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POVERTY AND INEQUALITY
AFTER APARTHEID

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Poverty and Inequality after Apartheid

Abstract

Democratic South Africa was born amidst high hopes for the reduction of income poverty and inequality from their high levels under apartheid. The reality has been disappointing: despite steady economic growth, income poverty probably rose in the late 1990s before a muted decline in the early 2000s, income inequality has probably grown, and life expectancy has declined. The proximate causes are clear: persistent unemployment and low demand for unskilled labour, strong demand for skilled labour, an unequal education system, and a social safety net that is unusually widespread but nonetheless has large holes. It is also clear that economic growth alone will not reduce poverty or inequality. Pro-poor social policies are important, but not as important as a pro-poor economic growth path. Unfortunately, there is little sign of the political conditions changing to push the state towards the promotion of a more pro-poor pattern of economic growth. There is some chance of parametric reforms of the welfare state. Overall, however, it is likely that, after another ten years of democracy, unemployment and poverty rates will remain high, despite significant redistribution through cash transfers, and incomes will continue to be distributed extremely unequally.

Introduction: Hopes and claims

Apartheid's legacy to the democratic South Africa included highly visible income poverty and inequality. Income poverty was not high by the standards of the rest of Africa. The proportion of the South African population with incomes below the equivalent of US\$1 per day (adjusted for local purchasing power) was about 24 percent, compared to about 50 percent in countries such as Kenya, Swaziland, Uganda and Senegal, 72 percent in Madagascar, and 85 percent in Zambia.¹ But it was much higher than other middle-income countries. The comparable poverty rates in Chile, Mexico and Indonesia were about 15 percent, and in Jamaica, Malaysia and Tunisia they were about 5 percent. Only Brazil matched South Africa (UNDP, 1999: table 4). Income poverty was strikingly visible in South Africa

¹ No national data on food consumption are collected in South Africa, so it is not possible to compare South Africa with other countries according to standard nutritional criteria.

because it coexisted with great affluence, amidst high inequality, and also because this inequality correlated with race. Even though some African people had enjoyed rapid upward income and class mobility in the last years of apartheid, the formerly disfranchised African majority was, for the most part, poor, whilst the small white minority that had held power was conspicuously rich.

Apartheid had perpetuated income poverty and exacerbated income inequality in very obvious ways. African people had been dispossessed of most of their land, faced restricted opportunities for employment or self-employment, were limited to low-quality public education and health care, and were physically confined to impoverished parts of the countryside or cities. At the same time, the white minority had benefited from discriminatory public policies. It was hardly surprising that South Africa competed with Brazil and a handful of other countries for the indignity of having the most unequal distribution of income. Poverty did not exist alongside affluence, because segregation kept the rich and poor apart, but they certainly coexisted in the same country (see Wilson and Ramphela, 1989; Seekings and Nattrass, 2005). Observers from all parts of the political spectrum turned to crudely dualistic descriptions of this reality, distinguishing between the ‘first’ and ‘third world’ parts of the country or analyzing the political economy in terms of ‘internal colonialism’ or (more bizarrely still) ‘colonialism of a special type’.

Democratisation was therefore accompanied by high hopes that income poverty and inequality would be reduced. The poor were to be enfranchised, the pro-poor and pro-black African National Congress (ANC) would be elected into office, and public policies and private practices would be deracialised. The ANC promised ‘a better life for all’ in its 1994 election campaign. Its election manifesto – the Reconstruction and Development Programme (RDP) – promised that ‘attacking poverty and deprivation’ would be ‘the first priority of the democratic government’. The RDP would empower the poor to seize opportunities ‘to develop to their full potential’ and ‘to sustain themselves through productive activity’, with the state ensuring improved access to social security, public education and other services. All South Africans should enjoy ‘a decent living standard and economic security’ (ANC, 1994: 15, 16, 79).

The ANC-led government adopted a modernist approach to the challenge of development. The apartheid state never collected data on poverty among African people, but even before the 1994 election the ANC joined with the World Bank and the University of Cape Town to conduct South Africa’s first countrywide income

and expenditure survey. After taking office, the ANC-led government immediately transformed the parastatal statistics agency (renamed Statistics South Africa) and invested heavily in the collection of statistics on poverty, first through the October Household Surveys (OHSs) and Income and Expenditure Surveys (IESs), and later the General Household Surveys (GHSs), as well as on labour market issues (through dedicated Labour Market Surveys or LFSs). A major study of poverty and inequality was commissioned in 1995-96. A range of public policies were reoriented around 'developmental' concerns.

Socio-economic rights were also included in the 1996 constitution. Section 27 specifies that '(1) Everyone has the right to have access to (a) health care services, ...; (b) sufficient food and water; and (c) social security, including, if they are unable to support themselves and their dependents, appropriate social assistance. (2) The state must take reasonable legislative and other measures, within its available resources, to achieve the progressive realization of each of these rights.' Section 28 stipulates specific rights for children, and Section 29 establishes rights to education. These and other rights are said to be based on the 'democratic values of human dignity, equality and freedom' (section 7, para 2). The Constitutional Court has stated that realizing socio-economic rights is necessary if citizens are to enjoy the other rights enshrined in the constitution and if South Africa is to become a society based on the above values.

The ANC and government were quick to claim that they had made progress. In the 1999 elections, the ANC campaigned around the general theme that South Africa was 'changing', although this change needed to be 'speeded up' (Lodge, 1999). In 2003, in an assessment anticipating ten years of democratic government, the government acknowledged that poverty had grown but implied that this was more than offset by redistributive measures (South Africa, 2003). In the 2004 elections, the ANC claimed that it had laid the 'foundation for a better life', including two million new jobs and expanded public services. It called on citizens to vote for it 'so that together we can do more to achieve a Better Life for All'. Its election manifesto – entitled 'A people's contract to create work and fight poverty' – emphasized the creation of 'a more caring society' and a 'radical' reduction in unemployment and poverty (ANC, 2004). The following year, a senior ANC member (and billionaire) Cyril Ramaphosa was quoted as saying that new data showed that South Africans had 'never had it so good' (SAARF, nd). In May 2006, President Mbeki himself told Parliament that 'between 1994 and 2004, the real incomes of the poorest 20 percent of our population increased by 30 percent'

(Mbeki, 2006). More detail was provided in the government's 'discussion document' on 'Macro-Social Trends': '[T]he proportion of people with low (poverty) income increased marginally during the period 1993 to 2000', the government conceded, but recent research 'shows that there has been a marked decline in poverty since 2000, from approximately 18,5 million poor people to approximately 15,4 million poor people in 2004' (South Africa, 2006: 12).

This positive representation of progress since 1994 contrasts with the negative assessments made by a long series of unashamedly left scholars. In the most recent version of this critique, the ubiquitous journalist John Pilger proclaims that 'apartheid did not die' (Pilger, 2006). Affluent spaces in the new South Africa might be populated by black people wearing matching Gucci sunglasses and suits alongside still privileged white people, Pilger claims, but the lives of the poor were unchanged, to the extent that the poor – or 'poors', as they are sometimes called (Desai, 2002) – have risen up in protest, in the streets and through 'new' social movements.

The rise and fall of income poverty

Discerning what has 'really' happened to income poverty and inequality is difficult even without its politically explosive implications. Despite – or rather, to some extent, because of – the explosion of data in post-apartheid South Africa, there is no consensus on trends. Obvious and not-so-obvious flaws in the data mean that the data have to be 'decontaminated' (Bhorat and Kanbur, 2006: 3), and this requires complex assumptions and methodological innovations (see Seekings, 2006c).

There is, nonetheless, broad academic consensus that income poverty worsened in the late 1990s, although precise findings vary according to the specific data used and assumptions made in the analysis. 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. 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. 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

fact that the share of household expenditure spent on food rose gives additional credibility to the decline in real incomes. Hoogeveen and Özler (2006) use data on real per capita expenditures from the same surveys as Leibbrandt *et al.* to 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’ (*ibid*: 87). The total poverty gap also increased. This academic consensus is contrary to most of the claims made by the ANC and government but consistent with the criticisms made by Pilger and others.

Almost the sole dissenting voice on this trend came from the South African Advertising Research Foundation (SAARF), which proclaimed boldly that ‘Government is delivering’ and they had ‘the figures to prove it.’ The figures came 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. Between 1994 and 2001, the proportion of South Africans in the bottom LSM category dropped from just under 20 percent to 5 percent. This is the finding that prompted Ramaphosa to remark that South Africans had ‘never had it so good’ (SAARF, nd). Sensibly, however, the government retreated in 2006 to concede that poverty had risen in the late 1990s (South Africa, 2006).

The overall growth rate of the South African economy speeded up somewhat in the early 2000s, fuelling hopes that poverty might decline. In 2005, Van der Berg *et al.* began to circulate a study (published in 2006) that put forward a dissenting analysis: ‘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: 23). 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. Their finding holds for a variety of measures of income poverty – although, they note at one point, ‘we may be at risk of overestimating the progress that has been made’ (*ibid*: 29).

In a detailed riposte, Meth (2006a) argues that Van der Berg *et al.* underestimate substantially the numbers of people in poverty. Meth concedes that the proportion and number of poor people might have declined in the early 2000s. But he holds

that the rise in poverty in the late 1990s was larger than Van der Berg *et al.* admit, and the fall in poverty in the early 2000s was lower than they claim.

The sensitivity of poverty rates to changes in social assistance is in large part because, first, South Africa's poor have such low incomes, relative to the rich, and second, there are many poor people just below (as well as just above) any of the widely-used poverty lines, so that quite small changes in incomes can raise people above the lines. Bhorat (2003a), using 1995 IES data, calculated that the poverty gap in 1995 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 eliminate income poverty entirely if it increased its expenditures by just 10 percent and allocated all of the additional funds to perfectly targeted transfers to the poor. Between 1995 and 2004, the government did substantially increase its real expenditure on well-targeted social assistance programmes (as we shall see below). Van der Berg *et al.* and Meth agree that this resulted in some reduction in income poverty, but they disagree on the extent.

Van der Berg *et al.* and Meth reach very different findings because they respond differently to the fundamental deficiency in the existing data on incomes in South Africa. 'Stripped to its barest essentials,' observes Meth pithily, 'the (income) poverty controversy in South Africa is about how to deal with the problem of under-reporting' (Meth, 2006a: 40). Surveys and censuses fail to collect complete or credible information on some households (in the sample, in the case of surveys) and fail to collect any data on others. Overall, the incomes recorded by the censuses and surveys fall far short of the national income derived from the national accounts.

If under-reporting was consistent over time, it might not matter to the analysis of trends in income poverty. But if under-reporting seems to change over time, then any analysis of changes in the data collected must try to distinguish between the real changes in incomes over time and the changing level of reporting. There are at least three reasons to believe that under-reporting has changed over the post-apartheid period. First, the growth in aggregate income reflected in IES data from 1995 and 2000 is considerably lower than the growth in national income recorded in national accounts (Van der Berg *et al.*, 2006). Secondly, non-response or incomplete response rates seem to have risen over this period (Ardington *et al.*, 2005). Thirdly, recent Statistics SA surveys make much less of an attempt to reconcile households' reported data on incomes and expenditures. There are also good reasons to think that non-response is non-random, both in terms of the

sections of the population who are under-counted and the categories of income which are under-counted. It appears that rich people have become less and less willing to provide data (Seekings, Natrass and Leibbrandt, 2004), and property income is counted less and less (Simkins, 2004).

Studies by Leibbrandt *et al.* (2004) and Ardington *et al.* (2005) illustrate one way of building models that address these problems. They report that 19 percent of households reported zero incomes and another 4 percent provided incomplete income data in the 1996 Population Census, and 23 percent and 5 percent of households did so in the 2001 Population Census (Leibbrandt *et al.*, 2004: 41). They do not believe that many households really have zero income. The decision over whether to include the zero-income households and missing-data households clearly makes huge differences to poverty rates – either in terms of headcounts or poverty gaps – in either year. But it makes little difference to the trend between 1996 and 2001. If these households are included in the analysis, poverty headcounts and the poverty gap rise; if they are excluded, poverty headcounts and the poverty gap rise (*ibid*: Appendix A). In a second paper, Ardington *et al.* (2005) impute data where income data are missing in the 2001 Census.² This results in a reduction in estimates of poverty (but an increase in inequality, as measured using a Gini coefficient). When they also substitute imputed data for zero-income households, it makes no statistically significant difference to poverty rates. This is because the imputed income remains zero for most of the affected households. Ardington *et al.* conclude by showing that, if they use imputed data for both 1996 and 2001, both poverty headcounts and income inequality rise over the 1996-2001 period.

Van der Berg *et al.* (2006) employed an entirely different (and ‘not uncontroversial’) methodology. Their model-building entails three stages. First, they accept the veracity of national accounts data on the overall growth of national income. Any inconsistency between trends in IES data and the national accounts would be a major cause for concern (although Hoogeveen and Özler (2006: 61) report that the IES expenditure data is consistent with GDP data). Van der Berg *et al.* argue convincingly that ‘it appears implausible that [average or aggregate] household incomes have declined to the extent suggested’ by raw IES income data.

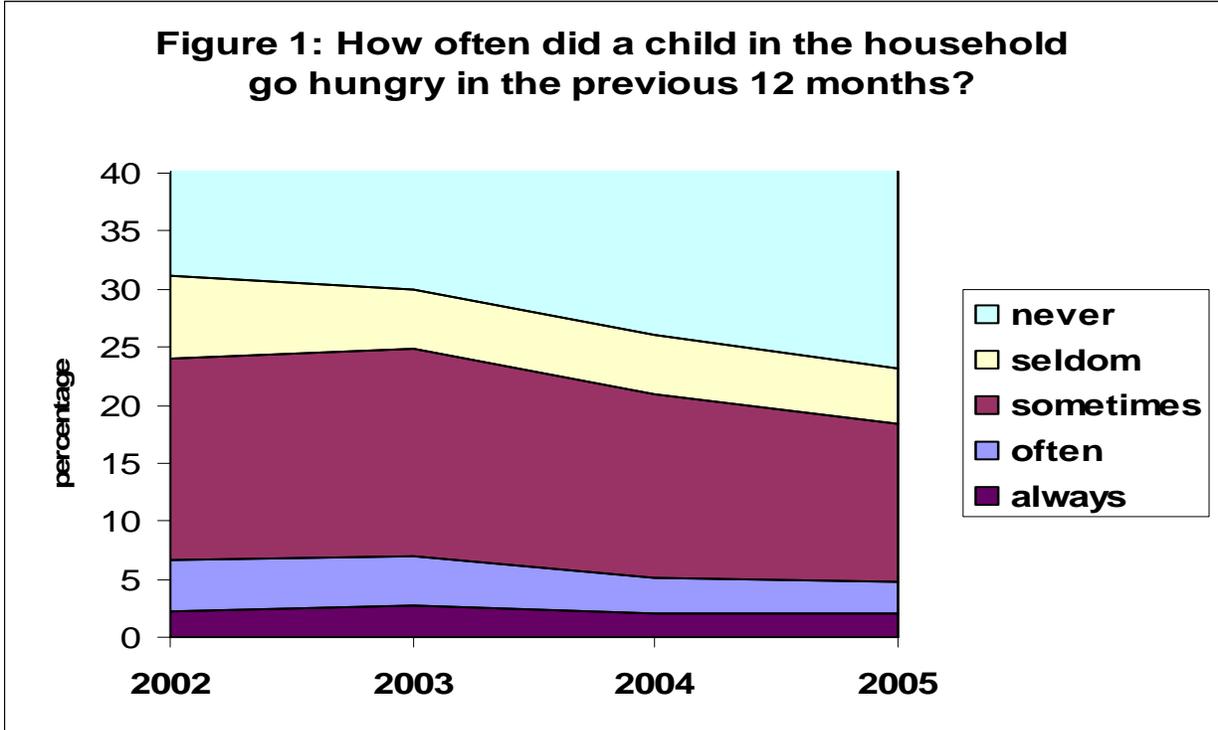
² Statistics SA provides imputed data, but using a single hotdeck imputation. Ardington *et al.* instead use a multiple imputation approach. The former means that missing values are replaced by values from similarly responding sampling units. The latter means that missing values are imputed using a multivariate regression technique.

They conclude that comparing income data from IESs ‘is likely to lead to erroneous conclusions regarding trends in poverty’ (*ibid*: 14). Their response is to disregard entirely the trend in IES income data and accept uncritically the trends in national accounts. Second, Van der Berg *et al.* use data from national accounts and other, non-survey sources to calculate *inter*-racial income distribution, i.e. the shares of national income accruing to white, Indian, coloured and African people. They find that African people’s share of total income rose sharply after 2002, faster even than their share of the population. The third stage in Van der Berg *et al.*’s methodology entails using the AMPS market research data on *intra*-racial income distribution. Crucially, the AMPS data suggest that intra-racial income inequality within the African population peaked in 2000 and declined thereafter (although overall inequality rose steadily throughout the period). The combination of declining intra-African inequality with a rising African income share generates the result that poor people fared especially well. Poor African people got a larger share (i.e. relative to non-poor African people) of a growing African share of the total pie (i.e. relative to non-African people).

Each stage in Van der Berg *et al.*’s methodology is open to challenge. As Meth writes, ‘it is not obvious why the magnitude of adjustments resulting from such a procedure should bear any resemblance to the size of actual under-reporting errors by income or expenditure class (which, all agree, are likely to plague any survey instrument)’ (Meth, 2006a: 10). The accuracy of Van der Berg *et al.*’s work depends on the accuracy of their data on inter-racial and intra-African distributions. This remains to be demonstrated. One would have more confidence in their findings if they showed why AMPS data on intra-African income distribution, collected for the advertising and marketing industry, suffers from fewer flaws than the data collected in dedicated surveys by Statistics South Africa. Meth (2006a) tries to identify what assumptions would need to be made about Statistics SA survey data to produce the kind of results provided by Van der Berg *et al.* using other sources and methodologies. He concludes that Van der Berg *et al.*’s estimates require assumptions about under-reporting that are beyond the bounds of plausibility.

A major concern with any survey is the difficulty in interviewing rich households. This has major implications for the inter-racial distribution of income, as it is (on average) harder to collect information from (richer) white South Africans than (poorer) African South Africans. The standard response to this problem is to re-weight data by race (or by race and province) (see Seekings *et al.*, 2004;

Hoogeveen and Özler, 2006). This implies that non-response within the re-weighting categories is random. Non-random non-response within the re-weighting categories might have major implications for any analysis that requires data on distribution. Van der Berg *et al.* (2006) agree that the African ‘middle class’ has experienced dramatic growth. If AMPS data *underestimates* the growth of prosperity among rich African people, then Van der Berg will *overestimate* the benefits of growth that accrue to poor African people. Small underestimates in the size or prosperity of richer Africans mean that there have been proportionately large overestimates in the incomes of poor Africans: underestimating the income of richer Africans by R100 per month is a small underestimate, but overestimating the income of poorer Africans by the same amount transforms all of the poverty estimates. Leibbrandt *et al.* (2005) provide some information that is consistent with this hypothesis. Concerned that their finding of declining real individual incomes between 1995 and 2000 might be the result of bad data, they examine the educational attainment of age cohorts in the 1995 and 2000 cross-sectional surveys. They find statistically significant declines in years of schooling for a number of cohorts, although they assess that the decline (of about half-a-year) is insufficient to explain more than a small part of the decline in income. Leibbrandt *et al.* do not seem to consider the possibility that the missing respondents from the second survey might have been drawn disproportionately from the ranks of upwardly-mobile African people. Under-sampling this category in 2000 would result in underestimates of mean incomes in 2000 (and hence might explain some of the discrepancy between the trend from survey data and the trend from national accounts data) and of changes in intra-racial inequality across this period, although it would not make little or no difference to poverty rates.



Statistics SA has collected some subjective data on poverty that has a bearing on this. The GHSs ask respondents whether, ‘in the past twelve months’, any child had gone ‘hungry because there wasn’t enough food’. Respondents had to choose between five response options: never, seldom, sometimes, often and always. Responses in households with children indicate clearly that reported child hunger declined over quite a short period of time (see Figure 1). Reported hunger among adults also declined. Unfortunately, it is not possible to trace this series back before 2002 (as previous surveys either included no such questions or used significantly different wording).

It is premature to reach any precise conclusion on poverty trends in the early 2000s. The work by Van der Berg *et al.* is innovative and instructive. It is very likely that weak employment growth and a sharp increase in pro-poor public expenditure on social assistance programmes did lead to a reduction in income poverty, but the scale of these is unlikely to be as large as Van der Berg *et al.* estimate (and as they themselves warn). Trends in the late 1990s might have corroborated the criticisms of Pilger and others, but trends in the early 2000s almost certainly contradict them.

High (and worsening) inequality

Income inequality worsened after 1994, including in the early 2000s. This trend has 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 coefficient – i.e. a widely-used measure of inequality, which can vary in value from an egalitarian 0 to an inegalitarian 1 – 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: 60). Leibbrandt *et al.* (2004: 9) 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 findings on poverty rates are contentious, found that their model of income distribution indicates that overall income inequality rose through the longer 1994-2004 period.

The Gini coefficient might not be the most appropriate measure of income distribution in the South African case, as it is reportedly less sensitive to changes at either end of the income distribution and more sensitive to changes in the middle. South Africa's rich are unusually rich and South Africa's poor are exceptionally poor, even relative to other unequal societies. If the poor are getting relatively poorer, therefore, the Gini shows less change than alternative measures of distribution, such as the mean logarithmic deviation (Hoogeveen and Ozler, 2006: 72). There are also, as I have already suggested, grounds for suspecting that the weights used in survey and census data do not pay adequate attention to the (probably growing) problem of low response rates among rich, and therefore necessarily upwardly-mobile, African households. This would lead to an underestimate of the growth of both intra-African and overall income inequality.

In 1998, Mbeki famously described South Africa as a 'two-nation' society: 'One of these nations is white, relatively prosperous, regardless of gender or geographic dispersal. ... The second and larger nation ... is black and poor, with the worst-affected being women in the rural areas, the black rural population in general, and the disabled.' These two 'nations' were distinguished by unequal access to infrastructure of all kinds, and unequal access to opportunities (*Hansard*, House of Assembly, 29th May, 1998, col.3,378). In a detailed analysis of the changing nature of inequality in South Africa in the second half of the twentieth century, Nattrass

and I argue that the basis of inequality had shifted from race to class long before 1998 (Seekings and Natrass, 2005). Apartheid served to transform the state-imposed privileges of being white into the advantages of class that were rewarded by markets, ensuring that the white elite became a middle-class whose continued privileges no longer depended upon active racial discrimination by the state. This shift meant that the state could dismantle policies of racial discrimination without undermining white privilege. This, in turn, meant that growing numbers of black South Africans could be upwardly mobile into the middle classes. Privilege no longer correlated with race, as suggested by Mbeki's use of the 'two nations' analogy.

The Theil index is a measure of inequality that allows for overall inequality to be decomposed into 'within-group' and 'between-group' components. Applied to South African racial categories, this decomposition distinguishes the shares of inequality arising from *inter*-racial as opposed to *intra*-racial differences. Whiteford and Van Seventer (2000), using census data on incomes, showed that the between-race share declined from 62 percent in 1975, to 42 percent in 1991, and 33 percent in 1996, whilst the within-race share rose commensurately, from 38 percent to 58 percent to 67 percent. Leibbrandt did similar calculations using the 1995 and 2000 IESs (Seekings *et al.*, 2004; Seekings and Natrass, 2005: 308). The trends in between- and within-race shares proved to be highly sensitive to the choice of weights (which were used primarily to compensate for low response rates among white households). Using his preferred weights, Leibbrandt showed that the previous trend continued, with the between-race share falling and the within-race share rising. Hoogeveen and Özler (2006: 74) show the same for expenditure data. Leibbrandt *et al.* (2004: 9) use the 1996 and 2001 Population Censuses. Although their estimates for 1996 are different to those of Whiteford and Van Seventer, they find that the existing trend continues: the within-race share rises, and the between-race share falls. Bhorat *et al.* (2006: 45) have similarly decomposed asset inequality into within-race and between-race components. They construct a poverty-oriented asset index comprising characteristics of accommodation (roof, walls, etc), infrastructure (such as use of electricity) and other assets (television, car, etc). The between-race share of inequality in asset ownership declined from 37 percent in 1993 to 18 percent in 2004, whilst the within-race share rose commensurately from 63 percent to 82 percent. The evidence supports the unsurprising conclusion that the removal of racial constraints has led to continuing upward mobility among African people, in terms of both occupations and incomes, such that class

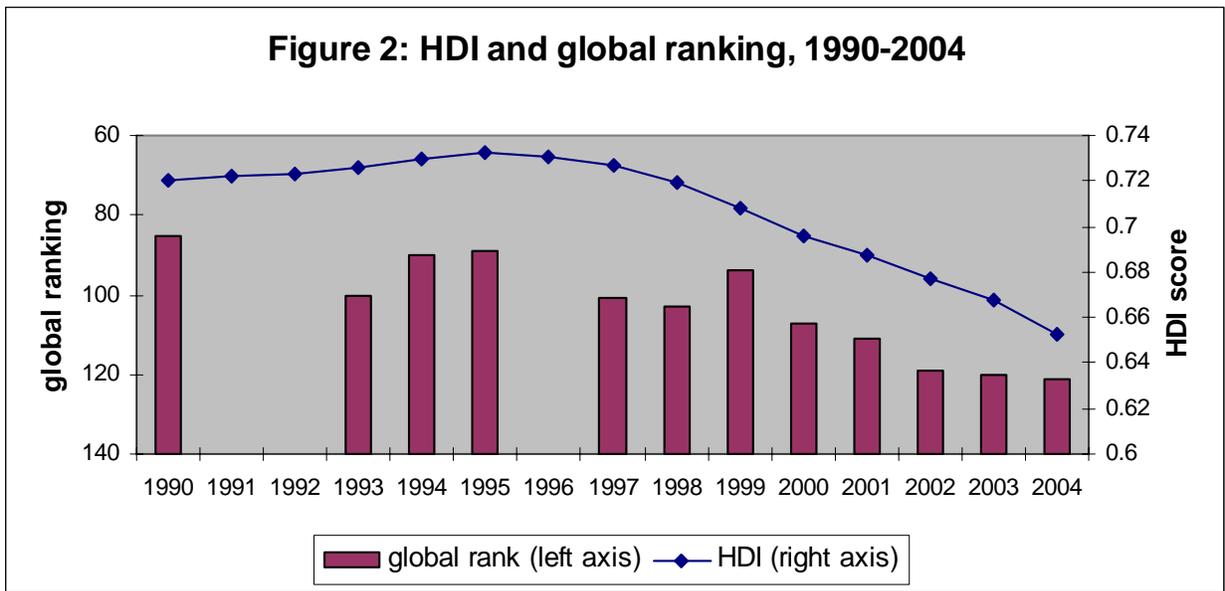
differences within the African population are becoming more important as inter-racial differences decline.

Changing racial income dynamics can also be examined through changes in racial income shares and in the racial composition of rich income deciles. Data on income shares are ambiguous. Between the mid-1970s and mid-1990s, the African income share (i.e. the share of national income received by African people) rose steadily, whilst the white income share declined. The 1995/2000 IES data suggest that this trend continued, although the pace of change depends on the selection of weights (Seekings *et al.*, 2004). Van der Berg *et al.* (2006) reached a similar assessment. But the 1996/2001 census data suggest a stabilization (see Leibbrandt *et al.*, 2004: 10). Because of differential rates of population growth, however, the ratio of white to African mean incomes per capita probably actually widened (see *ibid*: 11; Van der Berg *et al.*, 2006). The data on the racial composition of the top income deciles is more emphatic. Both the 1995/2000 IES data and the 1996/2001 Census data suggest that African people comprised a fast-growing proportion of the top two income deciles (Seekings *et al.*, 2004; Leibbrandt *et al.*, 2004: 11). The rich are no longer all white, even if almost all white people are still rich.

Human development, AIDS and life expectancy

The Human Development Index (HDI) is a measure of well-being developed by the United Nations Development Programme (UNDP), and reported in the UNDP's annual *Human Development Report*. Figure 2 shows the absolute HDI for South Africa together with South Africa's ranking relative to other countries.³ The trend is clear: the South African HDI rose steadily in the last years of apartheid, peaked around 1995, and then declined steadily, at least until 2003 which is the most recent year for which data are available at present. South Africa's declining HDI meant that its global rank slipped dramatically, from 90th in 1994 and 89th in 1995 to 121st (in 2004).

³ The global ranking by HDI is from various UNDP *Human Development Reports*, up to and including the 2006 *HDR* (UNDP, 2006); the South African HDI scores and decomposition are from the 2003 *South African Human Development Report* (UNDP, 2003).



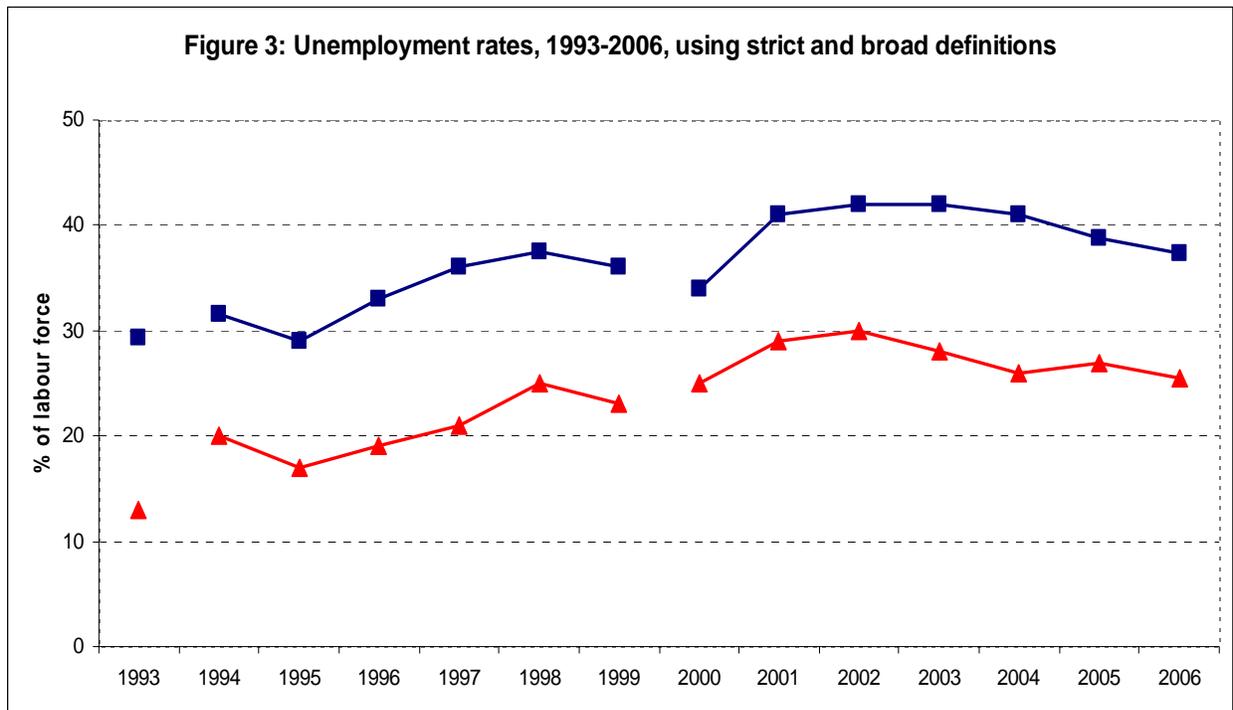
The HDI comprises three components: an ‘educational attainment index’ constructed out of adult literacy rates and gross school enrolment rates; a ‘life expectancy index’ derived from data on life expectancy at birth; and an index of GDP per capita taking into account purchasing power. The UNDP selected these variables for the HDI because they were readily measured and together provide a good indication of the reality of social and economic well-being in a country or region. The rapid decline in South Africa’s absolute and relative HDI is entirely due to the rapid decline in life expectancy. In 2003, South Africa ranked 52nd in the world in terms of GDP per capita (taking into account purchasing power), 78th on the composite education index, but 150th on life expectancy. The reason why life expectancy has declined is AIDS, which has rolled back the gains of decades of development in Southern Africa (see Nattrass, 2002). By 2010, it is estimated, AIDS will have reduced life expectancy at birth in South Africa by twenty years: without AIDS, it would have been 68 years, with AIDS, it will be 48, or perhaps even less.

Life expectancy should be a far more important component of studies of income poverty and inequality than is currently the case, because of both changes in average life expectancy over time and inequalities in life expectancy across society. Studies of income poverty and inequality are rightly concerned with an individual’s or household’s income over time: chronic poverty is very different to transitory poverty, in terms of both the experience for the people concerned and the implications for policy design. But long lives are clearly preferred to short ones.

The tardiness of the South African government in providing treatment for the AIDS sick and using ARVs to slow the spread of the pandemic (see Nattrass, forthcoming) constitutes a massive indictment of post-apartheid policy.

Causes of poverty and inequality: unemployment and education

Poverty in South Africa is rooted in deagrarianisation and unemployment. South Africa's poor are not land-holding peasants, supplementing subsistence production with occasional sales of agricultural produce, casual employment or remittances from migrant labour. South Africa's peasantry was slowly destroyed in the course of the Twentieth Century (Seekings and Nattrass, 2005: chapters 3 and 6). Forced removals from large commercial farms, overcrowding in the 'homelands' or 'bantustans', low-quality schooling, poor links into urban and industrial labour markets, and the growing capital-intensity of production in most economic sectors resulted in the growth of unemployment among unskilled workers and of mass poverty among them and their dependents. Large-scale open unemployment seems to have replaced underemployment in the 1970s, and then grew steadily through the 1980s and early 1990s (*ibid*: chapter 5). Surveys conducted around 1994 suggested that the unemployment rate was less than 20 percent, using a strict or narrow definition of unemployment, and about 30 percent by a broad or expanded definition.



Unemployment rates rose steadily under post-1994 ANC governments, at least until 2002. Figure 3 shows unemployment using the narrow and broad definitions; the 1993 data come from the 1993 PSLSD survey, 1994-1999 data from OHSs, and 2000-06 data from the LFSs conducted in September of each year. Unemployment peaked in early 2003 at 31.2 percent (by the narrow or strict definition, including only active job-seekers) and 42.5 percent (using the broad or expanded definition, including also people who want employment but are not looking for it in supposedly ‘active’ ways).⁴ By the early 2000s, more than 4 million people were unemployed by the narrow definition and about eight million were unemployed by the broad definition. Unemployment rates have dropped marginally since 2002/03, but unemployment rates remain much higher than they were in 1994 and are higher than anywhere else in the world excepting Iraq.

The coincidence of steady (albeit low) economic growth, rising unemployment rates and apparently stagnant employment growth led many commentators to

⁴ The LFS uses a rotating panel, which raises questions about attrition. If people who lose jobs or are new entrants to the labour force are more likely to attrit than people in steady employment, or if unemployed people are less likely than working people to be included in the new part of each panel, then there is likely to be a tendency both to underestimate unemployment and to overestimate any downward trend..

describe the South African economic experience in terms of 'jobless growth'. Given that trade liberalization contributed to job losses in unionized sectors, COSATU joined the chorus of critics of the government, whose policies were said to have produced a 'jobs bloodbath'. Borat argues against such conclusions. Using data from post-1993 household surveys (the OHS and LFS), he argues that total employment has risen, with as many as 2 million net new jobs created between 1995 and 2003 or 2004 (Bhorat, 2003b; Oosthuizen, 2005; Borat and Oosthuizen, 2006). Casale, Muller and Posel (2004, 2005) show that about one-third of this employment growth is the product of changes in measurement (with a more inclusive definition of self-employment). The actual jobs created divide almost equally between the survivalist (i.e. very low-income) informal sector and the formal sector. This is why rising employment did not lead to a drastic reduction in poverty, but rather resulted in a growing number of 'working poor'. By 2003, almost one-third of employed South Africans reported earnings that were lower than the statutory minimum wage for a domestic worker. Overall, it is clear, recent economic growth has not been markedly more pro-poor than growth in previous decades.

The effects of unemployment on poverty are accentuated by the growth of an 'underclass' of people who suffer systematic disadvantage in the labour market with the result that they face no real possibility of escaping from poverty (Seekings and Nattrass, 2005: chapter 8). For many unemployed people, poverty is transitory, ending when they find employment. But others lack the skills (including language skills), credentials and (especially) the connections (i.e. social capital) which are crucial in terms of securing unemployment. These others comprise the underclass. Probably the most important form of social capital is having family or friends who have jobs and are able to help someone find employment. It is therefore especially worrying that the number and proportion of the unemployed living in 'workerless' households, i.e. where no one is in wage employment, have risen. Oosthuizen (2005: 47) reports that the number (and proportion) of unemployed people living in workerless households, using the broad definition of unemployment, rose from 1.8 million (42 percent) in 1995 to 4 million (49 percent) in 2004 (see also Pirouz, 2005). In the mid-1990s, most of this underclass of workerless households was located in the former 'bantustans'. Rural-to-urban migration has resulted in some relocation of poverty to town (Bhorat and Kanbur, 2006: 4), probably indicating that the underclass is now found in urban as well as rural areas.

Education is a second immediate cause of income poverty and inequality. Lam (1999) showed that most of South Africa's very high inequality in income distribution could be explained in terms of differential rates of return to education and unequal grade attainment. Although the bulk of the population has already left school, the education and skills of new entrants to the labour force are of great importance in shaping the ways that inequalities evolve over time. In 2006, the official pass rate in the matriculation (i.e. 'matric' or grade 12) school-leaving examination was 66.5 percent. In the early 2000s, pass rates rose sharply, but a large part of this was because the matric exam became less demanding. Even though the 2006 exam was probably easier than exams a decade earlier, the pass rates in key subjects remained very low (Taylor, 2007). More alarmingly, surveys show that only a minority (about 40 percent) of each age cohort completes successfully grade 12 (and some respondents might say they have completed grade 12 even if they did not actually pass matric). The median grade attainment among young people in their mid-20s, i.e. at an age when as many have taken matric as will ever do so, is grade 11, and almost one in three young people have attained grade 10 or less (according to 2005 GHS).

More worryingly still, it is very unclear what skills are associated with any particular level of grade attainment, including even matric. Only 5 percent of the half-million candidates who wrote their matric examination in 2006 passed mathematics at the higher grade. Only one in four of the students who *passed* matric passed mathematics at *either* the higher *or* standard grade (Taylor, 2007). Data from the Cape Area Panel Study shows that there is a very weak correlation between the grade in which students are enrolled and their scores in numeracy and literacy tests. Many students are promoted into higher grades without having mastered basic numeracy and literacy. The results are shown in cross-national research on skills. In the 2003 round of the Trends in International Mathematics and Science Study (TIMSS), South African grade 8 students performed worse in both science and mathematics tests than their counterparts in every other country that participated, including Egypt, Botswana and Ghana. Indeed, the 75th percentile in South Africa achieved about the same score as the 25th percentile in Botswana (Reddy, 2006). Other cross-national studies provide a similarly worrying and unambiguous message: South Africa performs poorly in comparison even with some of its much poorer neighbours. In the 2000 round of SACMEQ, South African grade 6 students performed worse in reading and mathematics than their counterparts in Mozambique, Botswana, Swaziland, Tanzania and elsewhere (Taylor, 2006; Van der Berg, 2005b).

The reasons are clear. Most South African schools provide a very low quality of education. In some cases, the quality is clearly constrained by inadequate conditions. But in most cases, the redistribution of public resources from schools in rich neighbourhoods to schools in poor neighbourhoods (as shown by Van der Berg above) has removed the most glaring inequalities in conditions. What remains are inequalities in family background – which South Africa shares with many other countries in the global South – and inequalities in the classroom that result from differences in the quality of teaching and the level of student discipline (both of which are probably affected by the quality of school management). The restructuring of the school curriculum after 1994 has certainly not improved the quality of education, and may in fact have exacerbated inequalities, because teachers in schools in poor neighbourhoods often lack the skills or motivation to apply the new curriculum.

Despite considerable expenditure on public education – amounting to about 7 percent of GDP – most young South Africans leave school and enter the labour market with limited skills. They are not equipped for semi-skilled or especially skilled employment. Given that the economy continues to restructure around skilled employment, there is a serious mismatch between the supply and demand for labour. This fuels unemployment among the unskilled, and low earnings among those unskilled workers who are lucky enough to find jobs.

Pro-poor social interventions

The decline in income poverty in the early 2000s appears to be due, primarily, to the expansion of social assistance, i.e. tax-financed, non-contributory programmes providing for the elderly, the disabled, and poor parents with young children. Since 1994, there have been no substantive changes in the basic design of the public welfare system, and the real value of the major grants is slightly below their value in 1994. But in the early 2000s the government has increased substantially its total expenditure on social assistance and reached many more poor people. Expenditure on social assistance almost doubled from about 2 percent of GDP in 1994 (and 2000) to about 3.5 percent in 2005 (see Figure 4).⁵

⁵ Figures 5 and 6 are based on data from Pakade (2006) and various issues of the *Budget Review* and *Inter-governmental Fiscal Review* published by the National Treasury.

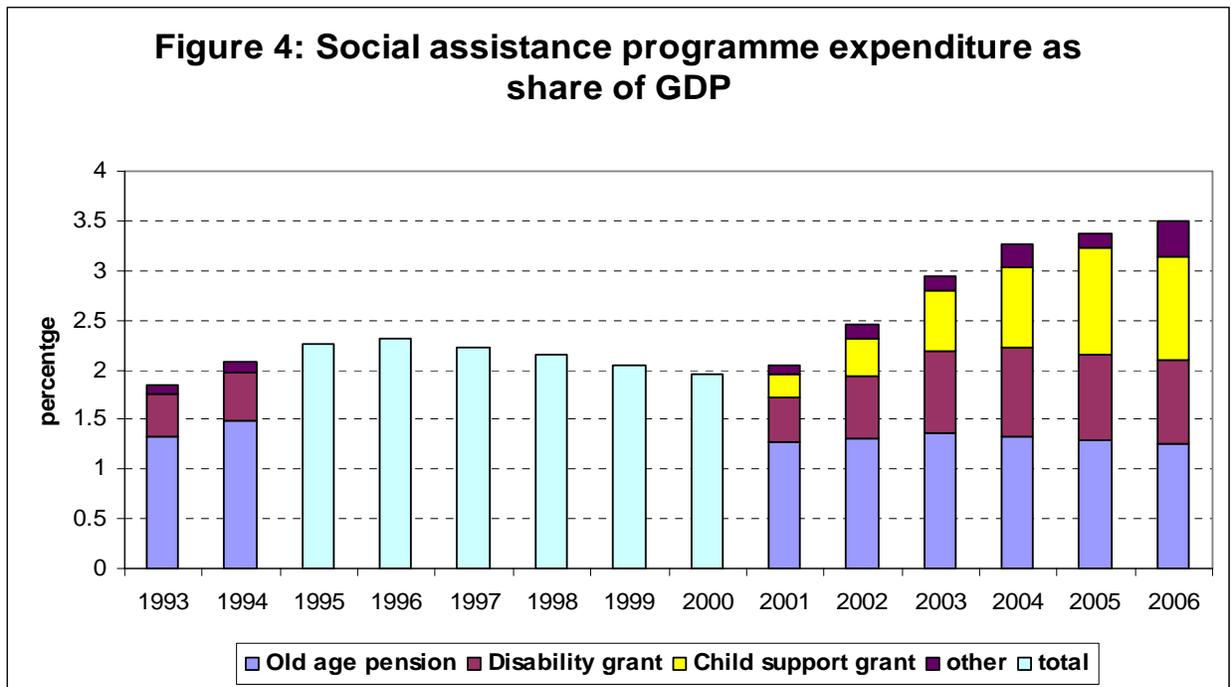
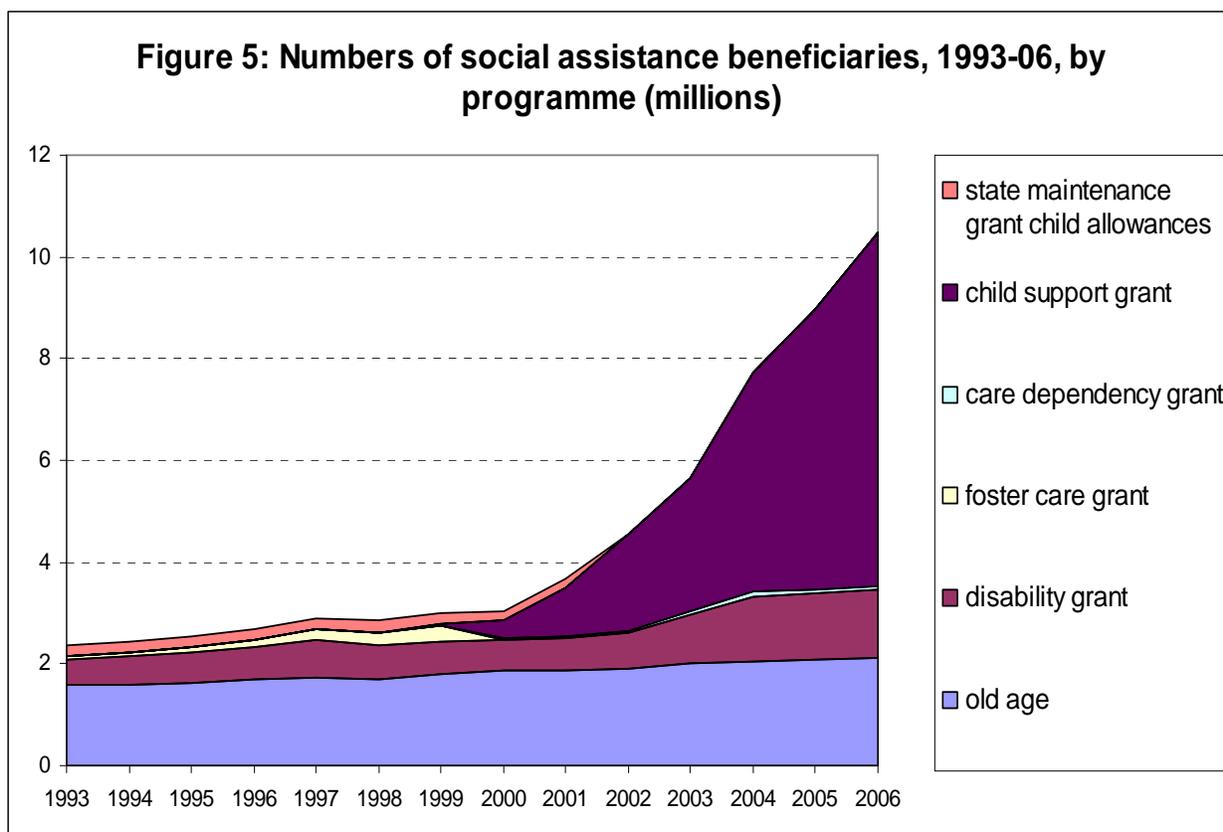


Figure 5 disaggregates the growth in numbers of beneficiaries between the major programmes. There was little change in the number or pattern of beneficiaries until 2000. Thereafter there was an extraordinary explosion in the number of beneficiaries, but this was almost entirely due to the growth of child support grants being paid out. The child support grant, although modest in value, very quickly reached ten times the number of children reached by its predecessor, the state maintenance grant. By April 2006 – i.e. the most recent actual data – about 7 million child support grants were paid monthly, compared to just 230,000 child allowances under the state maintenance grant at the peak year of 1998. Figure 5 also shows the slow but significant rise in disability grants. There has been less change in the pattern of actual expenditures, because the child support grant is so modest in value compared to the other grants. Nonetheless, in 2003-04, for the first time, old-age pensions counted for less than one-half of all social assistance.



These social assistance programmes have a major effect on poverty because they are well-targeted on the poor, as Van der Berg (2001, 2005a, 2006a) shows. Almost 60 percent of social assistance expenditure goes to households in the poorest income quintile. About 30 percent are shared between households in the second and third income quintiles, and households in the richest two income quintiles receive just 10 percent. Well-targeted cash transfers amounting to about 3.5 percent of GDP inevitably have a major effect on poverty rates.

Other areas of government social expenditure are also progressive. Van der Berg applies standard analysis of fiscal incidence to government spending on education, health and housing (where the benefits are in kind, in the form of free or subsidized education, health care and housing) as well as social assistance (entailing cash transfers). In 1997, Van der Berg (2001a) estimates, 33 percent of total social spending in 1997 went to the poorest household income quintile, compared to just 8 percent for the richest household income quintile. This was marginally more pro-poor than in 1993, when 31 percent went to the poorest quintile and 12 percent to the richest. Because total spending had increased, however, the slightly higher

share of the poor meant a substantial increase in real spending on them.⁶ Van der Berg subsequently (2005a) repeated his earlier analysis using data from the 1995 and 2000 IESs, showing that the share of social spending on the poorest income quintile rose marginally between these dates.

The problem with fiscal incidence analysis is that it apportions government spending among different sections of the population without assessment of the actual value of this spending to the poor (see *ibid*: 39-43). Government spending in South Africa is pro-poor primarily in the sense that the government pays salaries to teachers working in schools in poor neighbourhoods and to doctors and nurses in public clinics and hospitals. Health spending might be an effective means of assisting the poor, but it is far from clear what benefit the poor actually receive from the considerable funds spent on teachers' salaries. It is clear that schools in rural areas, and many urban areas, provide a very poor education, and that there is at most a weak relationship between spending on schools and the actual quality of education. Indeed, pro-poor spending on education might be viewed more accurately as pro-teacher spending, not pro-poor spending (Seekings, 2004).

There has also been a dramatic improvement in access to water, electricity and housing (Leibbrandt *et al.*, 2004; Bhorat *et al.*, 2006; Seekings, 2006b). The number of households with electric connections doubled between 1993 and 2004; the number with telephones rose almost threefold (through the spread of cell phones, not fixed landlines). Access to water and sanitation improved, as did access to formal housing (in terms of the number of households in formal housing but not in terms of the proportion of the total number of households). The most recent household survey, the 2005 GHS, indicates continuing progress in infrastructural delivery between 2002 and 2005 (Stats SA, 2006; also *Business Report*, 1st June 2006). Critics charge that many poor households have been disconnected from the new services or evicted from their new homes because they have been unable to pay (McDonald, 2002). But a careful study of water services concluded that the number of people affected by cut-offs because of non-payment is very much lower than critics claimed (Hemson and Owusu-Amponah, 2006).

⁶ Van der Berg (2005a: 1) subsequently summarised his initial research as showing that 'the first years after the political transition to democracy saw a large and significant shift of social spending from the affluent to the more disadvantaged members of society', although his own published data did not support this precise conclusion (see also Van der Berg, 2006a: 216). He should have written that the benefits of *increased* spending accrued largely to the poor, in terms of standard fiscal incidence analysis.

The area of service delivery in which the state has been most obviously and consequentially negligent is health, especially AIDS-related healthcare and the provision of anti-retroviral drugs (ARVs). By stalling the roll-out of ARVs and failing to organize government publicity around the threat of HIV/AIDS, the government has failed to prevent the explosion of ill-health and death among people who are still young (Nattrass, forthcoming). Life expectancy, as we have seen, has plummeted since the early 1990s. Whilst rich people can get ARVs, if necessary through private medical aid schemes, the poor suffer, lose incomes, and die young. There can surely be nothing as fundamental to inequality as this.

The unchanging distributional regime and growth path

The disappointing progress in reducing poverty (and inequality) has not been due to the lack of pro-poor social assistance, or even slow economic growth (although faster growth would be better for everyone). Accelerated land reform would have little effect on poverty rates. Continuing poverty and inequality are, rather, the product of the overall economic growth path, which has continued to be capital- and skill-intensive. Continued adherence to the growth path of the apartheid period inevitably results in continuing poverty in a context of massive unemployment, especially among the less skilled. The global context encourages inegalitarian patterns of economic growth, but public policies also play an important part in the South African case.

Policies and institutions regulating wages and working conditions shape the growth path. The post-apartheid government announced with great fanfare the introduction of 'new' labour legislation in the late 1990s: a Labour Relations Act in 1995, the Basic Conditions of Employment Act of 1997, the 1998 Employment Equity Act, and the Skill Development Act of 1999. Notwithstanding their claimed novelty, the Labour Relations Act and Basic Conditions of Employment Act essentially extended existing legislation, introduced to protect unionized, skilled and semi-skilled white workers in the 1920s, to protect unionized, skilled and semi-skilled African workers. This deracialisation is clearly just, in many senses. But in deracialising the legislation that formerly protected the privileges of an elite of white workers, the state was introducing legislation that would ensure privileges for an elite of post-apartheid workers, of whatever race or skin colour. The remaining

vestiges of a division between insiders and outsiders inside the workplace were moved outside of the workplace, so that the (formally) employed were now all insiders whilst the unemployed, casual workers and informally employed remained outsiders. Policies and institutions that affect wage determination and working conditions also serve to promote a capital-intensive, and relatively jobless, growth path, insofar as they push up labour costs, especially among unskilled workers, and provide incentives to employers to substitute capital for labour and skilled for unskilled labour.

Labour market policy has negative effects on the demand for unskilled labour in two major ways. First, industrial relations procedures result in very high costs to employers of dismissing labour. By one estimate, it costs business 1 percent of GDP to dismiss workers each year, and three times the number of work-days are lost through dismissal procedures than through work stoppages. Some of the labour lawyers responsible for drafting the relevant labour legislation have spoken out against the gap between what they intended and what has ensued.⁷ Secondly, wages are negotiated in centralized, sector-based Bargaining Councils, which are dominated by the large, more capital-intensive employers together with the trade unions who have a common interest in setting wages at high levels to eliminate competition from small, less capitalised and less organized employers.

The government itself has slowly shifted toward accepting the need for labour market reform. In 1999, the government initiated a review of labour legislation, but only very minor reforms were implemented. In the same year, the Minister of Labour introduced very minor changes to the regulations affecting small businesses employing less than ten workers. Most recently, in mid-2005, ANC leaders finally declared their intention of tackling the ‘holy cow’ of labour market policy. A discussion document, tabled at a major ANC conference in 2005, proposed excluding small employers from some regulatory requirements and from the sectoral wage deals negotiated between large employers and unions. Such reform of labour market policy has been strongly opposed by the ANC’s powerful allies COSATU and the South African Communist Party, who lobbied strongly against them at the conference, and secured a final resolution that left labour market reform off the immediate agenda.⁸

⁷ *Financial Mail*, 18 February 2005, pp.34-35; 4 March 2005, p.26.

⁸ *Financial Mail*, 1 July 2005, pp.18-20.

The precise extent to which labour market policies serve to advantage employed insiders at the expense of unemployed outsiders is unclear. Much of the evidence and argument presented in defence of current labour market policies is much less decisive than their champions believe. But nor is the evidence that labour market policies restrict job creation conclusive. The argument against labour market policies essentially rests on the absence of any alternative explanation of why profit-seeking South African employers do not choose to invest in labour-intensive production techniques that entail large-scale employment of unskilled labour, but instead invest again and again in capital-intensive production that entails modest employment of skilled or semi-skilled labour. If wages or hidden labour costs (such as the costs of dismissal) are not high in South Africa, or if the labour market is really as flexible as some pro-union researchers claim, then why is there not more employment of cheap, unskilled labour?

Prospects for the second post-apartheid decade

Since the end of apartheid the South African economy has grown steadily, at a modest rate, and there is no reason to expect this to change. As Meth (2003) has shown, however, even sustained economic growth offers few benefits to the poor if a country starts in a position of massive unemployment-based poverty. The modest job creation resulting from growth is unlikely to do much more than absorb new entrants to the labour force, with the result that any decline in the unemployment rate will be slow. Meth (2006b) points out that the ANC's 2004 election promises to halve unemployment and poverty rates by 2014 are simply not achievable within the policy framework to which the ANC seems committed.

Growth is necessary but not sufficient for poverty-reduction. To have a significant effect on poverty, the benefits of growth must be 'shared'. This is precisely what the government proposed in a strategy developed in 2005 and launched in early 2006, under the leadership of the Deputy-President (Phumzile Mlambo-Ngcuka). The Accelerated and Shared Growth Initiative for South Africa (AsgiSA) envisaged achieving the goals of halving poverty and unemployment rates through increasing the economic growth rate (to 6 percent p.a.) and sharing growth, primarily through absorbing more labour into the 'mainstream economy'. Key elements of the plan included increased public investment in infrastructure, accelerated skill development, and reducing the regulatory burden on small and medium-sized businesses (South Africa, 2005).

It seems implausible that these will suffice to generate shared growth. AsgiSA emphasized primarily skills development, in another reiteration of the skills-led growth strategy that the ANC has followed since the early 1990s. There is no discussion in AsgiSA of the effects of wage levels. Any jobs created under AsgiSA are likely to be high-skill, high-wage jobs, are therefore unlikely to make much of a dent on unemployment, and are unlikely to result in the benefits of growth being shared with the poor. A related problem is identified in the first report on progress under AsgiSA. In this report, the government notes that poverty is concentrated in the former Bantustans, where there is no likelihood of significant formal employment creation. Poverty reduction therefore requires either massive migration out of those areas to the towns where formal jobs could be created, or targeted public works programmes in the former Bantustans, or expanding grants or employment subsidies for working-age unemployed adults (South Africa, 2007a: 28). AsgiSA promises to share growth primarily through upgrading the skills of a small number of people. Sharing growth more widely would require massive low-wage job creation or the expansion of the welfare state.

Various parts of the state have commissioned a plethora of studies of aspects of the labour market, with the intention of assessing the constraints on job-creation. Most of this research is commissioned from scholars with close links to the trade union movement, and most concludes that there is little evidence that union-friendly legislation that raises wages (and other costs of employment, including especially costs of retrenchment) has a marked effect on employment (e.g. Altman and Valodia, 2006; Godfrey, Maree and Theron, 2006; Pollin *et al.*, 2006). Most of this research is unsatisfactory, in that it ignores contrary evidence. More curiously, however, when these same researchers turn to the question of what policy reforms to recommend, many of them suggest wage subsidies, which implies that they believe that lower wages in certain sectors or occupations would result in job creation. Parts of the state – most notably the National Treasury – support wage-subsidies in a range of contexts. For example, in its proposals to expand the contributory retirement fund system to cover low-wage workers, the National Treasury suggests that the additional costs of contributions should be offset by wage subsidies (of up to R5,000 per worker p.a.) (South Africa, 2007b). It would seem that debates on job creation are politically over-determined. The power of the trade unions within the ANC Alliance – and perhaps in the Department of Labour itself –precludes serious discussion of expanding low-wage employment in both the ANC’s policy deliberations (as we noted above) and government documents such as AsgiSA. But it does not preclude the possibility of wage subsidies, which serve

as a mechanism for achieving both high wages and lower labour costs to employers.

In 2003, the Department of Labour commissioned Natrass to assess the experiences of other countries that had powerful trade unions but had nonetheless overcome a severe employment crisis. Natrass (2003, see also Seekings and Natrass, 2005: chapter 11) examined the experiences of the Netherlands and Ireland, in both of which organized labour was a participant in a social pact or accord. In these two cases, organized labour agreed to wage restraint and labour market reforms in return for tax concessions and policies to promote skills development and training. In South Africa, however, organized labour has already achieved these benefits without having to concede anything in return. As Natrass concluded, the South African government had handed over its bargaining chips for free.

In this context of an entrenched and poor-unfriendly economic growth path, significant poverty-reduction is likely to require a further expansion of the welfare state, i.e. redistribution through the budget. It has been the expansion of social assistance programmes in the early 2000s that resulted in the recent decline – of uncertain scale – in poverty. Van der Berg *et al.* (2006), whose positive findings on poverty rates were used with alacrity (and uncritically) by the government, suggest that there is little scope for further increases in cash transfers to the poor, so there is unlikely to be much more decline in income poverty.

Van der Berg *et al.* rightly sense that senior ANC and government leaders are ambivalent about, if not hostile to, cash transfers. Government ministers do now often take pride in what Mbeki has called the ‘third pillar’ of the government’s strategy. The first pillar is the promotion of ‘the growth and development of the First Economy’; the second is addressing ‘the challenges of the Second Economy’, referring to un- and under-employment. The third pillar comprises ‘building a social security net to meet the objective of poverty alleviation’. But ministers and officials continue to denounce rising expenditure on ‘handouts’, which (they assert) lead to a culture of ‘dependency’ and ‘entitlement’. The government is said to be spending ‘too much’ on social assistance, and the move to a ‘welfare state’ is to be resisted (South Africa, 2006b; ANC, 2007). The National Treasury’s proposals to expand the contributory welfare system (South Africa, 2007b) are driven in part by a concern to reduce expenditures on non-contributory social assistance programmes.

But the government is under some pressure to expand public welfare provision, primarily on account of the constitutional commitment to income security. In 2004, the Constitutional Court ordered the state to desist from discrimination against non-citizens who had permanent residence in South Africa. In 2006, cases were brought against the state challenging the exclusion of men aged 60-64 from the old-age pension (on the basis that women of the same age were eligible) and the age-limit of fourteen years on the child support grant. Required to justify the shape of the welfare state, the state argues that it is targeting its scarce resources on those groups who are most 'disadvantaged' and/or most 'vulnerable'. The state's normative framework is defensible, but its empirical case is flawed (Seekings, 2007), and it is likely to have to extend the reach of old-age pensions as well as raise the age-limit on eligibility for child-support grants (as the ANC itself appears to recognize, see ANC, 2007). Whilst the state can limit the overall size of the welfare state through allowing the real value of benefits to decline, the parametric reform of social assistance through incremental extensions of existing programmes would serve to plug some of the holes in the safety net and reduce poverty levels.

If the welfare state is to be extended in ways that reduce poverty without providing significant disincentives to people to provide for themselves, then it should probably extend child support grants to children aged fourteen and fifteen (i.e. ages when children are required to attend school) and reduce the pension age for men to at least sixty, and perhaps even further, especially in rural areas. Men and women without skills, above the age of 50 years, and living in rural areas are unlikely to find employment again. Removing them from the labour force would have few costs other than the direct costs of the cash transfers themselves. Indeed, this would also have the political benefit to the state of reducing the unemployment and poverty rates – and thus helping to attain the goals that the ANC set in 2004 – without actually increasing employment. If the means-test for the non-contributory old-age pension is abolished, as the National Treasury proposes (South Africa, 2007b), then reducing the age of eligibility would not serve as a disincentive either to work (for the minority who have a real option) or to save for one's retirement. My own crude calculations suggest that the cost of extending the child-support grant would be approximately 0.15 percent of GDP, and the cost of lowering to fifty years the age at which people receive an old-age pension would be approximately 1.5 percent of GDP, bringing the total cost of social assistance to over 5 percent of GDP. The total number of grants paid monthly would rise from about 11 million to about 14.5 million, so that the proportion of South Africans

receiving grants would rise from almost one quarter to almost one third.⁹ The net additional costs would be lower if the real value of the old-age pension was allowed to decline, which could be defended in an environment of expanding coverage, or if the age of eligibility was reduced only in rural areas. I have not estimated the effect on poverty-reduction, but it is safe to assume that it would be massive.

A more radical suggestion is to introduce a minimum or basic income grant (BIG). In 2002, the government-appointed Committee of Inquiry into a Comprehensive System of Social Security for South Africa (the Taylor Committee) recommended the introduction of a BIG of R100 per month, to be phased in on condition that administrative costs could be contained (South Africa, 2002; see also Seekings, 2002; Standing and Samson, 2003). The government dismissed the proposal, with its powerful spokesperson, Joel Netshitenzhe, telling the media that the government has a rather different ‘philosophy’. Able-bodied adults should not receive ‘handouts’, but should be helped to ‘enjoy the opportunity, the dignity and the rewards of work’ (*Sunday Times*, 28th July 2002; see also Matisonn and Seekings, 2003; Makino, 2004; Meth, 2004). But the BIG continues to have significant backers in the churches and, especially, the trade union movement. Trade unions have a material interest in (as well as an ideological commitment to) the socialization of the cost of providing for the poor, even though few of their own members are poor themselves (Matisonn and Seekings, 2003). But, whilst trade unions and their allies can keep the idea of a BIG on the agenda within the ANC, they are very unlikely to be either keen or strong enough to overcome the opposition of powerful members of the ANC. If their pressure did intensify, the government could almost certainly defuse it by reducing the age of eligibility for the old-age pension, which would be a well-targeted and less costly intervention.

⁹ This calculation uses population data by age from 2001 Population Census and estimates means-eligibility using 2005 GHS data (and an earnings threshold of R18,000 p.a.). I estimate that 65 percent of men aged 50-59 would be means-eligible, 85 percent of women aged 50-59, and 80 percent of men aged 60-64. The calculation of cost is based on current costs per pensioner, and assumes that all means-eligible pensioners receive the maximum amount. The number of old-age pensioners would more than double. The increase would be larger if the means-test was abolished, because a larger proportion of the younger and newly age-eligible people would be working than of the currently age-eligible people. The additional cost of abolishing the means-test could easily be recouped through the income tax system, especially if the old-age pension is made taxable.

The government itself favours public works programmes to reduce poverty among the working-age adult population. Public works programmes provide cash incomes, but only for those who are able to work and in areas where work is provided. In South Africa, trade unions hold sufficient political power to prevent public works programmes paying very low wages, which has the effects of limiting the number of jobs that can be provided within any given budget, and possibly has disruptive effects on existing opportunities to earn a modest income (Seekings, 2006a).

Just as trade union power limits the space for reform of labour market policies and for low-wage public works programmes, so it also constrains reform of public education. The power of the South African Democratic Teachers' Union (SADTU) makes it difficult for the state to introduce reforms that reward good teachers and ensure that bad teachers either improve their teaching or leave the profession (Seekings, 2004).

This discussion of the prospects for policy reform assumes that there are no fundamental changes in South Africa's political system. This seems a reasonable assumption. 'New' social movements might have emerged around specific grievances (Ballard *et al.*, 2006), but it is difficult to imagine any mass mobilization around social grants, job creation or the quality of public schooling. Nor is there any immediate prospect of an intensification of partisan competition for the votes of the poor. Insofar as voters grow more dissatisfied with the ANC, this is likely to lead to a process of overall dealignment (from all parties) rather than one of realignment (to an alternative party). Overall, the prospects for pro-poor policy reform do not seem to be very good.

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