

# Chapter 2

## The Socio-economic Context

### and the Need for Comprehensive Social Protection



#### 2.1 Introduction

South Africa's social safety net has its roots in a set of apartheid labour and welfare policies that were racially biased and premised on full-employment. The last vestiges of state racial discrimination have subsequently been removed, but a key underlying principle of the old system remains in place, i.e. the assumption that those in the labour force can support themselves through work, and that unemployment is a temporary condition. In reality, those who cannot find work (and who do not, or no longer, qualify for UIF payments) fall through a vast hole in the social safety net.

This chapter outlines an analysis of the socio-economic context within which the Committee of Inquiry formulated its recommendations for a reform of the social security system. It points to the changing nature of inequality in South Africa and shows that the current safety net needs adapting to suit today's labour-surplus economy.

Ideally, people should be able to earn a living through employment rather than rely on welfare transfers. In this regard, Government's macro-economic strategy aims to push the economy onto a sustainable growth path that will generate jobs. However, given the size of the unemployment problem and the extent of the growth challenge, full employment is not a feasible scenario in the short to medium term. Moreover, the high levels of unemployment and the social deficit (including extreme poverty and inequality) pose a barrier to the attainment of a sustainable growth path.

#### 2.2 Definition of socio-economic concepts

It is important to clarify the meaning of the terms "poverty", "inequality", "unemployment", "social exclusion" and "vulnerability" because these terms have specific connotations in social security. Also it is necessary to establish why these concepts, in practice, matter to people in their everyday lives.

##### 2.2.1 Poverty

Poverty is usually defined either in absolute or relative terms. In absolute terms, poverty reflects an inability to afford an adequate standard of consumption. In this event, one would use a poverty line, reflecting an income level sufficient to afford adequate consumption, as a point to determine who is poor and who is not. This definition overlooks the distribution of resources in society that often underpins absolute poverty. Thus "relative poverty" refers to the individual's or group's lack of resources when compared to that of other members of that society.

Bringing these absolute and relative concepts together, the Committee of Inquiry states that for a comprehensive social security system, poverty can be defined as the inability of individuals, households or entire communities to command sufficient resources to satisfy a socially acceptable minimum standard of living.

Aside from these technical definitions, how do the poor themselves see poverty? During research for the Poverty and Inequality Report (PIR), developed for the then Deputy President

in 1998, the poor characterised their poverty in the following manner:

- ***Alienation from the community*** They are isolated from the institutions of kinship and community.
- ***Food insecurity*** The inability to provide sufficient or good quality food for the family is seen as an outcome of poverty.
- ***Crowded homes*** The poor are perceived to live in crowded conditions and in homes in need of maintenance.
- ***Use of basic forms of energy*** The poor lack access to safe and efficient sources of energy. In rural communities the poor, particularly the women, walk long distances to gather firewood or water, risking physical attack and sexual assault.
- ***Lack of adequately paid, secure jobs*** Lack of employment opportunities, low wages and lack of job security is regarded as a major contributor to people's poverty.
- ***Fragmentation of the family*** Many poor households are characterised by absent fathers or children living apart from their parents. Households may be split over a number of sites as a survival strategy.

Apart from the above, poverty matters because it is the best predictor of one's future life trajectory. In particular, the negative impacts of poverty tend to accumulate through a person's lifetime. The greater vulnerability resulting from poverty in youth tends to result in a continuous exposure to various risks (unemployment, ill health, and disability) effectively trapping people and their dependants in a cycle of poverty.

Committee analysis of poverty in South Africa today revealed the following:

- Forty five per cent of the population (18 million people) live on less than \$2 a day, as measured by the World Bank.
- Twenty five per cent of African children are stunted (that is, short for their age)
- Ten per cent of Africans are malnourished (that is, underweight for their age)
- Sixty per cent of the poor get no social security transfers.

The Committee of Inquiry has taken into account the quantitative measures of poverty as

well as people's actual experiences and perceptions of poverty and how these manifest in social exclusion and instability.

### 2.2.2 Inequality

Inequality refers to the unequal benefits or opportunities for individuals or groups within a society. Inequality applies both to economic and social aspects, and to conditions of opportunity and outcome. Social class, gender, ethnicity, and locality generally influence inequality. Reducing inequality includes:

- Increasing the relative share of the least well-off
- Improving relative mobility of the poor through reducing barriers to advancement in social and economic life, through promoting participation of disadvantaged groups, and eliminating the disproportionate advantages of the rich in terms of education, access, political power, etc.

Measured by Gini-coefficient, inequality in South Africa is ranked as the fifth highest in the world.

Inequality between races is a striking feature of South Africa. In 1996, 61 per cent of Africans lived in poverty, compared with only 1 per cent of whites. While this figure has probably changed somewhat since then, the continued stark contrast contributes to a perpetuation of apartheid-style prejudice, where notions of an "underclass" are carried over into the post-apartheid era. Flowing from this there is also a stark race differential in terms of who accesses private services (catering for the better off) and who accesses public services (catering mainly for the poor).

In the period 1991-1996, while inequality between races decreased, intra-racial (that is, class) inequality increased. This suggests that the racial divide of the apartheid era, if left to its own devices, could become entrenched as a deep class divide in the post-1994 transformation period.

In designing a comprehensive conceptual framework for social security, the Committee has considered the implications of these factors and the inequalities that emerge from its trajectory into contemporary society. From a social security perspective the key issue is to ensure that those who are currently excluded are

**Table 1**  
**Declining household incomes and growing inequality (1991–1996)**

	<b>African</b>	<b>White</b>	<b>Coloured</b>	<b>Asian</b>
Poorest 50 per cent	-11 per cent	-16 per cent	0 per cent	-5 per cent
Richest 10	17 per cent	-0,3 per cent	16 per cent	28 per cent

given a stake in the present, and that those who have benefited from past privileges promote a level of solidarity.

### 2.2.3 Unemployment

The loss of a job, or the inability to find one, has a devastating impact on individuals and their dependents. This goes beyond the loss of income and what it can buy, to questions of social participation and personal identity.

There are two widely used definitions of unemployment: a “strict” and an “expanded” one, with the latter including “discouraged workers” who have given up looking for work.

The Committee’s review has shown that employment statistical data and analysis is generally highly contested. Although significant improvements have been made to employment data, some important problems remain to be tackled.

Importantly, with changing forms of employment, and hence changing statistical definitions of unemployment, the distinction between “employed” and “unemployed” is also becoming blurred. For the purposes of social policy, for example, the difference between an unemployed person and someone employed in the informal sector at virtually no income appears insignificant, since such work does not provide adequate job and income security.

However, using the one available set of comparable employment statistics,<sup>1</sup> formal sector employment has fallen significantly. This decline has serious social and economic implications. As mentioned, there well may be concurrent informal-sector employment that is unrecorded. However, household survey evidence demonstrates most of these jobs to be considerably lower-paid and less secure, and thus not significantly compensating for the loss of formal sector jobs.

An important factor that the Committee has had to consider is that South Africa is

characterised by a labour surplus economy that is unlikely to change in the foreseeable future. A labour surplus economy with high skills’ deficits at the lower end has significant implications for the design of a comprehensive social security system in the short to medium term.

### 2.2.4 Social exclusion

Social exclusion covers both the static condition (poverty) and the dynamic process (exclusion) through which poverty is caused. As such, the term “social exclusion” is, conceptually, more appropriate for integrated policy purposes than “poverty”.

Social exclusion functions through the twin mechanisms of exclusion and inclusion. It is essentially based upon the power of one group to deny access to reward and life-chances to another group; this is on the basis of certain criteria that the former seeks to justify. These criteria could, for example, be income, education, skin colour, language, sex or religious belief.

As in South Africa’s apartheid past, social exclusion was about mobilising state machinery and policies to exclude others (black people) from reward and privilege. Social exclusion manifests itself in barriers to advancement based on the economically arbitrary individual characteristics mentioned above. Many of these take the form of exclusion from markets; others take the form of exclusion even when markets are competitive.

Social exclusion implies a dynamic set of processes with a number of aspects:

- **Relativity** People are excluded from a particular society, as opposed to a focus on ability to purchase an “absolute” basket of goods that might have been regarded as adequate at another time.
- **Multi-dimensionality** Income and consumption are central, but so are other aspects of participation such as the ability to carry out socially valued activity (not

just paid work), political involvement and social interaction. In each dimension inclusion/exclusion are matters of degree, rather than simply of sharp cut-offs.

- **Agency** Someone, something or some process is responsible for exclusion or inclusion occurring, while inability to control major aspects of one's life is an important aspect of being excluded.
- **Dynamics** Such processes occur over time with long-lasting or cumulative effects. Duration in particular states matter and so do prospects for the future.
- **Multi-layered** Exclusion operates at different levels – individual, household, community/neighbourhood, and institutions.

### 2.2.5 Vulnerability

Vulnerability refers to the risk of a particular individual or group falling into poverty or in situations that compromise their human well-being. Certain individuals or groups, due to their position in society, are more vulnerable than others to the negative consequences of economic, political and social trends, cyclical changes or “shocks”. Generally women, children, the unemployed, households and communities with limited assets are least able to cope with the effects of, say, a negative change in basic service provision or access to remittances.

Therefore policy interventions that seek to move people out of poverty, and have them stay out of poverty, need to address questions of vulnerability. Such an approach requires strategies to advance vulnerable individuals or groups more easily out of their precarious environments or at least enable them cope better with any future negative changes.

## 2.3 South Africa's demographic challenge

Demographic trends are important in determining the direction of a country's social security system. In countries where population growth outstrips economic growth, the pressures on state centred social protection tend to increase. However, population change itself is not the problem, but rather the manner in which the population changes. In many OECD countries, for example, declining population growth with increasing numbers

concentrated in the higher age groups have placed pressures on health and retirement cover among others.<sup>5</sup> Where social security benefit systems are designed in part on inter-generational solidarity, such trends raise concerns. Governments' responses to these trends vary with some encouraging birth rates through family and children's allowances and other measures. However, population trends and features that characterise countries in the south (less industrialised countries) differ. In the south, growth trends are higher, populations are concentrated in the younger age categories and life expectancy is relatively low.

Over the past five years, the South African population has grown at an average rate of 2,2 per cent. Currently South Africa's population features by age and gender, depicted in figure 2, reveal a high concentration of the population between the age categories of 0-34 with a higher proportion of women above the ages of 20.

HIV/ AIDS will affect population trends and dynamics such as the size, growth and age structure of the population.

HIV/AIDS is having a profound impact on fertility and mortality rates in South Africa. Life expectancy at birth is also declining. Available information indicates that the average life expectancy at birth in South Africa has already declined from about 63 in 1996 to about 55 in 1999. It is expected to decline even further. There will also be a decline in the number of people in specific age groups, namely 0-4 year olds and 25-34 year olds.

Simultaneously, however, the real number of the old age population in South Africa is increasing rapidly, due to the improved quality of life of people who live through the young adult years of high risk to HIV infection.

The proportion of women in the total population will decline, as women are more vulnerable to HIV infection due to their lower social and economic status, and because of physiological reasons.

As a result of the above, it is expected that HIV/ AIDS will impact upon dependency ratios in South Africa. The projected age structure of the population shows that the proportion of the population in dependent age groups, both children and elderly people, will increase considerably in relation to the potentially