adult' enterprise. In this last stage, such an enterprise becomes a formal small business – including transitioning to a fully registered, private company – with the necessary permits or licenses, financial statements, and bank accounts registered for tax.

Ironically, only then would their documentation qualify them for access to most government informal-sector support such as training, financing, etc. The qualifying criteria are a significant obstacle (or flaw?) in current government support programmes. A developmental perspective on informal enterprises should be the foundation of policy design, policy support, policy implementation, and the activation of applicable regulations and legislation. It should also underpin a committed

9 The CIPC is an agency of the Department of Trade and Industry in South Africa. Companies must register with the CIPC before registering with SARS for an income tax reference number.

concern with supporting employment creation in the informal sector – whether by policymakers or community initiatives in towns and cities. This is discussed further below.

Conceptual alert: Informal-sector employment is not equivalent to ‘informal employment’.

These two concepts are frequently misused, which leads to confusion regarding measurement, policy approaches, regulation, etc.

The concept of informal employment is a much broader concept of informality. Essentially, it deals with informality regarding the employment conditions of *employed workers*. This approach is found in most International Labour Organisation (ILO) documents. It is predominant in South African policy circles and organised labour (e.g. Cosatu). Its primary concern is that employed workers in the formal sector often need more secure formal contracts and benefits such as pensions and medical insurance. (Measured informal employment also includes domestic workers without contracts and benefits.)

From this perspective, increasing informality is an undesirable aspect of employment conditions in the formal sector. The remedy would be to *reduce* such informality.

When this concern over informality of *employment* is summarily carried over to the informal sector – where the *entire enterprise is informal*, including the status of the owner/manager – the answer would be to shrink the number of informal enterprises! The ‘obvious’ remedy then is to formalise all informal enterprises (even though approximately 80% of informal-sector enterprises in South Africa have no employees that could have poor employment conditions).

This conceptual confusion explains much of the negative attitudes towards informal businesses found in government and some local and international NGOs, whose preferred intervention is the extension of significant social protection

and basic income grants to all informal workers. Growing employment is different from their goal.

What information is available on the informal sector?

Statistics on employment and unemployment rates from the Quarterly Labour Force Survey (QLFS) of Statistics SA are reported regularly in the media. It also provides quarterly estimates of total employment in the informal sector. However, it has no information on informal enterprises as such. Fortunately, the QLFS has a lesser-known sibling – the oddly named Survey of Employers and the Self-Employed (SESE). The SESE is a national survey by Statistics SA (Stats SA) of the owners of enterprises that are not registered for VAT (irrespective of firm size).¹⁰ Usually, it is done every four years. It primarily captures informal enterprises. Essentially, SESE is a national survey of informal enterprises in South Africa.¹¹ It is a rich source of information on employment data and the characteristics of informal firms and their owners. As such, it complements and frames findings from local-area or case-study work in individual townships, towns, and cities.

The SESE Report (Statistical Release P0276 of Statistics SA)²⁵ is an accessible source of information for non-experts. For the reader's convenience, the analysis below will mainly quote from the most recent SESE report, complemented by a deeper analysis of SESE data where necessary. (A private data source to note is the FinScope SMME Survey, which is published occasionally. Though its definition of the informal sector differs from the standard definition of Stats SA, results for the non-

10 It is possible to exclude some enterprises registered for income tax to get 'pure' informal enterprises only; see Fourie (2018a:112.)

11 The survey has been done every four years since 2001 up to 2017. (The 2021 survey was disrupted by the COVID-19 epidemic and was postponed to 2023.) In practice, the SESE follows the quarterly labour force survey (the QLFS). Owners of enterprises are identified in the household questionnaire of the QLFS. After that, the identified owners are contacted for potential interviews. Those owners whose enterprises are not registered for VAT are then interviewed with a separate SESE questionnaire to collect informal enterprise information. The data on the behaviour of the enterprises can be linked to the owners' household and personal characteristics via the owners' data in the QLFS.

SARS-registered component are roughly comparable to the Stats SA results for informal enterprises.¹²⁾

To form an informed analytical picture of the informal sector from the national data (notably about job creation), a few essential distinctions between concepts (and clarifications of others) are made:

- We will first distinguish between firms with employees, i.e., *employing firms* (multi-person enterprises) and *non-employing firms* (one-person enterprises).
- We will distinguish between *paid* and *unpaid* employees.
- Firms growing their employment (including one-person firms that grow beyond one person) constitute an important group.
- New entrants (new businesses) constitute another vital group for employment creation. In particular, the entry (or 'birth') of viable one-person firms is an essential provider of new employment, even if they do not have employees (yet).

The Factual Situation: What Do We Know?¹³

Numbers and trends in brief

First, a few key numbers:

-
- 12 For 2020, FinScope (2020) estimates 2.62 million micro, small, and medium enterprises in South Africa. Of these, 70% are not registered with SARS, i.e., about 1.83 million. This number fits neatly between the 2017 and 2023 estimates of the size of the informal sector with SARS data. FinScope also produces valuable information on the extent of financial access and inclusion. FinScope (2020) estimates the 2020 annual contribution of the informal sector to be R147 billion. This likely is an underestimation, perhaps by up to 20%, since their definition of the informal sector excludes several hundred informal enterprises according to the standard definition. For example, FinScope (2021) appears to classify enterprises not registered at SARS as *formal* if registered at the CIPC.
- 13 A detailed exposition and exhaustive analysis of employment in enterprises in the informal sector in South Africa can be found in Fourie (2018a), with data up to SESE 2013. This chapter contains some of the latest (2017) SESE results and recent QLFS results.

- The informal sector's contribution to GDP has been estimated at 6% for 2017.²⁶ The 2022 GDP amount of R6.63 trillion would translate to about R192 billion – slightly more than the contribution of the formal agriculture, forestry, and fishing sectors.²⁷
- In 2023, about 3 million people will earn money by working in about 2 million informal enterprises in townships and elsewhere (see Table 1 below).
- In 2023, about 18.5% of those worked in the informal sector – almost one out of every five working persons.²⁸

Figure 2 shows the trend from 2013 to 2023 (with a notable fluctuation in the COVID-19 period). The share of informal-sector employment in total employment has increased from 16.1% in 2013 to 18.5% in 2023.

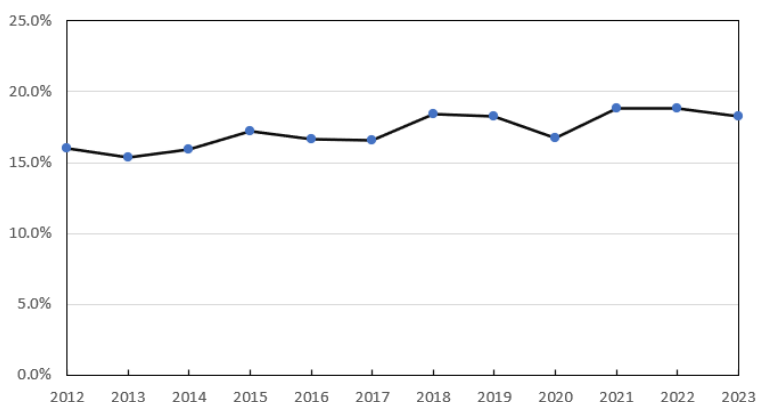


Fig. 2 Informal-sector workers' share of total employment 2013–2023 Source: Stats SA, Quarterly Labour Force Trends, 3rd quarter figures

In absolute numbers, this reflects an increase of 28% in informal-sector workers in 10 years, compared to 11% in total employment. This may be due to many reasons – some good (like growing entrepreneurship), some undesired (like a floundering national economy). Still, this growing economic sector has

not received adequate, substantial policy support for informal microenterprises.

Employment levels and shares: some more detail

Table 1 provides SESE numbers for recent survey years and QLFS-based numbers for 2023.

The various numbers over several years show that the informal sector is an essential source of employment – and paid employment – in South Africa. Amidst fluctuations, total employment in the informal sector has grown, as has the number (and proportion) of paid employees.

Amidst fluctuations, since 2009, the total number of enterprises has grown substantially – including one-person and multi-person enterprises. Over the three SESE survey years, the proportion of employing firms has averaged 20%, i.e., there is an approximate 80:20 ratio between the numbers of enterprises in these two categories.

An important statistic about the 20% employing firms is that these multi-person firms (currently numbering 350 000–400 000) have provided *paid work* to more than 1 million workers in 2013 and 2017 – and likely also in 2023, given the QLFS total for that year.

For the three survey years, on average, 46% of those working (as owners and employees) in the informal sector work in 20% of multi-person enterprises (i.e., firms with employees). Figure 3 shows this pattern:

Table 1 Number of informal (non-VAT registered) enterprises and employees

(thousands)	2009 SESE calc.	2013 SESE calc.	2017 SESE report	2017 SESE calc.	2017 QLFS report	2023 QLFS report
Total enterprises:	1 137	1 601	1 793	1 890		
One-person firms	926	1 215	1 440*	1 583		
Multi-person firms Share of firms:	211 18.6%	386 24.1%	353* 19.7*	308 16.3%		
In multi-person firms: Total number of employees:	540	1 055	761	n.a.		
Paid employees:	445	831	674	695		
Paid workers (owner plus paid employees):	656	1 217	1 027	1 003		
Total working in the informal sector	1 677	2 656	2 554	2 586	2 689	3 029
Share of total employment:	12.1%	18.1%	15.8%	16.0%	16.6%	18.5%
Total employment formal mining sector (QLFS)	326	403	434	434	446	444
Total employment South Africa (QLFS)	13 830	14 692	16 192	16 192	16 192	16 346

Source for SESE & QLFS: Statistics South Africa. Also, SESE 2017 Table 16. 'SESE calc' denotes own calculations from SESE data downloaded from Stats SA. Thanks are due to Gibson Mudiriza for assisting with the calculations in Stata. *Results from Stats SA (2021) Fig. 3.1

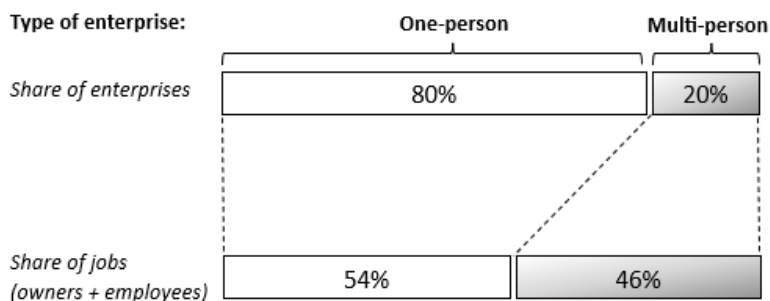


Fig. 3 Average share of employment and enterprises: one-person and multi-person informal enterprises 2009–2017

The proportion of paid employees in these firms has also been rising. The 2017 SESE report shows growth from 65% paid employees in 2001 to 89% in 2017.

Typically, fewer unpaid family members are ‘helping out’ in these informal businesses. This again suggests that informal businesses are increasingly operated as institutions separate from households – a significant development.

Moreover, the 20% multi-person enterprises provided about 1.2 million paid jobs for their workers (owners and employees) in 2013, just above 1 million in 2017 – and perhaps 1.15 million in 2023. This means that, on average, the number of paid workers (owners plus paid employees) in the informal sector has been more than twice the total employment in the formal mining sector in South Africa. In 2023, this multiple may be as high as 2.5.

Another perspective on the employment pattern in the informal sector is provided in Figure 4. For several years, it shows a growing proportion of people working in multi-person enterprises (rather than one-person enterprises). There is a sustained and significant increase from 35.4% in 2001 to 54.2% in 2013. (After that, it decreased to 38.8% in 2017. It is unclear what caused the turnaround after 2013, e.g., enterprise vulnerability, or whether it is a statistical aberration in the 2017 SESE data.)

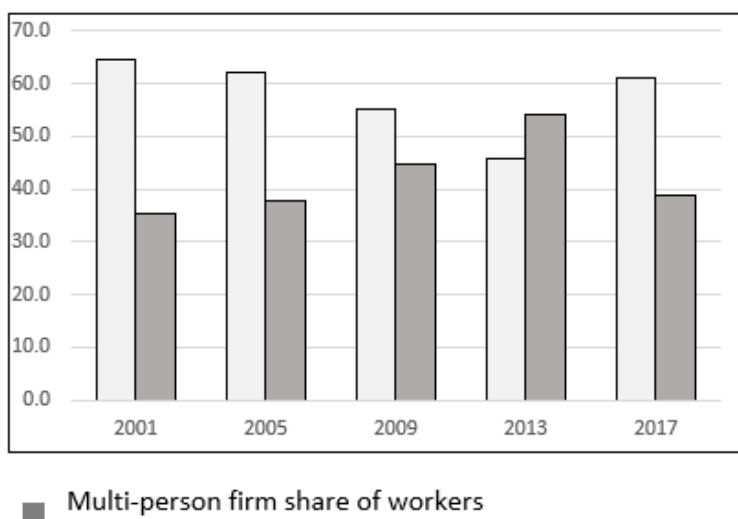


Fig. 4 Share of persons working in one person and multi-person informal enterprises 2001–2017. Source: SESE2017 data own calculation

Job creation through entry and expansion

A key question is the extent of job creation in the informal sector. How ‘employment intensive’ is the informal sector over time?

On a macro level, Ngunda and Ngalawa (2023)²⁹ provide statistical estimates of the employment intensity of the non-agricultural informal sector in South Africa. They estimate the employment intensity of output growth for the informal sector to be 1.35. This means that if output in the informal sector in a particular period grew by 10%, employment would grow by 13.5%. Put differently, employment grows faster than output – employment growth is quite responsive (or ‘elastic’) to output growth. This finding for the informal sector contrasts markedly with the indications of low and declining employment intensity in critical parts of the formal economy (see Figure 1 above). In fact,

the informal sector is the second-most labour-intensive sector in the South African economy.¹⁴

Earlier research³⁰ provides results on job creation in the informal sector. Over half a million new jobs were created in one year³¹ (2013 SESE national data). This came about due to two factors:

- Employment expansion: About 150 000 additional jobs were created by multi-person and initial one-person enterprises. (About 60 000 jobs were lost due to employment cutbacks.)
- Entry of new enterprises: About 380 000 new jobs were created due to about 300 000 businesses starting – both one-person and multi-person. (About 40% of start-ups may close within six months, reflecting early-stage vulnerability.)
- Let us presume that these job-creation numbers are compared to the 2018 Jobs Summit goal of creating 275 000 jobs. In that case, it shows the scale of the contribution that the informal sector could make if supported with appropriate training and policy instruments to sustain its job creation. This job-creation potential of the informal sector must be recognised and tapped sustainably.

Notable Characteristics of Informal Enterprises and their Owners

The sectoral diversity of informal enterprises

The first important point is that the informal sector comprises more than the most visible components, i.e., food street traders, spaza and grocery shops, and other retail trade. The informal sector is as diverse as the formal sector and comprises all industries – almost a ‘normal’ economy profile. Table 2 shows patterns in terms of sectoral distribution.

14 Ngunda & Ngalawa (2023:3) report research findings of Mkhize (2019) that, for the period 2000 to 2012, in the formal sector, only the finance and business services sector had an elastic (=1.56%) employment intensity of output growth; the other sectors in the economy were inelastic, confirming jobless growth features.

Table 2 Sectoral distribution of informal firms. Source: SESE 2017 Report (Stats SA 2019)

Sector: (% of firms)	2001	2005	2009	2013	2017
Manufacturing	10.7%	12.1%	9.6%	7.4%	7.3%
Construction	3.2%	5.8%	10.3%	10.7%	12.0%
Trade (wholesale & retail)	69.6%	66.1%	57.0%	54.4%	51.5%
Transport & communication	3.3%	4.4%	3.7%	6.2%	5.8%
Financial services	5.8%	3.5%	3.1%	7.6%	7.9%
Community & social services	6.8%	6.9%	10.5%	13.1%	12.2%

The informal sector also encompasses businesses such as auto repairs, tyre sales and repairs, panel beating, car washing, computer sales and repairs, computer training, cell phone sales and repairs, educare centres, dressmaking, steel work (fences, windows, burglar bars, etc.), glass and aluminium products, cabinetmaking and furniture manufacturing, upholstery, plant nurseries, building enterprises (artisans in several specialties), and so forth. Most employing enterprises are in construction, retail trade, services, manufacturing, and communication.

Table 3 shows the sectoral distribution of employees in informal enterprises.

Table 3 Sectoral distribution of employees in informal firms. Source: SESE 2017 Report (Stats SA 2019). Employees, not workers – owners not included here

Sector: (% of employees)	2001	2005	2009	2013	2017
Manufacturing	9.2%	11.5%	8.4%	5.5%	8.7%
Construction	15.8%	15.7%	31.7%	22.8%	33.3%
Trade (wholesale & retail)	47.9%	41.5%	27.7%	34.5%	24.4%
Transport & communication	12.0%	4.1%	5.8%	5.2%	8.1%
Financial services	6.4%	14.5%	3.1%	3.7%	6.1%
Community & social services	8.1%	10.1%	20.0%	26.1%	16.6%

Significant sectoral changes have occurred between 2001 and 2017:

- A significant result is that the share of informal firms in the trade sector has shrunk from about 70% of total informal firms 20 years go to just above 50% in 2017 (Table 3). Growth has occurred mainly in construction (3.2% to 12%) and transport. Financial services and community and social services' shares have grown notably, but manufacturing has shrunk – a somewhat worrying trend.
- In terms of employees, the share of the trade sector (retail and wholesale) has shrunk remarkably (Table 3). By 2017, about three-quarters of employees worked *outside* trade – compared to about half in 2001. Construction has become the largest employer, while 'community and social services' has doubled its share of employees.

The earlier dominance of trade in informal enterprises has diminished. Policy design and interventions such as business support measures must explicitly consider these sectoral changes. In particular, the needs for space and premises for sectors other than retail or food trade are markedly different (see below).

How long do informal firms stay in business?

Given the perception that informal enterprises do not survive very long, it is notable that the proportion of informal firms that have been in business for more than five years has been increasing steadily.

Table 4 Age distribution of informal firms (SESE 2017). Source: Stats SA SESE 2017 Report

	2001	2005	2009	2013	2017
Firm age distribution: <1 year	24.8%	17.9%	21.3%	20.3%	17.9
1 to 3 years	33.2%	33.6%	25.4%	23.6%	23.0%
3 to 5 years	17.8%	21.1%	16.4%	17.7%	16.4%
5 to 10 years	12.7%	14.9%	18.7%	18.4%	21.2%
>10 years	11.0%	12.4%	18.1%	19.6%	21.4%

The numbers in Table 4 indicate an upward trend in the average age of firms and, thus, their durability and survival. In 2017, more than 42% of the informal firms were older than five years – compared to 23% in 2001.

The location of informal enterprises

A critical dimension of an informal business is its location. Informal businesses are frequently assumed to operate mainly from the home or residential plot, presumably due to limited resources or business aspirations. However, it appears that the locational pattern is much more nuanced.

The SESE questionnaire (question 17) specifies ten locational options. Table 5 shows the results (simplified into three categories):

- Residence-related locations: in the owner's dwelling (e.g., sharing a family room or at least in a space reserved for the business) or in a separate structure on the same plot;
- Commercial locations (e.g., a shed, factory, or office block); and
- Other locations (e.g., at an open market, taxi rank, street, or mobile business).

Table 5 Locations of informal firms

	2001	2005	2009	2013	2017
Home-related location	63.6%	57.1%	54.4%	52.2%	42.6%
Commercial location	3.5%	3.8%	4.1%	5.1%	4.9%
Other locations mobile	32.9%	39.1%	41.5%	42.7%	52.5%

Source: SESE 2017 report. See the report for details and a visual representation.

Three trends are noticeable:

- The proportion of informal firms at the owner's home or residential plot has declined markedly – to significantly below 50%. This suggests the business' growing spatial separation ('independence') from the household. This promotes the

beneficial separation of business finances from household finances (see below).

- The growth under 'other location' reflects that a growing number of informal businesses are doing business in a street or open market or at a taxi/bus rank – or they have no fixed location, running a mobile business.
- The proportion in commercial locations is growing, but still very low.

The overall picture is mostly unsuitable premises (or no premises). Proper business structures, buildings, and premises in suitable locations are not readily and affordably available to informal microenterprises in townships. It is a crucial shortcoming.

Enterprise owner characteristics

The education profile of informal enterprise owners has been improving steadily. Owners that have completed secondary school (matric) have increased from 15% in 2005 to 22% in 2017 (with a further 9% having had tertiary education). This reflects the general increase in school qualifications in the population. In 2017, 44% had secondary school education below matric. All this suggests a growing general skills level among informal enterprise owners.

The gender composition of owners has also been changing. The sector used to be dominated by women owners, e.g., 56% in 2005. Activists often lamented this as a sign of their inferior social position. However, by 2017, male owners comprised 60%.

The gender mix has become close to equal in trade, services, and manufacturing. Males largely dominate in construction and transport and somewhat in finance (65%).

Unlocking Employment Potential: The Role of Government Policy

Considerations for effective policy and regulation

Recently, Ngunda and Ngalawa (2023) provided results showing the relatively high employment intensity of the

informal sector in South Africa. They conclude that “economic policy consciousness about the informal sector ... is necessary to create inclusive mass employment”. The case for more effective policy support for informal enterprises has been made exhaustively elsewhere (e.g., Fourie 2018c; Skinner 2018). Only a few remarks and policy suggestions are noted here.

Firstly, policymakers must overcome the discomfort, even denialism, surrounding informal enterprises. Properly distinguishing informal-sector employment from ‘informal employment’ is an essential first step. If adequately supported and developed, informal microenterprises must be accepted as a legitimate and permanent component of the South African economy – and a significant potential source of employment growth and decent livelihoods.

Moreover, policy support for informal microenterprises can be included to a greater extent within SMME policies, as the government tends to do. Informal enterprises face unique disempowerments, constraints, and challenges. Relatedly, the plea from the formal business sector for deregulating SMMEs is not necessarily appropriate for *informal* microenterprises in townships – and is likely to narrow (or distort) the problems informal-sector microenterprises face. General deregulation or reducing the bureaucratic ‘cost of doing business’ is not a main obstacle for emerging enterprises.

For informal enterprises, a critical regulatory issue that affects survival and employment growth is the availability of trading and business operating space (and rights). In township areas, the application of a particular vision of urban planning – often found in spatial development frameworks or integrated development plans developed for municipalities by consultants – could easily lead to spatial regulation and zoning in terms of ‘Western’ ideas of city space (e.g., with strict residential, business, and industrial areas). These could be wholly inappropriate in a typical township context.

Funding constraints also inhibit the construction of well-located, proper commercial spaces for informal enterprises, whether these be retail shops or other sectors such as repair

services and manufacturing. The proposal of Makgetla (2020) for a dedicated fund to provide infrastructure, services, and financial support for new business centres in townships or industrial sites near them, deserves serious consideration by the government. However, for funding to have a significant impact, informal microenterprises need to know and be guided regarding how to access it. Funding should not be available only to registered businesses.

Again, it is crucial to analytically distinguish informal enterprises *in townships* from informal street traders *in formal, urban business areas*. In formal, urban business areas, the spatial regulation of informal street traders must deal specifically with their conflict with formal-sector business rights, which is a topic of much controversy and frustrations. This differs significantly from the general spatial concerns and needs of informal enterprises in township areas.

Related to the spatial needs of informal enterprises is the availability of public utility services such as electricity, water, and ablution facilities – as well as Wi-Fi and internet connectivity. The absence of optical-fibre cable connections is a significant constraint in most townships. The cost of data also constitutes a major constraint for informal businesses, e.g., in their pursuit of cashless (and thus safe) transactions, online banking, online ordering of supplies, online access to municipal information and officials, online access to training material and bookkeeping apps, virtual meetings of business groups, etc. This is an important new area begging for government intervention – with the idea of a dedicated fund again on the table.

The low profile and limited impact of the NIBUS policy initiative was noted above. Several factors are at work here. The author's experience in dealing with township business owners is that there is almost no awareness of the available and active support programmes – or they simply do not know how and where to apply for such support. The easy availability of all the necessary information on available programmes and support on the DSBD website – including simple 'how to apply' instructions – is essential. In addition, it may be that the local

municipality's current local economic development (LED) official does not know or reach out to informal business owners to initiate such applications. National government support programmes often require the buy-in or partnering of a provincial or local government, which complicates processes.

It should be noted that provinces such as Gauteng, the Western Cape, KwaZulu-Natal, and the metros Johannesburg, Cape Town and eThekwinini have initiated their programmes to support the township economy and informal businesses. The situation is very different in weaker provinces, smaller cities, and most towns.

A last factor is that the qualifying criteria for most NIBUS-related support programmes may discourage or effectively exclude informal enterprises. Typically, applicants must have (or have applied for) business licenses, be or become registered as a business at the CIPC, and register (or be willing to register) for tax at SARS and the UIF, etc.

This does not show sufficient sensitivity to most informal enterprises' limited capacity and skills – and the developmental stage. A more nuanced and empathetic path of access to these support programmes needs to be followed by the DSBD and its partner agencies.

Constraints on access to banking services and bank loans also undermine informal-enterprise efforts to qualify for government support programmes.

What role for formalisation?

One of the first solutions that comes to mind among commentators is that informal enterprises should formalise. The idea of 'formalising the informal sector' as the definitive solution has been advocated internationally by the International Labour Organisation (ILO). It essentially flows from their concern about informality in the employment conditions of people working in the formal sector – not the informal sector. This attitude towards the informal sector is alive in South African policy circles, with formalisation often the main objective of policy support – and, as

noted above, even as a *condition* to qualify for policy support, also at the local government level.

Formalisation is often narrowly conceived regarding enforcing business licencing, mainstream regulations, and tax registration. These are blunt instruments that can be destructive for informal enterprises. They do not enable and empower. One must convince municipalities to avoid such an approach. A much more nuanced approach is needed, informed by the capacity and needs of informal enterprises in different stages of development.

Above, it was suggested that informal enterprises should be seen as in a developmental trajectory from embryonic, seedling enterprises. In later stages, such an enterprise can become more mature and become a formal small business with proper financial statements, necessary licenses, and being registered for tax – and ultimately transition to a fully registered private company.

From this perspective, seedling enterprises need nurturing, not suppression or forced administrative (registration) steps. Government must help ensure that the ‘seedlings’ have ‘water’, ‘compost’, and ‘physical supports’ to help them grow ‘upright’ – rather than worrying about whether they are neatly ‘planted in a row.’ Forced formalisation is not the way to go. The impact would not be enabling. There would be a high danger of the wrong instructions at the wrong time.

Thus, it is argued for ‘smart’ formalisation. This would be developmental and recognise a spectrum of informal/pre-formal enterprises, from embryonic to mature, whether one- or multi-person, at various stages of entry, survival, development, profitability, capital strength, and sophistication, and with different needs, aspirations, capacity, growth orientation and entrepreneurial aptitudes.

The above implies that one must recognise *degrees of formality* in informal enterprises. In this regard, it is proposed to offer a menu of various elements of formality that informal enterprises can access – bit by bit, as required and beneficial, in a stepwise fashion – as they become stronger, larger, more mature, and gradually more formalised. Appropriate incentives should facilitate and support this process.

The formalisation menu can comprise two categories:

1. government policy elements: access to premises, infrastructure, water, electricity, internet, data, licences, supportive regulation, funding, as well as training opportunities; and
2. private sector elements: bank accounts, bank loans, rental space/premises, training (financial, marketing, management), financial administration, supply chains, etc.

The second category indicates ample opportunities for town/city *and* township business chambers to facilitate such components while engaging jointly with local and provincial governments regarding the first category.

Unlocking Employment Potential: Considerations for Local Initiatives in Towns and Townships

The last paragraph opens the door to a discussion of the possible role and responsibility of local communities, groups, or organisations in developing a strategy for the development of the local township economy and informal sector. Government at all levels is responsible for enacting effective policy support measures and programmes. However, development is an all-encompassing challenge requiring local partnerships – involving business forums, chambers of commerce, community forums, church groups, farming groups, etc. Without such initiatives, strengthening the township economy and employment growth will be much harder to obtain. Given enormous demands on limited government capacity, waiting for the government to come to town(ship) will likely be slow.

Joint initiatives are probably easier to put together in towns than in cities and metros. An important step would be an initiative from either the township businesses or the business sector in the adjacent town to reach out to the other party. Based on trust and shared interests in development, economic growth, employment growth, and poverty reduction in the ‘twin-town’ context, an overarching business or community forum has self-evident reasons to exist. Engaging subsequently with the local and/or

provincial government and the national government would be an obvious goal.

Where to start?

How can the formal business sector help to develop and strengthen the informal sector? What can/should local organisations and community forums do? What is the agenda?

The best place to start is with the main obstacles and constraints that lead to informal enterprise failure and a loss of jobs. National research (as well as local research in a Free State small-town township) has confirmed that the main obstacles include:

- a lack of suitable and secure premises in good locations and with electricity, water, toilets, Wi-Fi, etc.;
- limited or no ‘money skills’ (e.g., bookkeeping skills) to get a clear picture of how the business is doing financially – and, crucially, to keep it separate from the household’s finances;
- a lack of banking services and finance (noting that access to banking will be facilitated by having basic business records to demonstrate viability to a bank manager); and
- being the target of crime (where secure premises are vital), but also harassment by local government (often due to a mismatch between township realities and zoning laws and bylaws).

The lack of basic bookkeeping habits

The need for basic bookkeeping skills is at the top of the challenges informal business owners face. The SESE surveys show that a tiny percentage of owners – only about 20% – practice some form of bookkeeping. The absence of financial records (“no accounts kept”) is more common in single-person businesses, with 82% lacking such records in 2017, compared to 62% among multi-person businesses.

These findings point to an apparent shortcoming in the typical informal enterprise – one openly recognised by owners. However, they do not know how to overcome it.

Available accounting courses do not speak to their reality and are too abstract and complex – and the owners cannot spend hours sitting in a classroom.

The bookkeeping problem goes hand-in-hand with the difficulty of keeping business finances separate from the expenditure and finances of the household – thus obscuring a clear picture of revenues and expenses, and thus profits, of the informal enterprise. The risks are clear since informal enterprises are often run from household premises (see Table 5 above) and/or use family members as workers.

These factors undermine informal enterprise viability, growth, and employment. They also prevent owners of more vital enterprises and ambitious owners from reaching beyond local markets, graduating to the upper tiers of the sector, or stepping up to higher-value markets and even formal-sector value chains.

The overall aim of such developmental initiatives and policies should be to enable informal enterprises to become self-standing, self-reliant, viable institutions (organisationally separate from the household).

This suggests a stimulating activity agenda for projects by community forums and business chambers as well as municipalities (preferably in partnership):

- training and mentoring in basic bookkeeping (“money in and money out” – managing revenue and expenditure) as a critical management tool. Basic financial records can also advance engagements with banks regarding financial support;
- training and mentoring in pricing, marketing, and product development, and assessing the potential market, e.g., in a township;
- tutoring in social media as a marketing and advertising tool in a township;
- providing access to suitable business space (matched with property rights and title deeds) for township businesses;

- investigating availability of appropriate (and secure) premises in good locations for the type of business (retail vs manufacturing, for example);
- ensuring availability of utility services (water, electricity, ablution, internet) and infrastructure;
- implementing smart, development-oriented spatial planning (urban/rural, residential/non-residential, zoning categories, main streets, business centres, markets, manufacturing centres);
- creating development-informed regulations (appropriate health, safety, fire, product, and building regulations) to reduce regulatory inconsistencies;
- facilitating access to banking and other financial services to support emerging and growth-oriented informal enterprises, counter business vulnerability, and support employment expansion;
- addressing structural barriers to accessing informal or formal (often higher-value) markets; and
- helping with accessing appropriate government support programmes effectively and scaling up government support and policy interventions, including public-sector partnerships.

Enabling the informal sector must be an integral part of the response of government, business organisations, and civil society to the problems of unemployment, poverty, and inequality in every town, city, and province. What this requires is people in business chambers or such organisations in towns and cities that are willing to do the following:

- **Talk** to informal business owners and township business chambers – sit around a table, ask them about their needs and challenges, and listen to them;
- **Encourage** and assist them in forming a business forum to create a co-ordinated voice to engage with municipalities about spatial issues and public utility services, and also support each other with management advice, co-ordinate transport and logistics, etc;

- **Talk** to provincial and local government LED officials and planners, develop a new understanding of the issues,¹⁵ and facilitate engagements with the township business forum; and
- **Talk** to the Department of Small Business Development about effectively accessing support for financing infrastructure and premises (e.g., in the SEIF programme).

Conclusion: The informal sector in a two-pronged employment growth strategy

If the formal economy continues to grow at rates around 1% per annum and creates employment at historical rates, total employment will likely grow at less than 0.5% per annum. This is only a sixth of what is required to reduce unemployment significantly, which means unemployment will remain high (in 2023, 32% on the narrow definition).

Pursuing higher employment through the growth of the formal sector will always be necessary (as the formal economy will provide most of the tax revenue that finances pro-poor social expenditure). However, a strategy that continually attempts to prime, fine-tune and turbo-boost this ‘engine of job growth’ to absorb more labour is fundamentally constrained. At some point, it becomes less and less productive, even futile.

Furthermore, as long as economic policymakers rely exclusively on a growing formal sector to ‘suck in’ unemployed people, they ignore an important avenue to improve the employment prospects, earnings, livelihoods, and human dignity of millions of poor people.

A carefully designed and balanced two-pronged economic strategy that targets both the formal and informal sectors (and, notably, linkages between them) is likely to have much more success at reducing unemployment. Economic policymakers should not allow formal-sector issues (and interests) to claim

15 Philip (2018) is an excellent primer for local government on township economic development.

the entire economic policy thinking space and to absorb all policy resources.

It is crucial to address business income, labour income, and employment at the lower end of the income spectrum and income distribution. Enterprise support that boosts the survival, growth, and employment of informal enterprises can impact all three ills: unemployment, poverty, and inequality.

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Chapter 11

The Case for a ‘Workable’ Basic Income Grant for Addressing Income Inequality

Celeste Campher 

Introduction

Can a basic income grant (BIG) reduce poverty and inequality in South Africa? In 1967, Martin Luther King said that guaranteed income is the most straightforward approach to abolish poverty. Nearly six decades later, the South African government is still grappling with the implementation of a universal basic income grant for the millions of destitute South Africans.

The South African government has a constitutional obligation to progressively realise the universal right to social security or social assistance within its available resources. Section 27 of the South African Constitution guarantees the universal right to social security, and – read with Sections 7 and 36 – requires a realisation of this right without unjustifiable delays. It is necessary to introduce social security for adults (18-59 years) who currently are not covered. This necessity is particularly urgent given the current labour market status and depressed incomes.

However, a critical decision for policymakers is whether a BIG should be provided universally, or targeted. According to the Institute for Economic Justice (IEJ),¹ a universal BIG (UBIG), if fully realised, would see all persons in society being eligible for its benefits, while the better-off and wealthy would progressively finance it and pay it back through taxation. A targeted BIG would attempt to select, identify, and distribute its benefits to a specific population subgroup, excluding others. The decision on which

design option to choose will have a significant bearing on how effective it will be and its impacts at a society-wide level.

Recently, the government announced extending welfare grants to the unemployed to introduce a more permanent BIG. The Presidency and National Treasury proposed in August 2022 to replace the Social Relief of Distress (SRD) grant with a jobseekers, caregivers, and household grant. The SRD grant expires in March 2023, and the ANC government is looking into possible extensions or alternatives to the SRD. National Treasury proposes partially replacing the SRD R350 grant with a jobseekers grant or household grant for some, possibly in combination with a truncated version of a caregivers grant, while excluding other poor persons entirely. The proposal from the Presidency, titled “Putting SA to Work”, focuses on the possible extension of, or alternatives to, the SRD grant. The proposal also takes a more detailed and thoughtful approach to broader issues, such as the acknowledgment of the international evidence on the developmental value of grants, that they assist people in the labour market and promote economic activity. The Presidency acknowledges that the country needs immediate, high-impact interventions to address the poverty crisis and that employment strategies will only have an impact over the medium term.

The fiscal risks of this decision are enormous. Given SA’s deteriorating credit ratings and fiscal position, these decisions will only exacerbate the country’s explosive debt situation. However, on the political side, the ANC government runs the risk of losing votes if they do not extend the payments of these grants, more so since a deteriorating economy translates into much higher unemployment numbers and, therefore, more people demanding grants. So, in essence, the ANC and its government are damned if they do pay these grants, and damned if they do not.

The Deteriorating State of the South African Labour Market and its Inability to Create Jobs for the Majority of the Unemployed

In the context of widespread hunger, declining incomes, and job losses, calls for a BIG have intensified and seem inevitable. In the

2nd quarter of 2020, Statistics South Africa (Stats SA) estimated 2.2 million job losses. In the 3rd quarter of 2020, Stats SA found that only 543 000 of these jobs were regained, meaning a net loss of just under 1.7 million jobs in quarters 2 and 3 of 2020.² In the 2nd quarter of 2023, Stats SA reports a decrease in the official unemployment rate to 32.6 percent.³ While this sounds positive, it must be read in the context of an already upward trend in the unemployment rate prior to the pandemic in 2020, with the official unemployment rate consistently increasing from 24.73% in 2012 to 28.18% in 2019, less than a decade later. Unemployment and job losses affect the most vulnerable (women, low income, rural, low/unskilled) more severely. Food insecurity, defined as running out of money to buy food, is at least twice as high as in 2016, with surveys reporting that 37% of households are affected.⁴ Hunger is rampant, and depressive symptoms have doubled. Currently, approximately 70% of adults (18–64) live below the upper-bound poverty line (UBPL) of R1 265 per person per month, with approximately 40% living below the World Bank's \$1.90 a day (R436 pm) measure.⁵

SA's unemployment rate of 42.2% (according to the expanded definition of unemployment) is the highest since 1994. Furthermore, South Africa needs a more skilled workforce to be employed in specialised employment opportunities and has an education system that fails to equip students with these skills. The majority of the unemployed in South Africa are young (15–34-year-old), black people who have never had formal employment. As with many other developing countries, more than waged employment is needed in South Africa to achieve social inclusion. For the millions of poor South Africans who are employed, the type of employment fails to provide a livable, secure income sufficient to break the cycle of poverty. Millions of unemployed (and even employed) South Africans are forced to rely on social grants. In September 2021, social grants were paid to approximately 25 million recipients, compared to the less than 15 million people employed in the formal sector.

With at least eight different social grants available, benefitting more than 18 million people (which excludes individuals who receive the temporary SRD grant), the SA

government extends a much-needed lifeline to many. The percentage of individuals who benefited from social grants steadily increased from 12.8% in 2003 to 30.9% in 2021, excluding those receiving the SRD grant.⁶

In 2021, the annual spending on social grants amounted to approximately R244.2 billion, or 12.5% of the annual budget allocation. This figure includes spending on the SRD grant, which amounted to approximately R18.0 billion or 0.5% of the total annual grant expenditure. In March 2022, approximately 18.7 million grants were paid out in South Africa, excluding the SRD grant. With roughly one in three people benefiting from some form of social grant, SA already has the second-largest share of households receiving state transfers in the world after Iran, according to World Bank data. Indeed, more people in South Africa received grants than people were employed, even before the impact of COVID-19 on employment numbers. In terms of grant dependency, the number is deteriorating. There were 313 employed people per 100 social grants in 2001; in 2019, 91 were employed for every 100 social grants.⁷

The old age grant, disability grant, and care dependency grant each amount to R1 890 per month per beneficiary, while the child support grant amounts to R460 per month, and the war veterans grant amounts to R1 910 per month. In 1999, the old age grant constituted nearly 71% of the total grants the South African government paid. This has since been reduced to 20.2% in 2021, with the child support grant constituting 70.5% of the total grants paid (up from only 0.9% in 1999) – see Figure 1 below.

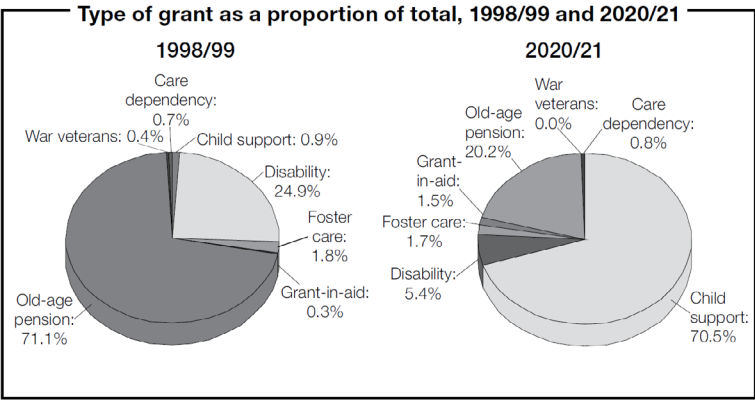


Fig. 1: Type of grant as a proportion of total, 1998/99 and 2020/21. Source: Centre for Risk Analysis, 2021

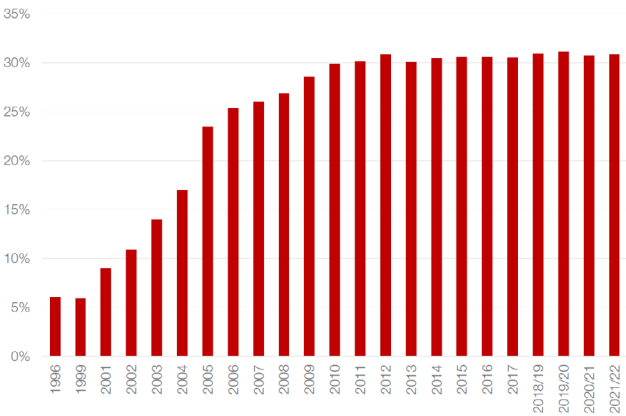


Fig. 2: Social grants as a proportion of the total population, 1996–2022. Source: Centre for Risk Analysis, 2021

Figure 2 shows that total grants as a proportion of the total population have increased from 6% in 1996 to 30% in 2022.

According to Stats SA, black South Africans rely heavily on social grants as a source of income – almost as much as they depend on salaries/wages/commissions as a source of income. In 2021, 55.1% of black households reported receiving an income from some grant – up from 50.3% in 2010. The proportion of white

households relying on a social grant increased from 9.9% in 2010 to 14.8% in 2021, although this is still notably lower than for the other race groups. Approximately 11%, 19%, and 9.8% of people in South Africa live in the Eastern Cape, KwaZulu-Natal (KZN), and Limpopo provinces respectively, with 14.8% of the total grant beneficiaries coming from the Eastern Cape, 21.3% from KZN, and 13.7% from Limpopo. Although Gauteng accounts for 26.6% of the SA population, only 16.6% of grant recipients come from this province, indicating a higher dependency on social grants in rural areas than in urban areas.

Evidence of the Impact of a Basic Income Grant on Poverty Reduction

Several studies have been undertaken to gauge the likely poverty-reducing effects of SA's welfare grant system, which is widely acknowledged as one of the most effective in the developing world – though a grant targeting the unemployed is still not a permanent feature. Recognising the need for empirical economic analysis of social protection policies in SA, the Inclusive Society Institute (ISI) commissioned such a study early in 2022. The main objective was to determine the macroeconomic impact of a BIG fixed at the food poverty line (R624 per month at the time). According to a World Bank report, these programmes contribute substantially to combating poverty. For the 79 countries with sufficient monetary information that were surveyed, social protective programmes reduced the incidence of absolute poverty (\$1.90 at purchasing power parity per day) by 36%, whereas relative poverty (the bottom 20%) was reduced by 8% on average.⁸

Locally, the South African system of social protective programmes is extensive in terms of the number of people it covers, and the number of fiscal resources required for its funding. SA stands out among its peers for virtually all social protective programme indicators. It is ranked second among upper-middle-income countries for the ratio of government expenditure on social protective programmes, and second among all developing countries for the percentage of the population that receives social grants.

However, it is evident that – notwithstanding SA's success in expanding its social protection system over the past decade – the number of poor people has steadily increased since 2015. This coincides with a persistent deterioration in the country's economic performance, which resulted in a progressive decline in the real GDP *per capita*. Between 2012 and 2015, the food poverty headcount declined by 35%. Over the same period, the real value of social protection spending *per capita* rose by 6%, but real GDP *per capita* only rose by 1%. Between 2015 and 2021, the headcount increased by 37%, social protection spending *per capita* increased by 9%, and GDP *per capita* decreased by over 6%.

This suggests that – apart from any fiscal affordability and sustainability considerations – devoting progressively higher proportions of government revenues to social protection transfers will not succeed in reducing poverty by itself. It needs to be accompanied by a supportive environment.

Making the Grant Work for its Beneficiaries

What value is added to the lives of the many who simply receive this monthly hand-out to pay for the most essential goods and services? How do these hand-outs empower these millions of destitute citizens to free themselves from the claws of poverty and inequality? Poverty, inequality, and unemployment are three interdependent socioeconomic challenges policymakers seek to address. Addressing this 'triple challenge' in South Africa is critical for the country's future, but an unfunded expansion of the social transfer system could lead to even worse economic outcomes. So, in essence, the medicine should not be worse than the disease.

The vast majority of grants are child support grants (R500, or around US\$27, a month) paid to a child's primary caregiver based on a means test. There is ample global evidence that such cash transfers bring many positive outcomes. For instance, they reduce child hunger, improve school attendance, and help reduce poverty. Although social grants are mainly spent on food, there is growing evidence that they are also used for productive investments in livelihood activities. People

undertake these actions to meet their basic needs, such as food, shelter, and clothing. Grant recipients find various ways to ‘grow’ their grant by engaging in informal work and other income-generating activities.

It has been reported that 31% of grant beneficiaries engage in informal work.⁹ These are jobs with no written contract and where the businesses are not registered for tax. They include care work, informal trading, or self-employment. In 2021, grant beneficiaries were more likely to do informal than formal work. There was a greater probability of child support grant beneficiaries engaging in survival-oriented business activities (11%), followed by 9% of beneficiaries of the SRD grant and 4% of old-age pensioners. Grant beneficiaries strongly desire to be productive – such as having a job, starting their own business, and finding ways to improve income and personal and family wellbeing. They also face significant barriers to promoting livelihoods, reducing poverty, and improving psychosocial wellbeing. This indicates the need to design multi-pronged poverty reduction strategies combining grants and livelihood support services.

A new approach towards the state’s role is increasingly gaining traction globally as a sensible and socially responsible welfare policy option, the essence of which is that beneficiaries now have *obligations* and *rights*. It incorporates the view that traditional cash benefits fail to support a proportion of recipients in becoming self-sufficient, and therefore passive implementation has been substituted by more active labour market policies or workfare (temporary employment). From a political perspective, a shift towards workfare programmes should be appetising, as it would include prospects for more excellent fiscal stability, increased self-sufficiency of beneficiaries, the prevention of social exclusion, and an increase in employment.

Some good examples of the aforementioned programmes are found in Brazil and India. These countries have had widely acclaimed success with initiatives to combat poverty based on either conditionality in grant payments or workfare arrangements. Brazil’s Conditional Cash Transfer programmes aim to reduce poverty in a multi-dimensional manner by

requiring beneficiaries to comply with conditions aligned to enhancing human capital. The country's success boils down to a partnership approach between civil society and the state, a decentralised system that avoids undue political influence, and has sound governance standards, a registry of beneficiaries based on reliable and accurate data, and political appeal (due to its significant impact on poverty). India has also achieved significant progress, but with the implementation of workfare programmes, especially in the areas of part-time employment to unskilled rural dwellers via the National Rural Employment Guarantee Act. Its emphasis is on water-harvesting initiatives, supplemented by other infrastructure-related projects. Another flagship social protective programme is the subsidisation of rural housing, with the requirement that the beneficiaries must build their own houses.

These two examples show that it is possible to lower poverty in a sustained manner by integrating millions of people into the economic and social mainstream of the country without compromising other economic development goals. Policymakers in SA would do well to consider introducing some of their elements into the future refining of domestic welfare programmes.

In essence, a more economically sustainable approach to the grant system would be to ensure that these beneficiaries become productive, income-generating members of society by providing them with a grant that is coupled with a resource or skill that would allow them to grow a vegetable garden, start a roadside hawker's stall, or build wooden furniture in their backyards. Instead of teaching the destitute to queue for a monthly hand-out of milk, would it not be more beneficial to teach them how to use their hands to care for their cow and then milk it? Thus, while we need a welfare system, it must be one that reduces welfare dependency.

Informal work is a crucial livelihood strategy for grant beneficiaries who supplement their income through multiple livelihood activities. Most grant beneficiaries work in elementary occupations, services, sales, and craft-related trade. A small

proportion are self-employed, running survivalist businesses. This contradicts the view that beneficiaries are passive and disengaged from the labour market or do not desire to work. There is a need for greater recognition of informal work and its role in poverty reduction as a national policy objective.

Moreover, social grants plus complementary livelihood supports are needed. These include access to capital, credit, and small loans. The development of knowledge and skills and mentoring and coaching are also critical. Few government departments target beneficiaries for livelihood supports such as small-scale farming and entrepreneurship programmes. There is a need to explore innovative delivery modalities – whereby livelihood supports may be crafted onto existing government programmes. Incentives should be provided for those who wish to pursue productive activities. There is room to scale up livelihood supports through existing governmental, NGO, development agencies, and CSI programmes. However, more research and experimental intervention research are needed to inform the design of livelihood support policies and strategies.

As for the unemployed, instead of an unconditional grant, the grant should be paid so that the unemployed workers also attend training to make them more employable. Childcare and foster care grants should be paid on condition that the caregiver ensures that children are in school or, as in Brazil, that the child is vaccinated. Ensuring that children are in school is essential, given the large dropout numbers of learners between Grades 10 and 12.

In the past, Joel Netshitenzhe and Trevor Manuel quoted Roman statesman and lawyer Marcus Cicero saying, “People must again learn to work instead of living on hand-outs.” In his 2003 State of the Nation Address, even former president Thabo Mbeki raised his concern about the millions of South Africans who rely on social grants. However, nearly 20 years later, the SA government is far from the developmental state it proposed and envisioned. Instead, we have an ailing welfare state and expanding welfare dependency.

Feasibility of the Grant

The macroeconomic implications of a BIG will depend on the approach to funding it. While a BIG would provide poverty relief and economic opportunities to many people, the fiscal sustainability of such a scheme needs to be assessed. Given South Africa's already high level of public debt, the opportunity to fund a BIG through higher debt is limited. On the one hand, a BIG would decrease economic growth through three main channels: increased borrowing costs, increased taxes, and crowding-out of private and public non-transfer spending. On the other hand, it would positively impact economic growth through one main channel: an increase in consumption by poor households. Overall, it is widely suggested that the adverse economic effects of expanding social grants would outweigh the positive effects.

Intellidex¹⁰ argues that sustainable expansion of transfers would only be fiscally sustainable with expansion of the tax base and that expenditure reprioritisation at the required scale is unfeasible. Intellidex (2022) estimates that a BIG would lead to a six-percentage-point increase in debt to GDP in an optimistic growth scenario with tax financing, and a 30-percentage-point increase in the public-debt-to-GDP ratio under debt financing. Their 'viable' BIG option requires accelerated economic growth and reforms or a modest R50 to R100 billion expansion in transfer through higher taxes. They estimate that raising R50 billion in extra revenue would require a minimum 9% increase in personal effective tax rates (2.5 percentage points at each tax bracket), and R100 billion would require a minimum 19% increase in effective tax rates (almost five percentage points at each tax bracket).

The Expert Panel on Basic Income Support (2021)¹¹ estimates that a universal grant would cost between R137 and R534 billion and presents various summaries of options for financing grants, with a R350 grant level requiring a three-percentage-point increase in personal income tax rates across all bands, for example. They present CGE-based estimates of the impact on growth, which depend on assumed macroeconomic impacts and financing choices, ranging between -0.9% to 1.2% change in GDP in 2021 and -7% to 6.2% long term, turning

positive if the scenario finances some of the increased transfers from productivity improvements and investment expenditure rises. The panel report notes that the universal and means-tested social grants would have similar impacts on poverty and inequality, reducing the Gini coefficient to 0.54 from 0.65.

It would likely pay for itself if a more redistributive fiscal policy stance were to raise growth and reduce spreads. On the contrary, if a more redistributive stance were unaffordable over the long term, it could weigh on growth as interest rates ratchet up and contribute to fiscal sustainability risk. This would not enhance welfare for the citizens of the country. Berg and Sachs (1988)¹² show a link between income inequality and debt rescheduling, suggesting a link between inequality and sovereign risk. The channel they propose is countries with high levels of inequality are under more pressure to redistribute income. This demand for redistribution can often only be met through foreign currency borrowing, which, in turn, raises the likelihood of a debt crisis, something South Africa cannot risk at this stage.

Conclusion

Without a welfare system aligned with a pragmatic growth and development strategy, long-term income inequality and poverty reduction will remain elusive. To reverse the cycle of poverty and inequality that characterises many poor communities, a broad-based strategy is required to ensure the sustainability of the fiscal resources required for immediate poverty reduction (such as cash grants) and policies designed to enhance the income-generation potential of poor people. Due to the existence of empirical evidence supporting a positive causal effect between welfare grant payments and economic output – including the fiscal backflow (in terms of a broadening of the taxation base) – it is not anticipated that a BIG will place undue pressure on the public finances, while simultaneously lowering the extent of income inequality and poverty. The most effective way to combat poverty is by creating jobs at remuneration levels above the national poverty line. Every job thus created obviates the need for a welfare payment to the relevant person. Such initiatives, which will eliminate food

poverty in SA, will also significantly reduce socioeconomic unrest in the country. Both directives remain in urgent need of attention.

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Chapter 12

Economic Inclusion and Inequality

Arno van Niekerk 

Introduction

The question economic inequality poses to society is essentially more a question of inclusion, or ‘how to include?’ rather than simply closing the income gap between the rich and the poor. While there are different types of economic inequality, this chapter suggests that the real issue is ensuring that the poor and marginalised are productively included in a country’s economic activities – especially in the mainstream. Hence, the focus here is on ‘economic inclusion’ and what that means by reducing economic inequality. The fact that inequality ‘excludes’ puts it in direct opposition to economic inclusion. It would provide valuable perspectives on addressing inequality if we could better understand the different facets and dynamics related to economic inclusion. This is what this chapter will examine. To sustainably and consistently reduce economic inequality, the capacity of an economy to ‘include’ those in lower income levels becomes critical.

South Africa is a classic example of how the ebbs and flows of economic inequality since 1994, given political change, can end up with more marginalisation (although, politically, that was not the intention). Arguably, this is because the capacity for economic inclusion has remained the same at the other end of the scale in the process. Understanding what economic inclusion means and how to measure it is vital in ensuring that the trajectories of less inequality and more inclusion keep moving in opposite directions. When this happens, sustainable economic development is a natural outflow and will continue almost effortlessly.

A country like South Africa, in 2023 and beyond, needs help to avoid a situation where the exclusion of people with low

incomes gets worse. Otherwise, it could result in dangerous social instability and even anarchy. The government paying grants to the people may have slowed down the threat of people with low incomes falling through the cracks. However, it has created another problem: more and more people (now almost half of South Africa's population) have become dependent on state support, which could be more sustainable in the long run.¹ This is not productive inclusion but a form of 'dependence inclusion', which does not empower the people. Economically speaking, this is not a solution to reducing inequality or increasing economic inclusion. It might be utterly counterproductive to other state and private sector efforts to enhance economic inclusion in the South African (SA) economy. These and other vital issues are considered in this chapter. On the one hand, the aim is to expose misunderstandings about 'economic inclusion' (which aggravate inequality), and on the other, to provide markers on how economic inclusion can help solve the inequality problem. The SA economy will be a focal point of reference throughout the chapter.

What Makes Inequality a Threat to Economic Inclusion?

Economic inequality – an integral component of inequality in general – is a concern for developing and advanced economies. According to the 2022 World Inequality Report, the top 10% of the global population acquires more than half (52%) of the total income, while the bottom half receives a mere 8.5%. Elsewhere, it states that:

- The share of the bottom 50% in total earnings is less than 15% (less than ten in Latin America, Sub-Saharan Africa, and MENA region), while the share of the richest 10% is over 40% and, in many of the regions, closer to 60%. However, perhaps even more striking is what is happening to wealth. The share of the bottom 50% of the world's global wealth is 2%, by their estimates, while the share of the top 10% is 76%. ... The wealth of the top 10% globally, which constitutes the middle class in rich countries and the merely rich in poor countries, is growing slower than the world average. However, the top

1% is growing much faster: between 1995 and 2021, the top 1% captured 38% of the global increment in wealth, while the bottom 50% captured a frightening 2%. The share of wealth owned by the global top 0.1% rose from 7% to 11% over that period, and global billionaire wealth soared.²

Figure 1 illustrates the global persistence of income inequality.

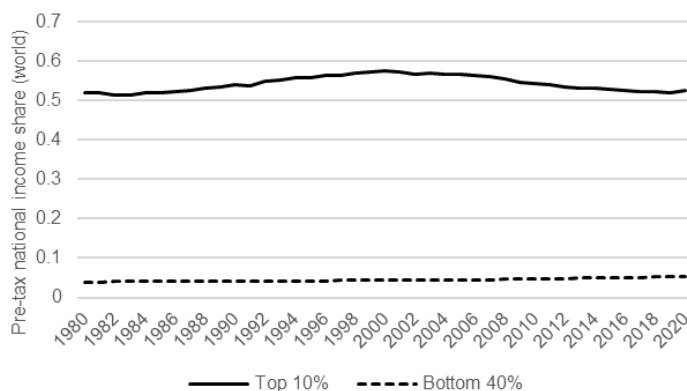


Fig. 1 Income disparities from 1980 to 2020 (world averages).
Source: Own work and data from the World Inequality Database (WID), 2023a³

Increased economic inequality is thus a global phenomenon affecting all countries. This is quite ironic because the average world GDP *per capita* has increased from US\$459.26 in 1960 to US\$ 4 304.10 in 1990 to US\$12 236.60 in 2021.⁴ This suggests that income and wealth increase at the expense of low-income people, i.e., more people are excluded from the economy in the face of growth. This is confirmed – especially in developing countries – by the rise, or at least persistence, of poverty and unemployment. South Africa is a distinctive case in point. As Figure 2 shows, unemployment, poverty, and inequality levels gradually increased since 1991, accelerating in the 2000s. In 2021, South Africa had the regrettable position of being, at the same time, the most unequal country in the world (with a Gini index of 0.63), the country with the highest unemployment rate (28.8%), and that with the

highest extreme poverty rate (30.2% of the population living in extreme poverty).⁵ After that, the situation got even worse, but the economic deterioration in several other countries – many of them African – occurred at a faster rate, ‘saving’ South Africa from this disgraceful position.

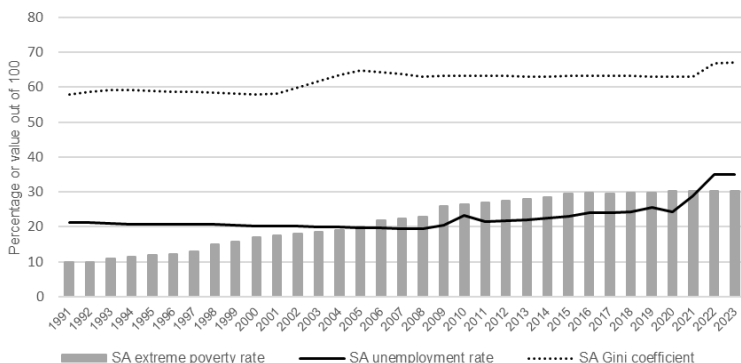


Fig. 2 Triple challenges confronting the South African economy. Source: Own work and data from Statista (2023a); World Bank (2022), Statista (2023b)⁶

The gradual worsening of these three trends can be directly linked to the growing gap between rich and poor in South Africa. Nothing can be blamed on the COVID-19 pandemic. As Figures 3 and 4 illustrate, the growing disparity in the average income of the top 10% of South Africa’s population and the average income of the bottom 50% started to accelerate in the mid-1990s. The top 10% went up from 46.3% of income share in 1993 to 65.4% in 2021.⁷ The bottom 50% went down from 13.7% in 1993 to 5.8% in 2021.⁸ In both cases, the drastic changes in South Africa’s situation stand out above those of the other countries specified. In terms of wealth inequality (see Figure 5), the trend in South Africa’s top 10% also stands out (above the other countries), showing an abnormal increase by comparison, significantly since 2005 (growing from 83.3% to 90.9% in 2008).⁹ All these trends are a severe cause of concern for South Africa, which points to increased economic exclusion for decades of a growing majority of the population.

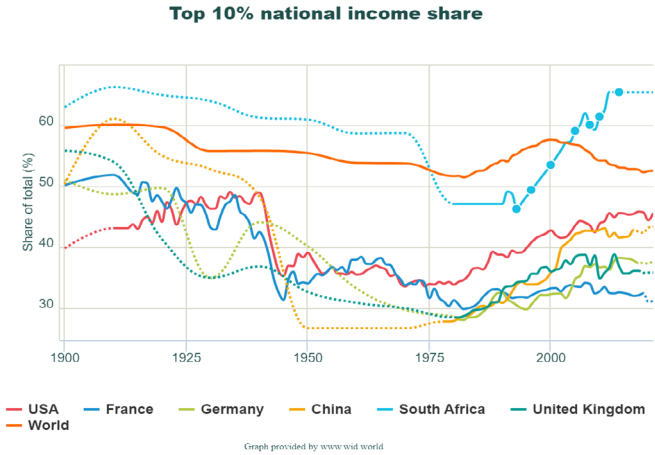


Fig. 3 Top 10% national income share. Source: World Inequality Database (WID), 2023b¹⁰

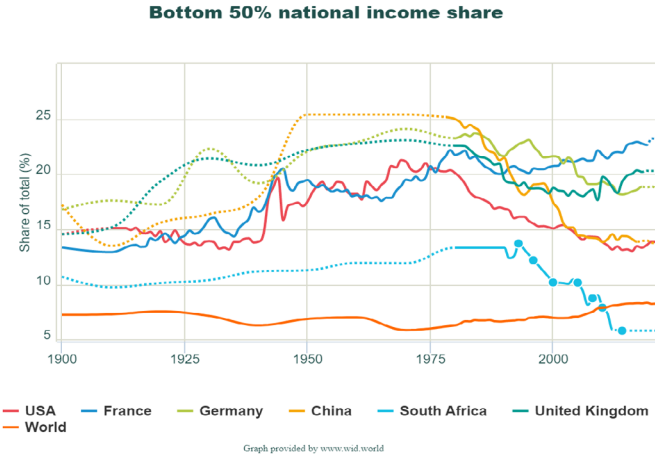


Fig. 4 Bottom 50% national income share. Source: World Inequality Database (WID), 2023c¹¹

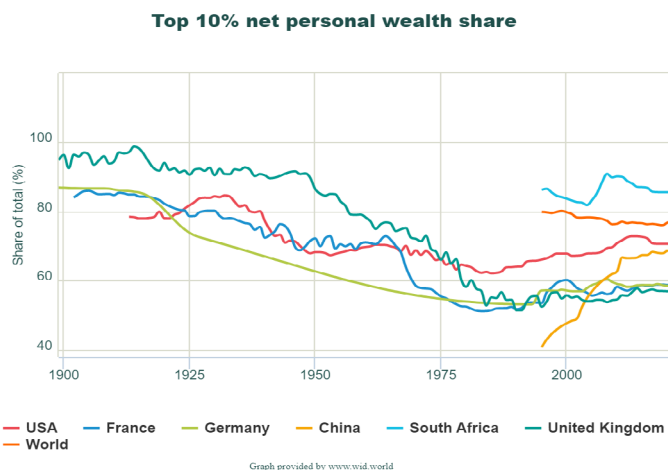


Fig. 5 Top 10% net personal wealth share. Source: World Inequality Database (WID), 2023d¹²

The underlying factor at the heart of the issue is how economic inequality in South Africa – driven by increasing unemployment and poverty and lack of inclusive growth – is excluding growing numbers of the population from the economy. In a study by Ramos *et al* (2013) from the International Policy Centre for Inclusive Growth, a comparative assessment highlighted the low degree of inclusivity in South Africa’s economic growth. By constructing an ‘Inclusiveness Index’, they found that South Africa’s index value climbed from 0.74 in 1996 to 0.77 in 2006, indicating a decrease in inclusiveness.¹³ This was during a decade in which the country experienced some of its highest economic growth rates. According to Ramos *et al*, the main reasons were a low rate of labour absorption and high income inequality. This made South Africa rank amongst India, Bangladesh, Ethiopia, Madagascar, Zambia, and Uganda in the category of non-inclusive. This is shown in Figure 6. The Inclusiveness Index makes use of three equally weighted elements: two benefit-sharing measures (the poverty headcount ratio and the Gini coefficient) and a measure of employment participation (the employment-to-population

ratio (EPR), also known as the labour absorption rate. It measures¹ where a country is standing in terms of poverty, inequality, and employment compared to the top-performing country within the group.

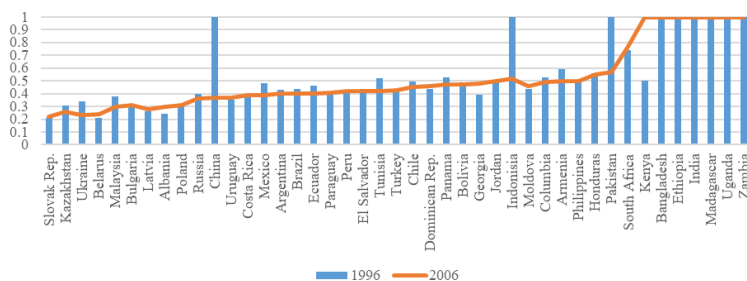


Fig. 6 Inclusiveness Index for economic growth (1996 and 2006). Source: Data from Ramos *et al* (2013)¹⁴

South Africa's position on the Inclusiveness Index aligns with another study conducted by Anand *et al* (2013), which assessed inclusive growth from the early 1990s to around 2010.¹⁵ According to their analysis, South Africa ranked fifth among 27 selected emerging-market countries and 16th from the bottom among 100 emerging markets. The study used a definition based on changes in *per capita* GDP and income inequality. It confirms the threat that exclusion (or decreasing economic inclusion) not only limits possibilities for productive participation, but also puts a barrier in the economy that prevents people from getting any form of access. In South Africa, current growth patterns are typically not employment intensive. Its employment coefficient is around 0.5, indicating that employment expands at a rate that is only half of the GDP growth rate.¹⁶ As such, the ability to absorb

1 It uses a scale ranging from 0 to 1, with lower index values indicating a higher degree of inclusive growth. Inclusive economic growth is attained when it improves across all three inclusivity indicators or shows progress in one or two indicators while maintaining stability or non-deterioration in the remaining indicator(s). A lower index value indicates higher inclusivity in the country's growth. Closer proximity to 0 on the index signifies lower poverty rates, Gini coefficient, and higher EPR.

labour in proportion to output diminishes over time, leading to a continuous decline in overall employment intensity.

This poses significant challenges to increasing employment through growth in the formal economy. Suppose the informal sector – which is not even a third of the size of South Africa’s formal sector – does not provide a source of income to the majority of South Africans. In that case, it poses a real danger to social stability and progress. When people are hungry, they are desperate, partly explaining the country’s high crime levels. The social grants also do not create new, productive opportunities. In the absence of intentional economic inclusion, all these factors – economic and social – combine as part of a vicious cycle that is highly volatile and can spiral out of control at any time. If you then add opportunistic politicians to the mix, it becomes dangerously explosive. South Africa would want to prevent such a situation at all costs. The rhetorical question is: Can it?

The root of the concern with inequality, and why it poses a threat to economic inclusion, is that “inequalities are not simply carefully constructed measurement scales, but complex webs of dynamic social relations that privilege some while constraining the life chances of others” (Greig *et al* 2007).¹⁷ What makes it not just a passing, surface-level issue but systemic is the ruinous exogenous structural factors that are part of economic inequality. These include: dominant role players whose power obstructs the progress of subservient people; coercive behaviour that limits people’s economic choices; skewed resource distribution, mismanagement, and corruption; enforcing preferences; polarisation in societies; and essential services not being delivered. These factors are disempowering to people as they restrict social mobility, entrench inequality of opportunity, and constrain income and growth. In this sense, inequality can become a form of social control. In South Africa’s case, with such a high degree of dysfunctionality, it may be inadvertently evident.

What Does Economic Inclusion Mean, and What Does It Not?

Economic inclusion refers to the extent to which individuals and groups have access to and can actively participate in economic opportunities and benefits within a society. It involves creating an enabling environment where all members of society, regardless of their background or circumstances, can engage in productive economic activities, benefit from economic growth, and improve their wellbeing or quality of life.¹⁸ Principles of economic inclusion entail fairness, equity, and social justice. By emphasising the moral force of shared community values as a restraining factor against different forms of exploitation, it seeks to eliminate disparities and barriers that prevent certain groups from fully participating in the economy. This can be achieved through policies and practices promoting diversity, inclusion, and equal opportunities, such as access to economic resources, employment opportunities, education and skills development, social safety nets, markets and services, financial inclusion, and entrepreneurship and business development. Economic inclusion aims to reduce inequalities, promote sustainable and inclusive economic growth, and enhance overall wellbeing and prosperity for all members of society.

In order to achieve this sustainably, actions of economic inclusion should translate into creating a new system, an inclusive economy. The latter can be defined as: “an economy driven by inclusive growth to yield genuine economic progress to promote equality of opportunity and broader.”²

“ Wellbeing in terms of both people and the planet”.¹⁹ According to Sara Murawski, such an economy “means creating more sustainable and inclusive societies that aim at including all members of society in the growth process itself, instead of distributing wealth among them after periods of steep growth.”²⁰

2 This refers to overall wellbeing, which includes both individual and collective wellbeing. The emphasis on human wellbeing (beyond GDP growth) refers to improving people’s quality of life, not just raising income.

For such a system to fully take effect, at least five prerequisites can be identified:

- *Inclusive growth*: Unlike one-dimensional GDP growth (focused on output and income), inclusive growth is multi-dimensional in prioritising growth's process and outcome. This means equal opportunities are created for all to participate in the growth process, with benefits incurred by every segment of society, resulting in a fair distribution of the dividends of increased prosperity, both in monetary and non-monetary terms. It aligns with how people are provided access to productive opportunities (how growth is achieved) and the outcome of decent living standards that increase with economic growth. The latter, then, is the result of fair access to markets, resources, and an unbiased regulatory environment. Increased shared prosperity is combined with more significant equity in such a system.²¹
- *Genuine economic progress*: This involves designing a sustainable economy that generates new avenues for participation and replenishes itself in ecological terms. It entails reducing and internalising negative economic externalities, while enhancing positive ones. Genuine economic progress is attained by subtracting social and environmental costs and negative externalities from GDP growth and incorporating positive externalities not typically captured by GDP measurements.²² A real increase in economic welfare and an improvement in a nation's or community's wellbeing indicate genuine economic progress.²³ This redefines the concept of progress beyond a singular measure like GDP and embraces a broader understanding encompassing various aspects of human wellbeing and quality of life.
- *Circular economy*: This is an economic system that minimises waste, maximises resource efficiency, and fosters sustainable development. It is a departure from the traditional linear economy, which follows a 'take-make-use-dispose' pattern, where resources are extracted, products are manufactured, consumed, and then discarded as waste. Resources are kept in use for as long as possible, extracting maximum value from

them and minimising waste generation.²⁴ The logic of the ecosystem is employed: appreciating the interconnectivity of all organisms and elements within a relational world characterised by interdependence, continual change, and collaborative creation (or co-creation).²⁵ The circular economy applies the same insight to human ecology and constantly seeks new solutions.

- *Collaborative economy*: Structured around innovative economic inclusion, consumers create an integrated marketplace where they rely more on each other and shared supply systems (in collaboration with firms they trust) to meet their needs and wants.²⁶ This may include trading, renting, giving, swapping, borrowing, and sharing products and services for a fee between an individual who has something and someone who needs a product or service. The focus of inclusion here shifts away from traditional ownership towards access and better use of under-utilised assets/resources. Also called a 'peer-to-peer economy' (P2P) or a 'sharing economy',³ the goal is to foster synergies between collective and individual wellbeing and empower individuals to make decisions that enhance their quality of life.²⁷ Often leveraging technology (e.g., digital platforms and the internet), such empowered participation is focused on creating new access for mutual benefit. The collaborative economy builds commonwealth to improve collective wellbeing – that is, to facilitate and enable as many collective contributions to a common good in society as possible for the benefit of all stakeholders.²⁸ Such a system illustrates that economic inclusion can only occur with intentional and purposeful collaboration.
- *Inclusive economic policies and institutions*: Without political will and government support, societal initiatives of inclusion will always be limited. Structural and systemic change is needed, mainly done through policies and institutions. While

3 A sharing economy can be described as a socioeconomic system in which consumers share in creating, producing, distributing, trading, and consuming products and services. Such collaborative systems manifest in diverse ways, often utilising information technology, especially online digital platforms, to facilitate the efficient distribution, sharing, and re-use of surplus capacity.

equal opportunities, economical safety nets, and pro-poor policies are essential to the inclusion agenda, the real change lies in shaping policies that seamlessly embed economic inclusion into every aspect of economic life.²⁹ Weaving it into every fabric of the economy is the key, but also an art. It requires new economic thinking as much as new approaches, commitments, and a new end goal. Such an end goal combines genuine economic progress, overall (collective) human wellbeing improvement, and higher quality of life for all, where economic inclusion is not the end goal but a means to the end. Inclusive policies must be in sync with people's needs and in touch with the structural changes needed to foster economic inclusivity. Equally important are inclusive institutions that prioritise and integrate economic inclusion. Research has indicated that, without an undivided and comprehensive institutional commitment to this objective, it may be relegated to a secondary priority rather than fully embraced.³⁰

Clear synergies in the form of specific discourses/departures exist between all five components of an inclusive economy. As a first point of departure, the way progress is perceived is more holistic than just a simplistic measure like GDP. Apart from emphasising overall wellbeing and quality of life, genuine progress is further understood in intentionally creating fair access (more significant equity) for individuals to be economically productive (in the growth process). Such a holistic view considers both minimising the social and ecological costs of growth and maximising the enabling environment (including skills) to empower people to gain access more easily. A second departure they share is moving away from the usual linear economy towards a circular economic model in which waste is minimised and resource efficiency maximised to spur green, sustainable development and access/inclusion. In the latter's case, for example, recycling, upcycling and re-using waste materials present new opportunities for people with low incomes to become productive, especially if incorporated in businesses' value chains (inclusive business), and incentivised by state policies (inclusive policies). New economic value is then created, which presents further opportunities for integrating such

approaches in collaborative economy contexts where different synergies in society unlock new participation opportunities for the poor and better sharing of benefits.

A third point of departure is moving from the typical Western form of individualistic capitalism to a more collectivistic (inclusive) market-based system that fully appreciates interdependency, collaborative creation (co-creation), and sharing economy traits to find innovative solutions that benefit all. In such a 'human ecosystem' approach, the drive for innovative progress becomes a community ideal, not just an individual ideal. For instance, a business exists for the benefit of the community, not just to make a profit. Self-interest is harmonised with 'shared interest' for mutual benefits that include the marginalised (i.e., commercial or non-commercial benefit-sharing).

One random example is that, by repurposing or making better use of under-used assets, new access is created into the economy, thus extending asset value-lifespans. When all stakeholders in a community (located online or in a geographical area) start benefiting from the economic interaction, it raises average income levels and decreases the poverty burden on society as a growing proportion of the population becomes productive. This sets a positive cycle of genuine progress in motion and ends the vicious cycle of poverty, unemployment, and exclusion. When such purposeful economic collaboration is fully supported by inclusive government policies and institutions, the right enabling environment sustains progress. Political will serves the right economic end goal and not that of politicians' economic self-interests or policies that favour the interests of large corporations. In this way, meaningful inclusion creates a sense of accountability and the potential for deep-seated economic change.

Undoubtedly, increased economic inclusion is essential when attempting to reduce economic inequality, unemployment, and poverty. The emphasis is always on constructive inclusion in the economy. Importantly, economic inclusion should never give rise to the perception or enable a culture of free-riding or laziness within the economy. It should not aim to include marginalised individuals merely for inclusion. This is not genuine

economic inclusion and is considered fake/false. It should always foster productive inclusion, where all economic participants add value to the economy. It is not solely about redistributing income or resources to those who face income constraints; rather, it entails a rational and optimal allocation that prioritises increased productivity. Other forms of false economic inclusion involve situations where the appearance or rhetoric of promoting economic inclusion is present, but the actual impact or outcomes fall short of genuine inclusion. Some examples are:

- *Superficial inclusion*: This involves symbolic gestures or programmes that have minimal impact on improving opportunities for low-income groups, based on tokenistic or artificial initiatives that give the impression of inclusivity without truly addressing systemic barriers.³¹
- *Cosmetic diversity*: This means implementing surface-level diversity without addressing underlying power dynamics or structural inequalities.³² Organisations or institutions may, for instance, emphasise diversity in their workforce or leadership positions without furthering economic inclusion/distribution or addressing systemic barriers that prevent equal benefit-sharing.
- *Exclusionary practices*: This concerns the implementation of policies or practices that, in effect, perpetuate exclusion,³³ for example, promoting entrepreneurship programmes that are actually inaccessible to marginalised communities due to lack of resources, discriminatory lending practices, or limited support networks.
- *Empty rhetoric*: This is when companies, governments, or organisations make public statements that promote inclusivity, but more concrete action needs to be taken to substantiate it.³⁴ This may entail making promises or statements about improving economic inclusion for political or public relations purposes, without following through with tangible policies, actions, or measures.

Genuine economic inclusion requires substantive and meaningful efforts to dismantle systemic inequalities and create an inclusive environment with economic benefits for all individuals and

communities. Noteworthy, however, is that when considering what qualifies as inclusive, it is necessary to exercise caution and avoid imposing subjective judgments on what is beneficial or detrimental for people with low incomes.³⁵ This is especially true for businesses wanting to contribute to economic inclusion but not knowing/understanding what exactly it is that will include people experiencing poverty. Phrases such as “business fighting poverty” and “business making a difference” have gained popularity, but often lack meaningful implementation regarding inclusive business practices. To distinguish between inclusive and non-inclusive practices, it is essential to consider what defines inclusivity within a business’s value chain. At the same time, definitions may vary; based on the analysis above, two fundamental elements consistently set inclusive businesses apart: mutual benefit (between the company and the community and environment) and integration into the business’s value chain.³⁶ The deciding factor concerning inclusiveness or non-inclusiveness at each link of the chain is the extent to which the output of the business translates into a positive outcome in the community.³⁷

In practical terms, an inclusive business model can be identified as having an inclusive value chain, where its outcomes – such as job creation, use of local resources, and providing products to the underprivileged – lead to the desired development results. These results positively impact the economic, social, and environmental fronts. Given that no business model can altogether avoid negative impacts, the next step is to find the right balance between potential positive and negative consequences. This raises the question of how to differentiate inclusive practices from non-inclusive ones and to evaluate the degree to which a business action can be considered inclusive. Of vital assistance to help weigh the impacts (and business outputs) would be two processes: monitoring and evaluation (during the intervention), and impact assessment (after each intervention).³⁸ In the end, however, evaluating inclusiveness and the overall net impact should be entrusted to those most directly affected by the intervention(s).

Addressing Inequality through Economic Inclusion

Having already started to suggest ways economic inclusion could help address economic inequality, Table 1 provides an excellent framework to evaluate the broader context of what causes economic exclusion and how economic inclusion can be a counterstrategy. The first aspect that is clear from Table 1 is that there are arguably five leading causes of economic exclusion: poverty, inequality, unemployment, systemic failures (e.g., government safety nets), and economic crises. Research has shown that if an economic inclusion strategy addresses at least these five aspects at the community and national levels, it could be expected to succeed.³⁹ Secondly, the five facets or minimum prerequisites for an inclusive economy – inclusive growth, genuine economic progress, circular economy, collaborative economy, and inclusive policies and institutions – form a coherent framework that can address economic inequality from multiple directions. They are also appropriate for dealing with the multifaceted nature of inequality. For instance, inclusive growth promotes broad-based growth and shared growth. The former aims to involve more people with low incomes and marginalised people in the growth process through productive employment, i.e., to generate employment-intensive growth, making the economy more labour-absorbing. The goal of the latter (shared growth) is to ensure that the fruits of growth are shared to reduce income inequality considerably and systematically stamp out poverty.⁴⁰ Genuine economic progress ensures better resource allocation and income distribution, while the circular economy entrenches a distributive model in the economy to counter economic inequality. The collaborative economy helps to decentralise power so that the distributive gains of inclusive growth may be shared more broadly. Inclusive policies and institutions are responsible for establishing and sustaining redistributive systems in the economy (not just through taxation) to stimulate productive inclusion. More are included at the ground level in value chains through transformative partnerships with the private sector (inclusive business) and civil society organisations with the administrative capacity to facilitate benefit-sharing properly.

Table 1 Inclusive economic responses to different causes of economic exclusion. Source: Van Niekerk, 2022⁵⁸

<i>There are five main concerns that economic inclusion wants to find answers to:</i>	Inclusive growth	Genuine economic progress	Circular economy	Collaborative economy	Inclusive policies and institutions
1. Poverty	Pro-poor growth; emergence of 'prosumers'	Equal opportunities; equitable outcomes	Circular principles for welfare maximisation	Resource-based economy; access	Social safety nets and overall wellbeing
2. Inequality	Broad-based growth; shared growth	Better resource allocation and income distribution	Distributive economy model: learning from nature's system	Decentralise economic power; distributive gains	Redistribution and reciprocity (productive inclusion)
3. Unemployment	Employment creation; upward labour mobility	Holistic economic progress and human development; new types of job creation	Regenerative eco-innovations that enable innovative job creation, co-creation	Creating new opportunities for resource use and economic activities	Sustaining an enabling environment and skills development
4. Systemic failures	Growth that creates real value	GPI over GDP; accurate progress measures	Steady-state economy; moral responsibility	Inclusive Business Access Economy	Transformative partnerships with the private sector and civil society
5. Economic crises	Ending perverse growth; net GDP growth rate	Overall wellbeing over GDP growth; economic repurposing	Social equity and ecological parity, from linear to circular	Local economic collaboration; inclusive governance	Crisis mitigation strategies and financial inclusion

More specifically, if one zooms in on the five criteria of an inclusive economy, much more could be highlighted in dealing with economic inequality and the new changes in approach. In the case of inclusive growth, for instance, the concept evolved out of new thinking in economic development that recognised that equity is neither a hindrance to growth nor a by-product that only emerges after 'growth-first' strategies. In the inclusive growth framework, it is possible to achieve both growth and equity simultaneously, and the pursuit of growth, poverty reduction, and inequality reduction can mutually reinforce each other. This shift in mindset represents a significant change. From a microeconomic perspective, such a growth strategy involves the realisation of structural reform to diversify the economy, thus enhancing competition and collaboration. From a macroeconomic perspective, it denotes adjustments in how a country measures/uses GDP, total factor productivity, and aggregate factor inputs.⁴¹ The Genuine Progress Indicator (GPI) can be of utmost value because, if combined with GDP, it can provide a much more comprehensive picture of an economy's state and actual progress.

As an indicator of the degree of inclusion in an economy (and by inverted implication, the extent of exclusion or economic inequality), the GPI is composed of 24 parts that modify GDP to consider factors such as inequality, household/volunteer work, and deduct certain social and environmental costs classified as negative externalities. Having already been used in over 24 countries, the GPI aims to illustrate the tradeoffs linked to traditional economic growth and adopt a more holistic approach to evaluating the wellbeing of a nation, recognising that it extends beyond the size of its economy.⁴² Environmental and social factors are incorporated, not accounted for by GDP. For instance, specific GPI models demonstrate a decrease in value as the poverty rate increases, highlighting the importance of addressing social challenges (contributing to economic inequality) in assessing overall progress. It measures a kind of 'net growth rate'. The GPI is a measure that adjusts economic accounts to deal with (or include) equity and non-market ecological and social costs and benefits. To illustrate, Figure 7 shows the gap between GDP *per capita* (perceived progress) and

GPI *per capita* (genuine progress). When the reasons and factors that cause the difference are analysed, it offers more effective ways to reduce economic inequality.

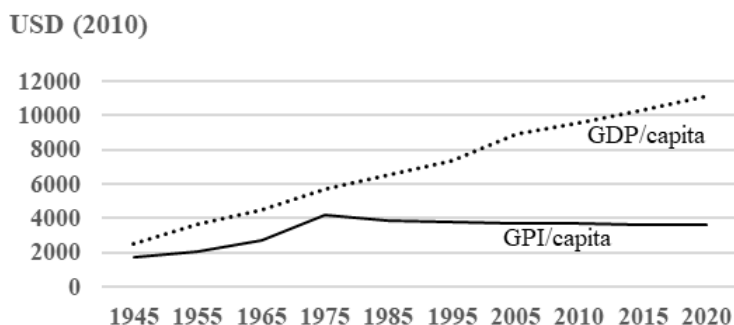


Fig. 7 Comparing GDP per capita with GPI *per capita* (global averages from 1945–2020). Source: Van Niekerk, 2022⁴³

The circular economy is regenerative, which involves the restoration of degraded environments and natural resources through economic activity. It aims to extract the earth's natural resources at a rate that enables their regeneration and replenishment, encompassing practices such as re-use and renewal. This, combined with the fact that it is redistributive by design, means that jobs and access to goods are the predominant criteria, and economic growth is desirable as long as it creates employment. In this context, free-market efficiency will no longer be justifiable if it creates whole classes of people who are worse off.⁴⁴ Economic success in the distributive design is determined by the degree to which access to the output in the economy is created. The circular economy, which encompasses regenerative and distributive principles, presents an integrated economic perspective. It acknowledges and appreciates the interconnectedness of social, environmental, and economic dimensions within sustainable development. This means balancing people's access to life's essentials with the planetary boundaries that life depends on.

Three variations of the collaborative economy model hold particular significance for reducing economic inequality. The

first one is known as the ‘resource-based economy’. It utilises existing resources, rather than solely relying on monetary transactions, to ensure a fair distribution of goods and services in a humane and efficient manner for all participants. It is a system where all necessary resources are accessible without the obligatory use of money, credit, barter, or any form of debt or servitude.⁴⁵ Resources are administered like municipal utilities, albeit with greater rigour and calculation. Operating on resource-sharing principles, this system guarantees sufficient availability of goods and services to all participants within the system or community, eliminating the necessity for means of exchange. As Fioramonti points out, the collaborative economy “improves the quality and effectiveness of human-to-human and human-to-ecosystem interactions, supported by appropriate enabling technologies”.⁴⁶

This highlights the second variation of the collaborative economy, which is ‘empowered participation’. This approach is regenerative by nature as both parties (e.g., consumer and producer) benefit from win-win transactions. John Fullerton puts it in the proper context: “A healthy human economy requires the empowered participation of individuals and groups, negotiating in their enlightened self-interest as they naturally promote the health of the whole”.⁴⁷ Many businesses, for instance, are starting to adopt decentralised leadership models to provide equal participation, instil shared commitment towards company objectives, and empower collaborative professional relationships.⁴⁸ Embracing the principles of community and locality, a regenerative (collaborative) economy nurtures the development of robust and resilient communities and regions, each uniquely shaped by its history and geographical context. Another way of fostering regenerative economic participation is by appreciating diversity in communities and businesses. Research shows that businesses with a greater diversity of employees exhibit higher levels of innovation, profitability, and employee satisfaction, resulting in enhanced performance.⁴⁹ Embracing diverse perspectives enables companies to make more well-informed decisions, stimulates innovation, and

cultivates environments characterised by mutual respect and an increased desire to impact their community.

The third variation is the ‘access economy’. Access enables equity. In an access economy, the focus of trade shifts from ownership to convenience, affordability, and inclusive access. Questions like, “Why leave your driveway empty all day while you are at work?” have turned consumers into prosumers.⁴ Companies like JustPark are helping ordinary people earn extra income. Likewise, the buy-to-share trend enables consumers to earn extra income by listing their vehicles on Uber. This is collaborative consumption, which opens up new employment access to the marginalised as they provide services in the access economy. Greg Satell explains, “Rather than assets managed by centralised organisations, we have ecosystems managed by platforms. Capabilities are no longer determined by what you own or control, but by what you can access”.⁵⁰ The access economy highlights a unique feature of the collaborative economy that can redefine the traditional economy by opening up productive opportunities for everyone. For instance, instead of focusing only on the economy’s growth, an enabling environment can be created with new employment opportunities. Then, solving the economic problems of society creates new opportunities in itself, ensuring that everyone at least has access to their basic needs, such as adequate food (new food distribution networks), housing (turning plastic waste into bricks, e.g., ecobricks), and education (learning by doing).

These initiatives must be combined with the right policies. Inclusive economic policies stimulating employment should extend beyond merely promoting growth in the formal economy. It is essential to focus on developing and investing in the informal economy (including its survivalist segment), as it plays a crucial role in fostering inclusive growth.⁵¹ In this way, income-generating activities within the informal sector would receive recognition, attract investment, and become a central part of expanding economic activity and reducing inequality.

4 As middlemen are increasingly being cut out in the collaborative economy, consumers become producers (co-producers and co-creators), and *vice versa*.

In addition, policy needs to respond effectively to how progress is being redefined: from merely generating more income (growth) to improving people's quality of life in a more holistic manner. Policies that support genuine economic progress should incorporate the GPI as a measure of collective wellbeing. This places emphasis on policymakers carefully monitoring the marginal costs and benefits resulting from GDP growth to prevent a decline in the GPI. It would even be recommended to alter the nature of GDP growth to be more in line with the various components of inclusive growth and green growth, focusing more on:

- enhancing value in production (increasing broad-based productivity);
- enhancing income distribution (supported by inclusive tax policies⁵);
- decreasing the resource and energy consumption in production;
- mitigating the ecological consequences of resource-extraction activities;
- keeping natural capital stocks intact as far as possible (i.e., ensuring the sustainable utilisation of renewable resources within their natural regeneration capacity);
- equal access to education and skills development (policies ensuring that everyone has access to quality education and skills development programmes to improve participation in the workforce and access to higher-paying jobs); and
- keeping up with innovation in an age of artificial intelligence (AI) with developments like 'crowdsourcing' and 'on-demand work' shaping a new reality in the Fourth Industrial Revolution (4IR), requiring smart, flexible policies that can be implemented swiftly.

5 Inclusive tax policies seek to ensure that the burden of taxation is distributed in a way that considers the economic circumstances and capabilities of different individuals and groups within society. Being a form of progressive taxation, it may also include measures to provide tax relief or exemptions for vulnerable or disadvantaged groups, such as low-income earners or specific social programmes. An inclusive tax policy aims to create a tax system that contributes to economic and social wellbeing, reduces inequality, and supports sustainable and inclusive growth.

Inclusive policies by government play a vital role in initiating, supporting, and incentivising the various aspects of an inclusive economy, especially if reducing economic inequality is a main priority. The combination of inclusive growth, genuine economic progress, a circular economy, and collaborative economy, bolstered by inclusive policies and institutions, provides the much-needed impetus and elements to address economic inequality: new employment opportunities, improved quality of life, a greener and more sustainable economy, and collaboration between community role players (business, non-governmental organisations (NGOs), civil society) and government. Working together towards shared goals will unlock the needed synergy to accelerate progress. This has a specific application in South Africa, especially given ‘Ubuntu’ thinking.

Conclusion

A type of economic inequality often overlooked is wellbeing inequality.⁶ Given the more holistic appreciation of genuine progress through economic inclusion (improving individual and collective wellbeing), bringing this into the picture is crucial. In research done by Kollamparambil⁵² in 2020, a comparative analysis was made between wellbeing inequality in South Africa and Switzerland. Using a concentration index, the study measured the relationship between income and wellbeing (in all its dimensions) by exploring the level of wellbeing concentration along the income distribution. Given that South Africa is known for low levels of average wellbeing and high levels of income inequality, and Switzerland is known for high levels of overall wellbeing and low levels of income inequality, it used decomposition analysis to explore the source of difference in the wellbeing levels and wellbeing inequality of the two countries.

6 Wellbeing inequality refers to disparities in the levels of wellbeing or quality of life experienced by individuals or groups within a society. It reflects the unequal distribution of wellbeing outcomes – such as income, education, healthcare, and overall life satisfaction – among people.

Interestingly, the study found that, since 2008, the degree of pro-rich wellbeing concentration⁷ is even higher for South Africa than for Switzerland (a high-income country). While at a lower level of income and higher levels of income inequality (i.e., in South Africa), the impact of changes in absolute and relative income⁸ are higher on wellbeing inequality than for Switzerland. Given the study's finding that "the majority (black race in South Africa) has a higher degree of wellbeing concentration among the upper end of income distribution as compared to the minority (non-black)", the latter group shows a decrease in wellbeing concentration.⁵³ When this is combined with the decrease in average income levels of the South African majority and the increased dependence on public goods (like water, sanitation, and electricity), which the study shows, wellbeing inequality in SA between the small minority of elites and the rest is reaching appalling levels, especially given weakening public service delivery.

This confirms that economic inequality can only be effectively addressed if overall wellbeing increases consistently. More than economic growth is needed. If broad-based economic inclusion through improved wellbeing is not prioritised and actualised at all levels of society, it even erodes the potential of economic growth. Inclusive growth, as a first step, becomes of utmost importance. As this chapter has shown, however, it must be combined with the other prerequisites of economic inclusion. More than just peripheral change is necessary as an intervention strategy in a country like South Africa; systemic change is needed – in the form of an inclusive economic system – for deepening and widening inclusion and genuine progress.

7 Pro-rich wellbeing concentration refers to the distribution of wellbeing indicators heavily skewed towards society's wealthy or affluent segments. It signifies a disproportionate concentration of positive wellbeing outcomes among the wealthy, while the less affluent or marginalised groups experience limited improvements in their wellbeing.

8 Note the difference: relative income refers to a person's income relative to the income of others in a specific group or population, while absolute income refers to the actual amount of income an individual or household earns without considering others' income.

Much of what the inclusive economy is all about is condensed in ‘*Ubuntu* economics’, based on the concept of *Ubuntu*, which means ‘humanness’, i.e., a person is a person through other persons, and I am because we are. The ability to come together enriches the potential for personal and societal transformation.⁵⁴ *Ubuntu* shifts the accent (even worldview) from “I think, therefore I am” (individualistic) to “I belong, therefore I am” (collectivistic). The primary focus is on the equitable sharing and efficient utilisation of resources to everyone’s benefit. The overarching goal is to distribute profits fairly, based on contribution and productivity, rather than just promoting accumulation or a mindset of winners taking everything. In *Ubuntu* economics, the emphasis lies on collective growth, rather than hoarding. This approach encourages the expansion of collective resources, fosters a circular economy, minimises waste, maximises efficiency, and promotes inclusive and environmentally sustainable development.

Ubuntu economics is a form of relationship-based economics. *Ubuntu*, ironically, embraces both individualism and utilitarianism. Individuals actively participate in the economy with the collective wellbeing of the community and themselves in mind, bringing a convergence of community and individual interests. This synergy blends social and individual considerations in decision-making and action. Moreover, utilitarianism guides the decision-making process at the community level, aiming to optimise society’s overall wellbeing through the maximisation of individual utility among its members. This shift moves from individualistic utilitarianism to a more collective perspective without implying socialism. The crucial element is the explicit recognition and appreciation of shared economic interests.⁵⁵ By elevating collective consciousness, *Ubuntu* serves as a counterbalance to extreme individualism. The value of *Ubuntu* lies not just in setting new economic goals, but in offering an alternative path to achieve existing goals such as inclusive growth, reducing inequality, maximising utility, welfare optimisation, genuine progress, and green, sustainable development. This brings true economic empowerment to the people and lays the foundation for an

effective enabling environment.⁵⁶ It brings a transcendent unity to the economy that the market cannot achieve. The people take collective ownership, resulting in a productive economy of care. *Ubuntu* elevates our thinking and establishes the groundwork for building a healing economy through inclusion. The African way is the way of sustainability, which is the essence of what is needed in the economy, especially for addressing inequality. As Dorine van Norren rightly points out: “This is not merely window-dressing, but a fundamental reshaping of our thinking, where market competition is complemented by co-operation; and where acting out of self-interest is balanced by the notion of not existing without the other.”⁵⁷

To reposition ‘humanness’ at the centre of the economy requires a combination of political will, corporate repurposing, and civil society refocusing. The key priority, as a common denominator, is inclusion. It is the answer to inequality. The moment policies, business, and civil behaviour start to truly prioritise economic inclusion in everything they do (in both formulation and execution), it rebalances and recentres the economy to be better able to work for everyone. That does not mean ‘inclusion’ is the magic bullet, but it represents the missing link in how we go about economic life and how the economic system currently functions. The economy can be excluded only for so long; then, it will cease. The very origin of economics (*oikonomos*⁹) tells us that it exists to include. We have the suitable ingredient (*Ubuntu*) in South Africa; now, we need the commitment of the national leadership, the business community, and the people to put it into effect as a turnaround strategy for the economy. We have no time to waste.

9 It is an ancient Greek word (Latinised *oekonomus*) that means management (*nomos*) of the household (*oikos*), which places emphasis on the household’s collective (inclusive) participation in production and the equitable distribution of benefits or produce.

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Conclusion

Nico Keyser 

Introduction

The contributing essays in this book have discussed and reflected on various issues of economic inequality in South Africa. Recommendations for possible solutions regarding various issues of the economic inequality debate are given. This concluding chapter provides a summary and synthesis of these discussions, reflections, and recommendations.

Summary of Chapters

Chapter 1 provided the reader with the background of economic inequality and the significance thereof in taking heed of unjust policies that favour specific groups within a society. The inevitability of inequality due to differences in individual talents, skills, and abilities, resulting in different outcomes for the underprivileged was discussed. The chapter emphasised the importance of the relationship between poverty and inequality.

Chapter 2 provided an overview of how inequality is measured and the viewpoints of several academic scholars regarding this. The Gini coefficient, the Palma ratio, Theil's index, Atkinson's index, and asset and wealth indices as measures of inequality were explained, as well as the limitations of these measures.

An analysis of wealth inequality was provided in Chapter 3 by indicating the high levels of wealth inequality globally and in South Africa, the high correlation between income and wealth inequality, and the continuous increase in wealth inequality. Furthermore, the limited scope of the existing income tax system to reduce inequality and the challenges of introducing a wealth tax were explained.

The dynamics of the labour market within cities, the legacy of apartheid's spatial planning, and the influence of industries

within cities on income and wage inequalities were explored in Chapter 4. The research showed that wage inequality is higher in cities than in the rest of the country and that wages have not kept up with inflation for several years.

Chapter 5 reflected on the inequality of land ownership in South Africa. The chapter provided a historical context for land distribution and discussed how the land reform programme progressed. The chapter acknowledged the necessity of land reform but called for a just and fair implementation of such a reform process.

In Chapter 6, the implications of establishing a state-owned bank were deliberated, and the role of the banks in providing access to banking services and reducing inequality was reflected upon.

Chapter 7 addressed the inequality of service delivery as provided by all three spheres of government. High levels of disparity and inaccessibility to basic services can be attributed to race and this is seen between urban and rural areas, highlighting the role that unemployment, income imbalances, and governance play in accessing services. The need for policies and reforms was emphasised to ensure equal access to quality services from all levels of government.

Chapter 8 reflected on the nature and magnitude of the various inequalities of health and access to healthcare of South African citizens. The close relationship between the socioeconomic position of a household and its access to healthcare was indicated. Given the well-known fact that equal societies enjoy better health than more unequal ones, it is reasonable to suggest that South Africa would be characterised by huge disparities in health, to the detriment of people with low incomes. Consequently, Chapter 8 attempted to ascertain the magnitude and direction of socioeconomic inequalities in various health outcomes using nationally representative data from South Africa, supplemented by prior evidence. The results confirm the existence of substantial socioeconomic inequalities in health and access to quality healthcare, mainly to the detriment of people with low incomes. Worryingly, these inequalities are likely to persist, given

the enormous impact of the COVID-19 pandemic in widening unfairness between the rich and poor.

Access to and the quality of education at both secondary and tertiary levels and their impact on inequality were analysed and discussed in Chapter 9. Although secondary and tertiary education access has increased since 1994, employment levels and inequality in South Africa have remained the same. The quality of education at both levels of education was identified as a matter of great concern. The socioeconomic status of households still determines access to quality education.

Chapter 10 provided an in-depth analysis of the relationship between enhancing employment prospects in the informal sector and unemployment, poverty, and inequality in South Africa. The author recommended a prolonged strategy targeting both the formal and informal sectors (and the links between the two sectors) to support the survival, growth, and employment of informal entrepreneurs to address the problems of unemployment, poverty, and inequality.

The debate about the feasibility of a basic income grant for all South Africans was addressed in Chapter 11. The chapter concluded that a broad-based welfare strategy is required to enhance the income generation potential of people experiencing poverty, resulting in higher incomes, lower poverty, and lower inequality levels.

Economic inclusivity and its different aspects – including inclusive growth, the circular economy, economic progress, a collaborative economy, and inclusive policies and institutions – were discussed in Chapter 12.

The chapters represent different views and perspectives on several aspects of inequality in South Africa, as reflected by the different authors.

Synthesis of Chapters

South Africa has recorded low economic growth rates for the past three decades, resulting in low employment and income levels, and high poverty and inequality levels. In a country with

unemployment levels of above 20% (and an even higher youth unemployment rate), an average economic growth rate of 2.39%, and a Gini co-efficient of above 0.6 for the past three decades, higher economic growth rates are essential to improve the wellbeing of the citizens. The consensus in all the essays in this book is that there are persistently high levels of inequality with respect to wealth, income, land, banking services, education, public services, and health in South Africa. The socioeconomic position of a household is often identified as a common factor which has contributed to the high levels of inequality. There is thus an urgent need to push South Africa into a high economic growth gear and focus on policies to enhance our economic growth rates (and income levels) to improve income and wealth inequality (Chapters 3 and 4).

Since 1994, the debate in South Africa has centred around whether the focus should be first and foremost on economic growth (as opposed to redistribution) or the other way round. Economic growth and redistribution policies should not be seen as opposites but rather as complementary to each other. In this case, a rethinking of the market economy is required. Capitalism – as practiced since 1989, based on a neoliberal system of greed, selfishness, exploitation, corruption, and materialism – cannot be tolerated. Markets do not work well, especially when information is imperfect, competition is limited, and public goods are not provided. Markets are necessary for a well-functioning economy, but fail to produce fair and efficient outcomes. Markets are needed to encourage entrepreneurship, innovation, and creativity, but can only function within the boundaries of laws and regulations. More efficient markets (making them more competitive and less exploitive) are required to curb excesses to the elite. An inclusive, shared capitalist market system based on private property rights is required to ensure that serving one's interest will also lead to serving the community's interest and the wellbeing of the whole society.

The state has responsibilities regarding defence, justice, education, and infrastructure. The South African economy requires massive amounts of investment in infrastructure development and the maintenance of existing infrastructure.

Conclusion

Improvements and investment in infrastructure will promote further private investment if the problems surrounding access to markets, congested airports and harbours, as well as the disintegrating road networks are addressed. Investment spending or gross fixed capital formation has not exceeded 4% of GDP by government or state-owned enterprises from 1994 to 2022. Total fixed investment has not been more than 15% of GDP since 2000, with the private sector contributing more than 10% and the government and SOEs less than 5% for the period. Creating the right environment by government, which will enhance confidence in the private sector, will result in higher fixed investment by the private sector.

Education is another crucial element critical to enhancing economic growth and development. A high-quality education system that supports the advancement of knowledge, together with a basic education curriculum that enhances skills development at school level aimed at addressing the critical skills shortages in the South African labour market, is imperative. The South African government needs to prioritise the importance of producing a calibre of scholars and graduates that are adequately skilled for the profile of the South African labour market.

A sound and inclusive financial sector is also needed to assist South Africans in saving and investing to create wealth (Chapter 6). This, together with place-based policies focusing on township economies and the informal sector, are required to restore and revitalise communities (Chapter 10). Reviving township economies is crucial for the creation of jobs and opportunities for the South African youth who are not in the education system, employed, or in training. Considering that more than 2.5 million workers are employed by informal businesses – allowing for livelihoods and income that contributes more than 6% to GDP, with an estimated value between R600 billion and R750 billion – the development of the township economies and informal sector should be a priority. Previous poverty alleviation and employment initiatives have had limited impact due to capacity issues, corruption, and inadequate monitoring. All stakeholders have a critical role in township economic development, including partnering for cultural tourism and enhancing safety to create

employment opportunities. Several townships are prone to crime. Therefore, a need for an increase in visible policing to ensure the safety of tourists and residents is essential.

Globalisation, financialisation and technological advancement can be used to enhance economic growth. The transition from an industrialised economy to a service, innovation, and green economy can be implemented to maintain jobs, and to provide better health, education, service delivery, and financial services for all (Chapters 6, 7, and 8).

The importance of land reform was emphasised in Chapter 5. With more than 17 million South Africans living on communal land (which comprises 13% of the total land in South Africa), land reform is essential. However, it should be done in a manner that ensures food security and more strategic land management to ensure the sustainability of the communities.

Even though the emphasis is on higher economic growth rates and improved economic development, sound redistribution policies such as land redistribution (Chapter 5) and a progressive tax system and realistic public expenditure (Chapters 7 and 11) will be required to improve and equalise living standards.

Conclusion

South Africa has recorded a dismal performance in economic growth, job creation, and reducing poverty levels and inequality over the past three decades. Factors such as globalisation, the 4IR, excessive financialisation, the transition of a manufacturing economy to a service and digital economy, and the consequences of technological advancement will result in even higher economic underperformance if not correctly managed. However, we believe that for all the divisions that have marked the country for years, we, as South Africans, still have shared values. We believe in democracy, the rule of the law, justice, equal opportunity, the value of science and technology, and tolerance toward each other. It is hoped that these shared values will establish a country of equal and fair opportunity and shared prosperity.

Conclusion

The challenge for South Africa is to ensure that an inclusive political and economic dispensation (Chapter 12) is established to reduce poverty and inequality and contribute to political and economic freedom for all. The analysis of economic inequality in the previous chapters indicates that South Africa requires strong economic growth rates to create jobs, and to reduce poverty and economic and social inequality. Higher economic growth rates based on economic inclusivity will ensure a fair share for all.

