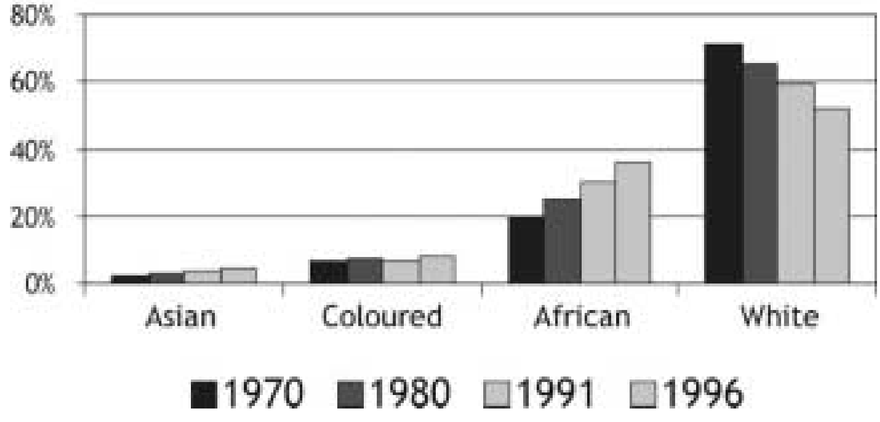
Figure 7
Shares of income by race (1970-1996).

(Racial shares of income.)



to 3,4 per cent. This resulted in the Gini-coefficient rising from 0,68 to 0,69. However racial income differences narrowed between 1991 and 1996. The share of total income received by African people rose from 29,9 per cent to 35,7 per cent, whilst the share received by white people fell from 59,5 per cent to 51,9 per cent. The steady decline in the share of total income received by whites in the face of the steady increase in that received by Africans from 1970 to 1996 is depicted in the figure 7.

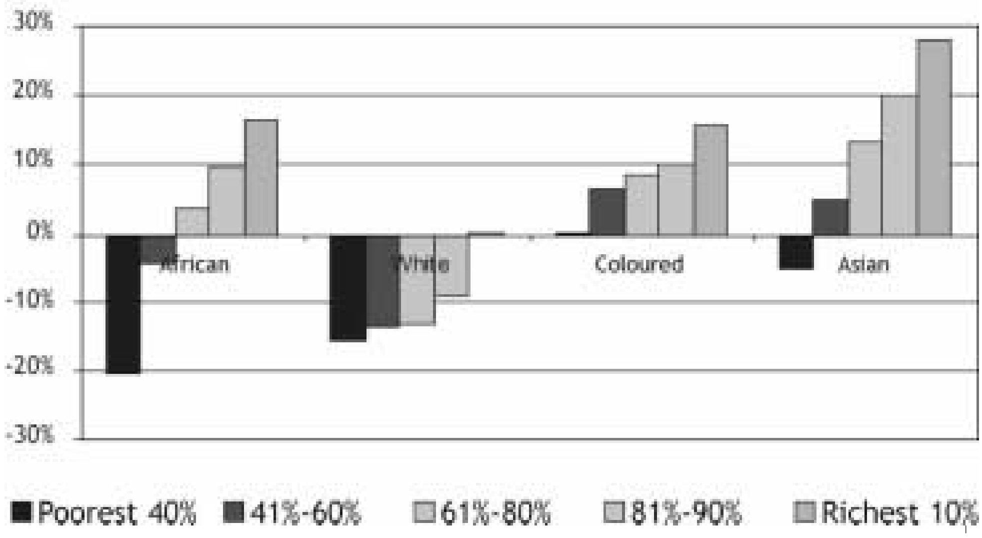
Average incomes *per capita* among African people rose by 4,1 per cent per year, whilst incomes *per capita* among white people fell by 0,7 per cent per year. Figure 8 depicts household income growth by economic group within race. In 1991 only 9 per cent of the top or richest income decile were African. In 1996 the proportion had risen to 22 per cent.

2.6.1 Intra-racial inequalities

At the same time as inter-racial inequalities were declining, intra-racial inequalities were continuing to grow.

- The Gini-coefficient for income distribution among African people rose from 0,62 to 0,66 and among white people from 0,46 to 0,5.
- The incomes of the richest 10 per cent of

Figure 8
Growth of household income by race (1991-1996).



African households rose by 17 per cent, whilst the incomes of the poorest 40 per cent of African households fell by 21 per cent.

- Overall, relatively poor African and white households experienced absolute declines in their income, whilst relatively rich African, coloured and Indian households saw big income gains.

The real winners in terms of rising incomes were the better off African and Asian households. Of the total real increase in income between 1991 and 1996, 40 per cent went to the richest 10 per cent of African people, and a total of 62,5 per cent went to the richest 40 per cent of African people. The poor majority of African people barely benefited at all.

These findings are broadly corroborated by data from the KwaZulu-Natal Income Dynamics Study (KIDS). KIDS entailed tracing and re-interviewing in 1998 the African and Indian households in KwaZulu-Natal that had been interviewed in 1993 as part of the PSLSD survey. KIDS found that the proportion who were poor had risen from 35 per cent to 42 per cent, and that a greater proportion of households were in the lower end of the income distribution in 1998 than in 1993. At the same time, the proportion of rich people had also grown. Both trends contributed to a rise of 4 percentage points in the Gini-coefficient between 1993 and 1998.

2.6.2 The growth/ inequality debate

It is axiomatic that the greater the degree of income inequality, the higher the growth rate required to reduce poverty. The difficulties of generating sustained and sustainable growth rates high enough to reduce poverty at an acceptable pace have started to attract increasing attention in recent times. The Committee conducted an extensive survey of the international literature into this question, and constructed a simple model to compare the impacts of different growth strategies on the incomes of the poor. The model's results confirm findings reported in other studies – modest and sustained redistribution, even under conditions of relatively slow growth, does much more for the poorest of the poor (the bottom three deciles of the income distribution) than does fast "trickle down" (distribution neutral) growth.

This finding, coupled with the finding that some substantial proportion of the unemployed probably fall into the category of "difficult-to-place", and coupled as well, with the fact that earnings for most of those catapulted into the informal sector are very low, prompts the Committee to recommend a re-evaluation of the balance of resources devoted to poverty reduction.

Even if the only target were the elimination of destitution, redistribution can achieve this much faster than sustained trickle-down economic growth. The strong likelihood is that grants will do more than merely alleviate poverty.

In many households, the guarantee of a minimum consumption level will enable household members to engage in the risk-taking behaviour so necessary to the generation of additional income.

2.7 Poverty in South Africa

2.7.1 Recent evidence on poverty in South Africa

New evidence of changes in poverty emerges from the preliminary results of a study that looks at socio-economic conditions in households containing no workers.

- In 1995, Statistics SA reported that: 32 per cent of African households (a minority of which are pensioner households) were "workerless" (contained no employed people).
- By 1999, that percentage had risen above 38. Translated into numbers of households, the data suggest that whereas there were about 1,9 million African workerless households in 1995, that number had risen to 3,1 million by 1999.[4] Only a few of these were "true" pensioner households, i.e. households in which the pensioner did not have to share a pension with other household members.
- Of approximately 210 000 African households in which there was no working age person present (many of them so-called "skip generation" households), about 182 000 of them spent, on average, less than R800 per month.

2.7.2 What is the level of poverty in South Africa?[5]

If a single set of statistics can disclose the extent of poverty in South Africa, it may be this – of the approximately 717 000 live births in 1999 that can be sorted by household expenditure category, about 176 000 took place in households where total monthly expenditure was between R0 and R399. A further 231 000 babies where born into households where monthly total expenditure lay between R400 and R799. Into the next income class, R800 – R1 199 per month, some 119 000 babies were born. Accounting for almost three-quarters of the total, their prospects are bleak.

About 11 per cent of households with children under 7 went hungry in 1999 due to lack of money to buy food. Another 2,3 million households with people aged 7 years and older went hungry due to an inability to purchase food. The percentage of households reporting hunger in 1999 was 21,9 per cent.

Malnutrition remains one of the biggest contributors to child morbidity and mortality in South Africa. According to the national Food Consumption Survey of 1999, nearly 20 per cent of children aged 1-9 are affected by stunting, which is by far the most common nutritional disorder in South Africa. Around 23,3 per cent of children 1-6 are stunted.

Depending on which poverty line is used, researchers put the number of South Africans living in poverty at anywhere between 45 and 55 per cent (figure 9). Despite existing measures to address the various dimensions of poverty the reality is that, depending on the poverty line used, about 20-28 million citizens are living in poverty. The incidence of poverty differs between the different provinces. In all estimates the Western Cape and Gauteng have the lowest rates of poverty, and Mpumalanga, the Eastern Cape and the Northern Province the highest rates.

2.8 Addressing the challenges of social security reform in a democratic South Africa

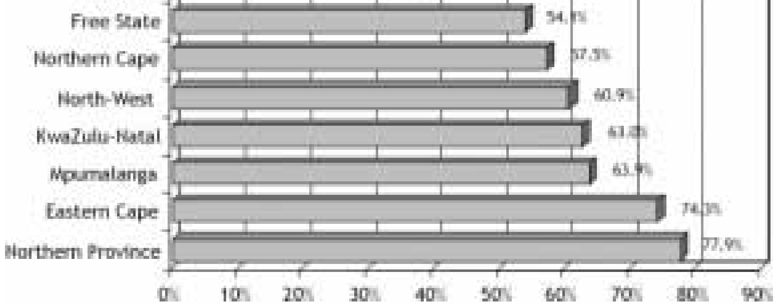
The distribution, extent and characteristics of social exclusion in South Africa have a definite material and structural basis. In short, the economic aspects of social exclusion are linked to the inability to command a sufficient flow of resources to avoid growing inequalities and to prevent deprivation – be it nutritional, medical, in terms of shelter, or a lack of full participation in society.

2.8.1 Inequalities in the distribution of wealth

There are five broad categories of economic flows reflecting different economic positions in an economy. These include income derived from owning property, income received in terms of salaries and wages, economic resources mobilised through subsistence and household activities, transfer payments received from private or Government sources and self-employment. Each of these categories is intimately connected to a set of economic relationships that define and structure a modern capitalist economy. Exclusion from, or marginalisation within, these sources of economic resource flows greatly increases the risk of poverty.

A key factor in South Africa is the skewed distribution of economic assets. Apartheid was central to this skewed distribution, driving the social exclusion of the majority and social

Figure 9
Percentage of population in poverty.



inclusion of the minority. In particular, the apartheid regime constructed citizenship and subject rights to determine which groups would have access to what level of social protection depending on their functionality to the racially constructed economic and social system.

The following are all examples of apartheid measures, which excluded the majority of people.

- The Land Act of 1913, which confined the land area that Africans could legally own or rent to 13 per cent of South Africa
- The 1913 Mines Act, which contained the first of many job reservations policies
- The Urban Areas Act of 1945
- Coloured Preference Policy
- The Group Areas Act of 1956, which restricted African access and African economic activity in the urban areas.

White South Africans were from 1924 onwards given substantial protection against poverty and vulnerability, partly by measures to exclude black South Africans referred to above, and partly by the introduction of social and economic policies similar to those adopted in the social democratic countries of Europe. Black South Africans were generally either excluded from these positive measures, or were protected to a much lesser extent than the white counterparts. For example, substantial maintenance grants were paid to single mothers with low income, but not if they were African.

Over the last few decades of the 20th century, blacks began to gain access to work related benefits and social insurance institutions primarily due to increasing unionisation and political pressure. This formed an important pressure that precipitated the breakdown of the citizenship/subject relationship underpinning the apartheid regime.

As democracy approached, the expectations of the excluded majority increased in regard to the role of the post-apartheid state in ensuring redress, employment and development. However, the apartheid regime, seeking to pre-empt effective post-apartheid intervention, sought to push through various pieces of legislation loosening the grip of Government over social and economic policy. In some instances they were successful (such as deregulating aspects of private healthcare and food production). In other areas, such as broader economic policy, social resistance manifested through mass mobilisation and the establishment of tripartite socio-economic forums restrained them.

2.8.2 Shortcomings in the South African social security system

First, regarding non-contributory social assistance, there are large gaps resulting in a large proportion of the poor being excluded, and those who are uncovered are often not given appropriate support.

The Social Assistance Act covers the following categories of people:

- ***Aged*** Women over 60 years of age, and men over 65 years of age receive a state old age grant of R570 per month. This grant is the largest current social security transfer in the country, and, for those elderly persons who receive it, the grant plays a pivotal poverty alleviation role for the entire household.
- ***Disabled*** There is a disabled grant of R570 per month for medically-diagnosed disabled persons over 18 years of age. This grant is a *de facto* poverty grant, as 77 per cent of recipients are also in poverty.
- ***Foster care*** There is a grant of R470 per month for caring for foster families caring for children under 18 years of age.
- ***Care dependency grant*** There is a grant of R540 per month for parents of a disabled child (0-18) who requires care at home by another person. Thereafter application must be made for the adult disability grant.
- ***Child support grant*** There is a child support grant of R110 per month, paid to the primary caregiver, for children under seven years of age. This grant has been afflicted by a slow take-up rate, with only 25 per cent of the targeted group receiving the grant three years after implementation.

The following categories remain uncovered by social assistance:

- ***Children*** 75 per cent of poor children below seven years of age do not get the child support grant. All children over seven do not get any support. Finally, all children without primary caregivers, and child-headed households (which are in the increase) do not get any grant.

- ***Disabled*** Those with a chronic illness but who do not meet the strict medically based criteria are excluded. Thus if the disability is not medically complete, but does prevent that person from carrying out their trade, they would not qualify for the grant.
- ***Unemployed*** The UIF covers only 5 per cent of the unemployed. Therefore excluding those unemployed getting disability and childcare related grants, about 5 million unemployed people are without any form of income support from the social security system.
- ***Poverty*** Those with incomes below the poverty line, including working poor, are without any social security transfers. Currently about 60 per cent of the all the poor, or 11 million people, are uncovered.
- ***Non-citizens*** While the Constitution in S27 (1) (c) states that "everyone" has a right to social security, current social assistance mostly excludes non-citizens. In this regard, there will probably be constitutional pressure to ensure all people (including illegal immigrants) have access to certain basic services (such as emergency healthcare), and full access to certain categories such as refugees.

In short, there are large gaps and inadequacies in the social assistance system.

Second, regarding contribution-funded social insurance and regulated private schemes, these, too, cover a relatively small number of the population. Moreover, the increasing numbers who fall outside of the formal sector undermine the scope of social insurance's contribution base, further limiting the system. In addition, there are internal distribution inadequacies within social insurance that provides the most vulnerable workers with a smaller share of benefits. The better paid generally seem to secure the largest share of benefits. Furthermore, some of the most vulnerable workers are often legally excluded from the system.

- The limited nature of the publicly provided benefits means that social security costs are, *de facto*, passed onto employers. This has increased non-wage costs in the economy. This acts as a disincentive for direct employment, that is, the employment of regular workers. The increase in indirect employment (including casualisation), and the stagnation of net permanent jobs, is partly the result of employers trying to avoid these non-wage costs.
- The growth of employer-linked benefits necessarily excludes a significant share of the population. The unemployed, informally employed and many temporary workers have no access to these benefits. A current legal framework that cannot cope with the changing forms of employment aids this. In the South African situation this forces the non-wage costs to be higher still, since workers require more to support many unemployed persons (with no benefits) in their household. Consequently, this contributes to upward pressure on workers' remuneration. This extreme pressure on the breadwinner effectively undermines any worker support for labour flexibility – since loss of employment equals loss of income.
- Private-provision schemes are contributing to escalating costs of services. Healthcare is a primary example of this. South Africa spends, including both public and private expenditure, about almost twice on health than considered necessary by the World Health Organisation – all this for relatively inadequate public and private service. The national overspend derives primarily from the cost-intensive private medical scheme environment that has created perverse incentives for over-servicing by private providers (who are paid on a fee-for-service basis), excessive administrator profit-taking and undermined consumer protection. The relatively high levels of expenditure is due to most health spending going towards the well resourced, private health sector which caters for only 15 per cent of the population.
- Profit-driven provision of services has often been accompanied by a removal of cross-subsidies to those unable to afford services. There is a tendency to "cherry-pick" high-income, low-risk groups that accordingly increases the difficulty of funding publicly provided social services through contributions.