Poverty and Well-being in Post-*Apartheid* South Africa:
An Overview of Data, Outcomes and Policy[§]

By

Haroon Bhorat
University of Cape Town
hbhorat@commerce.uct.ac.za

and

Ravi Kanbur
Cornell University
sk145@cornell.edu

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Abstract

This is an overview of poverty and well-being in the first decade of post-*apartheid* South Africa. It is an introduction to a volume that brings together some of the most prominent academic research done on this topic for the 10-year review process in South Africa. This overview highlights three key aspects of the picture that the detailed research paints. First, data quality and comparability has been a constant issue in arriving at a consensus among analysts on the outcomes for households and individuals in post-*apartheid* South Africa. Second, while the outcomes on unemployment, poverty and inequality are indeed bad, the outcomes on social indicators and access to public services are much more encouraging. Third, the prospects for rapid and sustained economic growth, without which poverty and well-being cannot be addressed in the long run, are themselves negatively affected by increasing inequality, poverty and unemployment.

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1. Introduction

The end of the first decade of democracy in South Africa naturally resulted in a wide-ranging set of political events to mark this date. South Africa's formal baptism as a democracy in April, 1994, received international acclaim and recognition – which to this day serves as a model for other countries undergoing difficult and protracted political transitions. However, perhaps the greater struggle since the early post-*apartheid* days has been the attempt to undo the economic vestiges of the system of racial exclusivity. Alongside the political evaluation and praise, therefore, there has been a vigorous local research programme aimed broadly at measuring the changes in well-being that occurred in this 10-year period. In addition, a number of studies also concentrated on measuring the performance of government in meeting its stated objectives of reducing poverty, inequality and unemployment. This volume brings together some of the core pieces of academic research that have been prominent in this 10-year review, focusing on the poverty and policy in post-*apartheid* South Africa[1].

The "headlines" and "soundbites" of the 10-year review are by now well known – the first ten years have seen rising unemployment, rising income poverty, and rising income inequality, all in the context of a lacklustre performance in economic growth. The papers in this volume present the detailed and nuanced analysis that underlies these headlines. In this overview we highlight three key aspects of the picture that the detailed research paints. First, data quality and comparability has been a constant issue in arriving at a consensus among analysts on the outcomes for households and individuals in post-*apartheid* South Africa. Second, while the outcomes on unemployment, poverty and inequality are indeed bad, the outcomes on social indicators and access to public services are much more encouraging. Third, the prospects for rapid and sustained economic growth, without which poverty and well-being cannot be addressed in the long run, are themselves negatively affected by increasing inequality, poverty and unemployment. Sections 2, 3 and 4 below take up each of these points in turn. Section 5 concludes.

2. Data and Debate

The most obvious starting point for a 10-year review research programme would be to ascertain what the nature of shifts has been in a composite set of key welfare indicators. While the key contributions within this arena are captured in this volume, underlying these outputs are critical issues related to the choice of data, data quality and data coverage. These collectively, as we enunciate below, are important for scholarly purposes but also critical as accurate inputs into the policy formulation process in South Africa.

The World Bank-sponsored 1993 Living Standards Measurement Survey (LSMS) for South Africa, undertaken by a local research unit[2], provided the first nationally representative micro-dataset to South Africa on the cusp of its new democracy. Since 1995, however, there has been a steady flow of micro-datasets,

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[1] The state, through the Presidency of South Africa, did prepare its own 10-year review, which in fact drew directly or indirectly on many of the findings presented in this book (The Presidency, 2003).

[2] The research unit that undertook the survey was the Southern Africa Labour & Development Research Unit (SALDRU) and the survey has in fact come to be known as the SALDRU 1993 data set.

differing in focus and coverage. These datasets range from household surveys (1995-1999) and Censuses (1996 & 2001) to income and expenditure (1995 & 2000) and bi-annual labour force surveys (2000 onwards), all of which are nationally representative and run under the auspices of the national statistical agency – Statistics South Africa (StatsSA). These datasets have served as the bedrock for undertaking much of the analytical work around welfare shifts in the post-*apartheid* period. In this way, this data will continue to be an important source of reference for any re-examination of the country's first 10 years of democratic rule.

Given the political impact of any analytical work directly or indirectly assessing South Africa's performance since 1994, the role of data quality and ensuring that the data was not contaminated in any form, took on a particular relevance. This, indeed, has been the undertone of much of the research, and consequent debate, that has ensued around the income poverty and inequality shifts reported for the post-*apartheid* period (Meth, 2006). The two key pieces in this literature have been extremely careful and transparent concerning data problems (Hoogeveen & Özler, 2006 and Leibbrandt *et al*, 2006).

The two sets of data available for measuring poverty and inequality shifts since 1994 are the Income & Expenditure Surveys (IESs) of 1995 and 2000 and the Census of 1996 and 2001. Both are equally valid sources of data, but implicitly allow for some semblance of a corroboration of results. In both sets issues of data quality have loomed large (see Cronje & Budlender, 2004; Simkins, 2003 and Meth, 2006). These have included in the IESs, the lack of price data, the exclusion of home-grown products in consumption and significant problems with sampling weights. The Census data are particularly problematic, for example, with regard to large numbers of zero and missing income variables. The latter in turn was reported in bands, making a comparison over time a fraught exercise.

Perhaps the most vivid example of the importance of data quality lies in the national debate around 'jobless growth' (Bhorat, 2004; Bhorat & Oosthuizen, 2006; Casale, Muller & Posel, 2004 and Meth, 2006). It was widely held in political, public sector and media debates that the South African economy had steadily shed jobs, despite positive economic growth, since 1994. The catchphrase for this claim was 'jobless growth' and it became a powerful epithet for reflecting on the general inability of the domestic economy to create jobs. Closer analysis, however, revealed that this notion of 'jobless growth' was reliant on a single and, as it turns out, wholly incomplete, data set (Bhorat & Oosthuizen, 2006). The data set, the Standardised Employment and Earnings (SEE) series excludes large swathes of economic activity, and in so doing misrepresents aggregate employment in South Africa. As a consequence, reliance on this data, revealed a steady decline in employment from the mid-1990s in South Africa. This result, when tested against the more reliant household and labour force survey data, has since been shown to be fundamentally flawed – with employment in fact expanding in the post-1994 period.

Whilst many of these issues and their resolutions are now common to the literature, there are a number of important lessons that arise from these various data de-contamination exercises. Firstly, the data cleaning exercise during this 10-year review process brings into sharp relief the importance of 'getting the numbers right'. For a national and international community intensely interested in how the country has fared in its first decade of democracy, accurate figures on poverty, inequality and unemployment hold a particular policy relevance. Incorrect results, for example as was the case with the 'jobless growth' numbers, can have significant political ramifications. Secondly, it needs to be accepted that the income poverty and inequality shifts, undertaken within the spirit of the 10-year review process, are not in fact a representation of the first decade of democracy. In covering the period 1995-2000 or 1996-2001 depending on the data sets used, these results obviously cover an incomplete time period. The non-availability of more recent data sets of course forced this time period choice. What this reflects, however, is the importance of trading off imperfect data against the prevalent policy imperatives. The latter was clearly to gain, as best as was possible, an understanding of welfare shifts in the post-*apartheid* period. Thirdly, the problems the research community have experienced with data delivered by the national statistical agency, whilst resulting in often fractious engagements, has opened up a portal of information-sharing. In so doing, the research community are able to feed back their concerns around data to the national statistical body – and this alone means that the process of data verification remains policy relevant. Fourthly, South Africa has also since 1994 seen the proliferation of a number of smaller, regional and unofficial surveys. These include most notably the KwaZulu-Natal Income Dynamics Survey (KIDS), which is a panel tracking households in this province (May, 2006) and more recently, the Cape Area Panel Survey. These data sets should remain an important source for corroborating national results and furthermore as a tool for extracting more nuanced information on poverty, inequality and labour market issues in South Africa.

3. Outcomes: Incomes, Unemployment and Social Indicators

Mindful of the hard questions that have been asked of the data, and the fact that data availability in most instances prevent an analysis of trends that is true to the full decade of democracy – what then are some of the more important shifts we have witnessed under the guidance of the new government?

There is overwhelming evidence to suggest that income poverty increased. The headcount index has increased nationally from 32 to 34 per cent between 1995 and 2000 or, using a different dataset, from 26 to 28 per cent between 1996 and 2001 on a $2 a day poverty line (Hoogeveen & Özler, 2006; Leibbrandt & Levinsohn, 2005 and Leibbrandt *et al*, 2006). The increase is still seen when measured using the broader FGT class of poverty measures (Foster, Greer, Thorbecke, 1984), which give weight to the depth of poverty as well as to the number of the poor. Hence, over the 1995-2000 period, we find that for any realistic poverty line, the headcount index and the poverty gap measure shows significant increases nationally (Hoogeveen & Özler, 2006). For example, on a poverty line of $2 a day, the mean poor household earned 11 per cent below this line in 1995 and by 2000 this had increased to 13 per cent.

The data by race is particularly revealing: Between 1995 and 2000, absolute and relative poverty levels amongst African-headed households increased, while for non-African households it either remained stagnant or declined. While the inter-Censal analysis also reveals an overall increase in the headcount and poverty gap measures, this result is not restricted to African-headed households. Hence, the 1996-2001 Census data analysis suggests that both absolute and relative poverty levels increased for African, Coloured and (at the higher poverty line) Asian households.

Indeed, while Coloured headcount poverty declines from 20 to 12 per cent in the 1995-2000 comparison, it increases from 10 to 13 per cent in the inter-Censal comparison. The availability of future datasets would ensure a test of both these results for the Coloured population (Hoogeveen & Özler, 2006; Leibbrandt *et al*, 2006).

One of the more important results within this exercise lies in the spatial dimensions of poverty. Both a 1995-2000 or inter-Censal comparison indicate a rise in rural and urban household poverty. For example, the proportion of urban (rural) households classified as poor increased from 13 (45) to 16 per cent (46 per cent), on a $2 a day poverty line, between 1996 and 2001 (Leibbrandt *et al*, 2006). Importantly, however, the share of the rural poor in overall poverty is declining: Thus while the rural poor accounted for 62 per cent of all poor households in 1996, five years later this had declined to 56 per cent. This suggests a rapid process of urban migration that could in the future reshape the spatial nature of poverty in South Africa. Indeed, more specific numbers on migrant workers indicates that the incidence of migrant (or sending) households in rural areas increased from about 1.2 to 1.5 million households (Posel & Casale, 2006). This role of space in reinforcing or potentially overcoming South Africa's welfare challenges, is likely to feature increasingly in future policy debates. The process of fairly rapid urbanisation from poorer to richer provinces is now beginning to be documented (Oosthuizen & Naidoo, 2004) – and it is evident that this presents new challenges for wealthier provinces and their cities. One very specific example of these challenges is a study on recent migrants to the city of Cape Town. Results here show that, controlling for individual and household characteristics, recent rural migrants to the city stand a lower probability of finding employment in the city, relative to non-migrants (Rospabé & Selod, 2006).

Income inequality has also increased with the Gini coefficient rising from 0.565 to 0.577 between 1995 and 2000, while on a 1996 and 2001 comparison the Gini rose from 0.68 to 0.73 (Hoogeveen & Özler, 2006; Leibbrandt & Levinsohn, 2005 and Leibbrandt *et al*, 2006). Aside from the national Gini coefficients increasing in both sets of data, there is also Lorenz-dominance in the time comparisons, ensuring that this increase is unambiguous (Leibbrandt *et al,* 2006). The Gini coefficient has risen consistently across all race groups in the inter-Censal comparison, although noticeably declines for Asians and Whites when using the IES data. Urban and rural inequality has also risen. What is also interesting are the measures of between- and within-group inequality using the sub-group decomposable Theil Index. It has always been argued that between-group inequality has been a key facet of understanding income inequality in South Africa. Hence, the contribution of between-group inequality to overall inequality in South Africa stood at about 60 per cent in the 1970s (Whiteford & van Seventer, 2000). In 1996, using the Census estimates the share of between-group inequality had declined to 43 per cent, and by 2001, this figure was 40 per cent. Put differently, while the key fault-line in income inequality terms, that of the African-White income differential was being eroded, this has been replaced by a significant growth in within-group income inequality. This share of within-group inequality has increased by some 20 percentage points over the last three decades in South Africa. Specifically, the overall driver of income inequality in post-*apartheid* South Africa continues to be the rising inequality amongst African households.

Whilst these national data sets are extremely useful for static comparative exercises, the one significant disadvantage is that they are unable to reflect on patterns of income mobility. The KIDS data set is a panel and hence allows for fairly nuanced, albeit geographically restricted, analysis of income mobility. Applying transition matrices on this data, results indicate that about one-third of those households who were poor in 1993, were non-poor in 1998, thus representing those in transitory poverty (May, 2006). Equally important is the result for those households just above the poverty line in 1993: by 1998 about 50 per cent of these households had fallen back into poverty (May, 2006). Indeed, while it is important to emphasise the significance of transitions into and out of poverty amongst South African households, the results also make it clear that the initial level of household income and wealth, which can in part be proxied by a variety of labour market indicators, is a significant predictor of movement out of poverty (May, 2006; Cichello, Fields & Leibbrandt, 2005).

Changes in the labour market remain possibly the key transmission mechanism for understanding the shifts in income poverty and inequality. Labour market developments, in turn, indicate a significant increase in the unemployment rate irrespective of the definition used: The broad unemployment rate increased from 31 to 42 per cent, while narrow unemployment rates rose from 18 to 31 per cent (Bhorat & Oosthuizen, 2006). Hence, the data for South Africa on employment and unemployment trends appear to strongly reinforce the income trends noted above. The data shows that over the period 1995-2002, aggregate employment grew by some 1.5 million jobs, at an average rate of 2.3 per cent per annum. This remains slightly below the economic growth rate over the period. In turn, however, the labour force grew by some 5.2 million individuals, resulting in a massive rise in the national unemployment levels from 4.2 million in 1995 to close to 8 million in 2002 (Bhorat & Oosthuizen, 2006). Thus, while the economy did not experience 'jobless growth' in the post-*apartheid* period, employment absorption was sufficiently poor to result in rising unemployment rates for all races and both sexes. In turn, these labour market shifts reflect a continued trend of skills-biased labour demand needs as the share of skilled and semi-skilled workers continued to rise in the post-*apartheid* period. Other studies have also reported the worrying spectre of sharply rising graduate unemployment, driven by the qualities and type of tertiary qualifications being accumulated by individuals (Bhorat, 2004).

The above headline results dominate much of the policy discourse around the shifts in social and economic indicators since April 1994. The rise in income deprivation or income maldistribution – measured differentially by the Gini coefficient, the headcount index and the unemployment rate – is undoubted. This should not, however, mask some important movements in access to public services and in social indicators. These shifts are worthy of their own headlines. The post-1994 era is notable for the rapid reallocation of resources through the fiscus, from rich, White households to poor, African households. Broadly, while approximately 40 per cent of aggregate social spending was directed to Whites and 43 per cent to Africans in the mid-1980s, by the late 1990s fully 80 per cent of total social spending was assigned to the African populace and less than 10 per cent to Whites (van der Berg, 2006). The results of this fiscal switch are evident in the data on assets and services. Hence, the share of households with access to piped water increased from 80 to 85 per cent between 1996 and 2001 – with similar gains reported for related sanitation services (Bhorat, Poswell & Naidoo, 2004). The share of households with access to electricity for lighting and cooking has shown particularly spectacular gains. For example, between 1996 and 2001, the share of African households with access to electricity for lighting increased from 44 to 62 per cent (Leibbrandt *et al*, 2006). While less significant, improvements in local government services (principally refuse removal) were also reported.

There has thus been a remarkable shift of fiscal resources toward poor households in post-*apartheid* South Africa. There are three key issues within this overall fiscal reallocation: Firstly, the magnitude of the shifts are important to understand, and are particularly interesting, given that over the same period government had managed to reduce its deficit-to-GDP ratio. Secondly, the incidence of the shift is important, and the extent to which it was biased toward the poor is necessary to analyse. Finally, aside from the shift in resources, we need to be sure that it has resulted in the intended outcomes.

In terms of aggregate shifts, social service expenditure (encompassing spending on education, health, housing and social security) increased from 12 to 17 per cent of GDP between 1993 and 2003. Proportionately, the largest increases were recorded for housing and social security, where expenditure (as a share of GDP) increased by 40 and 92 per cent respectively (National Treasury, 2004). Government spending on water schemes and services also increased dramatically – from R847 million per annum in 1993 to R4 445 million in 2003 – a 76 per cent rise over the decade. Put differently, real per capita social expenditure (including water service provision) stood at R2170 per person in 1983. By 2003, this figure was R3 451 per person, which represents close to a 60 per cent increase in total social spending. It should be clear then that a dramatic fiscal reallocation process took place in the post-*apartheid* era. Driven by a need to overcome severe backlogs in these different spheres, there was a sharp refocusing of expenditure towards potentially poverty-alleviating assets and services.

The second issue – the extent to which this redirection of expenditure did in fact reach its intended beneficiaries – is of course the domain of fiscal incidence analysis. Evidence indicates a consistent shift in expenditure toward poorer households. Between 1995 and 2000, per capita social spending increased by between 21 and 38 per cent for the 1st and 2nd deciles. In turn, social spending declined on a per capita basis by 9 per cent (6 per cent) for the 9th (10th) decile (van der Berg, 2005). By race, per capital social spending on Africans increased by 20 per cent between 1995 and 2000, while it declined for all other race groups (van der Berg, 2005) Allocation to rural areas increased by over 30 per cent, while that for urban areas declined. Summary measures of expenditure indicate that spending on education (particularly school and less so for tertiary education), health, housing and water are equity-enhancing, while that on social security is strongly equity-enhancing (van der Berg, 2006). On the latter for example, the introduction of a new state transfer, the child support grant, together with very high take-up rates in existing social grants – most notably the old age pension – has made the state's social security provision the most effective anti-poverty intervention. Of total social security expenditure, in 2000, 61 per cent was allocated to individuals in the 1st and 2nd deciles (van der Berg, 2006).

Given this clear pro-poor orientation of fiscal expenditure, the outcomes that this has engendered are also important to capture. In the case of services – principally water, sanitation and electricity – the results point to a widening of access to vulnerable households. Relatively new work in the area has analysed the shift in entitlement deprivation over the 1993-2004 period (Naidoo & van der Westhuizen, 2005). Applying the growth incidence curve methodology to these shifts, the results indicate absolute and relative pro-poor growth in access to services and assets, when measured against per capita household expenditure. For example, access to formal housing grew by 42 and 34 per cent for deciles 1 and 2 between 1993 and 2004, and 21 and 16 per cent for deciles 3 and 4. Access to piped water increased by 187 per cent over this period, while the growth was 31 per cent in the 4th decile. Finally, a reflection of possibly the most successful of these interventions, access to electricity for lighting expanded by 578 per cent for the poorest decile and 286 per cent for the 2nd poorest decile.

In terms of state provision of education, panel data indicates that it remains the most important asset to extract households out of poverty (May, 2006) and the resource shift in this sense is extremely positive. However, more detailed evidence on the specific earmarking of this expanded budget, indicates that much of the funds went toward increasing teacher salaries (Fiske & Ladd, 2005). For example, expenditure per learner increased from R2 222 to R3 253 between 1995 and 2001, while over the same period, learner-educator ratios remained constant at 30:1 (Fiske & Ladd, 2005).

Ultimately, though, the above analysis of welfare shifts in the post-*apartheid* period point to three important lessons. Firstly, that any exhaustive analysis of changes in household and individual well-being should also account for non-income measures of deprivation. As a consequence, a true appreciation of the shifts that have occurred in the post-*apartheid* period can only be derived through comparing and contrasting movements in income, assets and services available to the poor. Secondly, the importance of this comparative exercise is magnified in the context here, given that these non-income measures – measures of Sen's entitlement deprivation – have in fact moved counter to the standard income metrics of vulnerability. An objective assessment of whether poverty, measured multi-dimensionally, has in fact increased is not possible to determine for the post-*apartheid* period. New methods that have recently been designed to undertake such exercises (Duclos, Sahn & Younger, 2005), would appear to be the next step in the country's domestic research programme. Finally, it should be kept in mind that increased expenditure allocations, independent of income poverty and inequality shifts, are a necessary but not sufficient condition for welfare improvements. In addition to the example of education outlays noted above, prices are an important predictor of welfare outcomes. Hence, recent evidence has indicated that the key drivers of aggregate inflation in the 1998-2002 period for poor urban households have been public services including water, electricity, transport and sanitation services (Bhorat & Oosthuizen, 2006b). The provision of the asset or service therefore, remains only a first step in ensuring that vulnerable households are sufficiently empowered to extricate themselves from permanent or transitory poverty.

4. Policy-Growth and Distribution

All of the trends in income and non-income measures of well-being have played out against the backdrop of poor overall economic growth performance by the South African economy. Economic growth rates since 1994 have been modest, with the highest recorded being 4.3 per cent in 1996. Furthermore, the trend over this short period, has been downward until 1999, and then a levelling off to a range between 2 and 4 per cent since 2000. Importantly though, the pre-1994 period was characterised by negative growth rates, and since the advent of democracy, growth while in absolute terms remaining insufficient, averaged of about 3 per cent over the decade. The positive, yet tepid growth rates are manifest in the fact that over the 1994-2003 period, the mean population growth rate was over 2 per cent, resulting in a real per capita GDP growth rate of 0.9 per cent over the period. In addition, data available for middle income and low middle income countries from the World Bank, indicates that the mean growth rates for these composite countries for the period 1999 to 2003, were above that for South Africa over the same period[3] (World Bank, 2005). There can be no doubt therefore, that the economy, since 1994, has remained in a low-level growth cycle.

It is widely accepted that consistent and high levels of economic growth will, holding income inequality constant, reduce levels of income poverty in a society (Dollar & Kraay, 2002; Ravallion & Chen, 2003; Kanbur, 2005). This has of course been the implicit approach taken by policy authorities in the post-*apartheid* South Africa: namely the notion that multitude of policy interventions being pursued across all national government departments are simultaneously designed to place the economy onto a significantly higher growth trajectory.

With this in mind, a burgeoning research agenda in South Africa is being focused on understanding the constraints on long-run growth. These can be categorised into a number of broad determining factors, which thematically include: the role of the labour market in growth; trade liberalisation; domestic market inefficiencies and the importance of social ills, specifically HIV/AIDS and crime. We now consider each of these elements briefly, within the context of the extent to which they may act as a constraint on long-run growth.

The role of the labour market in constraining economic growth can be broadly cast into three key concerns. The first is the role of labour legislation in hindering growth in domestic investment and hence employment creation. The second is South Africa's well-known skills mismatch – a high demand for skilled labour co-existing with an excess supply of unskilled labour – and its relationship to domestic economic growth. The third issue is the highly contentious wage-employment trade-off.

Firm survey evidence, based on the perception of employers, have indicated fairly consistently that they view employment constraints as partly operating through the labour regulatory environment. Secondly, within this regulatory framework, dismissal clauses in the ammended Labour Relations Act of 2002 are viewed as particularly inimical to employment creation, production costs and productivity levels

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[3] Specifically the middle income aggregate average growth rate was 3.7 per cent per annum while that for low middle income economies was 4.8 per cent per annum.

(Bhorat, 2005; Chandra, 2000; Rankin, 2005). One objective measure of these costs indicates that the dismissal costs for labourers, as a ratio of own-mean wage, is three times that of managers (Bhorat, 2005). Within the regulatory environment, there remain significant concerns around the extent to which South Africa's workplace grievance institution – the Commission for Conciliation, Mediation and Arbitration (CCMA) – has perhaps contributed to increased inefficiency within the labour market through a combination of having to adhere to specific regulatory provisions; its own internal procedural machinations and finally, general resource constraints particularly relating to the shortage of skilled personnel (Benjamin & Gruen, 2005; Cheadle, 2005). Compounding this, is the view that much of the legislation is biased against small businesses, purely by virtue of their inability to meet a myriad of requirements in the legislation – the so-called 'procedural burden' inherent in South Africa's regulatory environment (Small Business Project, 2005).

In terms of South Africa's skills shortage, the rise in the demand for highly skilled workers has been well documented for South Africa (Bhorat & Hodge, 1999; Edwards, 2001), and the extent to which it acts as a constraint on the productivity levels of firms has also been shown (Chandra, 2000). Also related, however, is the fact that this shortage of high-level human capital has hindered growth in fixed investment through constraining new investments in R & D in higher educational institutions (Fedderke, 2006; Fedderke, de Kadt & Luiz, 2003). In addition, there continues to be skilled immigration legislation that is not entirely suited to an economy such as South Africa's with a chronic skills shortage.

Finally, the contentious issue of the wage-employment trade-off continues to be the subject of debate in South Africa. Estimates of South Africa's long-run wage elasticity of employment have been consistently negative and less than unity and at the aggregate level ranging from -0.5 to -0.7 (Bowles & Heintz, 1996; Fallon & Lucas, 1998; Fields, Leibbrandt & Wakeford, 1999). With different specifications and according to skill classes, the elasticity can rise to as much as -2.23 (Fedderke, 2006). There would seem to be two issues here. The first is that, while the wage-employment trade-off cannot be doubted, the link between wages and household poverty still requires further analytical refinement. Hence, it is not clear whether wage increases will ultimately reduce levels of household poverty in the society. Although we now have an analytical framework to lean on (Fields & Kanbur, 2005), this is a new line of enquiry critical to taking this debate forward. Secondly, independent of the veracity of the elasticity estimates, there remains a very powerful political economy fact: that wage repression of whatever scale and intensity in South Africa's highly unionised environment is a recipe for potentially severe social and political instability. This fact should never be discounted when considering the policy implications of pursuing a policy of mandated real wage reductions.

South Africa embarked on a process of trade liberalisation in the mid-1980s, intensifying considerably in the post-*apartheid* period under World Trade Organisation commitments. There was therefore a significant reduction in average tariff rates, combined with a simplification of the tariff structure (Cassim *et al*, 2002; Edwards, 2006). Evidence, in turn, indicates that this liberalisation process has resulted in a twin process of a growth in exports and increased import penetration ratios. Furthermore, studies have shown that increased trade over time in South Africa, is significantly associated with a growth in total factor productivity, with little evidence, if any, of de-industrialisation (Cassim *et al*, 2002; Tsikata, 1999). The debate within South Africa in the post-*apartheid* period, on trade reform, has also, however, focused on the labour market effects of reducing these distortions. Tariff reduction seems to have been disproportionately applied to labour-intensive sectors, with the growth in net trade in the post-1994 period biased strongly in favour of skill-intensive sectors (Edwards, 2006). However, a more detailed decomposition exercise, designed to measure the sources of employment growth in the post-*apartheid* period finds a small positive effect on employment from net trade, with much of the employment losses in the formal sector attributable to technological change (Edwards, 2006). Perhaps one of the key determinants of trade performance in the first decade of democracy has been the exchange rate. There has been significant increase in the volatility of the real effective exchange rate since 1994, which has resulted in considerable uncertainty amongst exporters (Cassim *et al*, 2002). Given that monetary policy is now guided by inflation targeting, the exchange rate has ceased to be a nominal anchor and, hence, the search for a stable and competitive exchange rate becomes a key variable for export competitiveness in the future.

Influenced by high levels of concentration in the South African economy, there is sufficient evidence to suggest that this has resulted in mark-ups that are significantly higher in South Africa than comparable international evidence suggests (Fedderke, 2006). These mark-ups are as high as 80 per cent within the domestic manufacturing sector, with the US manufacturing data indicating a mark-up of about 45 per cent (Fedderke, 2006). In addition, evidence for the banking sector suggest that the margins here are high by international standards – and at twice those for European banks (Okeahalam, 2002). One consequence of these high margins in the banking sector has been to act as a constraint on the growth of small businesses in South Africa (Berry *et al*, 2002). Within this context then, the role of greater import competition and competition policy is enhanced. A combination of the two would ultimately result in reducing concentration levels in domestic industries, thereby not only inducing enhanced consumer welfare but also greater domestic and international competitiveness.

The role of institutions and governance in economic growth is clearly an important determinant of long-run growth. The literature on the subject in South Africa in the post-*apartheid* period is unfortunately relatively thin, with a few exceptions (Fedderke, 2006). Hence, while we are aware that issues of corruption, contract enforcement, the perception of the legal system and political certainty are key, little formal empirical evidence presently exists to isolate its importance as a constraint on growth. Two significant areas of uncertainty, though, are obvious and deserve attention here, namely the extraordinary high levels of crime in South Africa combined with the country's very high incidence of HIV/AIDS.

South Africa's incidence of both violent and non-violent criminal activity remain one of the highest in the world (Demombynes & Özler, 2006). Firm survey evidence also indicates that employers view crime and theft as the most important constraint on firm growth (Rankin, 2005). Apart from the uncertainty generated by these high levels of crime, thereby impeding long-run growth, it is also clear that it significantly increases the operating costs of firms. In addition, it is a key contributor to skilled labour emigration. The fortunes of income inequality and criminal activity are also closely intertwined. Micro evidence suggests that high levels of income inequality, particularly within-group inequality, are a significant and positive determinant of the incidence of burglary and vehicle theft as well as violent crime (Demombynes & Özler, 2006). Ultimately, there exists a vicious triangle which links income inequality to crime which, in turn, induces high levels of investment uncertainty. This acts as possibly one of the key constraints to long-run economic growth in South Africa.

South Africa's HIV/AIDS prevalence remains one of the highest in the world. Estimates suggest that the prevalence amongst adults aged 15-49 was 21.5 per cent in 2003. This compares with a global average of 1.1 per cent and a mean of 7.5 per cent for Sub-Saharan Africa (UNAIDS, 2004). In addition, the pandemic has disproportionately struck young, economically active adults as well as those categorised as semi-skilled or unskilled (Arndt & Lewis, 2002). The pandemic's impact on long-run growth operates through a multitude of channels. These include, for example, declining productivity amongst the infected employed, increased pressure on health and other social services as the pandemic matures, reduced investment expenditure and savings in households treating infected individuals and so on. Over a 10-year horizon, modelling exercises estimate that per capita GDP is likely to be on average 8 per cent lower, given the impact of the pandemic (Arndt & Lewis, 2002). Estimates of the impact on long-run growth indicate that the pandemic may result in a 0.5 to 1 per cent reduction in real GDP per annum (Arndt & Lewis, 2002; Bureau for Economic Research, 2001).

The above then has provided a quick, and by no means exhaustive, tour of some of key constraints on long-run growth in South Africa. While steady progress is being made on some of these fronts, notably within the area of deregulating domestic markets and trade liberalisation, there has been a fair degree of policy inertia. The latter is particularly true in the case of crime and the HIV/AIDS pandemic which, given their powerful impact on investment and uncertainty, suggests some redirection of state commitment to focusing on these binding constraints on growth. Within the growth and distribution nexus though, evidence for South Africa indicates that the nature of the economy's growth path is equally important. Evidence for the 1995-2000 period for example, indicates that South Africa's growth trajectory has not been pro-poor in nature (Hoogeveen & Özler, 2006). Complementary evidence indicates that South Africa's economic growth post-1994, while being positive, has induced a significant maldistribution of income. The latter has been large enough to erode any income benefits to the poor and ultimately yielded an increase in national poverty levels. Hence, despite a growth in per capita expenditure between 1995 and 2000, this growth has not been sufficiently high to offset the accompanying rise in inequality. Put differently, most of the gains in income through economic growth in the post-*apartheid* period in the form of reduced poverty levels, have been dissipated through increased income inequality.

What is interesting, overall, is the deep and organic connection between economic growth, which provides the resources for improving income and non-income dimensions of well-being, and distributional outcomes along these very dimensions, since research demonstrates that these distributional outcomes themselves influence the prospects for growth.

5. Conclusion

Five clear trends have emerged in the analysis of welfare shifts in the post-*apartheid* period. These are firstly, an increase in both absolute and relative income poverty, when using the standard measures of poverty. Secondly there has been an increase in income inequality, which is notably being catalysed by a rise in the share of within-group inequality. Thirdly, despite some employment growth, the rapid expansion of the labour force, has resulted in increased unemployment rates irrespective of the definition used. Fourthly, a large and swift fiscal resource shift has engendered widened access to assets and basic services to poor households. These aggregate trends are fairly consistent across race and gender – with the shifts amongst the African population predictably influencing many of the results. One important, relatively new dimension to emerge from the above broad trends, has been the declining share of rural poverty as a consequence of increased migration and urbanisation. Fifthly and finally, these changes in poverty and well-being in the post-1994 period have occurred within, and have influenced and had been influenced by, an environment of tepid economic growth rates.

The constraints on growth identified above, speak to the menu of policy options available to government. While ensuring that a conducive environment to realise higher growth is critical, this should not marginalise the issues of income vulnerability. In this context, it is the nature of growth, together with growth itself, that is crucial, and the results on the dissipating impact of inequality on economic growth is a key result. Given South Africa's severe income vulnerability, the growth-poverty-inequality nexus retains a particular relevance for the future.

The overview deliberately traverses a number of conceptual, research and policy challenges that still prevail some ten years after democracy. We hope that the rest of this volume expands appropriately on some of these ideas – in a bid to provide both a more expansive assessment of welfare issues in the post-1994 period. We also hope that this volume may provide the seeds for fresh and new ideas on how these multitude of challenges can be dealt with in the country's second decade of democracy.

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