

# **POVERTY, INEQUALITY AND THE NATURE OF ECONOMIC GROWTH IN SOUTH AFRICA**

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## **ABSTRACT**

The post-1994 period in the South African economy is characterised, perhaps most powerfully, by the fact that the economy recorded one of its longest periods of positive economic growth in the country's history. One of the more vexing issues within the economic policy terrain in post-apartheid South Africa though, has been the impact of this consistently positive growth performance on social welfare. Many observers have highlighted the potentially harmful consequences of persistently high levels of poverty and particularly, economic inequality on the quality and sustainability of democracy.

The evidence suggests, at best, six key trends which are noteworthy in terms of observing changes and challenges in South Africa's second decade of democracy. Firstly, it is clear that both absolute and relative levels of poverty have fallen for African- and female-headed households. And it is a result invariant to the choice of poverty line. Secondly though, we continue to show that race and gender remain overwhelming determinants of this poverty profile. Thirdly, the trends in income inequality suggest that one of the world's most unequal societies has quite possibly become the most unequal. In turn, and our fourth key deduction, it is evident that income inequality between racial groups – to all intents and purposes between Africans and Whites – is driving this overall increase. Our analysis of the nature of economic growth since 1995 suggests that despite positive economic growth, individuals at the top-end of the distribution have gained the most from the post-apartheid growth dividend. Indeed, what this suggests is that the country's current democratic growth model is crafted around supporting incomes at the bottom-end of the distribution through an extensive social transfer programme, whilst offering few returns to those in the middle of the distribution. It is not evident, as South Africa enters its first post-1994 recession with declining tax revenues and rising fiscal deficits, whether such a growth model is indeed desirable or sustainable.

**JEL Code:** I3

**Keywords:** Poverty, Inequality, Social Transfers

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## **Disclaimer**

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## 1. INTRODUCTION

During the first decade of democracy in South Africa, the economy has recorded one of its longest periods of positive economic growth in the country's history. One of the more vexing issues within the economic policy terrain in post-apartheid South Africa though, has been the impact of this consistently positive growth performance on social welfare, specifically income poverty and inequality. Many observers have highlighted the potential harmful consequences of persistently high levels of poverty and, particularly economic inequality, on the quality and sustainability of democracy (See for example Bermeo, 2009; Kapstein & Converse, 2008 and Wells & Kriekhaus, 2006). High levels of inequality have been linked to behaviours such as decreased voter turnout, depressed political engagement and high crime rates – all of which can have a negative impact on the quality of democracy. Increasing levels of income inequality also have the potential to divide citizens and contribute to social conflict. In such a situation, the diverse pressures on a government can lead to politicians resorting to surreptitious tactics such as “playing some voters off against each other” (Bermeo, 2009).

Empirical evidence from across the world confirms that persistent high levels of inequality have resulted in serious challenges to democracy. Specific outcomes range from a decline in the willingness of citizens to support democracy to actual reversal of democracy.

Wells & Kriekhaus (2006) analyse how a range of individual personal characteristics and attitudes as well national economic and political variables influence democratic support in a sample of 35 countries (including countries in Western and Eastern Europe, Latin America, Asia and also South Africa). One of their key findings is that economic inequality has a highly significant, negative influence on citizens' willingness to support democracy.

Kapstein and Converse (2008) investigate democratisations between 1960 and 2004 in 88 different countries. They find that inequality was significantly higher in democracies that eventually underwent a reversal (in other words, democracy failed). They also conclude that economic growth is not enough to ensure the sustainability or consolidation of democracy and that the extent to which economic growth has benefited all citizens is the key to the sustainability of democracy. In other words, the distribution of income, assets and opportunities is important for the survival of a democracy. They do, however, recognise that other factors also contribute to the survival of a democracy, including the quality of political institutions.

Fukuyama (2008) investigates the role of high levels of inequality in the destabilisation of politics in Latin American democracies over the past decade, discussing numerous examples where persistent levels of inequality have given rise to disruptive social movements and social conflict. In an article focusing on democracy in Africa, Lewis (2008) describes the phenomenon of “growth without prosperity” in Africa's new democracies and warns that the divide between popular expectations and economic realities can harm the consolidation of democracy in these countries.

In South Africa there has been a rich debate around the impact of economic growth on poverty and inequality in the post-1994 era. Thus far, we have been hamstrung within this debate by the lack of recent data. In particular, the debates around shifts in household poverty and inequality in South Africa have relied on the income and expenditure surveys of 1995 and 2000 – together with a range of unofficial or less than satisfactory datasets. The consensus position, and it is a carefully constructed one based on these datasets, is that in the first five years of democracy (1995 – 2000), income poverty levels using a range of realistic poverty lines have probably not changed significantly (see Hoogeveen and Ozler, 2006; van der Berg, 2006; Leibbrandt, Levinsohn & McCrary, 2005 and Leibbrandt, Poswell, Naidoo, Welch & Woolard, 2005). Evidence from the World Bank did suggest a rise in national household poverty from 32 percent to 34 percent on a \$2 a day line, and no change in poverty on a slightly higher poverty line (R322 per month) between 1995 and 2000 (Hoogeveen & Özler, 2006). Subsequent work also suggested that income poverty may have *declined* between 1995 and 2000 (Van der Berg *et al.*, 2006), relying on a slightly different set of poverty lines. Ultimately, on the basis of the choices made around these data, economists have arrived at marginally different conclusions regarding poverty shifts in the 1995-2000 period. The key common denominator in all these different results however, is that the increase or decrease reported is in fact relatively minor. Evidence on income inequality indicates marginal increases in the Gini coefficient in most of the studies (Hoogeveen and Ozler, 2006; Leibbrandt, Levinsohn & McCrary, 2005 and Leibbrandt, Poswell, Naidoo, Welch & Woolard, 2005). These results, however, do suggest that the first five years

of democracy were not accompanied by significant improvements in the welfare of South Africa's citizens.

The first key purpose of this paper then is to extend the discussion and debate to the first *decade* of democracy by utilising and analysing the Income and Expenditure Survey (IES) of 2005. With the IES 2005 we are, for first time, able to provide a comprehensive overview of changes in poverty and inequality for the first full decade of democracy in South Africa. Hence, the primary contribution of this paper will be to provide a profile of poverty and inequality in South Africa over the period 1995-2005. In turn however, and in trying to understand the critical interactions between economic growth, poverty and inequality, the paper will attempt to estimate and determine whether the positive growth rates recorded since 1994 have indeed managed to improve indicators of social welfare within the South African economy. Ultimately then, despite these positive and healthy economic growth rates, we interrogate the extent to which this trajectory of economic growth has been pro-poor in nature. Through the analysis of the relationship between economic growth, poverty and inequality, we attempt to shed light on how economic growth may have contributed (or not) to the quality and sustainability of democracy in South Africa.

Section 2 of the paper estimates the shifts in poverty for the first decade of democracy in the country, while Section 3 provides an overview of the changes in inequality over the period. Section 4 evaluates the impact of the positive economic growth over the decade on the expenditures of the poor. In Section 5 the determinants of the increase in the expenditures of the poor since 1995 are evaluated, with a specific focus on the role of the country's state social security system. Section 6 concludes.

## 2. SHIFTS IN POVERTY UNDER DEMOCRACY

Table 1 presents the changes in the headcount rate and the poverty gap ratio between 1995 and 2005, both nationally and by race. All poverty measures have been calculated using individual per capita household expenditure<sup>1</sup>, and the indicators are based on the standard class of poverty measures, first defined by Foster, Greer and Thorbecke (1984). The headcount rate simply refers to the share of the total population with expenditure below a pre-defined poverty line. The poverty gap ratio is a measure of the average poor agent's expenditure relative to the poverty line.

The results show that at the aggregate level, and for African individuals, poverty as measured by the headcount rate declined in the first decade of democracy in South Africa. Specifically, the higher poverty line of R322<sup>2</sup> a month in 2000 prices, aggregate poverty declined by three and a half percentage points, from 52.5 percent in 1995 to 49 percent in 2005, while at the lower poverty line of R174 (also in 2000 prices) the decline was by more than seven percentage points, from 31 percent to 24 percent. The relatively larger decline at the lower poverty line suggests that those in deeper poverty experienced a relatively larger improvement in their welfare over the period.

Relative poverty, as measured by the poverty gap ratio displays a similar trend at the aggregate. At the R322 line, the poverty gap index declined from 26 to 21 percent. This means that in 1995 the average poor person lived about 26 percent below the R322 poverty line. Ten years later, the average poor person lived 21 percent below the poverty line. At the lower poverty line, the poverty gap ratio declined from 12 percent to approximately eight percent. Ultimately though, these results suggest the reduction in the headcount index and poverty gap was both significant and robust to the choice of poverty line.

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<sup>1</sup> All poverty and inequality measures are individual measures, calculated using per capita total household expenditure. Per capita total household expenditure was created by dividing total household expenditure by the number of people in the household (or household size).

<sup>2</sup> Two standard poverty lines are used in our analysis. The R322 line (in 2000 prices) has been derived using a cost-of-basic needs approach, while the R174 line is equivalent to \$2 dollar a day (again in 2000 prices) (See Hoogeveen & Ozler, 2006). The 2000 poverty lines were adjusted for the impact of inflation both in 1995 and 2005 and these adjusted poverty lines were used to calculate the poverty measures for the two years.

**Table 1: Poverty Shifts by Race of Household Head: 1995 – 2005**

Category	Headcount Index		Poverty Gap Ratio	
Year	1995	2005	1995	2005
<b>R322 a month poverty line</b>				
African	63.04	57.55 *	31.86	25.23 *
Coloured	39	35.13	14.66	13.51
Asian	4.71	8.43	1.03	2.32
White	0.53	0.38	0.22	0.11
<b>Total</b>	<b>52.54</b>	<b>49.03 *</b>	<b>26.04</b>	<b>21.29 *</b>
<b>R174 a month poverty line</b>				
African	38.18	28.17 *	14.71	9.01 *
Coloured	14.62	12.94	4.09	4.09
Asian	0.82	1.6	0.14	1.09
White	0.23	0.07	0.09	0
<b>Total</b>	<b>30.92</b>	<b>23.55 *</b>	<b>11.77</b>	<b>7.54 *</b>

Source: Statistics South Africa (1995 and 2008) and Own Calculations

- Notes:
1. Poverty lines are in 2000 prices
  2. At both poverty lines, the changes in the headcount rate are statistically significant at the 95 percent level at the aggregate and for Africans (indicated by the asterisks).
  3. The population in 1995 has been weighted by population weights according to the 1996 Census. The population in 2005 has been weighted by the household weight multiplied by the household size. The 2005 weights are based on the 2001 Census.

The results by race indicate that only African individuals experienced a decline in their levels of poverty over the decade between 1995 and 2005. For Africans, however, the decline in their headcount index at both poverty lines was relatively larger than the decline at the national level. At the R322 line, the headcount rate declined by more than five percentage points from 63 to just below 58 percent, whilst at the R174 line, the headcount rate declined by more than 10 percentage points to 28 percent. Over the same period, African individuals also experienced a decline in their levels of relative poverty. At the R322 line, the poverty gap ratio decreased from 32 to 25 percent, while it decreased from 15 to nine percent at the lower poverty line. The other three population groups did not experience any statistically significant change in their levels of poverty (both absolute and relative) over the period.

While Africans did experience decreases in their headcount rates at both poverty lines, their poverty levels as measured by the headcount indices still remained higher than both the national estimates and those of other race groups. For example, in 2005 at the upper poverty line, the national headcount rate was 49 percent, while the African headcount rate was almost nine percentage points higher at 58 percent. In contrast, the Coloured headcount was 35 percent, while eight percent of Asians were poor at this line. Less than one percent of Whites were poor at both lines, and in both years.

Given the results above it is not surprising that Africans accounted for a disproportionate share of poor individuals in the country at both poverty lines (See Appendix 1 for the breakdown of population and poverty by race) and in both years. Africans accounted for about 77 percent of the population in 1995, with their share increasing to 79 percent in 2005. In both years, however, about 93 percent of the population who lived on less than R322 a month (in 2000 prices) were African. Africans clearly continue to account for a much larger share in poverty than their share in the population, with the other race groups accounting for a considerably smaller share of poverty relative to their population weight. By way of contrast, in both years, Whites accounted for less than one percent of the poor population according to both poverty lines, while constituting around 10 percent of the population.

In addition to race, gender of course remains a key marker of vulnerability in the South African context. The table below estimates the change in poverty levels according to the gender of the household head.

Consonant with the national trends and those for the African population group, the data illustrates that both male- and female-headed households experienced a decline in poverty levels as measured by the headcount index at both poverty lines. While individuals living in male-headed households experienced a relatively larger decrease of more than six percent in their headcount rate at the upper-bound poverty line, female-headed households experienced a slightly larger decline in their headcount rate at the lower poverty line. This result suggests that at the lower-bound poverty line poverty reductions of the ex-ante more vulnerable category of households – female-headed – were greater than those of their male-headed counterparts. Whilst the severity of poverty declined, irrespective of the gender of the head in the 10-year period, the evidence shows no bias in the form of female-headed households.

**Table 2: Poverty Shifts by Gender of Household Head: 1995 – 2005**

Category	Headcount Index		Poverty Gap Ratio	
Year	1995	2005	1995	2005
<b>R322 a month poverty line</b>				
Male	45.83	39.42 *	22.22	16.57 *
Female	65.65	61.56 *	33.52	27.42 *
<b>Total</b>	<b>52.54</b>	<b>49.03 *</b>	<b>26.04</b>	<b>21.29 *</b>
<b>R174 a month poverty line</b>				
Male	26.12	17.77 *	9.79	5.67 *
Female	40.31	31.06 *	15.63	9.96 *
<b>Total</b>	<b>30.92</b>	<b>23.55 *</b>	<b>11.77</b>	<b>7.54 *</b>

Source: Statistics South Africa (1995 and 2008) and Own Calculations

Notes: 1. Poverty lines are in 2000 prices  
 2. All changes in the values of the headcount rates and the poverty gaps between 1995 and 2005 are statistically significant at the 95 percent level (indicated by asterisks).  
 3. The population in 1995 has been weighted by population weights according to the 1996 Census. The population in 2005 has been weighted by the household weight multiplied by the household size. The 2005 weights are based on the 2001 Census.

Despite the greater reduction in female-headed household poverty it is important to note that individuals living in households headed by females remained more vulnerable, in both absolute and relative terms, than male-headed households. For example, at the upper-bound line in 2005, the headcount index for female-headed households was still a massive 22 percentage points higher than for households headed by males, whilst at the lower poverty line, this differential, a decade into democracy, was more than 13 percentage points higher. In 2005, the poverty gap ratio for male-headed households suggests that the average poor person in a household headed by males lived about 17 percent below the poverty line, while the average poor person in a female-headed household lived more than 27 percent below the poverty line.

The population and poverty shares presented in Appendix 1 confirm that individuals living in female-headed households also continued to account for shares in poverty that are larger than their shares in the population.

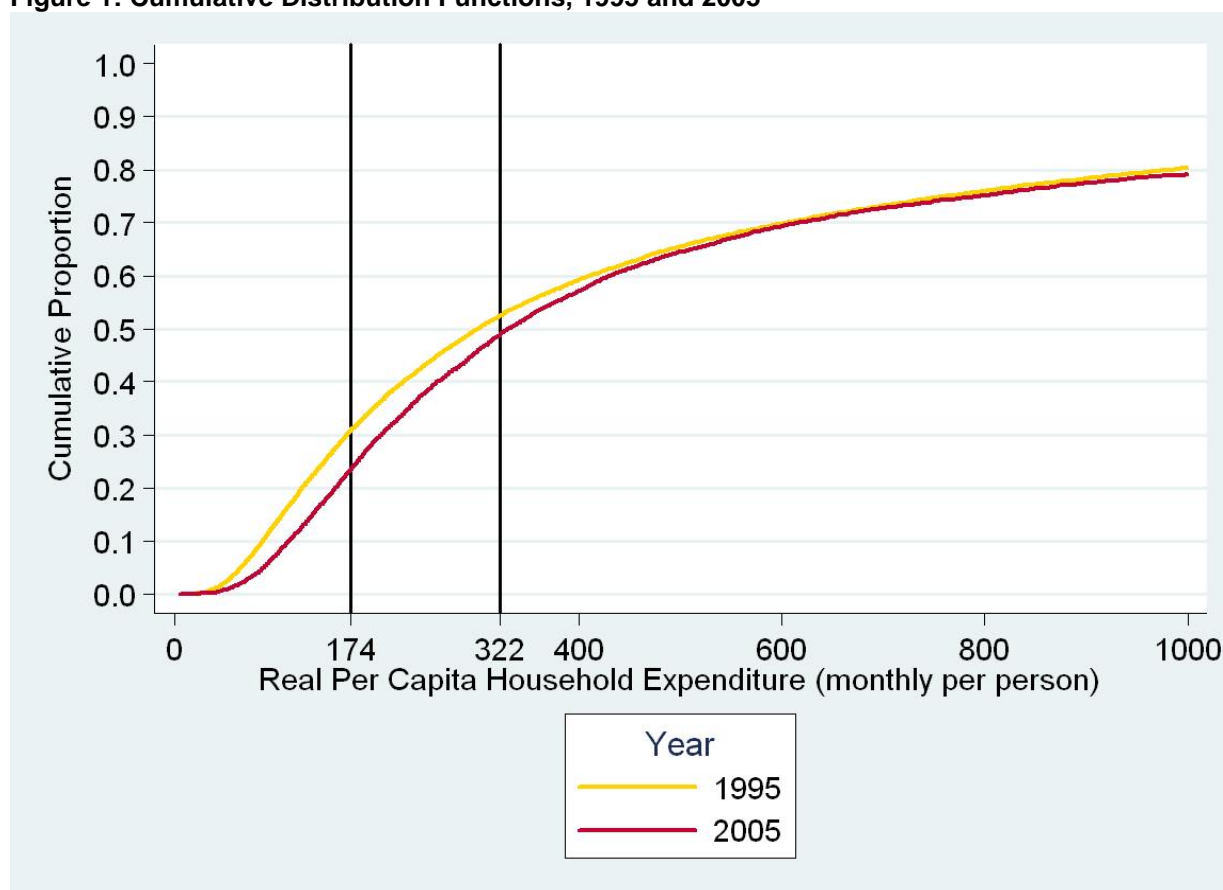
It is clear then from the above that gains in poverty reduction at the national level have been recorded in the first decade of democracy. Hence, it is important to note that both absolute and relative poverty in the period 1995-2005 have declined significantly in South Africa. The result is also robust to the choice of poverty line. However, the data also illustrate that when considering two key markers of vulnerability – race and gender – challenges remain. In terms of race, despite reductions in African poverty, individuals living in households headed by Africans account for a disproportionate share of the poor in the society. In parallel, female-headed (it must be said predominantly African female-headed) households yield vastly higher headcount and poverty gap ratio estimates in both 1995 and 2005, so reflecting the strong gender dimension to the country's poverty profile.

### Poverty Shifts without Poverty Lines: 1995 - 2005

The estimates presented in the tables above show that at a national level, both the headcount and the poverty gap indices declined when measured using the two stipulated poverty lines. Another manner in which to examine the changing pattern of poverty – and one indeed which is not hamstrung by debates around the choice of the poverty line – is by deriving cumulative distribution functions (CDFs) of per capita expenditure. The vertical axis of the CDF shows the cumulative proportion of all individuals with a monthly per capita expenditure value less than or equal to the corresponding monthly per capita expenditure value on the horizontal axis. CDFs allow us to compare changes in poverty between two time periods independent of any feasible poverty line. Visually, if a CDF for period  $t+1$  lies at any point on the horizontal axis below the CDF for period  $t$ , it means that poverty has decreased between the two periods irrespective of any specific poverty line. Figure 1 below presents one such CDF.

The Cumulative Distribution Functions (CDFs) in Figure 1 shows that for South Africans spending less than about R1 000 a month (in 2000 prices) poverty has either declined or, at a poverty line above R800, remained constant, between 1995 and 2005. For those spending between R600 and R800, however, the gap between the two CDFs does appear to be very small, reflecting minor or possibly no change in absolute poverty levels.

**Figure 1: Cumulative Distribution Functions, 1995 and 2005**



Source: Statistics South Africa (1995 and 2008) and own calculations

- Notes:
1. Per capita expenditure as converted to real per capita expenditure (expressed in 2000 prices) using the Consumer Price Index.
  2. The population in 1995 has been weighted by population weights according to the 1996 Census. The population in 2005 has been weighted by the household weight multiplied by the household size. The 2005 weights are based on the 2001 Census.

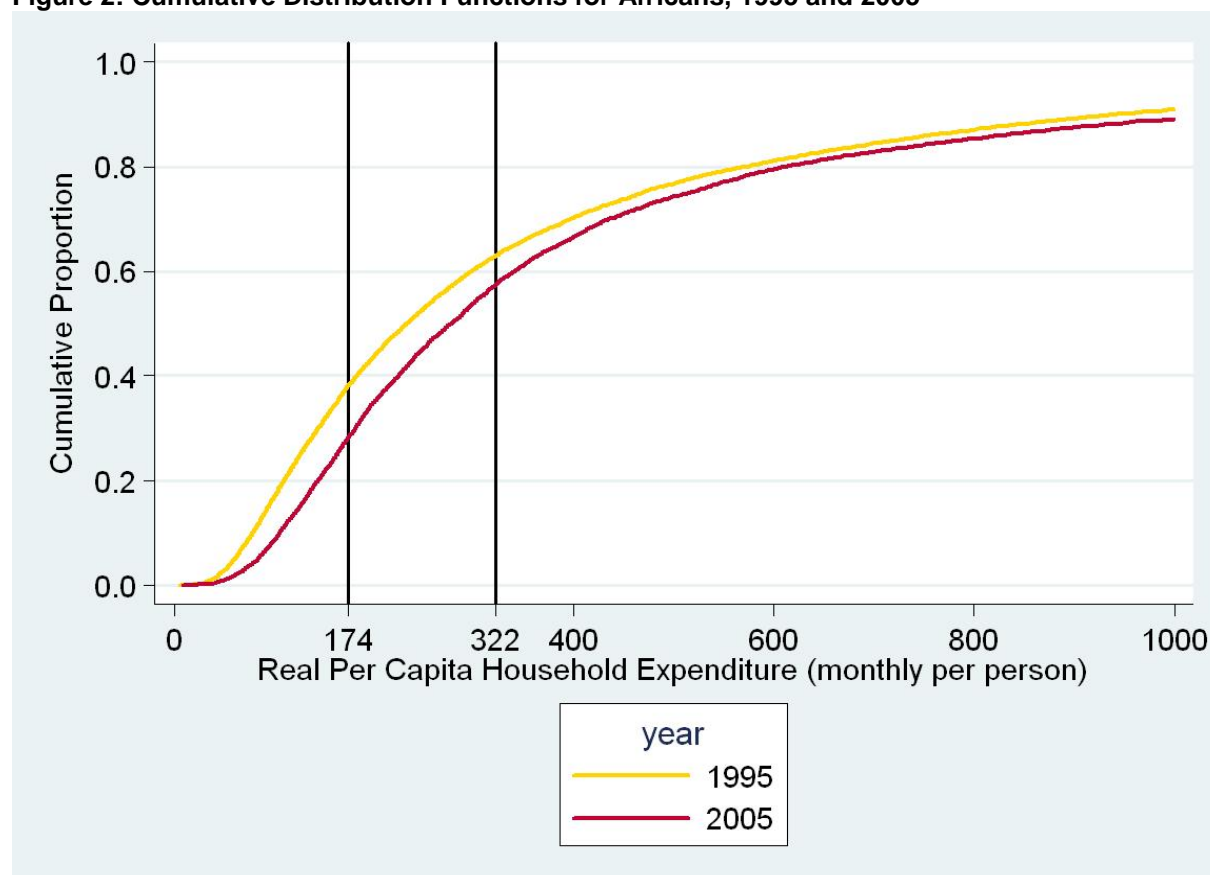
Importantly also, this result suggests that the decline in the headcount reported above (or the lack of change in poverty levels for those spending more than R600 a month) is not subject to our choice of poverty line. Independent of any feasible poverty line that we may choose, the result here affirms that



poverty levels have at best declined or at worst not increased in South Africa between 1995 and 2005.<sup>3</sup>

Figure 2 presents the CDFs for Africans with a real per capita expenditure of R1 000 a month or less in 2000 prices. In both years, as noted above, this accounts for about 90 percent of the African population in the country. In this particular case, our results are stronger as the CDFs show that poverty undoubtedly declined irrespective of any range of poverty lines, with the 2005 CDF lying below the 1995 CDF at all points of the distribution. The gap between the two CDFs is also larger for Africans than at the national level, across the distribution, illustrating the relatively larger decline in poverty levels experienced by Africans for any feasible range of poverty lines.

**Figure 2: Cumulative Distribution Functions for Africans, 1995 and 2005**



Source: Statistics South Africa (1995 and 2008) and own calculations

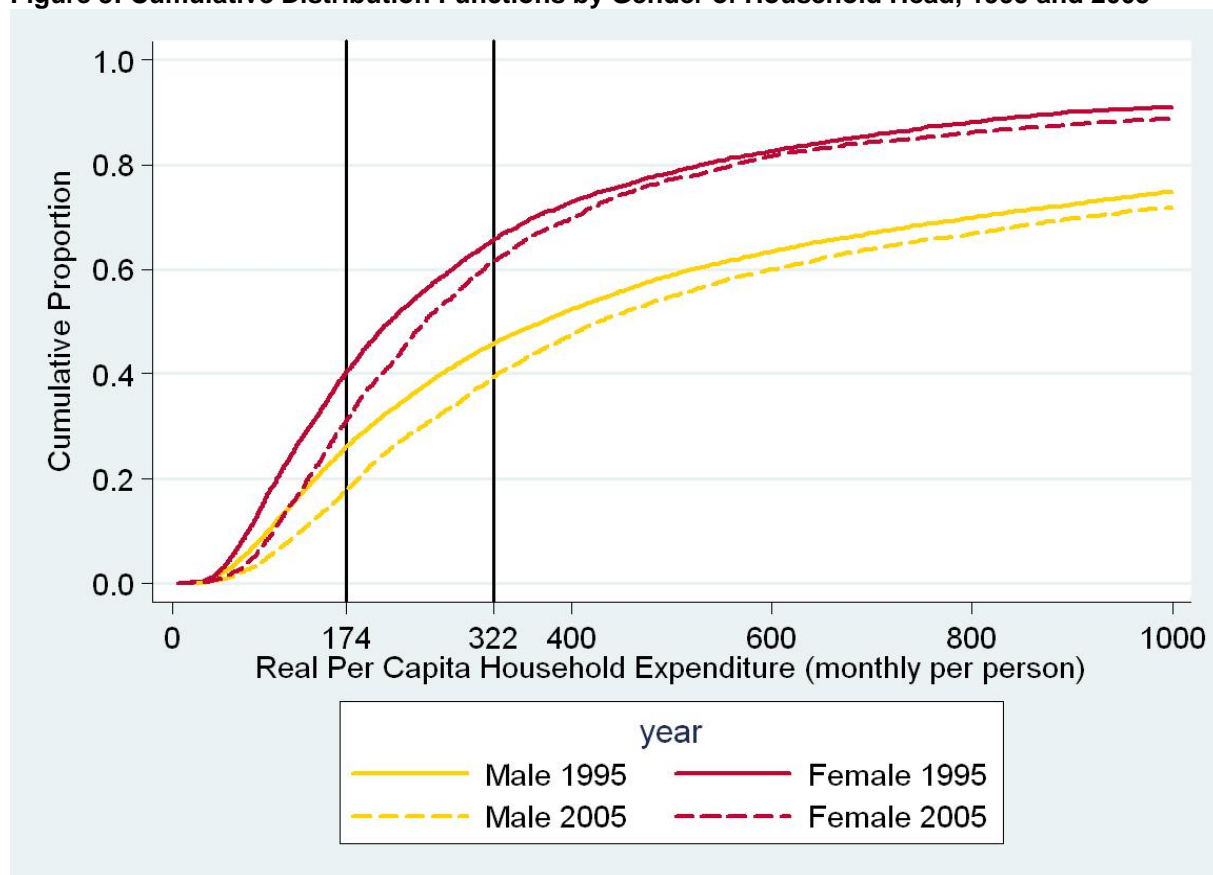
- Notes:
1. Per capita expenditure as converted to real per capita expenditure (expressed in 2000 prices) using the Consumer Price Index.
  2. The population in 1995 has been weighted by population weights according to the 1996 Census. The population in 2005 has been weighted by the household weight multiplied by the household size. The 2005 weights are based on the 2001 Census.

The poverty estimates presented above have shown that households headed by females remained more vulnerable than those headed by males at our two poverty lines. Figure 3 presents the CDFs for male- and female-headed households for 1995 and 2005, and captures this result as the CDFs show that poverty declined for individuals living in both male- and female-headed households in the 10-year period irrespective of any chosen poverty line. The position of the CDFs also confirms the larger declines in poverty levels at the lower-bound poverty line for female-headed households. It is further very clear that in both years, the CDFs for male-headed households lie below those for female-headed households, confirming that at any chosen point of the expenditure distribution, individuals living in households headed by females experienced significantly higher absolute levels of poverty. In fact, by 2005, with the exception of the bottom 20 percent of the distribution, the 2005 CDF for

<sup>3</sup> The two vertical lines in Figure 1 represent the lower and upper bound poverty lines stipulated at the outset. Note that the larger gap between the 1995 CDF and the 2005 CDF at the R174 poverty line confirms the larger decline in poverty as measured by the R174 headcount rate relative to the R322 poverty line, illustrated in Table 1 above.

female-headed households still lies above the 1995 CDF for male-headed households, implying that for the most part individuals living in female-headed households were worse off in 2005 than those living in male-headed households in 1995.

**Figure 3: Cumulative Distribution Functions by Gender of Household Head, 1995 and 2005**



Source: Statistics South Africa (1995 and 2008) and own calculations

- Notes:
1. Per capita expenditure as converted to real per capita expenditure (expressed in 2000 prices) using the Consumer Price Index.
  2. The population in 1995 has been weighted by population weights according to the 1996 Census. The population in 2005 has been weighted by the household weight multiplied by the household size. The 2005 weights are based on the 2001 Census.

The value-add of the above analysis is the non-dependence on the oft-debated poverty line. Hence, in an attempt to circumvent the use of specific poverty lines for our analysis of poverty, the standard methodology of stochastic dominance testing was applied. It is clear then that irrespective of the poverty line, our results show that the proportion of poor individuals either declined or remained constant in the first decade of democracy. Indeed it is true that only at high poverty lines (in excess of R500 per month per capita) poverty levels remained stagnant. Importantly though, the more robust results are that African poverty levels, together with poverty amongst female-headed households, declined significantly across any range of feasible poverty lines. Despite these advances, however, race and gender continue to define and characterise poverty in post-apartheid South Africa.

### 3. INCOME INEQUALITY UNDER DEMOCRACY

Whilst the first decade of democracy can point to a decline in national poverty levels in both absolute and relative terms, the trends in terms of income inequality are more worrying. Hence, on the basis of per capita expenditure, and using the Gini coefficient<sup>4</sup> as our measure of inequality – that data suggests that South Africa experienced a rise in income inequality over the period 1995 to 2005. Specifically, the economy's Gini coefficient increased from 0.64 in 1995 to 0.69 in 2005. This is a

<sup>4</sup> The Gini coefficient is one of the most commonly used measures of inequality since it is relatively easy to understand and interpret. The possible values of the Gini coefficient can range from zero to one, with a value of zero implying perfect equality. The higher the Gini coefficient is, therefore, the higher the level of inequality.

deeply disturbing result for a number of reasons: Firstly, measures of income inequality by international experience do not alter significantly over time in either direction. It takes large shifts in economic growth for example, to change an economy's income distribution, or a very particular pattern of growth (Kanbur, 2005). Secondly, the result is disturbing within the context of South Africa being historically ranked as one of the most unequal societies in the world. This new result would suggest that South Africa may now be one of the most consistently unequal countries in the world. Simply put, while the democratic period has delivered declining poverty levels, it has also been marked by a significant rise in aggregate income inequality.

The data by race, however, are interesting. While only Africans experienced a decline in their poverty levels as measured by the headcount rate and the poverty gap ratio, the evidence presented in Table 3 suggests that Africans were the only population group that did not experience a significant increase in inequality between 1995 and 2005. African inequality, however, remained high in both years. Coloured individuals experienced the largest increase in inequality with their Gini coefficient increasing from 0.49 in 1995 to 0.58 in 2005. As a result, by 2005, the distribution for Coloured individuals displayed the highest level of inequality relative to the other race groups. Asian inequality increased from 0.45 to 0.53 in 2005. While White inequality increased from 0.39 to 0.45, this population group continued to experience the lowest relative levels of inequality.

**Table 3: Inequality Shifts by Race: Gini Coefficients for 1995 & 2005**

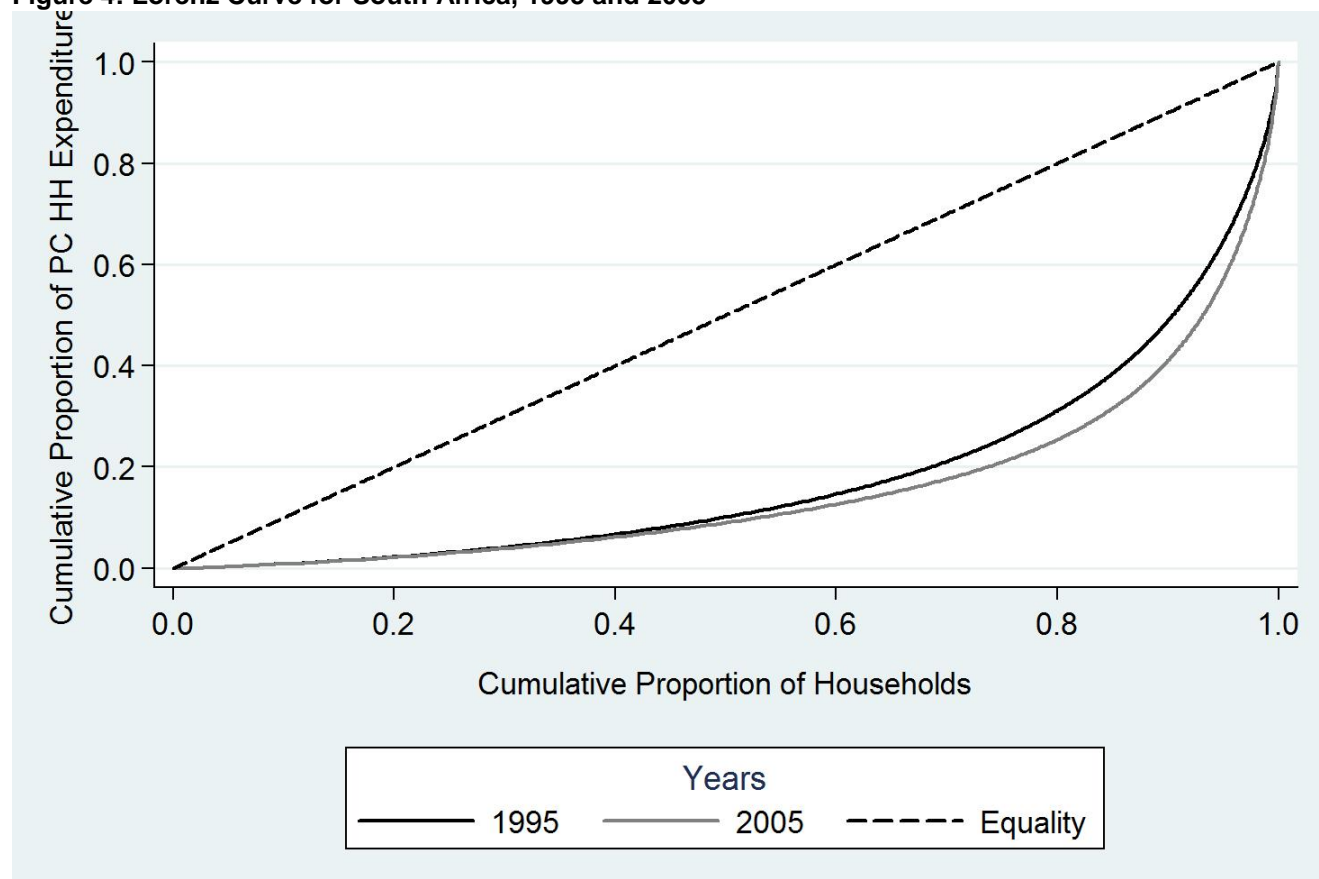
Category	1995	2005
African	0.55	0.56
Coloured	0.49	0.58 *
Asian	0.45	0.53 *
White	0.39	0.45 *
<b>Total</b>	<b>0.64</b>	<b>0.69 *</b>

Source: Statistics South Africa (1995 and 2008) and own calculations

Notes: 1. The changes in the values of the Gini coefficients between 1995 and 2005 are statistically significant at the 95 percent level, with the exception of Africans (indicated by the asterisks).  
 2. The population in 1995 has been weighted by population weights according to the 1996 Census. The population in 2005 has been weighted by the household weight multiplied by the household size. The 2005 weights are based on the 2001 Census.

The Lorenz curve<sup>5</sup> presented in Figure 4 visually confirms that inequality at the national level increased between 1995 and 2005. As a complement to the Gini coefficient, the Lorenz curve represents an affirmation of the robustness of our national result. For example, the 1995 Lorenz curve indicates that in that year, the bottom 80 percent of the population accounted for just more than 30 percent of total expenditure. By 2005, the Lorenz curve shows that this share of the population only accounted for about 25 percent of per capita household expenditure. Put differently, in 1995, whilst the richest 20 percent of the South African population accounted for about 70 percent of total expenditure, a decade into democracy, this share had risen to 75 percent.

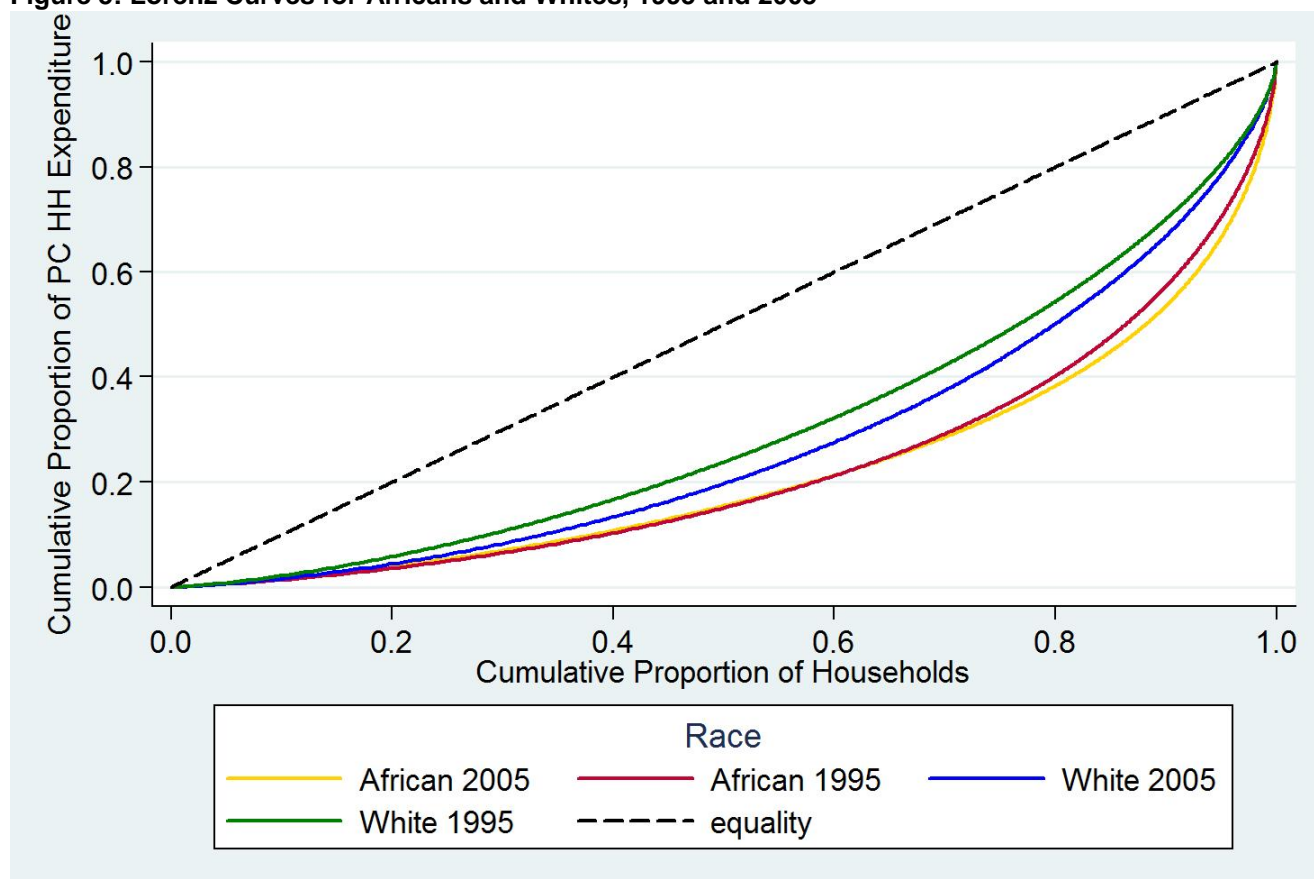
<sup>5</sup> The Lorenz curve is a graphical representation of the relationship between the cumulative percentage of income and the cumulative percentage of (ordered) population. The Lorenz curve will start at the origin, the point where zero percent of the population receives zero percent of the income, and will end at the point where 100 percent of the population enjoys 100 percent of the income. The more unequal a society, the smaller the proportion of income that will accrue to the poorest segment of the population and, accordingly, the lower the Lorenz curve will be on the figure. At its most extreme – perfect inequality – one person receives all the income and all other individuals receive nothing and the Lorenz curve will therefore proceed horizontally from the origin, remaining on the horizontal axis until the last person is added to the cumulative shares, which will result in the curve going up almost vertically to the point where 100 percent of the population receives 100 percent of the income (forming, in other words, a reversed 'L' shape). Conversely, a situation of perfect equality will see each person receiving the same income and, thus, the poorest 20 percent of the population will receive 20 percent of the income, the poorest 40 percent of the population will receive 40 percent of the income and so on. In this case, the Lorenz curve will form a straight diagonal line from the origin to the point where 100 percent of the population receives 100 percent of the income. This line is known as the line of perfect equality.

**Figure 4: Lorenz Curve for South Africa, 1995 and 2005**

Source: Statistics South Africa (1995 and 2008) and own calculations

Notes: 1. The population in 1995 has been weighted by population weights according to the 1996 Census. The population in 2005 has been weighted by the household weight multiplied by the household size. The 2005 weights are based on the 2001 Census.

Figure 5 below presents the Lorenz curves for Africans and Whites for 1995 and 2005. It is very clear from the curves that African inequality remained virtually unchanged over the period, with the 1995 and 2005 Lorenz curves almost indistinguishable. In contrast, the Lorenz curves for White individuals graphically confirm increasing inequality within this cohort over the period.

**Figure 5: Lorenz Curves for Africans and Whites, 1995 and 2005**

Source: Statistics South Africa (1995 and 2008) and own calculations

Notes: 1. The population in 1995 has been weighted by population weights according to the 1996 Census. The population in 2005 has been weighted by the household weight multiplied by the household size. The 2005 weights are based on the 2001 Census.

Finally, the relatively higher level of African inequality is also apparent, with both African Lorenz curves lying below the White curves for 1995 and 2005. For example, looking at the African Lorenz curves, the bottom 80 percent of the African population accounted for about 40 percent of total expenditure by Africans in both 1995 and 2005. The Lorenz curves for Whites show that this 80 percent of the population were responsible for about 55 percent of total expenditure in 1995. Ten years later, the same proportion of the White population group saw their share of total White expenditure decline to about 50 percent.

In the South African context, the strong inequality between racial groups as a result of apartheid has always been a significant driver of aggregate inequality (see Leibbrandt, Woolard & Bhorat, 2001). Studies using either the 1996 and 2001 Census data or the 1995 and 2000 IES data have found an increase in the contribution of within-group inequality driven to a large extent by increasing inequality within the African population (See Hoogeveen & Ozler, 2006; Leibbrandt, et. al, 2005). In order to estimate these between- and within-group inequality drivers, we utilise the well-known Theil index.<sup>6</sup> Indeed, older studies using pre-1994 data have also tended to confirm this notion that inequality within racial groups has tended to drive aggregate inequality (McGrath & Whiteford, 1994). Given the past results within this literature the results provided below are crucial. Specifically, our estimates here suggest that over the 1995-2005 period, the share of inequality driven by within-group dynamics in fact declined over this period.<sup>7</sup> In turn then, the key driver of income inequality since 1995 has in fact been between-group inequality, as the share of between race group inequality's contribution to overall inequality increased from 46.9 percent to 49.7 percent. In fact, by 2005, within-group and between-group inequality contributed in almost equal measure to aggregate inequality.

<sup>6</sup> The Theil index is a well-known measure of inequality that, unlike the Gini, allows us to measure the contribution of within-group inequality on the one hand and that of between-group inequality to overall inequality.

<sup>7</sup> The actual Theil index numbers are presented in the table with the share contribution of the components in brackets.

**Table 4: Inequality Within and Between Race Groups, 1995 and 2005**

	1995	2005
Within-group component	0.433	0.511
	-53.15%	-50.35%
Between-group component	0.381	0.504
	-46.85%	-49.65%
Total Inequality (Theil-T)	0.814	1.014
	-100%	-100%

Source: Statistics South Africa (1995 and 2008) and own calculations

Notes: 1. The population in 1995 has been weighted by population weights according to the 1996 Census. The population in 2005 has been weighted by the household weight multiplied by the household size. The 2005 weights are based on the 2001 Census.

2. It has not been possible to calculate confidence intervals or t-statistics for the Theil measures. This means that we are not able to evaluate if the change in the contribution of the two components to total inequality is statistically significant.

This is a crucial result. It suggests that it is primarily income differences between the race groups – rather than those within – which have contributed to South Africa’s growing inequality levels in the post-1994 era. Put differently, this result is an early suggestion that regularly shifts in the post-apartheid period have been driven by the differential income gains and losses between racial groups – rather than within racial groups. While not the focus of this chapter, this result suggests a reassessment of the view that in the democratic era growing African affluence relative to rising African unemployment rates has been a driver of aggregate income inequality in South Africa. Indeed, on the face of this, admittedly provisional evidence, it would appear that that the contrasting income gains made across the different race groups has been the key determinant of rising aggregate income inequality in the South African economy.<sup>8</sup>

#### 4. THE NATURE OF ECONOMIC GROWTH: 1995-2005

There is very little debate, if any, amongst economists around the notion that a high level of economic growth is essential for poverty reduction. Indeed, increased growth rates, effectively measured by rising *per capita* incomes, would appear to make this link clear and simple: If you increase economic growth, poverty levels will fall in the society. However, a more detailed assessment of experiences around the world, indicate that there are two very important caveats to this generalised view that ‘growth is good for the poor’. Firstly, the impact of economic growth on poverty differs significantly across countries. Hence, research from the World Bank indicates that a two percent increase in growth rates will result in a reduction in poverty ranging from one to seven percent, depending on the country (Source: Ravallion, 2001). Secondly, as incomes grow, there is a high likelihood that this will also affect the *distribution* of that income. Put differently, economic growth often brings with it some change in the levels of income inequality. When this occurs, and if the result is an increase in inequality, the gains from growth to the poor may in fact be reduced. Higher inequality levels from growth through their deleterious impact on the distribution of income, dilute the impact of economic growth on poverty. Given these two caveats to the growth-poverty nexus then, the critical insight is that economic growth may be necessary, but it is certainly not a sufficient condition for poverty reduction in a society.

While we have in the analysis above noted the shifts in poverty between 1995 and 2005 using the standard FGT class of poverty measures, it remains important to try and estimate how the growth in expenditures of the poor have fared relative to the rich over this period. As a starting point for the analysis, we examine growth incidence curves (GIC) for this period according to a set of covariates. Methodologically, we draw on the work of Ravallion (2004) and Ravallion and Chen (2003), who developed these concepts. Essentially, the GIC approach allows us to determine whether growth in expenditure in this period has been pro-poor in nature, by plotting the growth in expenditure across each centile of the distribution.

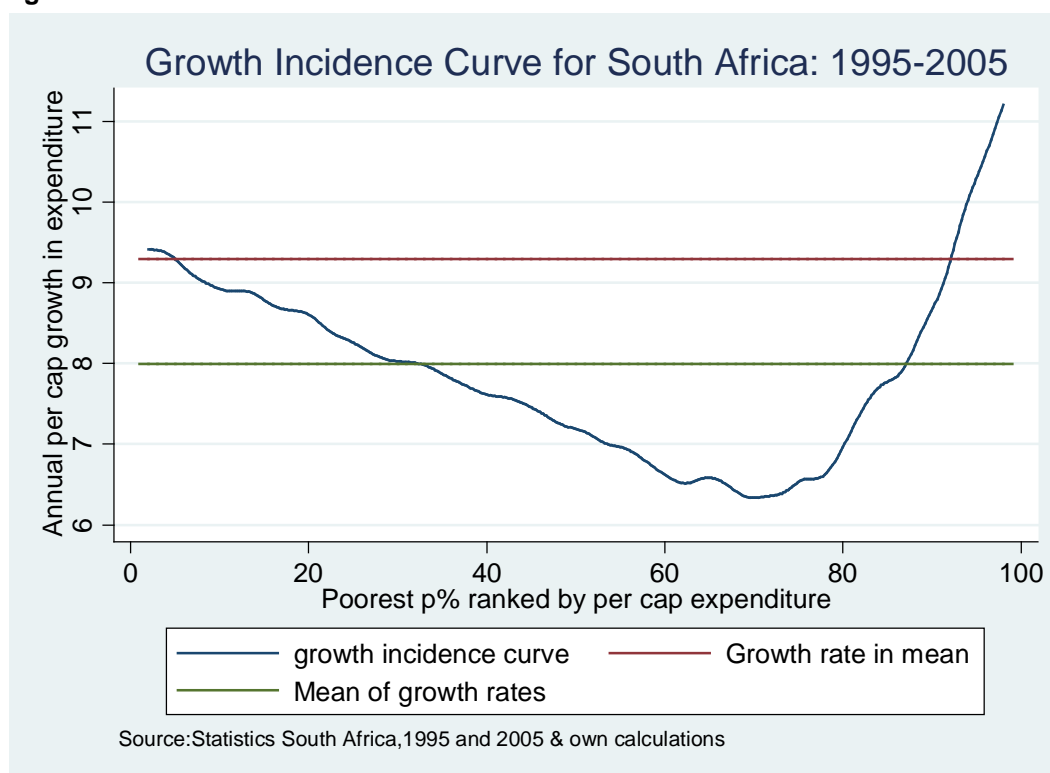
<sup>8</sup> The results by gender of household head, shows that, while declining very slightly over the period, within-group inequality has been almost the sole driver of total inequality over the period. In other words, the inequality between male- and female-headed households contributed very little to overall inequality.

In the GIC for South Africa for the period 1995-2000 we thus examine the growth in expenditure per capita of the population, arranged according to ascending centiles of the distribution. It is clear from the GIC that growth in per capita expenditure was pro-poor in the absolute sense, with all the individuals across the distribution experiencing positive growth between 1995 and 2005. Pro-poor growth can be considered “absolute” if the change in expenditure/income levels of the poor (as defined by a chosen poverty line) over a given time period is non-zero, i.e. the expenditure levels of the poor have increased in absolute terms. Pro-poor growth can be considered “relative” if the change in the income/expenditure levels of the poor is larger than the change in the income/expenditure levels of the non-poor. The average annual growth in mean per capita expenditure was just above nine percent over the period, while the mean of the growth rates at each percentile was eight percent over the period.

While individuals at the very bottom of the distribution clearly benefited more from the increased growth in expenditure than individuals up to the 70th percentile, this growth has not been pro-poor in a relative sense. Relative pro-poor growth was not evident, given that from around the 70th percentile, growth in expenditure begins to increase steadily again, with individuals in the top 10 percent of the distribution enjoying the highest average annual growth rates in the society.

It is important to note that, at the bottom of the distribution, only the poorest 30 percent of individuals experienced average annual increases in expenditure above the mean of the percentile growth rates. Individuals between the 60th and 70th percentiles experienced the lowest growth rates at around six percent.

**Figure 6: Growth Incidence Curve for South Africa: 1995 – 2005**



Source: Statistics South Africa (1995 & 2008), own calculations

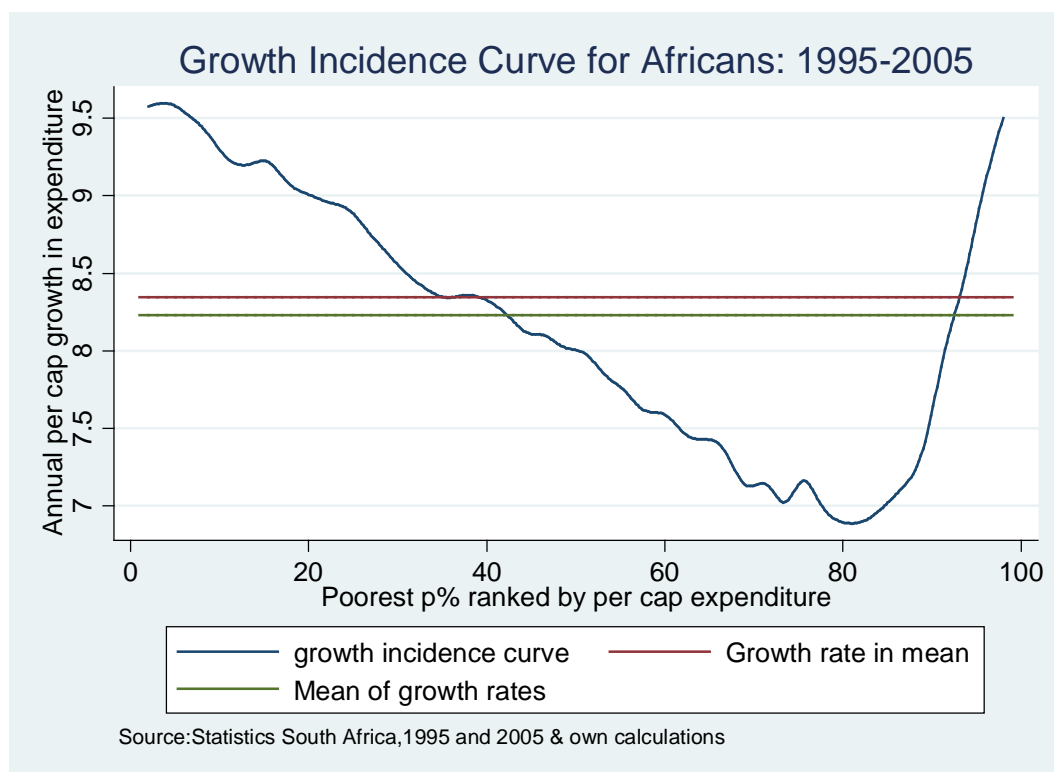
- Notes:
1. Frequency weights are assumed with the population in 1995 weighted according to the 1996 Census and the population in 2005 weighted according to the 2001 Census.
  2. Figures are annualised growth rates.

Figure 7 presents the GIC for Africans for the period 1995 to 2005. Again, it is clear that growth was pro-poor in the absolute sense. All Africans experienced an increase in their per capita expenditure over the 10-year period, with average annual growth rates varying between just under seven percent to over nine and a half percent. While individuals at the bottom-end of the distribution appear to have enjoyed the highest average annual growth rates of more than nine and a half percent, manual



calculations of the growth rates at the top of the distribution reveal a growth rate of 10 percent at the 99th percentile.

**Figure 7: Growth Incidence Curve for Individuals Living in Households Headed by Africans: 1995 - 2005**



Source: Statistics South Africa (1995 & 2008), own calculations

- Notes:
1. Frequency weights are assumed with the population in 1995 weighted according to the 1996 Census and the population in 2005 weighted according to the 2001 Census.
  2. Figures are annualised growth rates.

In this case, individuals at the 80th percentile experienced the lowest average annual growth rates of just below seven percent. Only approximately the poorest 40 percent of Africans experienced increases in expenditure above the mean of percentile growth rate, again confirming that growth was not pro-poor in the relative sense.

The GICs for the other three race groups are not shown here, but these confirm that all individuals irrespective of race experienced increases in per capita expenditure meaning that growth was pro-poor in absolute terms for all race groups between 1995 and 2005.

The GICs for the other population groups however, also suggest that those at the bottom of the distribution experienced relatively lower average annual growth rates in expenditure than those higher up the distribution. This is confirmed by the evidence presented in Table 5 and Figure 8 below.

Table 5 gives the growth rate in mean and median expenditure as well as the mean percentile growth rate at national level and for all four race groups. In addition, it presents the rate of pro-poor growth for the poorest 10, 15, 20, 25 and 30 percent of the distribution. Figure 8 in turn presents the average annual growth rates at the very top of the per capita expenditure distribution for the four race groups.



**Table 5: Measures of Pro-poor Growth by Race, 1995 – 2005**

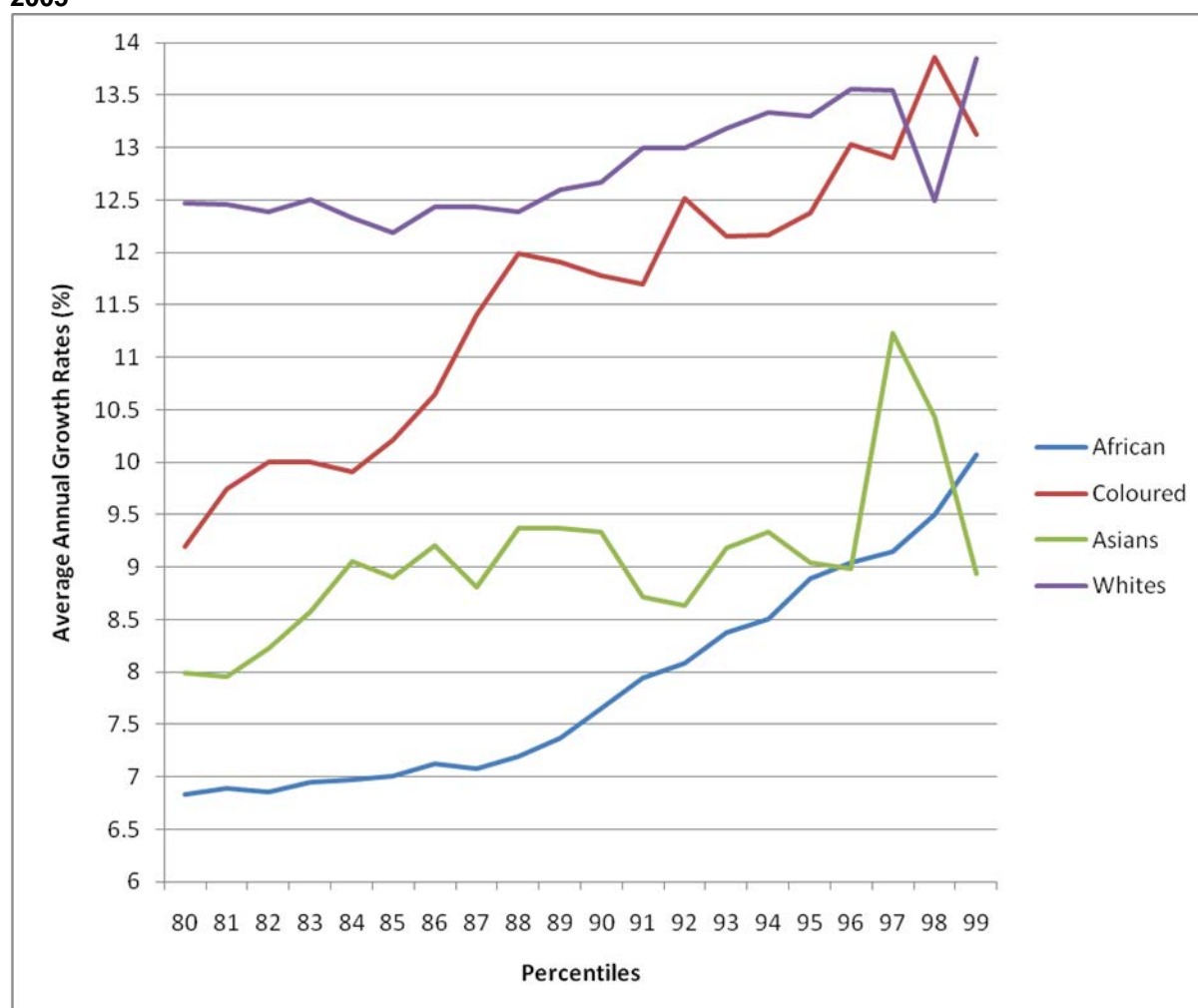
	Total	African	Coloured	Asian	White
Growth rate in mean	9.29	8.34	10.1	7.92	11.79
Growth rate in median	7.15	8	7.04	5.78	10.6
Mean percentile growth rate	8	8.23	8.19	6.42	10.83
Mean Growth Rate of the Poorest Percentiles of the Populations					
0 -10	9.19	9.5	5.75	3.29	8.15
0- 15	9.09	9.4	6.07	3.61	8.49
0 -20	8.98	9.32	6.27	3.73	8.54
0 -25	8.86	9.25	6.37	4.11	8.64
0 -30	8.73	9.15	6.44	4.36	8.79

Source: Statistics South Africa (1995 & 2008) & own calculations

- Notes: 1. Frequency weights are assumed with the population in 1995 weighted according to the 1996 Census and the population in 2005 weighted according to the 2001 Census.  
 2. Figures are annualised growth rates.

For the aggregate and for Africans, the declining pro-poor growth rates as you move from the 10th to the 30th percentile confirm that those in the bottom 10 percent of the distribution experienced higher growth rates than those in the bottom 30 percent of the distribution. At the national level and for Africans, the average growth rates for those in the bottom 30 percent of the distribution were actually higher than the respective mean percentile growth rates. In the case of African individuals, the average growth rate experienced by these individuals was even higher than the growth rate in mean expenditure. The pro-poor growth rates for Coloureds, Asians and Whites on the other hand show those in the bottom 30 percent of the distribution experienced lower growth rates relative to the mean percentile growth rates. Asians generally experienced the lowest growth rates, while on average Whites experienced the highest growth rates of all the race groups.

The table below presents the results when growth rates are calculated for those individuals from the 80th percentile upwards. These are presented for the different race groups. For Coloured, Asian and White individuals, those at the top of the expenditure distribution experienced growth rates higher than their own-race mean percentile growth rates presented in Table 5. The data for the African population reveals that only those from the 93rd percentile upwards experienced growth rates above the mean percentile growth rates.

**Figure 8: Average Annual Growth Rates in Expenditure at the Top of the Distribution, 1995 – 2005**

Source: Statistics South Africa (1995 & 2008) & own calculations

- Notes:
1. Frequency weights are assumed with the population in 1995 weighted according to the 1996 Census and the population in 2005 weighted according to the 2001 Census.
  2. Figures are annualised growth rates.

It is instructive to note that nowhere in the upper-end of the distribution over the first decade of democracy, do we see African expenditure growing as rapidly as White expenditure. Put differently, the estimates suggest that in the period 1995-2005 it has been Coloured and White individuals at the top of the expenditure distribution in particular, who have continued to benefit more from economic growth than those at the bottom-end. At the aggregate level, these two race groups and to a lesser extent Asians and Africans in the very top percentiles, accounted for the relatively higher growth rates in the top 10 percent of the distribution as illustrated by the GIC for South Africa. Indeed, this racial difference in expenditure growth at the top-end must be part of the explanation for the result noted earlier – of a rising share of between-group inequality in overall national income inequality.

The GICs for those living in male- and female-headed households respectively, while not shown here, again confirm that growth was pro-poor between 1995 and 2005 in the absolute sense for all individuals, irrespective of the gender of the household head. Both GICs display a similar trend to that of the GIC for South Africa. Individuals living in both male- and female-headed households at the bottom of the distribution experienced higher growth rates than those up to around the 70th percentile of individuals living in male-headed households and up to the 80th percentile of individuals living in female-headed households.

The pro-poor growth measures for individuals living in male-headed and female-headed households can be found Table 6. It confirms the results from the GICs that male-headed households experienced a slightly higher growth rate in mean expenditure as well as a higher mean of growth

rates. In addition, the pro-poor growth rates for individuals in the bottom 30 percent of the expenditure distribution also confirms that individuals living in relatively poorer male-headed households experienced slightly higher growth rates than those living in poor households headed by females.

**Table 6: Measures of Pro-Poor Growth by Gender of Household Head**

	Total	Male-headed	Female-headed
Growth rate in mean	9.29	10.14	9.53
Growth rate in median	7.15	7.59	7.75
Mean percentile growth rate	8	8.79	8.27
Rate of pro-poor growth at corresponding percentile			
10	9.19	9.44	9.32
15	9.09	9.39	9.23
20	8.98	9.31	9.18
25	8.86	9.2	9.1
30	8.73	9.1	9

Source: Statistics South Africa (1995 & 2005) & own calculations

Notes: 1. Frequency weights are assumed with the population in 1995 weighted according to the 1996 Census and the population in 2005 weighted according to the 2001 Census.  
2. Figures are annualised growth rates.

Similarly to the experience at national level, individuals at the very top-end of the distribution experienced the highest growth rates, regardless of the gender of the head of the household they were residing in.

Overall then, the results presented here suggest that all individuals, irrespective of race and the gender of the head of the household, experienced positive growth in their levels of expenditure in the first decade after democracy. The results from the GIC curves suggest that those at the bottom of the distribution and those at the very top of the distribution experienced the highest growth rates. The growth in the expenditure of the rich, however, exceeded those at the bottom end of the distribution, so certainly fuelling the rise in income inequality. Indeed the stagnation in expenditure growth in the middle of the distribution is arguably a key feature of not only this rising Gini coefficient in the democratic era, but also a predictor of how the employed, blue-collar households may have inadvertently been excluded from the growth process. Growth has therefore been pro-poor in the absolute sense, but not in the relative sense.

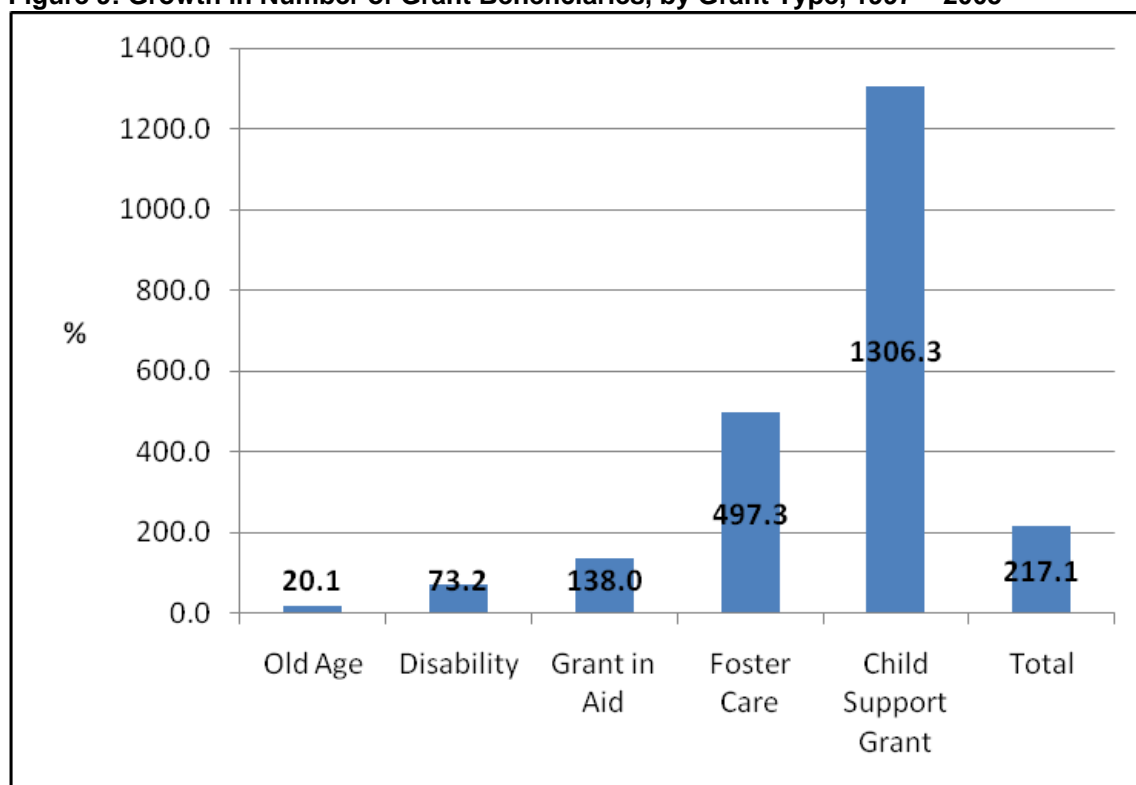
Pursuing this line of argument for the middle of the distribution is extremely difficult, principally given the nature of data at our disposal and also a few challenging analytical issues. In turn, however, the changes at the bottom of the distribution are equally important. Hence we turn to a detailed consideration of the changes experienced here. In particular, we are interested in the role of government's provision of social grants in improving the expenditures of the poor over the period.

## 5. DETERMINANTS OF GROWTH IN EXPENDITURE OF THE POOR SINCE 1995

The first decade of democracy has been characterised by a rapid widening and deepening of the state social security system. Social grants are targeted at the most vulnerable members of the South African society, specifically the disabled, the aged and children.

Analysis by Pauw and Ncube (2007) shows that not only has the share of social grant expenditure in GDP increased significantly since the first democratic election, but the number of recipients of social grants has increased more than three-fold. In 1996/97, social grant transfers accounted for about two and a half percent of GDP and by 2005/06, this share increased to more than three percent. The total number of beneficiaries increased from approximately three million in 1997 to 9.4 million in 2005, a total increase of 217 percent or an average annual growth rate of 15.3 percent.

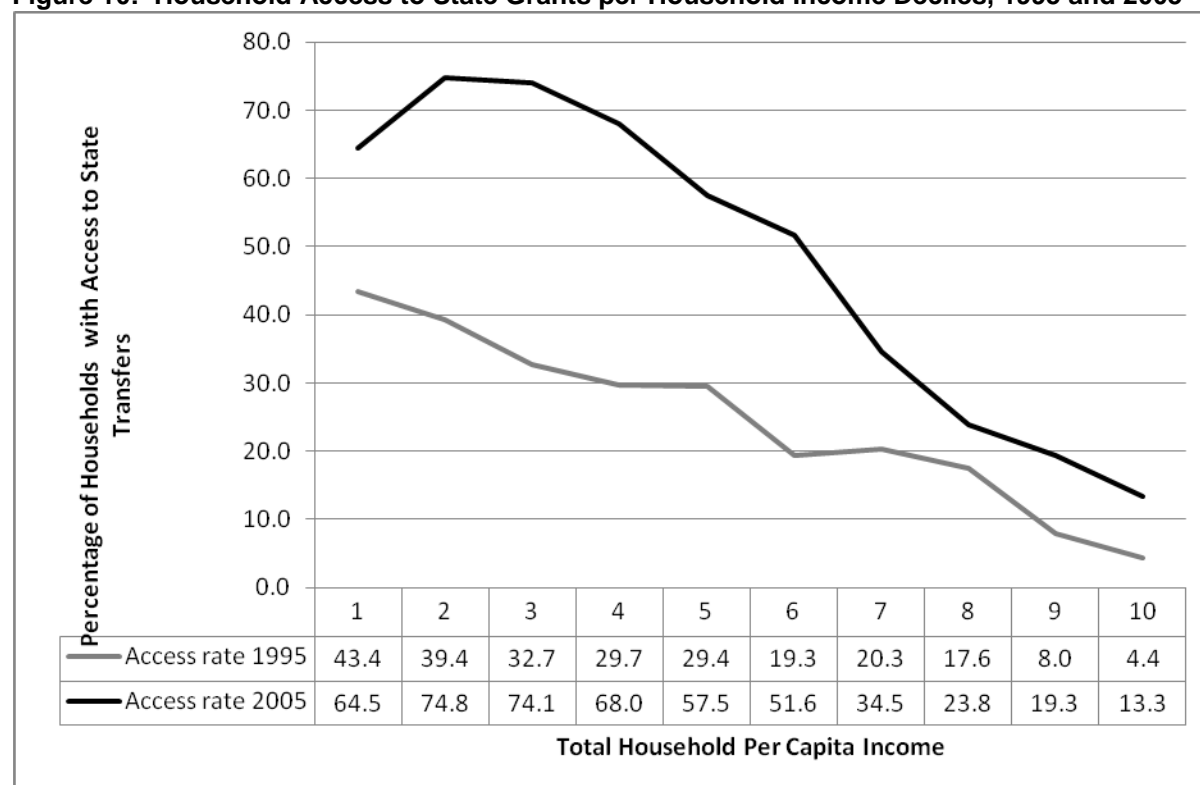
Figure 9 illustrates the growth rate in the number of beneficiaries according to the type of grant. (The absolute numbers can be found in Appendix 2)

**Figure 9: Growth in Number of Grant Beneficiaries, by Grant Type, 1997 – 2005**

Source: Pauw & Mncube (2007); own calculations

The bulk of the increase in the provision of social grants occurred in the period after 2000, driven mostly by the extension of the Child Support Grant to children to the age of 14 years, and increased public awareness of the grant (Pauw & Mncube, 2007). The number of recipients of this grant increased from 400 500 in 1997 (when it was called the Child Maintenance Grant) to 5.6 million in 2005, which constitutes an increase of more than 1 300 percent. While the increase in the number of recipients of the Old Age Grant was relatively small, the grant has the largest number of recipients, with more than 2 million individuals receiving this type of social transfer by April 2005.

Figure 10 shows how the share of households in each per capita household income decile, who had access to one or more social grant, increased between 1995 and 2005. Put differently, the graph presents the household access rate to social grants in each income decile for the two years.

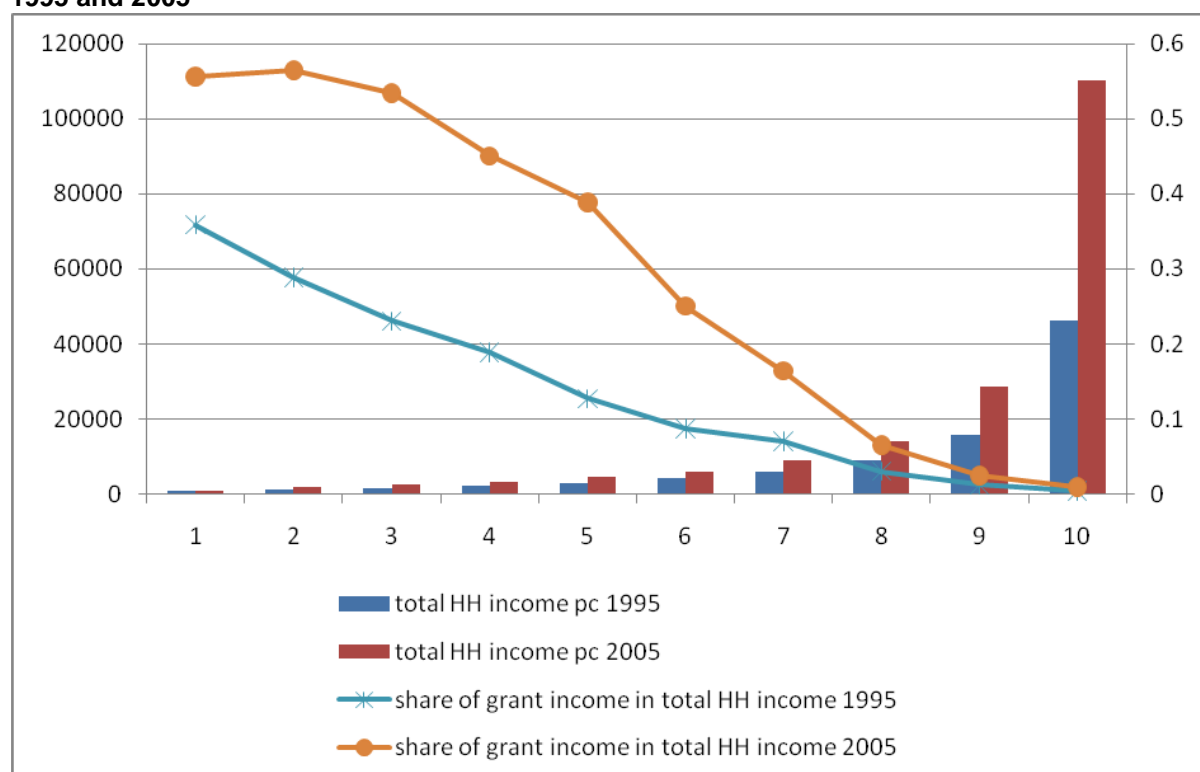
**Figure 10: Household Access to State Grants per Household Income Deciles, 1995 and 2005**

Source: Statistics South Africa (1995 and 2008) and own calculations

Notes: 1. The population in 1995 has been weighted according to the 1996 Census, while the population in 2005 has been weighted according to the 2001 Census. In both datasets, the population has been weighted by the household weight multiplied by the household size.

There has been a substantial increase in household access to social grants in each of the income deciles between 1995 and 2005. For example, the share of households in the first decile with access to grant income increased from 43 percent in 1995 to almost 65 percent in 2005. However, access to grant income not only increased significantly in the bottom deciles, but also in the deciles in the middle of the income distribution. For example, in the 6th decile the share of households with access to grant income increased from 19 percent to more than 50 percent in 2005. This is an important result, which suggests that grant income not only supports the very poor, but also a large portion of households in the middle of the distribution. In fact, between 50 and 75 percent of households in the bottom six deciles of the distribution received grant income in 2005.

The graph above has shown the impact of the provision of social grants in terms of the share of households with access to social grants. Figure 11 shows which share of total income in each of the total household per capita deciles can be attributed to social grants in 1995 and 2005. It is clear that in line with the increase in access to social grants, the contribution of grant income to total income has increased significantly over the period.

**Figure 11: Per capita Grant Income as Proportion of Total Household Income, South Africa, 1995 and 2005**

Source: Statistics South Africa (1995 and 2008) and own calculations

Notes: 1. The population in 1995 has been weighted according to the 1996 Census, while the population in 2005 has been weighted according to the 2001 Census. In both datasets, the population has been weighted by the household weight multiplied by the household size.

In 1995, the contribution of grant income to total household income was relatively low in all deciles. Even in the bottom decile, grant income only contributed about 35 percent to total income. This contribution declined across the income distribution, with grant income accounting for just more than 10 percent of total income for those in the fifth decile. By 2005, social transfer income had become an important contributing source to total income in all the lower income deciles. For households in the bottom three deciles, grant income contributed between 50 and 60 percent to total household income. We have seen earlier that more than half of households in the middle of the income distribution received some grant income in 2005. The results above confirm the importance of social grant income to those households, with these social transfers accounting for almost 40 percent of total income of households in the fifth income decile.

The proposition therefore, on the basis of this preliminary evidence here, is that the rapid widening and deepening of the state's social security system in this first decade of democracy lies at the heart of the rapid growth in expenditure levels of the poor. The Child Support Grant, the Old Age Pension and the Disability Grant thus, are probably the key individual determinants for South Africa experiencing absolute levels of pro-poor growth in the 1995-2005 period. This growth at the bottom-end however, must be juxtaposed by phenomenal non-social transfer related growth rates observed amongst individuals from the 80th percentile onwards. That this trend yields higher returns for Whites and Coloureds in turn though, must serve as a stark reminder not only of the distributional consequences of economic growth, but also its powerful racial manifestations.

## 6. CONCLUSION

Analysts agree that persistent and high levels of poverty, and particularly inequality, can harm the quality of democracy and potentially lead to social conflict. In the worst case scenario, high levels of poverty and inequality can threaten the survival of democracy. There is also consensus that economic growth alone is not enough to guarantee the sustainability of a democracy and that the equitable distribution of income, assets, education and other opportunities is important for both the quality and endurance of democracy.

The above chapters suggest six key trends which are noteworthy in terms of observing changes and challenges in South Africa's second decade of democracy. Firstly, it is clear that gains in poverty reduction have been recorded in the first decade of democracy at the national level and for African- and female-headed households. And it is a result invariant to the choice of poverty line. Secondly though, we continue to show that race and gender remain overwhelming determinants of this poverty profile, with African- and female-headed households accounting for a disproportionate share in poverty. Thirdly, the trends in income inequality suggest that one of the world's most unequal societies has quite possibly become the most unequal. In turn, and our fourth key deduction, it is evident that income inequality between racial groups – to all intents and purposes, between Africans and Whites – is driving this overall increase. Our analysis of the nature of economic growth since 1995 suggests that despite positive economic growth, individuals at the top-end of the distribution have gained the most from the post-apartheid growth dividend. Indeed, what this suggests is that the country's current democratic growth model is crafted around supporting incomes at the bottom-end of the distribution through an extensive social transfer programme, whilst offering few returns to those in the middle of the distribution. The growth in the expenditures of the poor has been driven by the expansion of social grants and it is not evident, as South Africa enters its first post-1994 recession with declining tax revenues and rising fiscal deficits, whether such a growth model is indeed desirable or sustainable.

Overall then, the positive economic growth during the first decade of democracy in South Africa has resulted in modest gains in terms of poverty reduction, however, inequality on the other hand has increased significantly, suggesting a possible threat to, at least, the quality of democracy in the country. In the longer term, persistently high levels of inequality may give rise to social conflict and on-going challenges around the nature and trajectory of the country's growth path.

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## APPENDIX

## 1. Shares in Population and Poverty: By Race and Gender of Household Head

	1995			2005		
	Population Share	R322 Poverty Line	R174 Poverty Line	Population Share	R322 Poverty Line	R174 Poverty Line
Race of Household Head						
African	0.7728	0.9274	95.45%	79.40%	93.19%	94.98%
Coloured	9.31%	6.92%	4.40%	8.79%	6.30%	4.83%
Asian	2.61%	0.23%	0.07%	2.48%	0.43%	0.17%
White	10.79%	0.11%	0.08%	9.23%	0.07%	0.03%
Gender of Household Head						
Male	66.18%	57.74%	55.91%	56.50%	45.42%	42.63%
Female	33.82%	42.27%	44.09%	43.43%	54.53%	57.29%

Source: Statistics South Africa (1995 and 2008) and Own Calculations

Notes: 1. Poverty lines are in 2000 prices.  
2. The population in 1995 has been weighted by population weights according to the 1996 Census. The population in 2005 has been weighted by the household weight multiplied by the household size. The 2005 weights are based on the 2001 Census.

## 2. Social Grants Beneficiary Numbers by Type of Grant

Type of Grant	August 1997	April 2001	April 2005
Old Age	1 742 253	1 877 538	2 093 075
War Veterans	11 495	6 175	3 340
Disability	754 830	627 481	1 307 459
Grant in Aid	9 720	9 489	23 131
Foster Care	42 917	85 910	256 325
Care Dependency	3 815	28 897	85 818
Child Support	400 599	974 724	5 633 647
Total	2 965 629	3 610 214	9 402 795

Source: Pauw & Mncube (2007), calculated using data from National Treasury

Note: The child support grant was introduced in 1998, the 1997 beneficiaries shown in the table therefore corresponds to the child maintenance grant.