

6. REVIEW OF INCOME POVERTY IN SOUTH AFRICA

6.1 *The pre-1994 historical perspective*

The study of the past is critical if justice is to be restored and sustainable politico-economic-social transformation to be achieved. The purpose of this section is give context to the current problems that South Africa is facing., thereby contributing to a better understanding of the dismal socio-economic situation that existed in 1970 when apartheid reached its peak.

The challenge for South Africa's social transformation has been to break away from "Trickle-Down Economics" approach which produced the growth path which was responsible for the skewed pre-1994 distribution of wealth and led to the cycle of, job losses, informalisation of work, economic marginalization and underdevelopment with a decline or lack of significant improvement in incomes of the poor and wealth remaining in the hands of a few.

Terreblanche (2002) asserts that before 1994, apartheid policies promoted widespread dependency on cash income. Land policy forced many people off the land. Migrant labour system made families dependent on cash remittances received from absent bread winners. Poverty was rampant and endemic; inequity extraordinary.

The South African poverty and inequality problem is rooted in the nature of unemployment, which is structural unemployment. Terreblanche has defined structural unemployment as the inability of an economy to provide employment. . According to Terreblanche (2002) already by 1970, 20 percent of the potential work force was already unemployed and the figure rose to 40 per cent in 1995.

The number of unemployed increased from 1,9million in 1970 to 4.8million in 1995, while at the same time the number of African workers employed in the formal sector decreased by 20,3000 or 3,8 per cent. During the same period the number of non-African workers employed increased by 1,3million or 45 per cent. (Terreblanche, 2002)

In 1995 female unemployment amongst all racial groups was higher than the males and the unemployment rate amongst African women was estimated at 60 per cent .It was also higher for those younger than 25 years and among the poor.

The sharp increase in unemployment in 1970 was due to the following factors:

- Slow economic growth in 1974
- The growing capital-intensive economy

- The structural shift in production, where the primary sector declined with a simultaneous increase in the service sector
- Sharp increase in the African population since 1960

Many foreign corporations that invested in South Africa found South Africa to be a fertile ground for the exploitation of labour, which consequently enriched the corporate sector. While organized labor and the South African government have made improvements in this area, the private sector still lags behind in bringing about a complete transformation. Events of the 1970s had a negative effect on the economic growth. As capitalist economies struggled with the oil crisis of 1973, black trade unions revived. A wave of strikes reflected a new militancy that involved better organization, drew in new sectors, in particular intellectuals and the student movement, into mass struggle and debate over the principles informing it.

As the economy stagnated, and the productivity of migrant workers weakened in respect to even lower paid workers in other countries, there was a shift to an increasingly capital intensive production system in order to attempt to remain competitive. This strengthened the dual economy, with the labor force gradually becoming divided between the better paid, white skilled force and low paid unskilled black labor. Over two decades, the shift of production methods by the corporations to capital intensity virtually eliminated employment opportunities for the unskilled African labour and unemployment increased dramatically. Furthermore, discriminatory laws prevented blacks from doing highly paid and skilled jobs and to undergo training. This was no accident. From 1841-1970 the freedom and economic independence of Africans was deliberately undermined in order to limit their choice of employment, making them available for the demands of white employers who wanted cheap labour. Inevitably poverty increased during this period, leaving a massive negative legacy for the new democratic government. This was highly detrimental to African workers. The large unskilled periphery was made redundant, while it had hardly any impact on whites who were predominantly highly skilled. Inequality increased due to decreasing incomes as a result of rising unemployment and drought among blacks, while there was simultaneously rising incomes among upwardly mobile professionals, skilled workers and entrepreneurs, most of whom were white.

In 1995 the Gini Coefficient for the pay of Africans, coloureds and whites was 0,70; 0,57 and 0,55 respectively, one of the most inequitable in any country during the 20th Century. (StatsSA 2000)

To date the new government continues to deal with this burden of the past in the form of the "inherited" skewed economic structure and the enslavement of a large part of the black population which continues to bare the brunt of unemployment and poverty.

There is a correlation between race and poverty, rural environment and poverty. According to May (1998) in 1995, 60,7 per cent Africans, 38.2 per cent Coloureds, 5,4 per cent Asians and 1 per cent of Whites lived in poverty. This means that half of the entire population of 41 million lived in poverty prior

to 1996. McGrath and Whitefords (1994) estimated that 94,7 per cent Africans had a monthly expenditure of R1000 or less. Bundy asserted that the very high level of inequality in South Africa was so deeply embedded in its history, it would not be easily cut back let alone uprooted.

According to Terreblanche (2002), the nature of South African poverty among Africans and coloureds was at that stage so clear cut and pervasive that with any reliable data, whatever technical tools were applied to measure poverty, the results would be the same. Between 1993 -1995, at least 50 per cent to 60 per cent of Africans and 22 per cent to 32 per cent of Coloureds were living in poverty.

The poverty rate in rural areas was 63 per cent compared to 22 per cent in urban areas. In the former Bantustans, where many households are headed by women, poverty was and continues to be rife. In fact 70 per cent households earning less than R1000 or less per month lived in rural areas. (Terreblanche, 2002)

Another correlation was that of educational achievements and poverty. Seven years of schooling and above has a positive impact on people's lives. Less than this correlates to higher levels of poverty . (Terreblanche, 2002)

According to to Terreblanche, poverty and unemployment were also closely linked. The unemployment rate among members of poor households was almost double the overall national rate. According to the 1995 survey, the poverty rate was 60 per cent among female headed-households compared to 31 per cent male headed household. Sixty per cent of all children lived in poverty and two to three million South Africans were under-nourished. The economic crisis from 1974 to 1994 increased African unemployment. The mean household income of the poorest 40 per cent of African household (50 per cent of African population) declined by 42 per cent from 1975 to1991. Such was the negative momentum of this crisis, unsurprisingly household income continued to decline by further 21 per cent from 1991 to1996. (Terreblanche, 2002).

The mean household income of next 20 per cent of Africans declined by 26 per cent in 1975 to1991 and a further 4 per cent 1991 to 1996.

The household income of 60 per cent (almost 70 per cent of African population) was considerably lower in 1996 than 1975. This was superimposed on an already dire situation. By 1975 almost 2/3 of total population were already abjectly poor that they had very little material and human capacity to withstand the impact of the 1980 drought.

Looking at the history of the democratic transformation, cannot it not legitimately be asserted that "the liberation struggle won the political battle but lost the economic war"

So while the birth of the new democratic South Africa liberated black people politically, economic liberation would take much longer and involve a huge economic cost.

Although this cost would be large, it is conceivable that it could be borne by the country. Borat (2003a), using 1995 IES data, calculated that the poverty gap in 1995 soon after the democratic transformation had been just R13 billion, using a poverty line of R293 per person per month. This amounted to 10 percent of government spending at the time, meaning that the government could have eliminated income poverty entirely if it had increased its expenditures by just 10 percent and allocated all of the additional funds to perfectly targeted transfers to the poor.

6.2 After 1994 – the rise and fall of income poverty

6.2.1. Trends in levels of poverty

Understanding what has ‘really’ happened to income poverty and inequality post-1994 is difficult as a close inspection of available data and the variety of alternative interpretations reveals. Even though there has been an explosion of data in post-apartheid South Africa, there is no consensus on trends. (Seekings, 2007). Obvious and not-so-obvious flaws in the data mean that the information has to be carefully interpreted (Bhorat and Kanbur, 2006), and this requires complex assumptions and methodological innovations (see Seekings, 2006c). This has led to a great deal of controversy and uncertainty regarding trends and absolute levels of poverty. Despite this, it is suggested that there is broad academic consensus that income poverty worsened in the late 1990s only to improve marginally from the early 2000s, although precise findings vary according to the specific data used and assumptions made in the analysis. This academic consensus is contrary to most of the data presented by the ANC and government. (Seekings 2007).

The biggest challenge in the situation is that the underlying unemployment problem is not cyclical but structural. Current policies and programmes are incapable, at their existing scale, of providing the comprehensive protection promised by the Constitution. They are not designed to assist people of working age who are unable to provide for themselves as a result of protracted unemployment. Lower paid workers and the working poor have to make their incomes stretch further. At the moment the mainstay of social protection against income poverty are the system of social grants

The UNDP (2003), using the 1995 IES and a 2002 LFS, found that the absolute number of poor people had grown but the proportion of people living in poverty had declined marginally. The findings were somewhat contradictory. On the one hand, the total number of people living below US\$1 per day (in other words, in destitution) was found to have risen slightly from 9.4% to 9.5% between 1995 and 2002. On the other hand, the report also found that using a national poverty line of R354 per month per adult

equivalent based on 1995 values, the total percentage of people living in poverty had fallen from 51.1% in 1995 to 48.5% in 2002, likewise the total number of people living below the World Bank line of \$2 per day had fallen from 24.2% in 1995 to 23.8% in 2002 with the total number of poor people having risen from 20.2 million to 21.9 million people between 1995 and 2002 (UNDP, 2003, page 41).

Table 4: % of the population living below US\$1, \$2 and poverty line (2003)

Year	% living below \$1 per day R87 per month in 2000 rand	% living below \$2 per day R174 per month in 2000 rand	% living below poverty line of 354pm R4248pa (1995)
1995	9.4%	24.2%	51.1% (20.2 million)
2002	9.5%	23.8%	48.5% (21.9 million)

Source: UNDP, 2003

Stats SA (2001) and (Terreblanche, 2002) also revealed a deterioration in the late 1990s in economic position of the low income and the poor. Despite government's effort to reduce poverty and inequality, the household share of national income among the 60% per cent of poorest households fell from 17% in 1995 to 15% in 2000 with the biggest decline amongst the poorest households. State transfers were contributing 2/3 of the income earned by households in the poorest quintile. However, even with full up take of existing grants at the time, over half the population of 21,9 million people would have remained below the poverty line. Despite inadequacies, the social security system was playing a significant role in ameliorating poverty. Without social grants 58% of households would have fallen below the subsistence line as opposed to the actual figures of 53%. The total income of working people had declined in real terms in recent years. Dropped 58% 1992 – 51% in 2002.

Meth and Dias (2004), using expenditure data from the 1999 OHS and a 2002 LFS, found that both the number and proportion of households and individuals living in poverty had risen. Using the headcount measure, they concluded that there had been a substantial increase in poverty over the period 1999-2002. Probably about four million people joined the ranks of those in poverty during this period. They arrived at this conclusion after meticulously estimating maximum per capita expenditure levels of the people in the bottom two expenditure categories in the economy, corrected (adjusted) for child costs, household economies of scale and under-statement of expenditure levels. The increase in the number of those in poverty was almost two-thirds as much again the population increase over the three years. While such an outcome might not have been unexpected, given the large increase in the number of unemployed, the increase in the number in poverty was, however, substantially larger than the increase in the number of unemployed. They felt that the Government's claims to have made 'massive progress in tackling poverty and neglect' (Mbeki, 2003) looked a little weak in the face of this massive rise in human misery.

Leibbrandt *et al.* (2004), using census data, conclude similarly that both the numbers and proportions of poor people had grown.

Leibbrandt, Levinsohn and McClary (2005), analysing individual-level incomes using the 1995 IES/OHS and the 2000 IES/LFS, found that real incomes dropped sharply and substantially.

The share of household expenditure spent on food rose giving additional credibility to the decline in real incomes. Hoogeveen and Özler (2006) using data on real per capita expenditures from the same surveys as Leibbrandt *et al.* show that the number of poor people grew between 1995 and 2000. 'By 2000, there were approximately 1.8 million more South Africans living on less than \$1/day and 2.3 million more living on less than \$2/day' The total poverty gap also increased.

The major dissenting view on this trend came from the South African Advertising Research Foundation (SAARF). The figures are derived from the SAARF's bi-annual All Media and Products Survey (AMPS), which collects data for the advertising and marketing industry. Using AMPS data, SAARF categorises consumers into different 'Living Standard Measures' (LSMs) based on income, wealth, and standard of living. LSMs segment the South African population into ten categories based on a combination of an index compiled from 29 variables. These variables are the presence in the household some combination of hot running water; fridge/freezer; microwave oven; flush toilet in house or on plot; VCR in household; vacuum cleaner/floor polisher; washing machine; computer at home; electric stove; television set(s); tumble dryer; Telkom telephone; hi-fi/music centre; built-in kitchen sink; home security service; deep freeze; water in home or on stand; M-Net and/or DSTV; dishwasher; metropolitan dweller; sewing machine; DVD player; house/cluster/townhouse; one or more motor vehicles; domestic worker; one cellular phone; radio; no cellular phone in household; and living in a non-urban area.

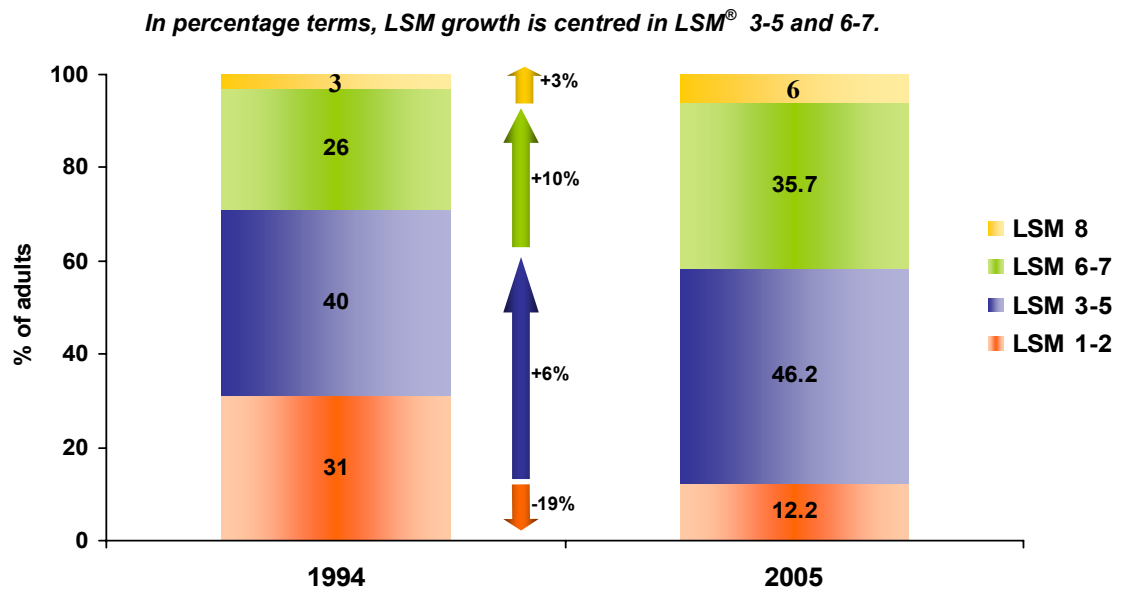
The data show that between 1994 and 2001, the proportion of South Africans in the bottom LSM category dropped from just under 20 percent to 5 percent. Households falling into LSM groups 1 to 4 (45,9% of all households) can be viewed as poor, mostly considered as impoverished; households in LSM group 5 to 7 as the emerging middle class; and those in higher LSMs as the wealthier class. LSM 1 to 4 households were responsible for only 11,5% of the total household expenditure, but almost a quarter (24,8%) of the R80,2 billion spent in cash on food. (SAARF AMPS, 2005:101), (Martins, 2006). In 2007, 1 in 4 single men between the ages of 25-44 are unemployed and currently living with their parents. (AMPS 2007)

Table 5: % of households by LSM and share of expenditure in 2005

LSM group	Households		Cash expenditure	
	Number	%	R million	%
1	966 855	7,8	5 850	0,7
2	1 414 831	11,5	15 707	1,8
3	1 654 435	13,4	29 736	3,4
4	1 756 531	14,2	49 174	5,6
5	1 630 889	13,2	77 017	8,8
6	1 762 835	14,3	125 635	14,4
7	836 124	6,8	82 767	9,5
8	668 112	5,4	79 154	9,1
9	859 625	7,0	141 534	16,2
10	805 918	6,5	266 472	30,5
Total	12 356 154	100,0	873 044	100,0

Source: Martins, 2006

Figure 19: SAARF LSMs 1994 to 2005 - % Profile using 1993 Weights

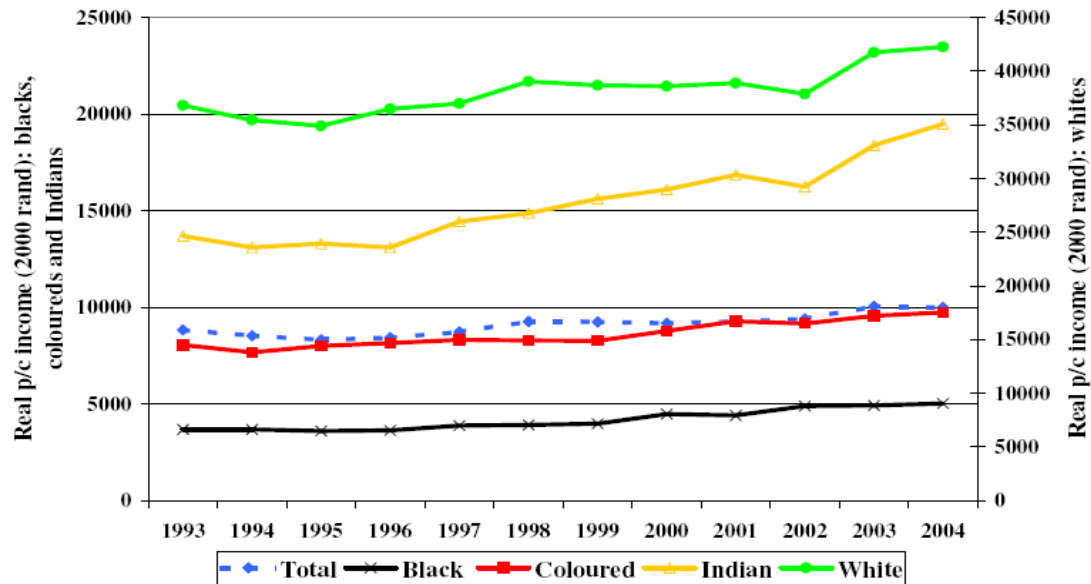


Source: SAARF: AMPS, 2005

Based substantively on this type of data, in 2006 and 2007 Van der Berg *et al.* put forward a dissenting academic analysis. Using a methodology that they describe as ‘not uncontroversial’, they claim to have demonstrated that poverty may have risen slightly in the late 1990s but then declined after 2000, especially between 2002 and 2004. Largely based on the use of this data and annual income distributions for 1993-2004, derived from national accounts data, it became possible to apply standard measures of poverty and inequality. They state: ‘On the basis of the available evidence we have no doubt that there has been a noticeable decline in poverty in the last few years’

(van der Berg *et al.*, 2006). One major purpose of their approach was to establish with as much confidence as possible, whether poverty had declined since political transition, so most of the attention focused on measurement of trends in poverty rather than inequality.

Figure 20: Trends in per capita income from 1993 to 2004



Source: Van der Berg et al, 2007

Their motivation for using this non-official data source as the basis of their analysis is twofold: Firstly, concern over the comparability of the existing official post-transition datasets, the Income and Expenditure Survey (IES) and the Population Census). Secondly, a desire to extend analysis of poverty trends beyond 2001. While official data sources are generally preferred for purposes of poverty analysis, the IES and Census collect data at long (five or ten year) intervals, and additional years pass before these datasets become available to the public. The expenditure data contained in the General Household Survey while available annually is captured in only a small number of categories that are not very conducive to analysis at the lower end of the income distribution. (van der Berg *et al.*, 2006)

The poverty line they selected for their analysis was R250 monthly per capita household income in 2000 value, or R3,000 per annum. This is higher than the \$2 a day line, which converts into R174 per month in 2000 Rand, and thus includes both severe and more moderate poverty. However, it is lower than the cost-of-basic-needs measure employed by Hoogeveen and Özler (2006). It is also consistent with earlier distributional analysis in Van der Berg and Louw (2004), Van der Berg et al. (2005) and Van der Berg et al. (2007). To some extent the selection of this poverty line was arbitrary.

Using the Foster-Greer-Thorbecke (FGT) measures of poverty to provide an analysis of poverty, Van der Berg et al, (2007) provide the poverty headcount (P0) to reflect the extent of poverty; the poverty gap index (P1), to reflect the

depth of poverty; and the squared poverty gap index (P2), the severity of poverty.

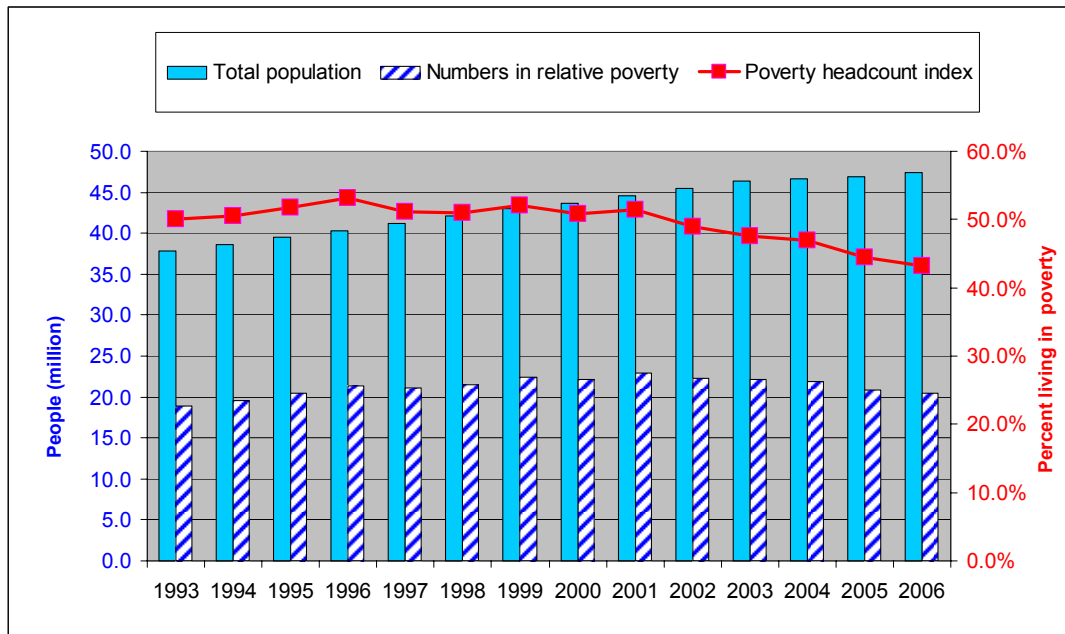
In the case of P0, two figures are presented: the headcount rate (percentage of the population falling below the poverty line) and the headcount itself (the number of people falling below the poverty line). The table below presents changes in these measures of poverty for selected years between 1993 to 2004.

Table 6: Measures of poverty from 1993 to 2004

Group	FGT	1993	1995	2000	2004
All	P ₀ headcount rate	50.1%	51.7%	50.8%	46.9%
	P ₀ headcount	20 002 068	21 397 486	22 704 130	21 785 700
	P ₁	0.2419	0.2678	0.2539	0.2193
	P ₂	0.1482	0.1711	0.1547	0.1276
Blacks	P ₀ headcount rate	63.0%	64.7%	62.3%	57.0%
	P ₀ headcount	19 171 230	20 491 823	21 560 365	20 731 068
	P ₁	0.3076	0.3398	0.3155	0.2699
	P ₂	0.1894	0.2188	0.1934	0.1578
Coloureds	P ₀ headcount rate	27.6%	26.2%	26.9%	26.0%
	P ₀ headcount	934 031	915 136	1 009 649	1 022 562
	P ₁	0.1068	0.0956	0.0998	0.0974
	P ₂	0.0572	0.0463	0.0511	0.0501
Indians	P ₀ headcount rate	6.4%	5.7%	5.7%	6.4%
	P ₀ headcount	65 484	59 416	62 578	73 097
	P ₁	0.0178	0.0167	0.0208	0.0215
	P ₂	0.0079	0.0069	0.0106	0.0108
Whites	P ₀ headcount rate	0.5%	0.5%	0.8%	1.0%
	P ₀ headcount	26 825	25 659	43 640	49 203
	P ₁	0.0026	0.0015	0.0027	0.0039
	P ₂	0.0017	0.0008	0.0013	0.0024

Source: Van der Berg et al, (2007)

Figure 21: Population and poverty headcounts



Sources: Stats SA, Van der Berg et al.

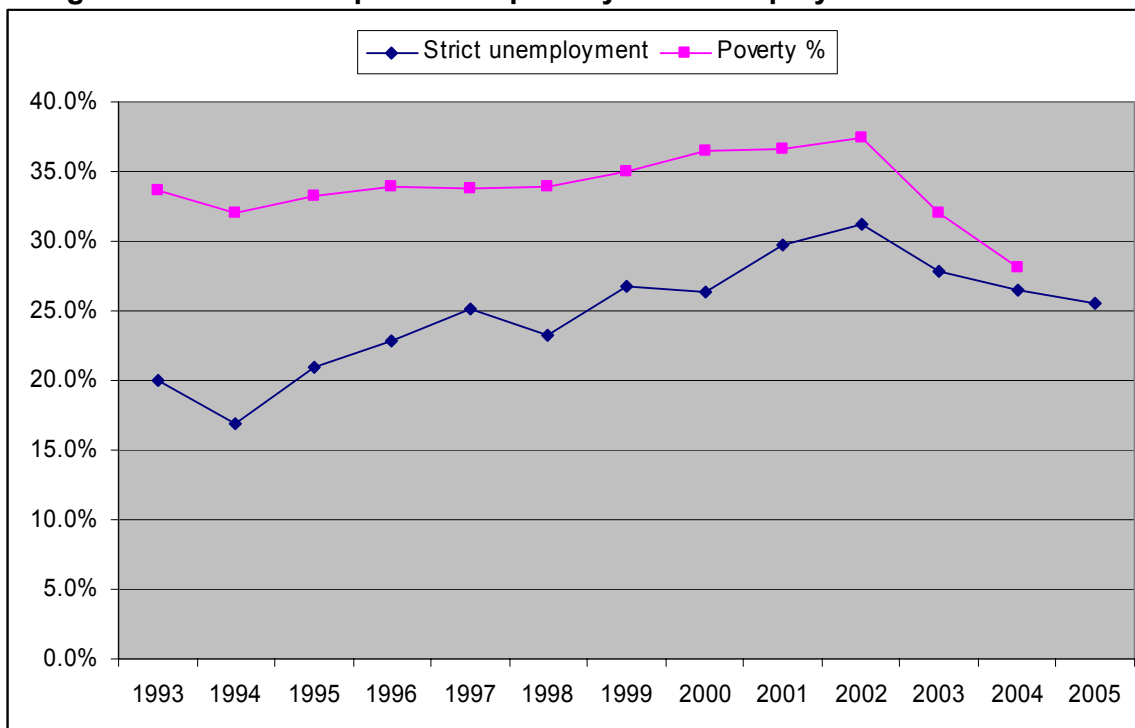
1990s was larger than Van der Berg *et al.* admit, and the fall in poverty in the early 2000s was lower than they claim. Between 1995 and 2004, the government did substantially increase its real expenditure on well-targeted social assistance programmes. Thus although Van der Berg *et al.* and Meth agree that this resulted in some reduction in income poverty, they disagree on the extent. The findings of Van der Berg's *et al.*, were applied to a variety of measures of income poverty – although, they noted with caution, 'we may be at risk of overestimating the progress that has been made' (Seekings 2007).

According to Van der Berg *et al.*, (2007) analysis of AMPS data suggested that the large decline in poverty was consistent with an increase of R18 billion (in 2000 Rand) in social grant payments between 2000 and 2004. The direction of this trend was also in line with recent research findings based on more frequently analysed data sources, including the work done by Agüero, Carter and May (2005), Seekings (2006), and Meth (2006).

6.2.2 Trends in inequality

If poverty has declined, has this had positive implications for the notoriously high income inequality level that existed in South Africa prior to 1994? Simply put, the answer is no.

Figure 22: Relationship between poverty and unemployment



Sources: Stats SA. Stats in brief; Ten years of democratic governance, Employment and Unemployment in SA October Household Survey 1994-1997; October Household Survey 1998; October Household Survey 1999; Labour Force Surveys Feb 2000-02; March 2003-06; Van der Berg et al, 2007, SAIRR, South Africa Survey 2006/07

Inequality measures for each year from 1993 to 2004 are presented in the table below (Van der Berg et al, 2007). A range of inequality indicators for selected years for South Africa, are presented including the commonly used Gini coefficient (the widely-used measure of inequality, which can vary in value from an egalitarian 0 to an inegalitarian 1). The measures also include the Theil-T and Theil-L specialist econometric indices (a class of general entropy inequality measures).

The Gini coefficient while best understood has limitations in that it cannot be easily decomposed and is most sensitive to changes in the middle of the income distribution. If the poor are getting relatively poorer, therefore, the Gini shows less change than alternative measures of distribution, such as the mean logarithmic deviation or Theil-L index (Hoogeveen & Özler 2004 and 2006)

An advantage of the Theil indices is that they enable the decomposition of aggregate inequality into between-group and within-group components,

allowing the determination of the influence of changing racial inequality. However, it must be said that the Theil indices are not easily understood¹³. Theil's index "is not a measure that is exactly overflowing with intuitive sense," wrote Amartya Sen (Foster and Sen, 1996), in which his co-author James Foster used the Theil index nevertheless. Like the Gini coefficient, the Theil index is 0 if the distribution is completely equal, but it can rise above 1 in situations of extreme inequality. It is 1 for an inequality, which is slightly above the equivalent to the frequently cited "80-20" rule, known as the "Pareto Principle" which says that 20% of the population owns 80% of the wealth. Pareto originally used this distribution to describe the allocation of wealth among individuals since it seemed to show rather well the way that a larger portion of the wealth of any society is owned by a smaller percentage of the people in that society. From a practical interpretation point of view, values below 1 suggest equality better than the 80-20 rule, and values above it, even greater inequality than that suggested by the Pareto Principle. The Theil-T index weights sub-groups by income share; the Theil-L index weights sub-groups by population share. Note that both Theil indices in the table below were above 1 from 1999 onward signifying very high levels of inequality in recent years. This is mirrored also in very high Gini coefficients (greater than 0.7), higher even than those of the early 1990s. Most developed European nations tend to have Gini coefficients between 0.24 and 0.36. The United States has greater inequality at 0.4. The Gini coefficient for the entire world has been estimated to be between 0.56 and 0.66.

Table 7: Income inequality Measures

Gini coefficient												
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Blacks	0.547	0.544	0.568	0.564	0.573	0.577	0.585	0.609	0.611	0.607	0.605	0.598
Coloureds	0.529	0.506	0.507	0.516	0.516	0.509	0.523	0.537	0.551	0.556	0.551	0.550
Indians	0.465	0.444	0.473	0.462	0.479	0.480	0.506	0.500	0.511	0.508	0.542	0.542
Whites	0.443	0.445	0.438	0.442	0.444	0.453	0.452	0.467	0.467	0.480	0.518	0.500
Total	0.678	0.670	0.677	0.691	0.690	0.689	0.701	0.716	0.715	0.724	0.709	0.700
Theil-T index												
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Blacks	0.584	0.571	0.631	0.640	0.648	0.660	0.687	0.764	0.755	0.758	0.775	0.740
Coloureds	0.305	0.464	0.459	0.470	0.485	0.471	0.495	0.525	0.558	0.580	0.564	0.562
Indians	0.374	0.338	0.420	0.382	0.411	0.410	0.485	0.479	0.490	0.498	0.610	0.608
Whites	0.341	0.348	0.334	0.337	0.347	0.361	0.355	0.385	0.380	0.439	0.530	0.479
Total	0.938	0.916	0.929	0.978	0.977	0.976	1.018	1.081	1.071	1.143	1.121	1.066
Within-Race	0.440	0.437	0.457	0.453	0.467	0.479	0.488	0.530	0.531	0.561	0.630	0.594
Between-Race	0.498	0.479	0.472	0.525	0.511	0.497	0.530	0.550	0.540	0.582	0.491	0.471
Contribution of within-race component to the total	47%	48%	49%	46%	48%	49%	48%	49%	50%	49%	56%	56%
Theil-L index / Mean logarithmic deviation												
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Blacks	0.559	0.547	0.616	0.591	0.611	0.619	0.633	0.695	0.709	0.703	0.688	0.666
Coloureds	0.527	0.479	0.475	0.497	0.491	0.476	0.513	0.545	0.594	0.588	0.599	0.584
Indians	0.421	0.375	0.404	0.400	0.435	0.425	0.466	0.462	0.488	0.488	0.546	0.552
Whites	0.386	0.382	0.345	0.356	0.378	0.372	0.370	0.398	0.415	0.426	0.505	0.469
Total	0.935	0.902	0.979	0.982	0.976	0.976	1.013	1.083	1.090	1.118	1.042	1.000
Within-race	0.530	0.516	0.549	0.568	0.573	0.573	0.587	0.642	0.660	0.657	0.657	0.635
Between-race	0.405	0.386	0.430	0.414	0.403	0.403	0.425	0.441	0.430	0.461	0.385	0.366
Contribution of within-race component to the total	57%	57%	56%	58%	59%	59%	58%	59%	61%	59%	63%	63%

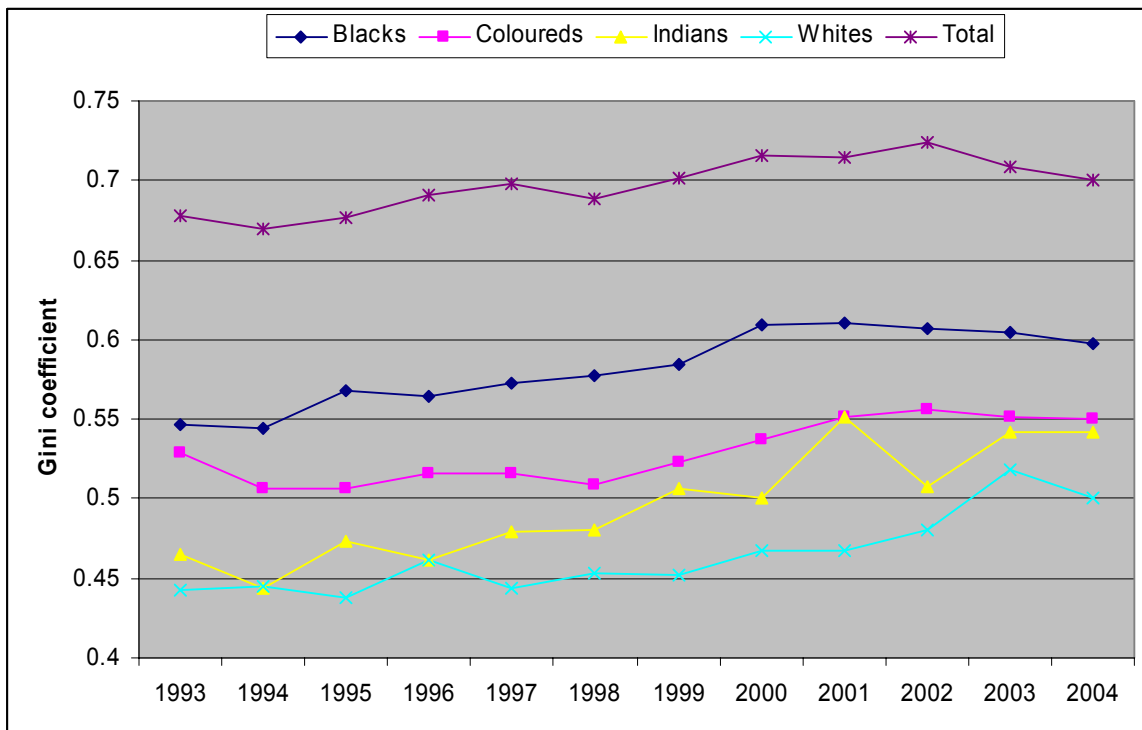
Source: Van der Berg et al, 2007

According to Seekings (2007), income inequality worsened after 1994, including in the early 2000s. This trend has reportedly been found by studies using a variety of data-sets, and stands in contrast to the picture of stable levels of overall income inequality in the final decades of apartheid. Leibbrandt's calculations using the 1995 and 2000 IESs showed that the Gini

¹³ http://en.wikipedia.org/wiki/Theil_index#_note-Sen

coefficient for household per capita income rose by about five percentage points over five years, from 0.65 to 0.7 (Seekings *et al.*, 2004). The Gini coefficient for expenditure rose, but by less (Hoogeveen and Özler, 2006). Leibbrandt *et al.* (2004) compared data from the 1996 and 2001 Population Censuses, also finding that the Gini coefficient rose by five percentage points, from 0.68 to 0.73. Simkins (2004) corroborates both the IES and Census findings. Even Van der Berg *et al.* (2006), whose views on poverty rates many researchers regard as contentious, found in their model of income distribution that overall income inequality rose through the 1994-2004 period, although there was some suggestion of a decline from about 2002. What is of concern is not only that the overall inequality is increasing, but that inequality even within race groups is increasing at a somewhat similar rate, particularly during the 1990s. Hopefully, there is the possibility that this trend is now reversing. PCAS (2007) suggests that the Gini coefficient for 2005 and 2006 were 0.683 and 0.685 respectively

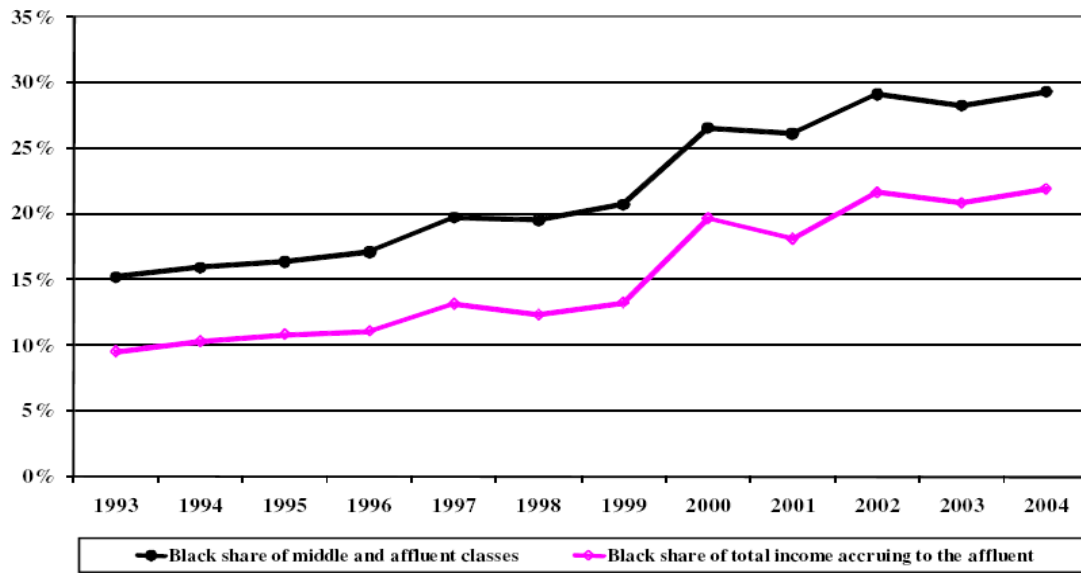
Figure 23: The Gini coefficient for SA from 1993 - 2004



Source: Source: Van der Berg et al, 2007

The evidence supports the unsurprising conclusion that the rich are no longer all white, even if almost all white people are still rich. The removal of racial constraints has led to upward mobility among black South Africans, in terms of both occupations and incomes, such that class differences within the black population are becoming more important as interracial differences decline. The basis of inequality has begun shifting from race to class. This phenomenon probably began some time before 1998 (Seekings, 2007).

Figure 24: Rising share of affluence among black South Africans



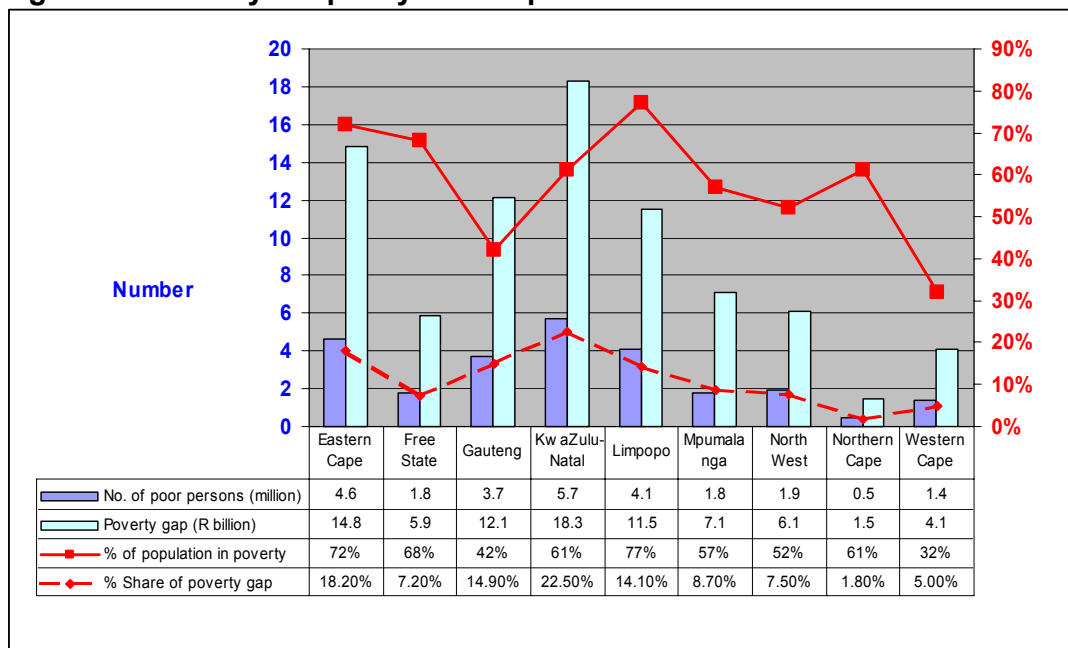
Source: Van der Berg et al, 2007

The view that income inequality is still severe is corroborated by Van der Berg et al, (2007). It seems that the improvement in the incomes of the poor since 1994 have not kept track with the increases in affluence experienced by individuals higher up in the income distribution.

All the measures indicate that inequality increased substantially between 1995 and 2000, reducing slightly after that, probably due to the recent expansion in social grant payments. The very large increase in the Theil-T index calculated for blacks between 1995 and 2000 suggests that the rise in aggregate inequality over this period was predominantly due to improvement in conditions at the upper end of the income distribution. While black inequality levels levelled off and dropped slightly after 2000, white inequality continued to rise, although off a much lower base. However, levels of inequality within the black population remain the highest amongst all race groups. Estimates of the Theil-T indicate that within-race inequality appears to have risen rapidly in relative importance as a component of aggregate inequality after 2000

The Theil-L reflects a similar pattern although starting earlier and showing a more modest increase in the relative importance of within-race inequality. This is a continuation of a longer term trend, although it appears to have gained further momentum recently. In fact, within-race inequality has now finally overtaken the extreme levels of between-race inequality engineered by apartheid policy as the main driver of income inequality in South Africa.

Figure 25: Poverty inequality across provinces



Source: Schwabe C. Fact Sheet: Poverty in South Africa, HSRC, 2004

According to Schwabe (2004) the proportion of people living in poverty remained unchanged between 1996 and 2001 and still represented 57% of a much larger the population. The absolute numbers had therefore increased. The numbers of poor persons living below the poverty income line in South Africa during 2004 was 25.7 million. Limpopo and the Eastern Cape had the highest proportion of poor with 77% and 72% of their populations living below the poverty income line, respectively. The Western Cape had the lowest proportion in poverty (32%), followed by Gauteng (42%).

The HSRC study had also shown that the poverty gap has grown from R56-billion in 1996 to R81-billion in 2001 indicating that poor households have sunk deeper into poverty over this period.

Table 8: Poverty income by household size (R per month)

The poverty lines used above were based on the Bureau of Market Research's Minimum Living Level and varied according to household size. The larger the household the larger the income required to keep its members out of poverty. In order to calculate the aggregate poverty gap a cross tabulation of household income by household size, municipality and race was drawn from the 2001 census. This data, viewed together with the poverty income data shown in the table below, enables the number of households living in poverty and the poverty gap of each poor household to be determined. The poverty gap of each poor household was summed to arrive at the aggregate poverty gap for each province & the country.	Household Size	2001
		1
	2	773
	3	1028
	4	1290
	5	1541
	6	1806
	7	2054
	8+	2503

Source: Schwabe C. Fact Sheet: Poverty in South Africa, HSRC, 2004

6.2.3 The *Speak Out on Poverty* hearings

Much of the research data on poverty is impersonal and faceless, and the poor projected merely as numbers. It is important to provide poor people themselves with an opportunity to speak about their own experience of poverty.

Between 31 March and 19 June 1998, the South African Human Rights Commission (SAHRC), the Commission on Gender Equality (CGE), The South African NGO Coalition (SANGOCO) together with the South African Council of Churches and other organisations convened nationwide *Speak Out on Poverty Hearings*, which gave a voice to the poor^{14, 15}. A series of ten hearings on poverty were held in each of the nine provinces. Over 10,000 people participated by attending the hearings, mobilising communities or making submissions. Nearly 600 people presented oral evidence over the 35 days of the hearings. For the first time in the history of South Africa, this landmark event ensured the poor an opportunity to be heard beyond a mere vote once in five years. The Poverty Hearings culminated in the adoption of the *War On Poverty Declaration* which formed the basis of SANGOCO's campaigns, international work, and other activities. (SANGOCO, 1998)

The results of the Hearings were not only piles of written testimony which bore evidence to ongoing drudgery, hunger and struggle, but a welcome opportunity for people to express how they felt, which most of the participants found uplifting. Much of what was said confirmed what was known about the dismal facts, however, the testimonies also provided ample evidence of the ingenuity and creativity of people who survive against all odds.

While this report concentrated on problems current at the time in 1998, rather than those of the past, many stories made it clear that much poverty was the result of past discrimination and disadvantage, and that there was still a long way to go before apartheid's distortions were removed. Some of those who spoke acknowledged the improvements which had come since 1994, but most highlighted ongoing poor service delivery by government. In the poorest provinces, the severity of poverty was clear when people spoke and wrote for example about the lack of food. Unemployment, gender, disability and crime were also themes which emerged repeatedly as factors increasing people's vulnerability to poverty and undermining their overall well-being.

Some findings of the hearings

- *Employment* : Unemployment was the strongest theme in the hearings and was particularly severe in rural areas. There were many stories of retrenchments from the mines as well as other workplaces. In some provinces there was disappointing evidence of antagonism to foreign immigrants, who were seen as taking the jobs of local people. It was clear that the Growth, Employment and Redistribution (GEAR) strategy

¹⁴ <http://www.sangoco.org.za>

¹⁵ Africa Action website: <http://www.africaaction.org/docs98/sa9810.htm>

had not been successful in creating jobs. There were valuable inputs from some unusual groups who are seldom heard, including vulnerable workers such as fisher-people, casual and seasonal workers, domestic workers, farm workers and those doing piece jobs, such as laundry or collecting wood for neighbours. Despite poor wages and conditions, people indicated that they could not give up such work as they were desperate for even the smallest amounts of money. They knew there were many others willing to take their place, if they left. In those conditions unions could not protect them. The majority of people without waged jobs had to engage in survivalist activities, either alone or in groups. In all provinces women, in particular, were organising in small groups to try to address their struggle to earn income collectively. However, both individual and group initiatives were often unsuccessful. Generally the areas of activity were very limited, leading to severe competition. Business initiatives, where they were initiated, were usually serving a market of poor people like themselves and struggled to survive. Profitability was threatened by lack of access to credit, forcing people to buy extremely small quantities of raw materials or goods to sell. Lack of services such as electricity made for low productivity. The youth in particular faced difficulties in obtaining jobs because of their lack of experience, even where they had the formal education and training. In the informal sector, too, problems such as access to credit were exacerbated for youth. Young women were even more disadvantaged than their male counterparts. Many people spoke and wrote about young women selling their bodies and young men about turning to crime in order to survive.

- *Social security* : In all provinces there were a great many people who spoke about the importance of social grants to their household's survival and about the problems of accessing state grants. In Northern Province and Eastern Cape there were many reports of the devastation experienced by people whose grants had been stopped without warning. Many other people spoke about the cost of administrative and other difficulties they experienced in accessing grants. Several people spoke about the importance of the new child support grants and noted concerns about the level and age limits that existed at that time. Many of the testimonies provided implicit evidence of the many people - and households - which were excluded either because children were too old for child support, or adults were not sufficiently disadvantaged for a disability grant and not old enough for the old age pension.
- *Services and Government's contribution to poverty alleviation* : Much testimony in virtually all the hearings related to inadequacies in the provision of water both in rural and peri-urban areas. The importance of water for the health of the family and for productive purposes was highlighted. There were some stories of delivery, but also accounts of problems with the new services, such as breakdown of the infrastructure, or communal rather than household provision. Among those who had received services, there were many who complained that they were unable to afford the payments. Transport was another

service that emerged as a problem in many areas. Often the infrastructure itself was at fault. Poor roads restricted access to schooling, health facilities, shops and markets for goods. Even, where roads existed, transport was expensive. In all provinces there were many stories of how people's expectations had been dashed after promises from both government and non-government sources had not been forthcoming. There were also many stories where delivery had occurred, but had not been of the quality which people had expected. Local government came in for the brunt of criticism. Councillors were said to be unavailable, and only interested in their own well-being and political future. Several reports suggested that traditional authorities were a stumbling block to development in that they were refusing to sign the applications of local people for land, for a clinic, and so on.

- *Access to land:* Those who gave testimony in rural areas were clear about the importance of land for their survival. The land restitution process had been slow and people were still without access to land. Speakers were also clear that land alone was not enough. In addition, they needed resources such as seeds, fertiliser, water; implements and tools with which to work the land. Otherwise they could not succeed. There were many stories of how rural people had been dispossessed of their land, livestock and other possessions. In KwaZulu-Natal, in particular people described how they had lost everything as a result of political violence. While many of the stories referred to the apartheid years and before, in 'white' commercial farming areas dispossession was still occurring. Further, in all the rural provinces there were repeated stories of abuses of rights of those living on farms by farmers, police and magistrates. Those who had tried to access government land grants or put in claims for restitution complained of bureaucratic and other delays. People also complained that offices were inaccessible and far away. Those who had access to land, often lacked the resources to utilize them. Some had used up all their resources in merely acquiring the land, and then had insufficient to use these effectively.
- *Housing and urban development :* The housing and urban development hearings revealed the suffering caused by pass laws, the Group Areas Act and other spatial planning initiatives which had served to separate white and black, and in particular, to ensure that black people lived far from the wealthy, economic centres. Many stories showed that poor black people continued to bear the costs of inequitable distribution of shelter in safe, secure and serviced dwellings. But not all the stories related to the distant past. There were still serious problems. Those who had accessed the government housing grants complained about the size of the grant, and about the size and quality of houses provided. They also told stories of developers delivering less than they had promised, charging more than agreed, and not completing their contracts on time or according to specifications. Many also complained that while the grants had helped with the house, they were now unable - because they were unemployed - to pay for services. In several

provinces there were inspiring stories of how (mainly women) members of affiliates of the South African Homeless People's Federation had come together to save money, and through mutual self-assistance schemes to build houses for themselves.

- *Health problems:* Many people spoke about poverty-related illnesses such as tuberculosis and HIV/AIDS which were severely affecting them. They spoke about the diseases caused by impure and inadequate water supplies and about the health problems caused by pollution from nearby mines and industries. Several people noted the benefits of the newly established clinics in their areas, but for many these were still inaccessible. Particularly in rural areas, many people depended on mobile clinics. However, there were complaints about the infrequent visits of mobile clinics, the long queues at health facilities, and the inadequacies of the facilities in terms of lack of medication or even their having electricity and water. Several people spoke gratefully about the services provided by community health workers.
- *Education:* There were repeated stories of children not attending school on account of poverty, where despite Government policy, children were being excluded from school for non-payment of fees, because their parents could not afford these. In other cases, children were out of school because there was no money for transport, clothing, food, books, and so on. There were many reports of poor facilities and resources at schools. The situation was particularly bad in rural areas. In many of these areas there were no nearby secondary schools. Several people spoke about the problems of those who failed the matric exam, but were prevented from repeating. Many parents and grandparents lamented that their children had passed matric, yet were unable to find jobs and also unable to obtain funding for further studies.
- *Environment and workplace :* In the environmental hearings, there were stories of workplace illnesses and injuries leading to unemployment and death, usually with little or no compensation. There were stories of workers remaining in what they knew to be harmful working situations because of the desperate need to provide income for themselves and their families. There were also stories of how workplaces harmed neighbouring communities. Specific examples included water and air pollution. There were, for example, reports of the problems of people living on wetlands and dumps, and near a waste incinerator.
- *Access to finance:* The poor could not access financial assistance from the finance institutions set up to assist them.

Recommendations arising from the hearings included:

- A review of the GEAR strategy by government;
- The establishment of an anti-poverty budget, or poverty eradication fund through the participation of the private sector;

- The promotion of skills development initiatives targetted at the poor;
- The establishment of mechanisms through which the poor could more easily access credit;
- The scrapping of public debt;
- The establishment of information and advice centres, particularly in the rural areas;
- The establishment of partnerships to jointly eradicate poverty.

6.2.4 Progress in Growing the South African Economy

Superficially everything would seem to be going well for the South African economy which has been in an upward phase of the business cycle since September 1999, probably the longest period of economic expansion in the country's recorded history. During this upswing, from September 1999 through to June 2005, the annual economic growth rate averaged 3.5%. In the decade prior to 1994, economic growth averaged less than 1% a year. According to the South African Reserve Bank, there is no sign of this period of expansion coming to an end. Gross domestic product (GDP) growth was running at an annualised 4.8% in the second quarter of 2005 (compared to 3.7% in 2004 and 2.8% in 2003). The GDP in 2006 was nearly R1,200 billion and Government expenditure R558 billion (2006/7). However, even with an economy this size and an impressive growth rate this is much less than the 6% growth that the Government has indicated is needed to halve unemployment and poverty by 2014. Growth in employment is almost half of the anticipated 2.9% necessary to halve unemployment.

Consumer inflation has been on a downward trend since 2002, when consumer prices increased to an average 9.3% following the September 11 tragedy in New York. Consumer inflation averaged 6.8% in 2003 and 4.3% in 2004 - compared to 9.8% in 1994.

Tight fiscal discipline has seen South Africa's budget deficit come down from 5.1% of GDP in 1994 to 2.3% of GDP in 2004. In the first quarter of 2005, this figure fell to 1.6%, with the SA Revenue Service collecting nearly US\$3.5-billion more than expected. The cause of the revenue windfall was not higher individual or corporate taxes - both have fallen since 1994 - but primarily a dramatic increase in the number of registered taxpayers, from 2-million in 1994 to more than 5-million in 2004 in the face of a stronger performing economy and high consumption

According to the ASGISA Annual Report 2006 considerable progress has been made in the six areas areas of focus in growing the South African economy. (GCIS, 2006)

Macroeconomic, fiscal and monetary policy have revolved around improving tax collections, accumulating foreign reserves, reducing the budget deficit, easing exchange controls, inflation targeting, limiting money supply and allocating funds for major capital projects. Although 2007 has been a less favourable year than 2006 globally, the perception is that the measures provide a sound foundation for sustained growth, and currency volatility reported as declining.

Infrastructure investments have been significantly increased with public investment plans totalling R415 billion over a three year budget cycle. Eskom and Transnet lead the way with huge investment projects in electrical power and rail transport. Major projects like the de Hoop Dam, the King Shaka Airport and Gautrain are underway, and a national public transport plan has been adopted by Cabinet. Several other major provincial projects are being planned, including the Moloto Corridor in Mpumalanga and the Mzimvubu scheme in the Eastern Cape.

The skills initiatives are driven by the Joint Initiative for Priority Skills Acquisition (Jipsa). In this sector, two important quality of education projects, IDS-Up for literacy and numeracy in primary schools and Dinaledi for maths and science in high schools have been initiated. The Further Education and Training Colleges have been recapitalised with modern equipment and being supported by a major new bursary programme. The second phase of the National Skills Development Strategy is underway, and a new system to match job seekers to jobs has been planned.

In the industrial sector strategy arena, the tourism industry has moved strongly ahead: a new approach to air access has allowed an additional 700,000 inbound air passengers; government has greatly increased the tourism marketing budget; the Tourism Enterprise Project for small business development in the tourism sector has also received major funding from government; and the SAPS is implementing a tourism safety strategy. There have been recent setbacks in the functioning of South African Airways and safety issues in some of the local commercial airlines.

A Business Process Outsourcing strategy was completed and the programme was launched by the Minister of Trade and Industry in March 2006. This includes skills development support, investment incentives, and a marketing programme.

Cabinet also approved a draft Biofuels strategy for public comment in November 2005, and a final strategy submitted to Cabinet in November 2007¹⁶ is expected to be approved shortly.

Regarding the capacity of the state, some landmarks for AsgiSA were the establishment of Siyenza Manje at the Development Bank of Southern Africa to act as a support facility for municipalities and compliment Project Consolidate. The Cabinet considered introducing a Regulatory Impact Assessment system for adoption, initially in a pilot during 2007. The Department of Public Service Administration also analysed deficiencies in several government departments and agencies and recommended remedies which were begun to be implemented during the course of 2007.

The main focus of AsgiSA for 2007 has been to implement the strategies

¹⁶ Mathew Hill, Engineering News, 6 November 2007.

already agreed on in all of these fields, and to monitor the outcomes of the programmes.

Future areas of work will include addressing key challenges that have emerged in the identified areas, for example the implementation of the Regional Electricity Distribution system (REDs).

Regarding the Second Economy, while the Expanded Public Works programme has surpassed its initial targets, the leaders of the AsgiSA initiative are concerned that, in general, Second Economy measures adopted have not yet had a major impact. Large pockets of poverty remain in the former Bantustans and in informal settlements on the edge of our major cities. While job creation has been very strong in recent years, poor communities with low skills are not major beneficiaries of employment growth.

6.2.4 Contribution of economic growth to poverty alleviation

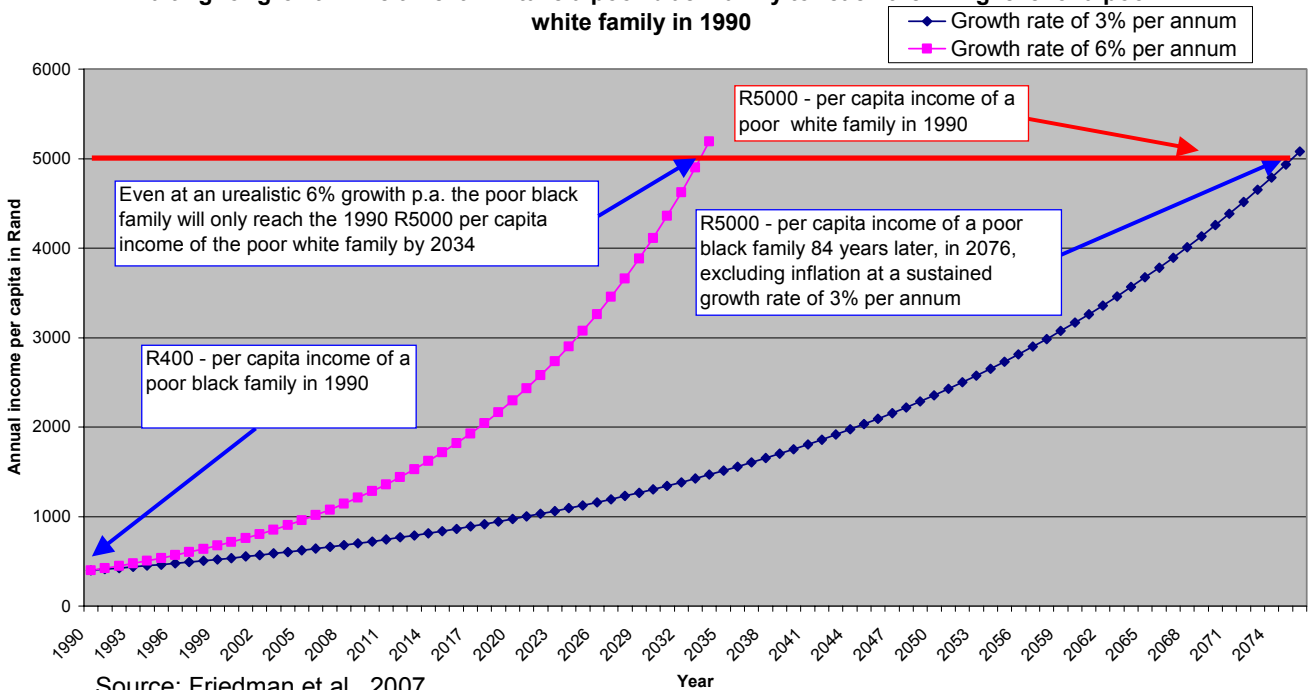
Ultimately the well-being of the poor will be linked to performance of the economy, but without significant Government intervention, the process of improving the incomes of the poorest sections of society could take up fifty years or more, which is not politically tenable, and even less socially desirable. It is likely that it will not be feasible to meet the challenge of the Millennium Development Goals of halving poverty from 1990 to 2014 or achieve a reasonable degree of equity amongst different racial groups or social classes based simply on economic growth. We can show this by calculating ¹⁷ the length of time it would take a typical poor Black African household in the lowest 20% of the population, who were living with a per capita income of R400 per month in 1990, base year for the MDGs, to achieve a living standard comparable to the same standard of a “poor white” family in the same year.

Assuming that the annual disposable income of the poor Black family was R400 per capita in 1990 and that of a “poor white” household R5,000. Given the optimistic possibility of a regular annual real 3% growth rate in the GNP, (over and above that necessary to compensate for inflation and population growth,) it would take 84 years just to achieve the 1990 standard of living of a poor white household. By that stage the poor white family income would have also increased. Even at an unrealistic consistent 6% GDP growth it would take until 2034, just to achieve that goal – far too late to achieve the target of 2014.

¹⁷ Using a formula for simple annualised growth suggested by A.P. Thirwall in Growth and Development p17

Table 9: Waiting for growth: Comparison of Growth Scenarios (1990)

Waiting for growth: The time it will take a poor black family to reach the living level of a poor white family in 1990



Source: Friedman et al., 2007

Assuming that in the extremely unlikely event of the growth rate in the black sector of the economy were growing at a rate 1% faster than that of the white economy, it would take several hundred years for true parity, ie. for the poor black and poor white to be living at the same standard.

Even if we assume once again, that to achieve this, the members of the poorer black family would be quietly content to allow time to take its course, as it has over the past century, we must ask ourselves whether the global natural resources will permit us the luxury of this time scale. At what point in will the law of diminishing returns place a break on continued growth rates as high as 3%.

Is income inequality likely to improve with economic growth?

Does economic growth automatically lead to greater economic equality? During the later half of the 20th century, Nobel prize-winning economist Simon Kuznets¹⁸ attempted to answer the question based on empirical data. He put

¹⁸ Kuznets is credited with revolutionising econometrics, and this work is credited with fueling the so-called Keynesian "revolution". An important book of his is *National Income and Its Composition, 1919–1938*. Published in 1941, it contains a historically significant work on the Gross National Product. His work on the business cycle and disequilibrium aspects of economic growth helped launch development economics. He also studied inequality over time, and his results formed the Kuznets Curve. The **Kuznets curve** is the graphical representation that economic inequality increases over time while a country is developing, then after a critical average income is attained, begins to decrease.

forward the Kuznets' curve hypothesis, which has been one of the most debated issues in development economics since then. With good reason. In a nutshell, the hypothesis simply says that income inequality follows an inverse-U shape along the development process, with income inequality first rising as industrialization occurs and then declining, as more and more workers join the high productivity sectors of the economy (Kuznets,1955). This theory has strong and fairly optimistic long term policy consequences: if lesser developed countries, and the poor in particular, are patient enough and do not worry too much about the short run social costs of development, then one day a point will be reached where growth and inequality reduction go hand in hand, and where poverty rates drop sharply. This does seem to apply to South Africa when one considers the trends of the Gini co-efficient. Ultimately the poor are likely to benefit, but when?

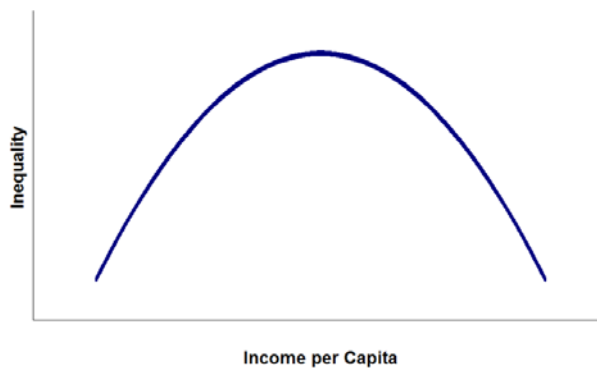


Table 10: Is South Africa following the Kuznet's Curve?

Acemoglu and Robinson JA (2002) who have reviewed the political economy theory underlying the Kuznets curve have argued that economic development

One theory as to why this happens, in early stages of development, when investment in physical capital is the main mechanism of economic growth, is that inequality encourages growth by allocating resources towards those who save and invest the most. In mature economies, on the other hand, human capital accrual, or an estimate of cost that has been incurred but not yet paid, takes the place of physical capital accrual as the main source of growth, and inequality slows growth by lowering education standards because poor people lack finance for their education in imperfect credit markets. Kuznets curve diagrams show an inverted U curve, although variables along the axes are often mixed and matched, with inequality or the Gini coefficient on the Y axis and economic development, time or per capita incomes on the X axis. The **Kuznets Ratio** is a measurement of the proportion of income going to the highest earnings (20%), dividing it by the poorest proportion of the society. A value of 1 would mean perfect equality and absolute inequality. Kuznets had two similar explanations for this historical phenomenon: Workers migrated from agriculture to industry, and rural workers moved to urban jobs. In both explanations, inequality will decrease after 50% of the work force switches over to the higher paying sector. Economic historians have since used skill gap theories and the theories of capital concentration in early economies from classical economists and Marxists to further explain the Kuznets curve. (Wikipedia, http://en.wikipedia.org/wiki/Kuznets_Curve)

does not necessarily need to follow a Kuznets shaped curve. They have shown that development may be associated with two types of non democratic paths: an "autocratic disaster," with high inequality and low output, and an "East Asian Miracle," with low inequality and high output. When development leads to increasing inequality, this can induce political instability and force democratization on political elites. Fortunately for South Africa, its robust democracy will force institutional change and encourages redistribution to reduce inequality.

Besides the theoretical reasons for doubting that economic growth per se will significantly directly reduce poverty in the short-term, there are also practical reasons for believing that the rate of growth of the South African economy per se will not be sufficient to halve unemployment by 2014

Although the current growth spurt of about four and a half per cent - the greatest in the last 25 to 30 years - seems to have been associated with some job creation, there are several concerning macro-economic implications for equitable future growth in the way that the economy is growing (Davies, 2006)

The first issue is the exponential increase in luxury consumption expenditure which is sucking in high value imported goods, replacing local manufacture and leading to a widening deficit in the balance of trade. (Davies, 2006) Although this has been counterbalanced by short-term inflows of foreign portfolio investment, there is some doubt whether this can be sustained as it has occurred by selling off some of South Africa's "crown jewels" such as Iscor and ABSA to foreign investors. According to the South African Reserve Bank the massive increase in "foreign investment", which nearly doubled from R412 billion to R722 billion was due to the transfer of the primary listing of certain companies from the Johannesburg to London Stock Exchanges. These once off sales may be more difficult to achieve in the future. Inflows of foreign capital have been exceptionally high since 2003, with an inflow of R80 billion (about US\$13 billion) into the JSE share market between the beginning of 2005 and the first quarter of 2006. In the same period South Africa has also had several very large inward foreign direct investment transactions. Whether these "investments" will benefit the poor is a moot point. So far, the evidence of benefit is not overwhelming.

The second issue has been the commodities boom created by the rise of China and India as major economic powers. This has meant that there is a significant new demand for mineral products and other primary products coming from South Africa which is a major producer of these goods. This has sustained high prices for mineral products exported in bulk from South Africa. (Davies, 2006) However, these products are a non-renewable resource which are already becoming depleted, and the pace that beneficiation is occurring is slow. South Africa's pre-eminence in this field, for example in mining gold for which it has been a leader for more than a century is rapidly being overtaken by other producers.

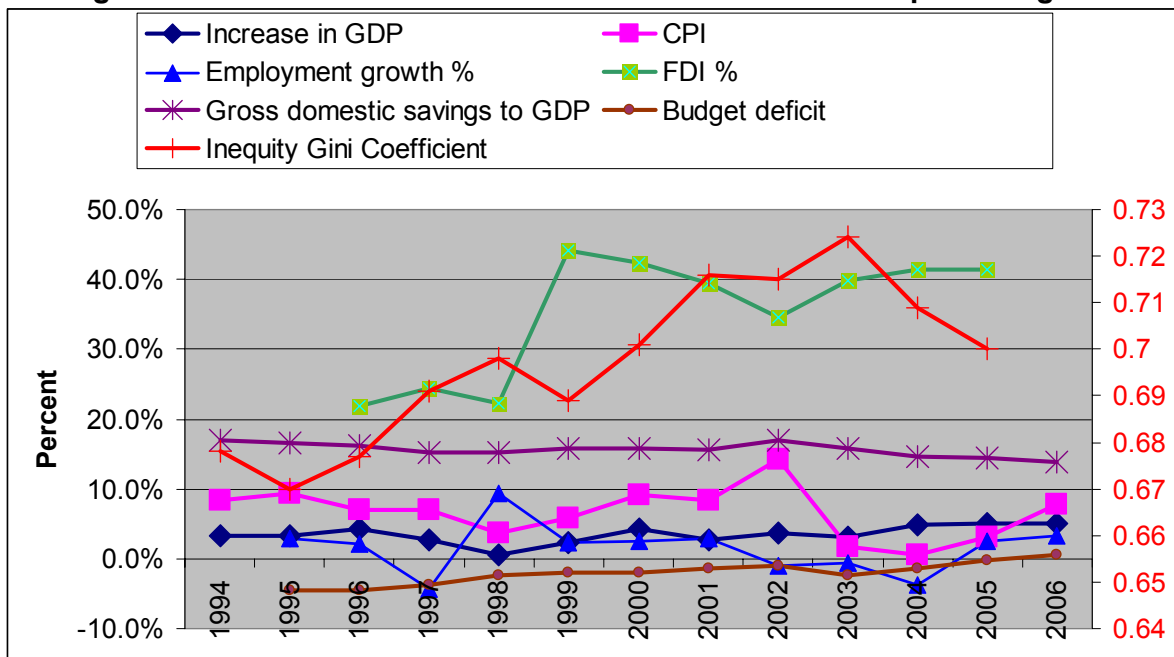
Thirdly if we look at the major industrial performers in our country, we see that these are still mostly large-scale capital intensive upstream companies. (Davies, 2006). These have relatively little potential to generate the employment-intensive jobs the country so desperately needs.

Table 11: Performance of SA Economy 1994-2006

	Increase in GDP	CPI	Employment growth %	FDI %	Gross domestic savings to GDP	Budget deficit	Inequity Gini Coefficient	Employment growth Millions	Strict unemployment millions	Broad unemployemnt millions
1993							0.678			
1994	3.2%	8.3%			16.9%		0.67	14.1	2.0	3.673
1995	3.2%	9.4%	2.8%		16.5%	-4.5%	0.677	14.5	1.6	3.321
1996	4.3%	7.0%	2.1%	21.9%	16.2%	-4.6%	0.691	14.8	2.0	4.197
1997	2.7%	7.0%	-4.4%	24.4%	15.2%	-3.8%	0.698	14.1	2.2	4.551
1998	0.5%	3.6%	9.4%	22.3%	15.2%	-2.3%	0.689	15.5	3.2	5.634
1999	2.4%	5.8%	2.2%	44.2%	15.9%	-2.0%	0.701	15.8	3.2	5.882
2000	4.2%	9.2%	2.4%	42.4%	15.8%	-1.9%	0.716	16.2	4.3	6.553
2001	2.7%	8.4%	2.9%	39.4%	15.6%	-1.4%	0.715	16.7	4.4	6.961
2002	3.7%	14.2%	-1.0%	34.6%	16.9%	-1.1%	0.724	16.5	4.9	7.826
2003	3.1%	1.7%	-0.6%	39.9%	15.8%	-2.3%	0.709	16.4	5.1	8.421
2004	4.8%	0.6%	-3.7%	41.4%	14.5%	-1.4%	0.7	15.8	4.4	8.412
2005	5.1%	3.1%	2.4%	41.4%	14.5%	-0.3%		16.2	4.3	8.107
2006	5.0%	7.7%	3.3%		13.8%	0.6%		16.7	4.3	7.958
Average	3.5%	6.6%	1.5%	35.2%	15.6%	-2.1%	0.7			
Targets	>6%	<10%	>2.9%		>21%	2% to 3%				
Source	SARB	StatsSA	Stats SA LFS	SARB	SARB	Treasury	Van der Berg et al	Stats SA LFS	StatsSA LFS OHS	StatsSA LFS OHS

Fourthly, a major constraint identified in an investment climate survey, is the continuing shortage of skills (Davies, 2006). Although addressing the shortage of skills is both an economic and developmental imperative, there have been difficulties in producing the human resources that the economy needs to grow as well as those necessary to equip millions of unemployed individuals to find employment. This challenge has been compounded by the emigration of many skilled young professionals and the very high mortality associated with the AIDS epidemic

Figure 26: Growth trends in the SA Economic Indicators in percentage

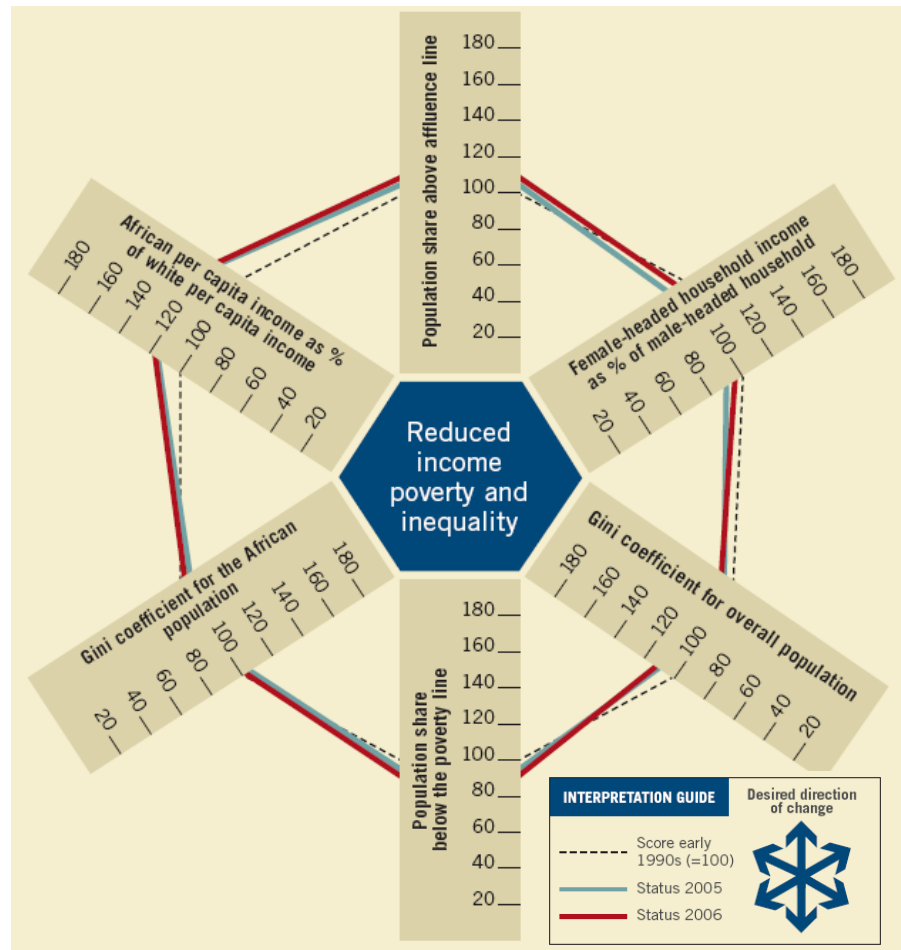


Sources: SARB, Stats SA, Treasury, Van der Berg et al, LFS, OHS

The bottom line appears clear from the trends in the above graph. In the first decade of South Africa's democracy, despite regular increases in GDP and some quite large increases in Foreign Direct Investment, a very low budget deficit and stable Consumer Price Index, income inequality nevertheless grew very rapidly. Only from about 2003, when there was a marked increase in social spending did income inequality begin to decline slightly. It should be noted that with a Gini coefficient in the region of 0.7, the situation is still worse than in 1994. Without active intervention to eliminate income inequality, even strong economic growth in the years leading to 2014 is only likely to be associated with declining inequality if anti-poverty social spending continues to proportionally increase.

An innovative way of showing progress in measuring changes in poverty

Table 12: Income Poverty & Inequality Star (relative shifts in indicators)



Source: 2006 Transformation Audit, Institute for Justice & Reconciliation. Calculations by S van der Berg and M Louw using All Media Products Survey (AMPS) data. Poverty line = R3 000 per person per year in 2000 rands. Affluence line= R30 000 per person per year in 2000 rands

The Income Poverty and Inequality Star, devised by the Institute for Justice and Reconciliation (2006) provides an innovative multi-year snapshot of changes in key indicators of poverty and inequality. The Star is based on two annual sources of information on income poverty: the October Household Survey (OHS) and the All Media Products Survey (AMPS). The authors accept that these more frequent surveys are less reliable than Census data in providing an accurate picture of levels of income poverty, but still provide useful information about the direction and rate of change in levels of poverty. While the OHS indicators show higher levels of poverty and different Gini coefficients, the trend apparent in the AMPS indicators are consistent with the OHS trends, namely a slow reduction in poverty and equality across the board, except for the differential between male and female-headed households, where the OHS shows a reversal in 2004 over 2003.