Poverty and economics

an alternative framework

James Heintz and Conrad Jardine argue that GEAR will entrench, and probably increase, current levels of poverty in South Africa. They outline key elements of an alternative strategy to address the problem.

Economic factors are but just one set of the multiple factors that give expression to poverty. Nevertheless, how an economy functions can either give rise to or, alternatively, begin to eradicate, poverty. An economy does not operate on the basis of a collection of iron laws which cannot be altered and changed. The type of economy a society embraces, and the level of poverty it is willing to endure, must claim a central place in any discussion of strategies to eliminate poverty in South Africa.

Understanding how a modern economy functions must include examining such issues as unemployment, ownership, wages, prices, and government policies. To understand the relationships between poverty and economics, however, the scope of economics must be broadened. Gender dynamics play a critical role in allowing a modern economy to operate. Because of their position within the economy, women and female-headed households face a substantially higher risk of poverty.

Poverty is often narrowly defined and measured in terms of a broad threshold of income or resources which separates the poor from the non-poor. There are two ways of seeing this threshold – as a fixed point of reference, or as measured against the ability of others to command resources in the economy. The first approach can be called an 'absolute' definition of poverty and the second a 'relative' definition of poverty.

Absolute poverty

The absolute approach to poverty can be helpful if poverty is to relate to a basic, fixed level of economic resources which will prevent physical and social suffering due to material deprivation. If incomes or economic resources were to fall below this level (often called the 'poverty line'), then that person would be considered to be poor in absolute terms.

When poverty is seen in absolute terms, steadily increasing standards of living across an entire population will be sufficient to eventually eliminate poverty. The rate at which poverty is eradicated would be determined by the rate at which the incomes of those people living in poverty, including social security provisions, increase. Often, general increases in standards of living are linked to the level of economic growth.

Relative poverty

A relative understanding of poverty provides a much more textured and complex engagement with the issue of economic deprivation in society. This approach would identify poor households as those whose incomes (or more broadly, the economic resources they command) fall significantly below the average level of income in the economy. Relative poverty captures a sense of 'economic distance' and injustice in society. It begins to take on board issues of social cleavages and economic distinctions between different groups. Rising standards of living will not be sufficient to eliminate relative poverty if the resources available to the wealthy increase at a faster rate than the resources available to the poor. Increases in relative poverty are not necessarily less onerous than increases in absolute poverty – they can lead to social disintegration, growing violence, segmentation, emotional suffering, and ethnic and racial conflict.

In South Africa, high levels of both absolute and relative poverty exist. The disastrously unequal distribution of income inherited from the apartheid years means that deprivation of basic needs is accompanied by a vast economic gulf between the rich and the poor. Although the World Bank classifies South Africa as an 'upper-middle income' country because of its per capita GDP, the average income level hides more than it reveals. South Africa is poor, not because it is a 'poor country' but because the economic distance between the haves and the have-nots is enormous.

The extent of poverty

Absolute poverty rates in South Africa are extremely high. They tend to increase in rural regions, in provinces containing one of the former homelands, and in areas whose economies have been underdeveloped by apartheid policies. In most provinces poverty rates for individuals are near to, or exceed 50%.

Poverty rates are much lower for whites than for other racial groupings. Ninety-five percent of all poor individuals are African.

One of the indicators which is used to measure relative poverty is the Gini coefficient. This is a number between 0 and 1. A value of 0 indicates perfect equality (everyone has the same income), while a value of 1 indicates perfect inequality (one person or household has

Poverty head count and ratio per province

Province	Number of poor households	% household living in poverty	Number of poor individuals	% individuals living in poverty
Western Cape	125 208	14,1%	635 557	17,9%
Northern Cape	51 466	38,2%	267 992	48.0%
Eastern Cape	710 257	56,8%	4 115 332	64,0%
KwaZulu-Natal	626 889	40,4%	4 216 184	50,0%
Free State	263 112	36,1%	1 331 649	47,1%
Mpumalanga	208 419	33,8%	1 275 517	45,1%
Northern Province	608 528	61,9%	3 565 492	69,3%
North West	232 947	29,7%	1 248 724	41,3%
Gauteng	299 821	15,4%	1 443 204	21,1%
Total	**3 126 647**	**35,2%**	**18 099 651**	**45,7%**

Source: HSRC, 1995: A profile of poverty, inequality and human development in South Africa

Eastern Cape. The legacy of poverty continues in rural areas.

all the income). As the coefficient gets closer to 1, the extent of inequality increases. Compared to countries whose economies are roughly at the same level of development as South Africa, and to 64 countries around the world, South Africa has one of the most unequal distributions of income of any country – only Brazil and Guatemala are worse.

Gini coefficients do not have to be calculated for an entire country. They can also be constructed for different populations within a particular country. Within all population groups in South Africa, there is a high degree of inequality. The variation in income across male-headed households is much greater than across female-headed households. The unequal distribution of income in South Africa occurs across many dimensions – including geography, gender, and race. In terms of race:

- the average annual household income amongst African-headed households is R23 000;
- among coloured-headed households it is R32 000;
- among Indian-headed households it is R71 000;
- among white-headed households it is R103 000, 4,5 times the average for African families.

Urban households have more than double the average annual income (R55 000) of those living in non-urban areas (R23 000).

Average annual household income also varies according to type of dwelling, with those living in informal (R15 000) and traditional dwellings (R14 000) having a far lower average annual income than those living in formal houses (R52 000).

Another way of looking at income distribution is to examine income quintiles for different segments of the population.

If incomes were equally distributed across the population, then we would expect each quintile (fifth) to contain 20% of a particular population segment. Thirty-seven percent of African, non-urban, female-headed households, however, fall into the poorest quintile, while less than

1% of white, urban, male-headed households fall into the same category.

Irrespective of race, 26% of female-headed households are in the bottom income quintile, as compared to 13% of male-headed households. On the other hand, 27% of male-headed households are in the top income quintile, compared with 11% of female-headed households.

Socio-economic rights

The high level of poverty in South Africa is linked to a vastly unequal access to economic resources, making it impossible to speak of eliminating poverty without examining how the economic flows that sustain households are determined.

In the Bill of Rights of the South African Constitution, a number of socio-economic rights are guaranteed. These include:

- adequate housing;
- healthcare services;
- sufficient food and water;
- social security;
- basic and on-going education.

All of these rights have important economic dimensions. For this reason, the Constitution limits the obligation of the state to deliver these rights within its 'available resources'.

Many of these rights reflect specific areas of basic needs or delivery of particular goods and services. The right to social security, however, could be interpreted very broadly to include jobs, public support, and access to productive assets.

An example of a possible core set of economic rights could be the right to:

- a basic income and access to a minimal level of economic resources;
- participate in the productive and reproductive work of society;
- non-discrimination – on the basis of gender, race, sex, pregnancy, marital status, ethnic or social origin, colour, sexual orientation, age, disability, religion, conscience, belief, culture, language and birth – in the distribution of income, productive output, and economic resources;
- non-exploitation in all work – in the labour market, in the household, and in the informal economy;
- a just share of the production of the economy;
- an equitable share of the powers and privileges associated with the ownership of productive assets.

The realisation of these rights would require a fundamental transformation of the South African economy.

Current policies

GEAR's primary focus is growth, achieved through greater export – competitiveness, growing foreign investment, and productivity improvements. Its main components are:

- reducing the deficit;
- tight monetary policy;
- trade liberalisation;
- the removal of exchange controls;
- labour market flexibility;
- productivity improvements;
- education and training.

The premise is that high levels of growth will enable poverty to be addressed through redistributive developments. The most important of these is supposed to be job creation. The logic of GEAR is straightforward: as unemployment drops, poverty will gradually disappear. Economic growth will also generate additional public resources, which can be used to provide public services and poverty relief.

It is already clear that GEAR is not delivering, either in terms of growth or job creation. The strategy should also be evaluated in terms of the provisions of the Bill of Rights. Without strong economic growth, efforts at deficit reduction will constrain government resources. The ability to ensure adequate housing, affordable food, clean water, accessible healthcare and quality education will be compromised. Fiscal austerity measures have resulted in pensions increasing at a slower rate than inflation. Maintenance grants being restricted to a level which provides only marginal poverty relief for children.

What is missing?

What is most alarming about GEAR is the number of economic issues which the document completely ignores. Asset redistribution is hardly mentioned, except for a brief statement calling for land reform. The document's preference for a more restrictive monetary policy means that interest rates will remain high, access to credit and productive capital will be limited, and financing land redistribution and housing development could be prohibitively expensive.

The informal sector is also largely ignored, naturalising the vision of the sector as a residual economy. The failure to create jobs will probably place pressures on the living standards of the informally employed as more people crowd into the informal sector. Gender issues and household dynamics are almost completely invisible, contributing to the on-going marginalisation of women.

An alternative approach

If poverty is to be successfully addressed in South Africa, an alternative approach to economics must be developed, and appropriate policies implemented. While economic transformation by itself is not sufficient to overcome the poverty crisis in South Africa, the workings of the economic system and the economic policies which are adopted have far-reaching consequences.

The operations of the current South African economy, if left alone, will entrench and replicate the conditions of poverty inherited from the apartheid era. Poverty relief programmes cannot eradicate the crisis.

The orthodox economic approach to poverty takes existing economic structures, power relations and distribution of assets as given. GEAR also adopts this mindset. Higher growth rates and productivity improvements are assumed to be necessary and sufficient, more fundamental economic changes are not.

The economics of poverty cannot be reduced to a simple formula. A wide range of class, racial, gender, historical and productive relationships influence the manifestation of poverty in South Africa. An equally textured approach is required to develop an economic strategy which moves towards the elimination of poverty.

There are several areas of focus which could form a foundation on which to move forward. These include:

- ***Asset redistribution***
  Highly concentrated asset ownership can contribute to the persistence of poverty through unequal access to income, an unequal distribution of economic power and the persistence of relationships of dependence. A redistribution of assets – through an effective housing policy, land reform, expansion of credit availability, competition policy and policies to expand community and worker ownership – can form one element of an attack on poverty.
- ***Job creation, job enhancement, and full employment***
  Lack of access to employment opportunities can severely limit a household's ability to mobilise sufficient economic resources.

Developing a comprehensive job creation strategy, which aims at creating new jobs without eroding conditions of employment, is critical and can be explicitly linked to other components of a strategy to eliminate poverty. A comprehensive employment creation strategy must address issues of investment, industrial policies, trade reform, state asset restructuring, public works programmes, and labour market transformation. The ultimate goal would be full voluntary employment, with jobs paying a living wage.

- ***Transforming gender relationships in the economy***
  There is an urgent need to address the gender structures which place women and children at greater risk of poverty. These include discrimination in the formal sector, labour market segmentation, women's responsibility for reproductive labour, dependency on private transfers of income, and marginalisation in the informal sector. At the core of these issues is women's economic oppression. Transforming these structures requires providing women with access to assets, public support for unpaid reproductive labour, changing the gender dynamics of the household, lessening the private burden of the costs of childcare, eliminating labour market segmentation and discrimination, and ensuring that informal sector activities generate an adequate, sustainable flow of economic resources.
- ***Creating a public safety net***
  The dependency on private transfers of income to support households which have, for whatever reason, been excluded from economic opportunities carry with them a myriad of problems. Such dependency places female-headed households at a much graver risk of poverty. While a system of public transfer programmes will not transform the economic dynamics which produce poverty, they can help to alleviate the negative impacts of poverty and to provide a socialised form of insurance against unforeseen circumstances.
- ***Strategies for the informal sector***
  In order to develop effective policies for the informal sector, much better information needs to be collected about the conditions which employees and the self-employed face. From this information, appropriate policy interventions can be constructed so as to ensure that developments within the informal sector do not entrench poverty in the South African economy.

Much detailed policy work has already been done in South Africa – in the RDP, by NGOs, by trade unions, and by government departments and committees. There is no need to re-invent the wheel. Rather, it is a question of bringing policies together in a single framework and developing strategies for implementation. ★

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