POLICY BRIEF

Financial and Fiscal Commission (2022)

Inequality and affluence in South Africa's labour market

Executive Summary

Inequality remains a key development challenge globally. In South Africa, persistently high levels of economic inequality, evidenced in the labour market, translate into power asymmetries that embed social exclusion and create social unrest, undermining sustainable economic growth and threatening our constitutional democracy. Earnings inequality in South Africa is still highly gendered and racialised. In 2017, almost half of all income earned in the labour market went to 10% of the population, and this affluent portion's share of total income has increased since the end of apartheid, while the bulk of the population's income shares have decreased proportionately.

Evidence shows that wage growth has been predominantly slow and stagnant across most of the earnings distribution, with the exception of the richest 1% of the South African working age population, who have experienced substantial income gains in the post-apartheid period. Amid a decade of poor growth performance, increasing fiscal pressures and global economic shocks, which have impacted negatively on the domestic economy, it is now more important than ever that policies prioritise reducing wage inequalities by fostering employment and greater inclusivity in the labour market.

Background

The COVID-19 pandemic has brought many of South Africa's challenges to the forefront of the policy agenda. Not only has poverty and inequality worsened, but it has exposed and exacerbated many of the country's structural and fiscal vulnerabilities, such as high unemployment and rising public debt obligations. The South African government is committed to debt stabilisation through the reprioritisation of public spending (National Treasury, 2021)[1].

[1] National Treasury. 2021. *Medium-term Budget Policy Statement*.

FINANCIAL AND FISCAL COMMISSION

THE FINANCIAL AND FISCAL COMMISSION

The Financial and Fiscal Commission is a body that makes recommendations and gives advice to organs of state on financial and fiscal matters. As an institution created in the Constitution of the Republic of South Africa, it is an independent juristic person subject only to the Constitution itself, the Financial and Fiscal Commission Act, 1997 (Act No. 99 of 1997) (as amended) and relevant legislative prescripts. It may perform its functions on its own initiative or at the request of an organ of state.

The vision of the Commission is to provide influential advice for equitable, efficient and sustainable intergovernmental fiscal relations between national, provincial and local spheres of government. This relates to the equitable division of government revenue among three spheres of government and to the related service delivery of public services to South Africans.

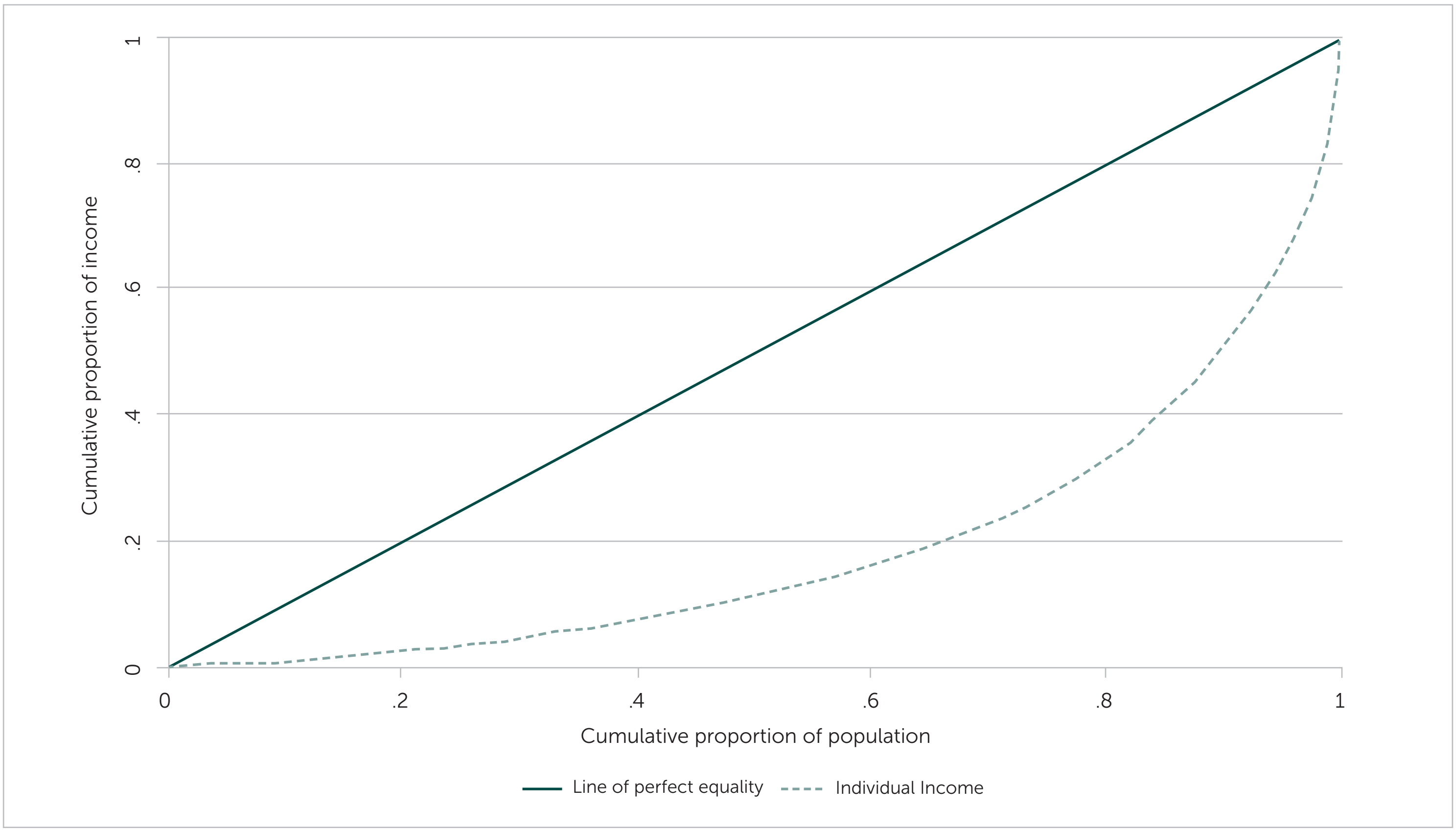
Through focused research, the Commission aims to provide proactive, expert and independent advice on promoting the intergovernmental fiscal relations system using evidence-based policy analysis to ensure the realisation of constitutional values. The Commission reports directly to both Parliament and the provincial legislatures, who hold government institutions to account. Government must respond to the Commission's recommendations and the extent to which they will be implemented at the tabling of the annual national budget in February each year.

The Commission consists of commissioners appointed by the President: the Chairperson and Deputy Chairperson, three representatives of provinces, two representatives of organised local government and two other persons. The Commission pledges its commitment to the betterment of South Africa and South Africans in the execution of its duties.

However, the government needs to carefully balance fiscal consolidation with its duty to protect the basic socio-economic rights enshrined in the Constitution. The Economic Reconstruction and Recovery Plan (ERRP), implemented in response to the devastating economic consequences of COVID-19, emphasises, among others, the need for inclusive economic development (Ramaphosa, 2020)[2]. There has been a remarkable rise in top-income percentile shares on a global scale, particularly since the 1980s (Atkinson and Piketty, 2010)[3]. This trend is mirrored in the South African context and can be evidenced by investigating inequality in the labour market.

Research findings

Figure 1: Lorenz curve (real monthly earnings, 2017)



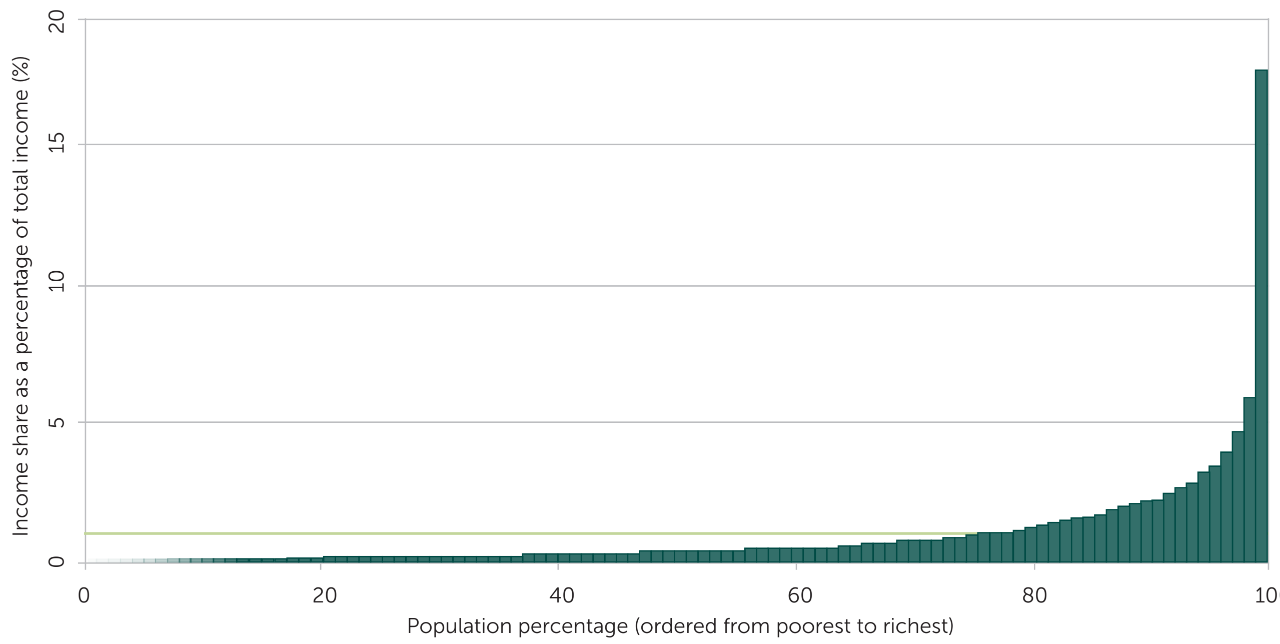
Source: *PALMS, Commission's calculations*

Figure 1 shows extreme levels of earnings inequality that persist in South Africa's labour market. The corresponding labour income Gini coefficient in 2017 is estimated at 0.62 (when flagged outliers and missing earnings information are excluded from the sample). Although this demonstrates extreme inequality, the Gini is largely understated when compared to findings in other studies for various reasons. Due to the sensitive nature of income, rich or affluent individuals – those generally understood to be within the top decile of the income distribution – have a greater tendency to misreport, understate or refuse survey questions relating to their personal income, resulting in missing earnings observations at the top end of the distribution. Data transparency and accessibility is thus paramount for observing the extent of earnings inequality in the labour market.

[2] Ramaphosa. 2020. *Economic Reconstruction and Recovery Plan.*

[3] Atkinson, A.B. and Piketty, T. 2010. *Top Incomes: A Global Perspective*. Oxford University Press.

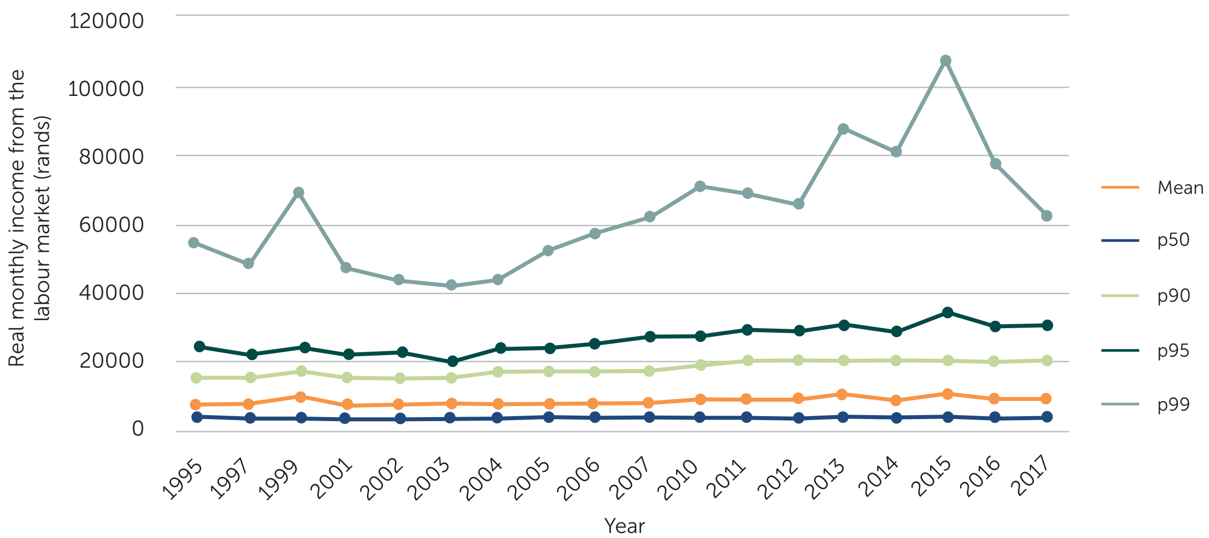
Figure 2: Distribution of monthly earnings (2017)



Source: *PALMS, Commission's calculations*

Investigating earnings inequality across the population using decile shares shows that, in 2017, the top richest 10% of earners received 49% – almost half – of total monthly earnings in real terms. The bottom 50% of the population (i.e. the poorest half of the population) received a share of only 11%. Delineating share further into percentiles shows that the income share of the top 1% was about 17%, shown in Figure 2.

Figure 3: Earnings stagnation and growth across income percentiles, 1995–2017



Source: *PALMS, Commission's calculations*

Figure 3 shows the trend in earnings at various percentiles between 1995 and 2017. This figure suggests that the mean and median (p50) income from the labour market has remained relatively constant in the post-apartheid period. A slight increase in the 90th percentile is noted, along with a slightly greater increase in income in the 95th percentile. Thus, wage growth appears to be slow and largely stagnant across most of the earnings distribution, apart from the top 1%, who saw substantial income gains. The earnings growth of the 99th percentile (top 1%) clearly stands out, not only in rand terms but also in its volatility over this period.

Conclusion and recommendations

Amid a decade of poor growth performance, increasing fiscal pressures and global economic shocks that have impacted negatively on the domestic economy, it is now more important than ever before that policies prioritise reducing the wage inequality by fostering employment and greater inclusivity in the labour market. According to much evidence from the literature, inequality in the labour market is a key driver of overall inequality in South Africa. The ability of the government to foster inclusive growth hinges on its ability to effect structural changes in the domestic labour market, which impact positively on both employment outcomes and wage growth. Importantly, if reducing inequality it to be taken seriously, wage growth cannot continue to be unequal across the earnings distribution.

This is especially critical in light of rising fuel prices and increasing living costs, which tend to erode the purchasing power of all but a few affluent individuals at the top of the distribution, whose income growth can keep up with inflation. If the rest of the less affluent population keep getting left behind, the historical structures of inequality in South Africa that favour the interests of a small elite will be perpetually reinforced.

The Commission makes the following recommendation:

1. *Policies aimed at reducing inequality should, as a point of departure, be targeted at reducing inequality in the labour market. This requires policies that enable large-scale job creation and more equitable wage growth across different sectors of the economy, which, in turn, may require greater investment into labour-intensive manufacturing industries that are well equipped to absorb low-skilled workers into the labour market.*

Given the skewed industrial structure of the South African economy, with the growth in service sector jobs only benefiting relatively few top earners in the financial industry, fostering more equitable wage growth requires both supply- and demand-side considerations. From the supply side, the workforce needs to be upskilled through ongoing training and education. However, upskilling the workforce can only be realised in the long term. Thus, greater focus could be placed on demand-side considerations, i.e. how to increase the demand for low-skilled workers. This could be achieved by promoting growth in labour-intensive manufacturing. The design of such policies necessitates close collaboration between government departments so that mechanisms to reduce inequality are better integrated into the broader policy agenda.

2. *Statistics South Africa should increase its efforts to increase the transparency of data and harmonisation of datasets to allow for more comparable, accessible and reliable income statistics. Transparency should extend to data collection, data cleaning and the imputation methods applied.*

Data transparency and accessibility are of utmost importance for evidence-based policy making. PALMS provides important labour-income data at the individual level, but one cannot, with accuracy, measure top incomes due to missing data, or unknown imputations made by Statistics South Africa.

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