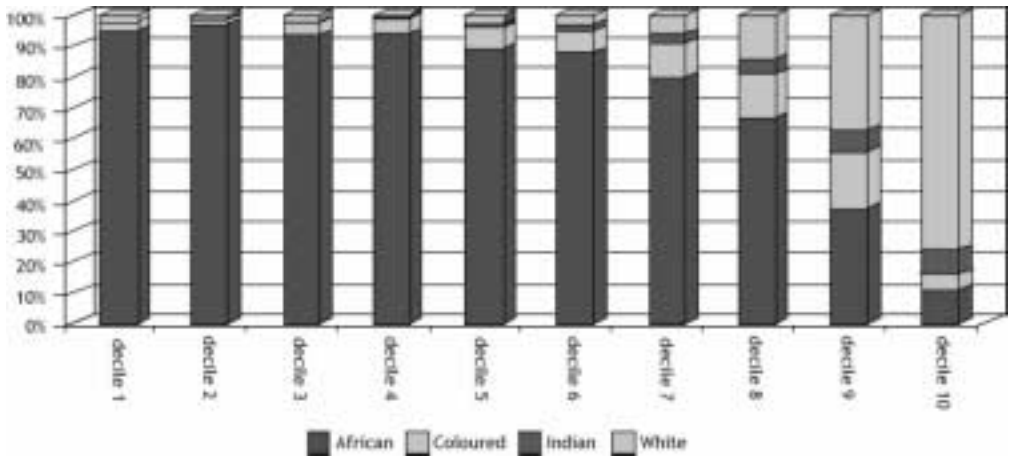
Figure 3
Income deciles by race, 1993.



average household in each decile received its income. The bottom, or poorest decile, received most (48,5 per cent) of its income from remittances (including monetary remittances and remittances in kind, for example in the form of food). Old age pensions were very important to deciles 2 through 4. For every decile from the fourth up, wages comprised by far the most important source of household income.

- The top five deciles were heavily dependent on wages from regular employment. The top, or 10th, decile supplemented its wage income (64,5 per cent) with small but significant incomes from agriculture (6,8 per cent), self-employment (6,7 per cent) and income from capital (12,1 per cent).
- Government old age pensions were of minimal importance to the top decile (at less than 1 per cent). The lower, poorer deciles relied more heavily on remittances and old age pensions.
- Income from agricultural production was of little importance, except to the top decile (which included high-income, capitalist farmers) and the bottom decile (where the incomes were so low that even R8 per month from smallholdings was an important contribution to the decile's income).
- Old age pensions were the most important public transfer payment.

Figure 4
Composition of household income, by income decile and source (%).

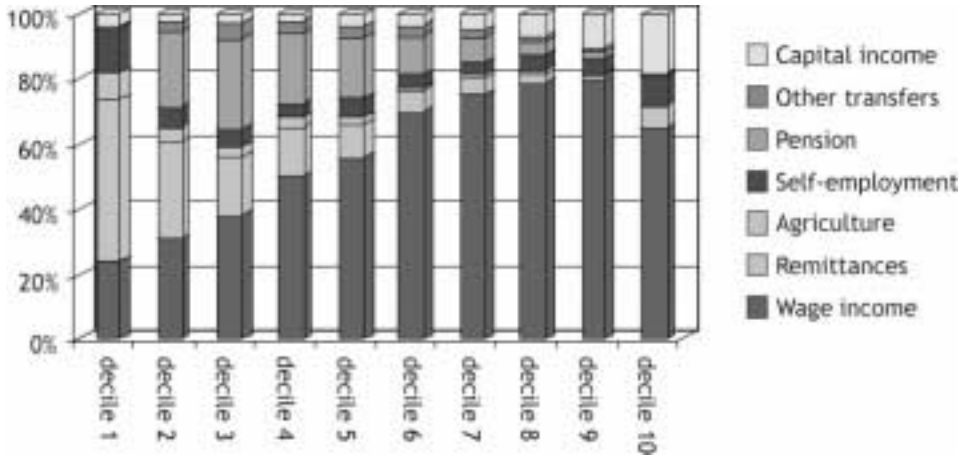
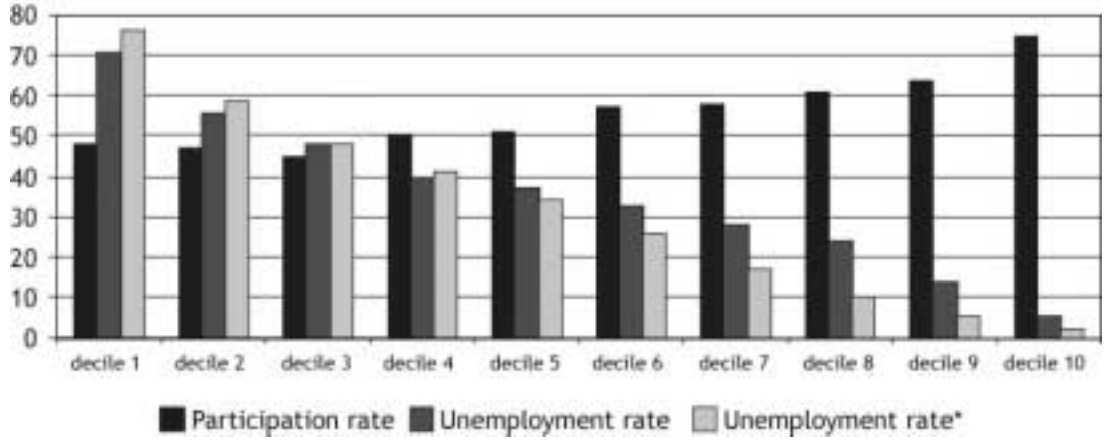


Figure 5
Participation rates and broad unemployment rates by income decile (1993).

(Lower income households have less access to the labour market.)



2.5.3 The importance of public transfers

Figure 5 testifies to the continuing importance of transfers in South Africa. The scale of private inter-household transfers, i.e. remittances, reflects the continuing importance of migrancy. One-third of all African rural households in 1993 had members who were migrant workers. The scale of public transfers, in the form of the Government old age pension and other forms of welfare, reflects the expansion of the public welfare system since the 1980s.

As shown in figure 4, over a quarter of household income in the second and third deciles came from state old age pensions. Indeed, the presence of an old age pensioner in a household was often the main reason for lifting households out of abject poverty. Remittances were a further important source of income – although, overall, they were much less important than Government old age pensions, contributing less than 4 per cent of total income to pensions' 12 per cent (figure 4). Not all remittances came out of wages – there were cases of pensioners

Table 5
The redistributive effects of public transfers (1993)

Income decile	Distribution of public transfers received (%)		Incidence of taxation on the poor (%)		Net transfer through taxes and public welfare (%)	
			Low	High	Low	High
1	0	+7	-2	-3	+5	+4
2	+7					
3	+12	+26	-2	-4	+23	+22
4	+13					
5	+15	+29	-4	-5	+25	+24
6	+14					
7	+12	+23	-11	-12	+12	+10
8	+11					
9	+9	+15	-80	-76	-65	-61
10	+6					
Total	100	100	-100	-100	0	0

sending a share of their pension to family members living elsewhere – but it is safe to assume that most remittances came out of wage income.

Table 5 provides information to assess the redistributive effect of public transfers, i.e. the transfer of resources from taxpayers to old age pensioners and the recipients of other non-contributory welfare payments (primarily disability and child maintenance grants). The first column shows the distribution of public transfers, by decile. *Clearly evident in this column is the fact that the lowest income deciles, those in destitution, receive the lowest share of public transfers.* Once again, this demonstrates the perverse effects of ineffective means testing – the exclusion of a significant number of the poorest households from public transfers.

The second column shows the incidence of taxation. The final column shows the net transfer of resources through taxation and public welfare.

2.5.4 Access to wage income

Poverty and inequality in South Africa are rooted in the labour market: in part in low wages, and in part in very high rates of unemployment. Whereas inequality until the 1970s was determined largely by the gap between white and black incomes, inequality in the 1990s is primarily driven by: (a) inequality within the distribution of wages, and (b) by the fact that 30 per cent of households had no wage income at all. In other words, households in the lower echelons of the income distribution are those with no access to the labour market (the very poor) or with low-paying jobs.

Participation and broad unemployment rates by decile in South Africa are shown in figure 4. The participation rate corresponds to the proportion of adult household members participating in the labour force, and the unemployment rate corresponds to the proportion of the labour force that is unemployed. Both rates are presented here using an expanded definition of unemployment, which includes people who are not actively looking for jobs because they believe there are none available (i.e. the "discouraged" unemployed).

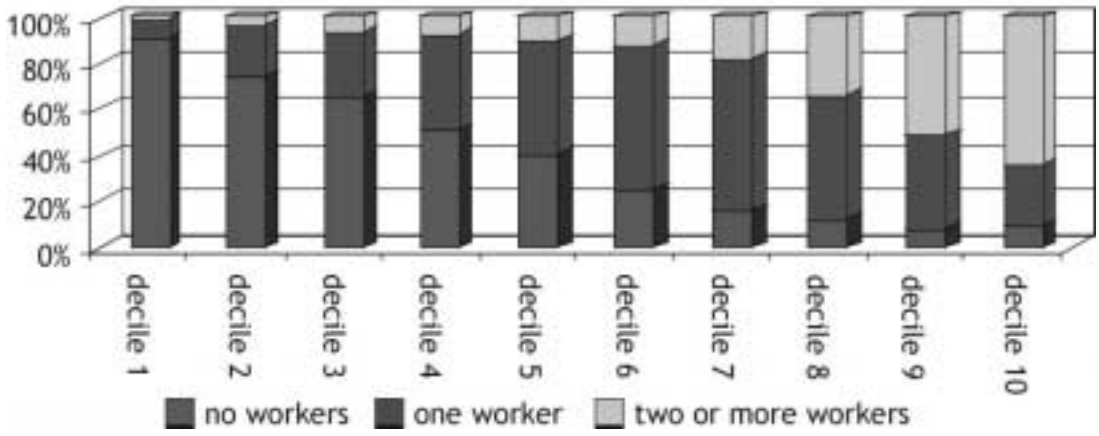
There is a clear and close correlation between unemployment rates and income. This can be seen in Figure 5. However, not only are poor households likely to have more unemployed adults than richer households, but they are also likely to have more adults who said they are not available for work (and hence are defined outside the labour force). Figure 5 shows that labour force participation rates rise steadily up the income deciles. The dual correlation between unemployment and income, and labour force participation and income, suggests that low-income households are significantly marginalised from the labour market.

Because low-income families tend to be larger than high-income families, the link between unemployment and poverty is stronger when income deciles are calculated on a *per capita* basis, as shown in the third bar in each set (unemployment rate*).

The incidence of employment is shown in a different way in figure 6. This shows the proportion of households in each income decile according to the number of household members

Figure 6
Employment per household by income decile.

(The number of workers increases with household income.)



in employment. A majority of households in each of the bottom four deciles have no members in employment. At the opposite extreme, a majority of households in each of the top two deciles have two or more members in employment.

The link between lack of employment and poverty is particularly strong in South Africa. In the OECD, the proportion of households in the bottom quintile without any members in employment is 42 per cent, with figures ranging from 21 per cent in Luxembourg, to 65 per cent in Ireland and 74 per cent in Finland. In South Africa, the corresponding figure is 83 per cent. This contrast is all the more striking when one considers that most jobless households have access to income support in the OECD, whereas this is not the case in South Africa.

Although participation rates are low and unemployment rates high in the lower deciles, those deciles nonetheless include a significant number of low-paid workers.

- About 30 per cent of employed workers are in households in the bottom five deciles. These workers are predominantly farm workers and, to a lesser extent, domestic workers.
- Only 13 per cent of manufacturing workers are in households in the bottom five deciles. Fully 77 per cent are in the top four deciles.
- Mineworkers are distributed more widely, with the largest numbers in deciles 4-7.
- In terms of occupation, people in professional, technical, managerial and administrative jobs are unsurprisingly in households in the top two deciles.
- Most machine operators and similar semi-skilled workers are in deciles 6-9.
- Unskilled labourers are spread across deciles 4-8.

In short, access to the labour market is an important determinant of inequality. Whether an individual has a job, or what kind of job he or she is able to get, plays a crucial role in determining their position in the income distribution. Labour-market institutions (bargaining councils and the Employment Conditions Commission) protect the incomes of wage-workers. Those who do not have jobs, however, enjoy no such income support.

2.5.5 Wage inequality

During the apartheid era, racial discrimination was an important determinant of wage inequality. The contribution of racial discrimination to wage determination declined significantly between 1980 and 1993, dropping from 20 per cent to 12 per cent of the African wage. The racial wage gap is now predominantly explained by factors other than discrimination, such as differences in education and skill, location (urban or rural), and economic sector. African workers have the lowest educational qualifications, live predominantly in rural areas, and have the highest concentration in low-paying sectors such as agriculture. Education is particularly important, with an estimated half of the difference in racial earnings attributed to differences in educational qualifications.

Despite the decline in racial discrimination and in the wage gap between white and African workers, overall wage inequality has not declined. This is because within-race wage inequality rose as between-race inequality declined. The increase in wage inequality amongst Africans was in part the result of increased occupational mobility. There was a significant movement of Africans up the occupational ladder, with the proportion in the labourer and semi-skilled categories dropping from 57 per cent in 1980 to 38 per cent in 1993. As the number of Africans in higher-paying occupations increased, so the gap between high- and low-paid African workers increased, thus widening wage inequality.

Union membership appears to benefit those at the bottom end of the wage distribution the most. By boosting the incomes of low-paid workers relative to higher-paid workers, the trade union movement would thus have acted to narrow the wage distribution in the unionised sector. But whether these efforts served to narrow the overall distribution of household income, however, is another matter (as the gap between unionised and non-unionised wages would have grown, and to the extent that job shedding occurred, the gap between the employed and the unemployed would have widened).

2.6 Changes in inequality in the 1990s

The distribution of income appears to have become more unequal between 1991 and 1996. The income share of the top decile increased from 52,3 per cent to 53 per cent, whereas that of the poorest 40 per cent dropped from 3,8 per cent