

# **Poverty and Economics in South Africa**

A Briefing Paper by  
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## INTRODUCTION

The following document has been prepared as an input paper for the national hearings on poverty – *Speak Out On Poverty* – organised by the South African NGO Coalition (SANGOCO), the Human Rights Commission, and the Commission on Gender Equality. The focus is on economics, poverty, and socio-economic rights, the topic of the Gauteng poverty hearings.

Examining the linkages between economics, poverty, and socio-economic rights in a comprehensive way is a mammoth undertaking. Therefore, this paper should not be seen as a comprehensive treatment of these issues, but rather as a survey of a number of relevant topics concerning the operation of the economy and the persistence of poverty in South Africa. Although this is meant to be a survey, an outline of what to expect will be useful.

*The paper is divided into six sections, each with a different focus:*

- |      |  |
|------|--|
| I.   | Economics and Poverty                                |
| II.  | The Extent of Poverty in South Africa                |
| III. | The Economy and Socio-Economic Rights                |
| IV.  | Economic Rights and Current Policies in South Africa |
| V.   | Economics and the Causes of Poverty                  |
| VI.  | Developing a Way Forward                             |

The first section gives a brief introduction to economic aspects and definitions of poverty. This is followed, in the second section, by selected statistical evidence of the extent of poverty and economic inequality in South Africa. “The Economy and Socio-Economic Rights” briefly explores what socio-economic rights mean in relationship to the functioning of an economy.

The fourth section focuses on GEAR, current government policies, and their impact on socio-economic rights and poverty. “Economics and Causes of Poverty” looks at different approaches to economics and poverty, arguing that effectively addressing the crisis of poverty demands an alternative approach to economics. Elements of an alternative economic analysis are sketched out in some detail. Finally, the last section suggests shifts in economic policy which arise from an alternative economic framework.

This paper is meant to be a resource and guide for discussion on economics and poverty. Therefore, readers should focus on those parts of the paper which are most useful to them. It is hoped that this paper will stimulate useful debate and discussion around the critical issue of poverty in South Africa.

## I. Economics and Poverty

The 1995 World Summit for Social Development in Copenhagen defines poverty as follows:

*“Poverty has various manifestations, including lack of income and productive resources sufficient to ensure sustainable livelihoods; hunger and malnutrition; ill health; limited or lack of access to education and other basic services; increased morbidity and mortality from illness; homelessness and inadequate housing; unsafe environments; and social discrimination and exclusion. It is also characterised by lack of participation in decision-making and in civil, social and cultural life ...”<sup>1</sup>*

Economic factors are but just one set of the multiple factors that gives expression to poverty. Nevertheless, how an economy functions can either give rise to, or alternatively begin to eradicate, poverty. The focus of this paper is on the relationship between poverty and economics with an emphasis on the distribution of human and material resources – for example, income, land, finances, jobs, education, and housing. 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 subsequently 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. While economics is only one facet of the problem of poverty in society, poverty cannot be eradicated without addressing the dynamics of a modern economy.

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. For example, gender dynamics play a critical role in allowing a modern economy to operate. Women are largely responsible for performing a vast amount of unpaid labour – childcare, household work, informal services, and caring for the sick and elderly – without which the economy could not function. In addition, women are frequently denied access to financial resources, they are often limited to low-paying and insecure jobs, they face much higher rates of unemployment, and they carry a disproportionate burden of the costs of sustaining a family. These gender relationships structure modern capitalist economies and, because of their position within the economy, women and female-headed households face a substantially higher risk of poverty.

Part of the definition above equates poverty with a certain level of material deprivation, below which an individual suffers physically, emotionally, and socially. Therefore, 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.<sup>2</sup> But 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

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<sup>1</sup> United Nations (1995). p. 41.

<sup>2</sup> Certainly, poverty can be thought of as a matter of degree rather than a “poor” versus “not poor” dichotomy. The different gradations of poverty would then be linked to different levels of material deprivation.

economy. The first approach can be called an *absolute definition of poverty* and the second approach can be called a *relative definition of poverty*.<sup>3</sup>

#### *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. For example, individuals must have access to enough food to prevent malnutrition, to clean water, to a durable form of shelter, to simple clothing, and to basic educational and health services. The resources necessary to ensure the provision of these basic needs would then form the threshold for determining the absolute level of poverty in an economy.

When poverty is seen in absolute terms, then 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. Therefore, it is often argued that steady levels of economic growth will be sufficient to eventually eliminate poverty.

#### *Relative Poverty*

Using a relative understanding of poverty instead of an absolute definition provides a much more textured and complex engagement with the issue of economic deprivation in society. A relative 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. Relative definitions of poverty begin to take on board issues of social cleavages and economic distinctions between different groups. This definition of poverty will change with economic growth and reflects the shifting norms of society with respect to basic needs as an economy develops. Unlike the case of absolute poverty, 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* gross

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<sup>3</sup> Gordon (1972).

domestic product (GDP),<sup>4</sup> the average income level of South Africa hides more than it reveals. The unequal distribution of income - one of the worst in the world - has created a huge pool of poverty which surrounds a small island of wealth. South Africa is poor, not because it is a “poor country,”<sup>5</sup> but because the economic distance between the haves and the have-nots is enormous.<sup>6</sup>

### *Poverty and Growth*

This is not to deny the role of economic growth in raising living standards, but growth is clearly not enough. The existence of staggering income inequalities in South Africa makes the concept of relative poverty as important as absolute poverty in analysing the economics of poverty. An absolute scarcity of resources is not the primary issue, as many mainstream approaches to economics would vehemently argue. Rather a socially constructed scarcity due to a skewed distribution of assets and incomes is at the heart of the problem. In this context, counting on economic growth alone to reverse the legacy of deprivation is not sufficient. An economic analysis of poverty must explicitly incorporate a theory of economic distribution in order to explain the situation in South Africa and to develop strategies for the eradication of poverty. Before turning to an analysis of the causes of the problem and the manner in which economic resources are distributed in South Africa, it is important to document the evidence as to the extent of absolute and relative poverty in the country.

## **II. The Extent of Poverty in South Africa**

The following sections describes, from the available data, the extent of both absolute and relative poverty in South Africa. In keeping with the emphasis of this paper, the focus is mainly on the economic indicators of poverty as opposed to other manifestations of compromised human development, for example infant mortality; illiteracy; lack of access to infrastructure, water, education, and health care; and inadequate housing. The following economic measurements of poverty are also largely limited to measurements of income distribution due to the data available. Other economic factors – e.g. the extent of inequality in the ownership of assets or a detailed account of different household economic relationships – are not reflected in these statistics. Nevertheless, they can serve as a general indication of the extent of the problem in South Africa.

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<sup>4</sup> World Development Report. 1997. According to this report, upper-middle income countries have per capita GDPs (1995) between \$US 3 160 and 8 210. South Africa’s per capita GDP is estimated to be at the bottom of this range – \$US 3 160.

<sup>5</sup> Out of 133 countries listed in the World Development Report, South Africa ranks 91 in terms of per capita GDP. The ten “poorest” countries, in terms of per capita GDP are Mozambique, Ethiopia, Tanzania, Burundi, Malawi, Chad, Rwanda, Sierra Leone, Nepal, and Niger. All except Nepal are African countries.

<sup>6</sup> As Michael Katz (1989) writes “Poverty, after all, is about distribution; it results because some people receive a great deal less than others.” “Poverty ... is a social product. As nations emerge from the tyranny of subsistence, gain control over the production of wealth, develop the ability to feed their citizens and generate surpluses, poverty becomes not the product of scarcity, but of political economy.” p. 7.

*Absolute Poverty - South African Statistics*

Poverty rates in South Africa - meant to measure the extent of absolute poverty - are extremely high and tend to increase in rural regions, in provinces containing one of the former homelands, and in areas whose economies have been underdeveloped by apartheid-era policies.<sup>7</sup> In most provinces the level of poverty is shockingly high, with poverty rates for individuals near or exceeding 50 percent. Table 1 gives the estimated poverty rates by province in South Africa.

**Table 1: Poverty head count and ratio per province**

<i>Province</i>	<i>Number of poor household</i>	<i>% household living in poverty</i>	<i>Number of poor individuals</i>	<i>% individuals living in poverty</i>
<i>Western Cape</i>	125 208	14.1%	635 557	17.9%
<i>Northern Cape</i>	51 466	38.2%	267 992	48.0%
<i>Eastern Cape</i>	710 257	56.8%	4 115 332	64.0%
<i>KwaZulu Natal</i>	626 889	40.4%	4 216 184	50.0%
<i>Free State</i>	263 112	36.1%	1 331 649	47.1%
<i>Mpumalanga</i>	208 419	33.8%	1 275 517	45.1%
<i>Northern Province</i>	608 528	61.9%	3 565 492	69.3%
<i>North West</i>	232 947	29.7%	1 248 724	41.3%
<i>Gauteng</i>	299 821	15.4%	1 443 204	21.1%
<b>Total</b>	<b>3 126 647</b>	<b>35.2%</b>	<b>18 099 651</b>	<b>45.7</b>

(Source: HSRC, 1995: A Profile of poverty, inequality and human development in South Africa).  
See footnote 7 for an explanation of the poverty line used.

Poverty rates also are much lower for whites than for other historical racial groupings in South Africa. Table 2 illustrates these stark differences. The degree in which poverty is concentrated in South Africa is astounding - of all poor individuals, 95 percent are African.

**Table 2: Poverty Rates in South Africa**

	<i>Proportion of Households Living in Poverty</i>	<i>Proportion of Individuals Living in Poverty</i>
<i>African</i>	47.2%	57.2%
<i>Asian</i>	6.2%	6.8%
<i>Coloured</i>	18.5%	19.8%
<i>White</i>	2.1%	2.1%
<b>Total</b>	<b>35.2%</b>	<b>45.7%</b>

(Source: HSRC, 1995: A Profile of poverty, inequality and human development in South Africa).  
See footnote 7 for an explanation of the poverty line used.

<sup>7</sup> “The poverty line varies according to the size of the household and its age composition. At the beginning of 1994 the poverty line for an urban household with two adults and three children was approximately R840 per month, and R740 for a rural household with two adults and three children.” HSRC (1995).

*Relative Poverty and Income Distribution – South African Statistics*

Measurements of relative poverty can be more complex than those which try to gauge absolute poverty because relative poverty refers to the extent of economic distance or inequalities in society. One indication of income distribution is the Gini coefficient. The Gini coefficient is simply a number between 0 and 1 which indicates the level of income inequality within a population. A value of 0 indicates perfect equality (everyone has the same income). A value of 1 indicates perfect inequality (one person or household has all the income). As the Gini coefficient becomes larger and closer to 1, the extent of inequality increases. Table 3 below shows the Gini coefficients for different countries whose economies are roughly at the same level of development as South Africa. From the comparison in the table, and even when compared to 64 countries around the world, South Africa has one of the most unequal distributions of income of any country world-wide - only Brazil and Guatemala are worse.<sup>8</sup>

**Table 3: Gini Coefficients and Income Inequality**

Country	Gini Coefficient
<i>Slovak Republic</i>	0,195
<i>Czech Republic</i>	0,266
<i>Hungary</i>	0,270
<i>Poland</i>	0,272
<i>Estonia</i>	0,395
<i>Peru</i>	0,449
<i>Thailand</i>	0,462
<i>Malaysia</i>	0,484
<i>Russian Federation</i>	0,496
<i>Mexico</i>	0,503
<i>Venezuela</i>	0,538
<i>Chile</i>	0,565
<b>SOUTH AFRICA</b>	<b>0,584</b>
<i>Brazil</i>	0,634

(Source: World Development Report, World Bank, 1996).

Gini coefficients do not have to be calculated for an entire country. They can also be constructed for different populations within a particular country. Table 4 below shows the estimated Gini coefficients for different population groups within South Africa. Within all population groups there is a high degree of inequality. Interestingly, the overall Gini coefficient of 0.59 is greater than the Gini coefficients within each of the historical racial classifications. This means that inequalities are more pronounced across these groupings than within each category. Note that the variation in income across male-headed households is much greater than across female-headed households. This most likely reflects a uniform level of poverty among female-headed households and high levels of inequality among male-headed households.

<sup>8</sup> World Bank (1997). *World Development Report*.

**Table 4. Gini coefficients of different types of South African households**

Type of household	Gini coefficient
All households	0,59
Race of head of household:	
African	0,52
Coloured	0,50
Indian	0,44
White	0,49
Gender of head of household:	
Male	0,75
Female	0,55
Type of area:	
Urban	0,57
Non-urban	0,55

Source: CSS(1997). Income and Expenditure Survey 1995.

The unequal distribution of income in South Africa occurs across many dimensions - including geography, gender, and race. Figure 5 below shows the average household income by province and historical racial classification. It is useful to note the following:

- Among African-headed households, the average annual household income is R23 000.
- Among coloured-headed households, it is R32 000.
- Among Indian-headed households, it is R71 000.
- For white-headed households, it is R103 000, 4.5 times the average for African families.
- Average annual household income varies depending on whether the household is in an urban or a non-urban area. Households living in urban areas 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).<sup>9</sup>

**Table 5. Average Household Income. Thousands of Rand.**

Province	Average annual household income				
	African R 000	Coloured R 000	Indian R 000	White R 000	Total R 000
Eastern Cape	17	24	58	90	24
Free State	14	16	*	72	25
Mpumalanga	20	30	78	82	30
North West	21	25	*	93	30
Northern Province	26	43	*	140	31
Northern Cape	13	18	34	79	31
KwaZulu-Natal	24	41	61	98	37
Western Cape	22	33	54	98	53
Gauteng	37	53	111	118	71

\* Number of households in the survey was too small for this analysis.

<sup>9</sup> CSS (1997). *Income and Expenditure Survey 1995*.

Another way of looking at income distribution is to examine income quintiles for different segments of the population. What is an income quintile? Suppose all the households in South Africa were put in order according to their incomes - from lowest to highest. Then suppose this list of households were divided into five equal parts. The one-fifth containing the lowest incomes (the lowest 20 percent) would be called the bottom quintile. The next portion (the second quintile) would consist of the next highest 20 percent of incomes. The top one-fifth would contain the highest incomes and is often called the top quintile.

Table 6 contains estimated income quintiles for South Africa by gender, historical racial classification, and urban geography by household.<sup>10</sup> Note that, because of the small number of households contained in the sample, data on Asian households are not reported.<sup>11</sup> If incomes were equally distributed across the population, then we would expect each quintile category to contain 20 percent of a particular population segment. 37 percent of African, non-urban, female-headed households, however, fall into the poorest quintile while less than 1 percent of white, urban, male-headed households fall into the same category. Female headed households are much more likely to be low-income households than are male-headed households, and non-urban households are more likely to fall into a lower income quintile than are urban households.

**Table 6. Income distribution by race and gender in urban and non-urban areas by household**

Income quintile (20% each) by race	Non-urban female headed %*	Non-urban male headed %*	Urban female %*	Urban male %*	Total
<b>African:</b>	3	7	11	19	10
Top quintile: Quintile 1	12	15	24	29	19
Quintile 2	18	25	25	27	24
Quintile 3	28	28	21	17	24
Quintile 4	37	26	19	8	23
Bottom quintile: Quintile 5	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Coloured:</b>	6	3	12	24	17
Top quintile: Quintile 1	14	13	26	35	29
Quintile 2	21	25	28	23	25
Quintile 3	28	39	19	13	18
Quintile 4	31	20	15	5	11
Bottom quintile: Quintile 5	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>White:</b>	52	75	38	73	65
Top quintile: Quintile 1	31	18	32	19	22
Quintile 2	7	4	17	6	8
Quintile 3	8	2	8	2	4
Quintile 4	2	1	5	0	1
Bottom quintile: Quintile 5	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Due to rounding, figures may not always add up to 100%. Source: CSS (1997) *Income and Expenditure Survey 1995*.

<sup>10</sup> The income quintiles (annual) for South Africa is as follows: (1) bottom quintile R 400 - R6 868; (2) second quintile R6 869 - R12 660; (3) third quintile R12 660 - R23 939; (4) fourth quintile R23 940 - R52 799; (5) fifth quintile above R 52 800.

<sup>11</sup> According to the CSS (1997). *Income and Expenditure Survey*, "Indian households are excluded in this section because there are too few female-headed Indian households in the sample, particularly for non-urban areas, for further breakdowns."

The relationship between gender and income inequalities must be stressed. Gender dynamics cannot be brushed aside when examining issues of relative poverty in society.

- 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.
- Three in every ten (31%) African, female-headed, and one in every five (19%) African, male-headed households, are in the bottom income category. On the other hand fewer than one in every hundred (less than 0,5%) white, male-headed households, are in the bottom income category.
- At the upper end of the scale, almost three-quarters (73%) of white, male-headed households are in the top income category, as against approximately one in eighteen (6%) African, female-headed households.

#### *Summary*

In summary, it is clear that South Africa suffers from high levels of both absolute and relative poverty. The likelihood of being poor is much greater for women, non-urban households, individuals living in rural provinces, and African families. The high level of poverty is linked to a vastly unequal access to economic resources, making it impossible to speak of eliminating poverty without examining how the economic flows which sustain households are determined. It is to this issue that we now turn.

### **III. The Economy and Socio-Economic Rights**

In the Bill of Rights of the South African constitution, a number of socio-economic rights are guaranteed including:

- a right to adequate housing
- a right to health care services
- a right to sufficient food and water
- a right to social security
- a right to basic and on-going education

all of which have important economic dimensions.

In terms of the constitution's Bill of Rights, the state is obliged to "take reasonable legislative and other measures, within its available resources, to achieve the progressive realisation" of socio-economic rights. It is important to realise that the amount of resources which is available is determined by government's macroeconomic policy, its budget priorities, and the structures of the South African economy. Therefore, these broader macroeconomic policies should support the realisation of these guaranteed socio-economic rights.

Every year the Human Rights Commission is empowered in terms of section 184(3) of the constitution to receive a report from relevant state departments so that there can be an assessment of the measures which government has put in place to see to the delivery of these life-changing socio-economic rights.

This mechanism provides an important point of intervention for progressive forces as:

- a critical assessment of government's socio-economic commitment can help to shape the priorities and programmes of government,
- it provides an opportunity for progressive elements in civil society to take the lead in driving an agenda of popular mobilisation for socio-economic delivery,
- on an ideological level it provides an opportunity to define the role of the state as an institution designed to address the needs of the poor and to overcome inequality, and
- linked with international obligations, through adoption of the International Covenant on Social Economic and Cultural Rights, it can provide a foothold against retrogressive aspects of globalisation.

This is an area of contestation. Liberals are very uncomfortable with the notion of socio-economic rights, preferring a conception of civil and political rights which place limits on state action with respect to individual interests (e.g. non-infringement to property rights or non-infringement of the right to liberty). Typically, they are uncomfortable with rights that place a duty on the state to adhere to a socio-economic programme of delivery – of houses, social security, water, etc. They argue that these rights are unenforceable.

On the other hand, progressives are not concerned only about protecting the individual from abusive state power. The state is not assumed to be inherently antagonistic to the interests of the individual or of the collective, but rather it is assumed that if the role of the state is defined in terms of clearly stated socio-economic (in addition to civil and political) rights, the state can be made to act in a beneficial way in eradicating poverty.

A significant number of progressive voices may be critical of this approach in that it ignores the reality that in a class society, the state will also tend to favour the interests of the wealthy and powerful and ignore the interests of the poor and dispossessed. There can be no doubt that this is the case, but it is important to stress that 'a tendency' does not amount to 'an inevitability'. There is always space for struggle and for organised formations of the poor and dispossessed to assert their rights, especially when their social and economic rights are clearly spelled out as they are in South Africa's constitution.

A further criticism is that asserting rights through the mechanism of the courts should never be a substitute for asserting them through organisation. This is true, but it does not amount to an argument that legal processes should not be pursued as an addendum to effective organisation.

It is of utmost important that progressive forces contest the interpretation of socio-economic rights by our courts. The inherited conservatism of our legal system together with some surprisingly narrow judgements by the Constitutional Court have already begun to limit the gains which could be made by a more activist interpretation of social and economic rights. A prime example, is the recent Soobramoney judgement in which the Constitutional court failed to question budget allocations for health services in interpreting the extent and meaning of a dying man's right to health.

In addition to arguing for better interpretations by the courts, the Human Rights Commission's reporting mechanism offers an extremely important vehicle for progressive engagement with socio-economic rights in that it constitutes an institutionalised annual review of the extent of socio-economic rights delivery.

This mechanism must be contested to see to it that the information which is gathered is accurate and critically assessed. It must not simply become a regurgitation of data from government departments to the HRC and back to Parliament where it is forgotten. Rather it should be used as a device to ensure that a critical assessment of government's socio-economic programme is made each year.

To ensure that appropriate information is gathered it is important that public hearings are arranged to allow space for critical intervention and to allow for comment on information provided by government departments. Similarly data collection by the Central Statistical Services should be geared with specific reference to the constitution's social and economic rights to provide a useful gauge of the extent of the delivery of these rights. It is this kind of focus and

integration of state institutions which is required of a state which through its constitution is committed to “social justice”.

In addition, many of the rights put forward in the constitution 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. This begs the more general question of what broad set of rights a person should have within the functioning of the economy. Determining what should constitute an “economic bill of rights” is a critical area of engagement and potentially extremely threatening to the *status quo*. Furthermore, the links between economics and poverty become much clearer when a list of such rights is suggested.

An example of a possible core set of economic rights – interpreted generally as the rights an individual should have with respect to the functioning of an economic system – could be the following. This suggested list would necessarily complement the areas of basic need contained within the Constitution (housing, health care, food, water, and education) in order to ensure that poverty, including its non-income aspects, is broadly addressed.

- a right to a basic income and access to a minimal level of economic resources
- a right to participate in the productive and reproductive work of society
- a right to 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
- a right to non-exploitation in all work – in the labour market, in the household, and in the informal economy
- a right to a just share of the production of the economy
- a right to an equitable distribution of the powers and privileges associated with the ownership of productive assets

The realisation of these rights would require a fundamental transformation of the current South African economy. Nevertheless, the above collection of rights could form the basis for beginning to formulate a vision for economic justice and the eradication of poverty.

## IV. Economics Rights and Current Policies in South Africa

Having outlined a possible collection of socio-economic rights linked to the functioning of an economy, it would be useful to turn to the current policy situation in South Africa and to evaluate these policies in terms of how and to what extent they make allowance for achieving these rights and address the crisis of poverty in the country. The policy framework of the *Growth, Employment, and Redistribution* strategy, or GEAR, is a relatively compact statement of in which direction the Department of Finance and much of government sees economic policy going.<sup>12</sup>

The primary focus of the GEAR document is growth, achieved through greater export-competitiveness, growing foreign investment, and productivity improvements. A number of policy positions make up the GEAR document. Full implementation of this collection of policies, GEAR argues, will grow the South African economy, create jobs, and redistribute incomes.

### *The GEAR Policies*

GEAR stresses the need to adopt economic policies which will encourage investment in the economy and allow South Africa to compete in the global marketplace. Some of the primary components of the GEAR strategy are as follows.<sup>13</sup>

- (1) **Deficit Reduction** – When government spending is greater than government revenues, the shortfall must be borrowed. The amount which must be borrowed is called the budget deficit. GEAR argues that the deficit must be reduced in South Africa in order to improve business confidence and encourage investment. GEAR also argues that taxes should not be increased as a fraction of the total economy. This means that in order to reduce the deficit, government spending, as a percent of the total economy, must decline. Total government spending, therefore, can only increase if the size of the economy grows.
- (2) **Tight Monetary Policy** – Tight monetary policy means that GEAR supports high interest rates to keep inflation low, maintain the value of the rand, and discourage increases in credit availability. GEAR argues that financial stability achieved through restrictive monetary policy will encourage domestic and foreign investment.
- (3) **Trade Liberalisation** – Trade liberalisation, or free trade, refers to the gradual elimination of any restrictions on foreign trade. This means that tariffs, which are taxes on goods coming into South Africa, should be eliminated. GEAR argues that removing tariffs will keep prices low (i.e. reduce inflation) and allow South Africa to integrate into the world economy.

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<sup>12</sup> *Growth, Employment, and Redistribution*. Department of Finance. June 1996.

<sup>13</sup> A complete summary of the GEAR document is not given due to lack of space. The policy components outlined, however, are those which will have a substantial impact on socio-economic rights and poverty.

- (4) ***Remove Exchange Controls*** – Exchange controls are laws which limit the ability of people to take money in and out of South Africa. GEAR states that exchange controls must be gradually eliminated in order to attract foreign investment into the country.
- (5) ***Regulated Flexibility of Labour Markets*** – According to the macroeconomic strategy, labour markets should have some degree of regulation. In particular, collective bargaining should be maintained as a method of negotiating labour market outcomes. Substantial flexibility, however, should be introduced. This could mean downward variations in employment standards, less protection for youth and other groups facing high unemployment, and moderation of wages.
- (6) ***Productivity Improvements*** – In order to compete internationally, GEAR argues that productivity – that is, the amount produced by each worker – must increase. In order to ensure that productivity improvements mean lower costs of production, the macroeconomic strategy also argues that wages should not increase faster than productivity.
- (7) ***Education and Training*** – GEAR argues for substantial improvements in the education and training of the workforce. These improvements will help increase productivity and attract investment.

If these policies are put into place, GEAR predicts that economic growth will improve dramatically. Once high levels of growth are achieved, poverty will be addressed through redistributive developments. The most important of these developments is supposed to be job creation, brought about through an acceleration in the growth of the economy. The logic of GEAR is straight-forward: as unemployment drops, poverty will gradually disappear. In addition, economic growth, once it happens, will also generate additional public resources which can then be used to provide public services and poverty relief. The document claims that reducing government spending in order to bring down the deficit will actually pave the way for increased spending in the future, made possible by rapid economic growth.

### *Evaluating GEAR*

GEAR should be evaluated in terms of both its promised effects – job creation and growth – and the ability to provide socio-economic rights to the people living in South Africa.

GEAR's primary aim, to promote higher levels of growth in South Africa, might not be achieved given the policies outlined above. Cutbacks in government spending and high interest rates tend to slow down, not speed up, economic growth. Trade liberalisation could mean that cheap imports would quickly replace domestically produced goods. And the removal of exchange controls could lead to the movement of money out of South Africa in search of higher rates of return abroad.

Furthermore, job creation has not been forthcoming with the adoption of GEAR. In fact, job losses have been the recent phenomenon accompanying slower rates of economic growth. This should not be surprising. Government spending reductions mean that the public sector cannot support the current level of employment. Free trade has meant job losses in sensitive industries such as clothing and textiles. Productivity has improved among workers but the reward has not been economic growth. Rather more efficient employees have made themselves redundant; productivity improvements mean that it takes fewer workers to produce the same output than in the past.

### *GEAR and Socio-Economic Rights*

GEAR can also be evaluated with respect to the provisions made in the Bill of Rights. The deficit reduction plans mean that, without strong economic growth, government resources will be constrained. Fewer available resources, in turn, means that the ability to ensure adequate housing, affordable food, clean water, accessible health care, and quality education will be compromised. In addition, the fiscal austerity measures (i.e. cutbacks in spending) proposed by GEAR has meant that pensions to the elderly have increased at a rate slower than inflation and it has meant that the process of restructuring the family maintenance grants demanded that the size of the grants had to be restricted to a level which provides only marginal poverty relief for children.

One of the reasons for these reductions in spending is to reduce the size of the national debt. A large portion of this debt was built-up during the final years of the apartheid regime and is therefore frequently called the “apartheid debt.” The interest payments on this debt account for over one fifth of the combined national and provincial budgets – an amount roughly equal to the combined education budgets. These high interest payments divert public resources away from the socio-economic rights outlined in the Bill of Rights. GEAR has responded, not by restructuring the debt or taxing the beneficiaries of apartheid, but by cutting government spending.

The GEAR policy framework – through its negative impacts on jobs, its cutbacks to government spending, and its curtailing the availability of economic resources – means that social security, broadly defined to include jobs, public support, and access to productive assets, will be reduced. This reduction in the ability to participate in the South African economy and to share in the country’s resources will only exacerbate the problems of relative and absolute poverty.

### *What is Missing*

What is most alarming about the current framework is the number of economic issues which the document completely ignores. For example, 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 would remain high, access to credit and productive capital would be limited, and financing land redistribution and housing development could be prohibitively expensive.

The informal sector is also largely ignored within the policy framework, naturalising the vision of the sector as a residual economy. The failure of the GEAR strategy to create jobs will probably place pressures on the living standards of the informally employed as more people crowd into the informal sector.

### *Gender and GEAR*

In addition, gender issues and household dynamics are almost completely invisible within the current macroeconomic strategy, contributing to the on-going marginalisation of women. While GEAR might be called “gender blind,” it is certainly not “gender neutral.” For example, GEAR calls for greater labour market flexibility in order to attract foreign investment and to improve competitiveness. The implications of this are that the most vulnerable workers (that is, women) will remain unprotected and discriminated against, and that where jobs are created they will perpetuate the poor working conditions experienced by many women workers. With greater labour market flexibility the position of women will actually worsen, since this implies decreased benefits (such as maternity benefits) and less flexibility with regard to working time and parental responsibilities.

The reduction in government spending means that women will continue to perform large amounts of unpaid labour to substitute for the lack of adequate social services. These responsibilities will continue to limit women’s access to alternative economic opportunities. Furthermore, high interest rates will squeeze household resources as payments for bonds on houses and other debts increase. Household resources could be further reduced by the loss of jobs and pressures for wage moderation while prices for necessities such as food continue to increase. Because of their position in the household, women might cut their own consumption or increase their work load in order to compensate for dwindling resources. In many respects, GEAR entrenches the economic oppression women face and increases their risk of poverty.

## V. Economics and the Causes of Poverty

In order to develop strategies and a vision of how the economic system of South Africa can be transformed so as to eradicate poverty, a theory of how the current economy produces and replicates poverty must be developed. Such an understanding must look more broadly at the distribution of human and material resources – in the workplace, in the household, and in the context of an accumulation of assets and wealth.

The importance of economic theory should not be slighted. In the fight to eliminate poverty, the understanding of the relationship between economics and poverty remains vehemently contested. Orthodox economics – often called mainstream or neo-classical economics – is the dominant theory of economics in western industrialised countries, most notably Britain and the United States. Orthodox economics connects poverty to productivity, economic growth, prices, and individual choice. Such an approach embraces the *status quo* in terms of institutions, patterns of ownership, gender dynamics, and productive relationships. This acceptance of the *status quo*, in terms of the environment in which people make choices, risks entrenching and reproducing conditions of poverty.

The following section briefly outlines – in a somewhat stylised manner – the primary features of the orthodox argument and then proceeds to put forward an alternative framework for beginning to link economics and poverty. Since economic policy often arises from a particular set of theoretical assumptions, different analytical frameworks will produce different understandings of the strategies which will move towards eliminating poverty.

### *The Orthodox Approach to Poverty*

The orthodox theory of income distribution links income received to the productivity of different “factors of production” – these include, labour, land, capital equipment, and human capacities. Therefore, the wages workers receive is a reflection of the productivity of the workers themselves.<sup>14</sup> The profits earned by capitalist firms, farms, and enterprises would be simply a reflection of the assumed productivity of the capital or land used in production. Differences in salaries and wages among workers would reflect a difference in the talents and abilities of the employees – again, income is linked to productivity. Therefore, this theoretical approach would argue that if an individual receives an extremely low income, it is because that person does not produce enough.

Poverty, in the orthodox framework, is tied to low productivity – in an economy, among a group of workers, or within an informal subsistence sector. In order to eliminate poverty and achieve higher standards of living, productivity must improve. The improvements in productivity will spur economic growth and, in turn, economic growth will produce the resources necessary to

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<sup>14</sup> To be more accurate, neo-classical economics argues that workers are paid the value of their marginal product of labour. The value of the marginal product of labour is the value of the additional output produced by using one additional unit of labour (i.e. an additional hour worked or an additional employee).

reduce the level of poverty. Education and training play an important role in this framework. Training will increase the stock of “human capital” – that is, the skills and experience of the workforce, expand the capabilities of workers, and heighten productivity. Higher levels of productivity will subsequently be rewarded with higher levels of income.

### *The Assumption of Free Choice*

Orthodox economic theory emphasises the central role of individual choice and responsibility.<sup>15</sup> For example, the amount that an individual works is described as a free choice between the trade-off of additional income (from working) and enjoying leisure time. Gender dynamics take on an unusual interpretation within this framework. According to this approach, women perform labour in the household because they freely choose to do so. Since women earn less in the formal economy than men, then it is only rational that women should specialise in reproductive work. Why do women earn less than men in the formal economy? The disruptions of raising children and other reproductive duties mean that women are not able to accumulate skills as consistently as men, their productivity suffers, and they are therefore paid a lower wage. Discrimination, women’s oppression, and gender dynamics have no place in an orthodox world.<sup>16</sup>

In general, orthodox economics tends to assume a particular distribution of assets, a particular set of power relations, a fixed collection of cultural factors, a given set of institutions, and a specific productive logic in its analysis. All these factors can be called *structural factors* because they cannot be changed through an individual’s choices or behaviour. Within this framework, individual choices and capabilities then determine the distribution of income. Poverty is simply an outcome of low productivity, slow economic growth, and lack of education and training. From this analysis, the road to a poverty-free world is clear: improve productivity, boost economic growth, and put in place a training programme. In due time, the mainstream approach promises, poverty will disappear.

### *GEAR and the Orthodox Approach*

The current macroeconomic strategy being followed in South Africa sounds remarkably like an orthodox analysis of the problems of poverty in the country. The medicine proposed by GEAR – economic growth, productivity improvements, and education and training as solutions to widespread poverty – falls out very neatly from the conservative approach to economics. The GEAR strategy, as discussed in the previous section, will most likely only entrench, and quite probably increase, the level of poverty in South Africa. Therefore, an alternative approach to economics and poverty is needed.

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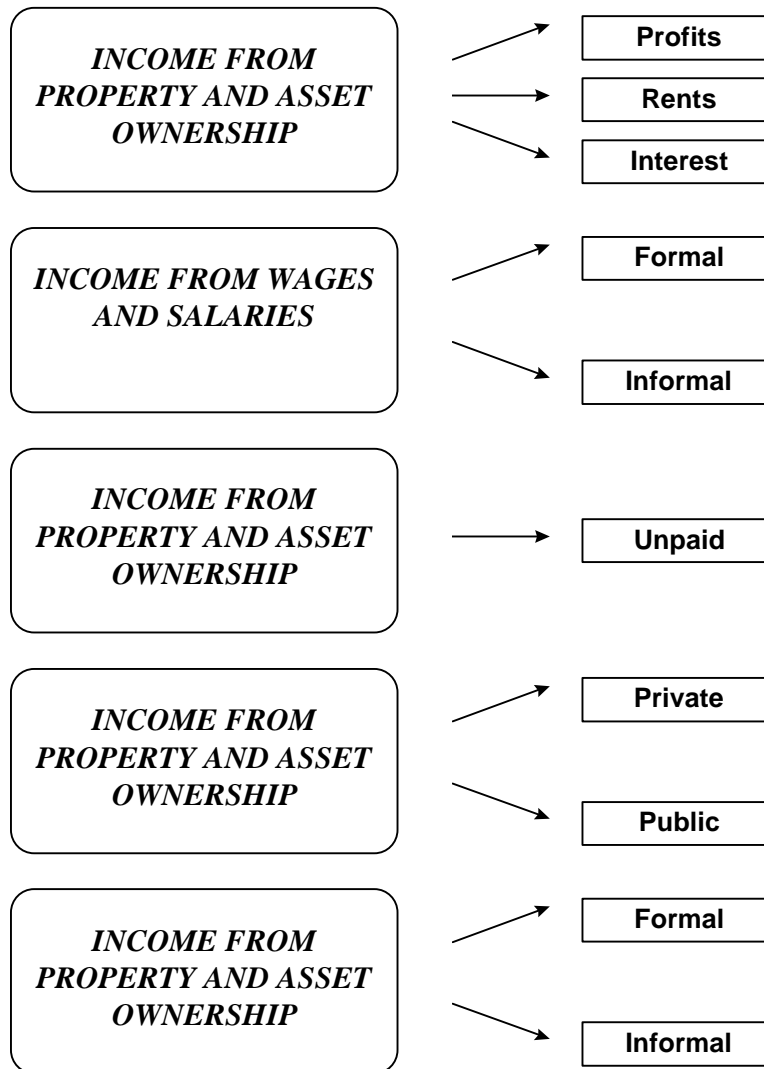
<sup>15</sup> In economic jargon, individuals are said to be utility maximisers. Individuals make decisions so as to get the maximum amount of pleasure from consumption, work, income, and leisure.

<sup>16</sup> The emphasis on individual choice means that poverty is often directly related to individual failures, not social structures. Poverty becomes a reflection of individual behaviours and characters in the orthodox approach.

*An Alternative Economic Framework*

In order to incorporate many of the factors excluded from, or de-emphasised within, the orthodox approach, an alternative framework for understanding the distribution of economic resources in an economy must be developed. In the analysis suggested below, the flows of economic resources necessary to sustain an individual or a household come from numerous sources and, unlike the orthodox obsession with productivity, are rooted in a particular distribution of assets, productive relationships, gender dynamics, and class distinctions. The economic aspects of poverty are then linked to the inability to command a sufficient flow of resources to avoid growing inequalities and to prevent deprivation – be it nutritional, medical, in terms of shelter, or a lack of full participation in society.

The diagram below is a simple presentation of the different sources of economic flows – primarily, but not exclusively, income flows – to individuals and households. There are five broad categories of economic flows reflecting different economic positions in an economy. These include income derived from owning property, income received in terms of salaries and wages, economic resources mobilised through subsistence and household activities, transfer payments received from private or government sources, and self-employment. Each of these categories is intimately connected to a set of economic relationships which define and structure a modern capitalist economy. Exclusion from, or marginalisation within, these sources of economic resource flows greatly increases the risk of poverty. A brief discussion of each category follows.



### 1. Income from property and asset ownership.

The highly concentrated ownership of property – land, capital, financial holdings, and real estate – inherited from the apartheid era are a primary source of inequality, of both income and wealth, in the country. The skewed ownership of property is clearly one key economic factor in the causes of

poverty in South Africa. Not only does the distribution of assets deny the majority of the population access to economic resources, it also facilitates the exploitation of the majority by perpetuating grossly unequal economic power relationships.

Income from property can be divided into three different types – profits, rents, and interest. Profits are the result of productive economic activities in which wage labour is hired to produce commodities, and then those commodities are sold in the marketplace for a price greater than the costs of production. The proceeds from their sale – called sales revenue – are used to pay workers their wages. What is left over after the costs of producing the goods and services is deducted are the profits. In a capitalist economy, the profits belong to the owners of capital and account for an important source of income in an economy.

Rents refer to any income generated, not because an asset is productive, but because it is scarce. The scarcity of the asset – for example, housing in South Africa – allows it to generate an income without producing any additional goods and services.<sup>17</sup> Interest is somewhat similar to a rent – it reflects income earned due to command of a scarce commodity, in this case credit and financial assets. Like rents, interest can be earned without producing additional goods and services.

#### *Property, Income, and Inequality*

Orthodox economics would argue that profits, rents, and interest are earned because of the inherent productivity of the assets in question.<sup>18</sup> An alternative explanation would point to the ability of property owners to stake a claim on the income produced in an economy simply because property confers on its owner a high degree of economic power. Such ownership allows an industrialist to stake a claim on output produced by wage labour in the form of profits. Or it allows a landowner to demand rents from the landless. Or it allows a bank to demand interest from those without access to money.

This economic power is derived from a socially constructed scarcity which follows from a highly concentrated asset ownership – in other words, assets are scarce in South Africa precisely because so very few people own so much. If people had access to capital, they would not need to sell their labour in order to generate profits for someone else; if people had access to housing, they would not have to pay rents for shelter; and if people had access to abundant credit, the ability to charge high rates of interest would be compromised.<sup>19</sup>

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<sup>17</sup> Rents can be earned on a variety of scarce assets. Land, buildings, and natural resources are common rent earners. But rents can be earned because of scarce skills or on other socially created scarcities (e.g. a license to produce).

<sup>18</sup> Interest, it is argued, reflects the “opportunity cost” of finance. If money were invested in a productive activity instead of being used to extend credit, profits would be earned. Therefore, according to neo-classical economics, if money is to be lent, interest must be charged to compensate for the foregone profits.

<sup>19</sup> John Maynard Keynes states this argument powerfully in his many attacks on the *rentier* class. He argues that making capital goods abundant “may be the most sensible way of gradually getting rid of many of the objectionable features of capitalism.” Furthermore, “the only reason why an asset offers a prospect of yielding

An unequal asset distribution is an important determinant of the economic attributes of poverty not only because it denies the poor access to factors of production (e.g. land and capital) but also because it allows a distribution of income away from lower income households to other individuals and institutions. For example, lowering wages so as to generate an “adequate” rate of profitability is a redistribution of income which will increase inequalities. Rents can often take the form of payments from poorer segments of society to those who are wealthier because of a lack of access to basic needs. And higher interest rates transfer income away from borrowers, who tend to be low and middle-income households, to lenders. This transfer of income away from households can place pressures on household resources and women often compensate by diminishing their own consumption or increasing their workload.<sup>20</sup> Clearly an analysis of asset distribution must form part of a broader analysis of poverty and policies of asset redistribution must be entertained as a core element of a strategy to eliminate poverty.

## 2. Income from wages and salaries.

With a grossly unequal access to productive and financial assets, wage employment has become a primary source of potential income for many households in South Africa. In a capitalist economy, when people do not own productive assets, they are often forced to sell the one commodity which they do own – their labour power – in order to generate an income to sustain themselves.<sup>21</sup> The ability to sell one’s labour, however, is not guaranteed, nor are the conditions under which labour is exchanged always secure. Often an economy is characterised by unemployment, underemployment, and low wages, all of which can contribute to the persistence of poverty. Before moving to a broader discussion of employment, wages, and unemployment, it is helpful to document, insofar as the available data permit, the employment situation in South Africa.<sup>22</sup>

### *Employment and Unemployment in South Africa*

Employment in South Africa is at its lowest point in 16 years. Employment trends in different sectors of the formal economy from June 1996 to June 1997 show that all sectors have lost jobs, with the exception of wholesale/retail trade and financial services. Despite positive levels of growth, 62 000 jobs were lost in the formal, non-agricultural sectors in the first six months of 1997,<sup>23</sup> flying in the face of the targets set out in the government’s macroeconomic framework.<sup>24</sup> Historical trends in job destruction from 1990 to 1996 indicate significant losses, with the

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during its life services having an aggregate value greater than its initial supply price is because it is scarce; and it is kept scarce because of the competition of the rate of interest on money.” pp. 213, 221. Keynes (1946).

<sup>20</sup> Seager (1997).

<sup>21</sup> This is the familiar class division of Marxian economic analysis. The working class is separated from the means of production and the capitalists class purchases labour power in a labour market in order to produce commodities for sale in the marketplace.

<sup>22</sup> The available employment statistics in South Africa have been subject to detailed criticism. Reporting these statistics is not meant to validate their authority, but rather to paint a picture of the broad trends in the country.

<sup>23</sup> Central Statistical Service.

<sup>24</sup> Growth, Employment, and Redistribution (GEAR). *Department of Finance*. June 1996.

manufacturing sector suffering a 9,1% loss in jobs, construction 21,3% and mining 27,5%.<sup>25</sup> Due to the recently announced budget cuts, the public services will face job losses in the near future, despite a record of job creation in the past.

Overall, astronomically high unemployment rates prevail, with total unemployment being at 29,3%. Table 7 shows the estimated unemployment rates across gender and geographical categories. Women, people in rural areas, historically disadvantaged groups and youth are particularly hard hit. For example, the unemployment rate among African women is over 50 percent - over half the African women who want to work cannot find jobs. Furthermore, the majority of unemployed people have never worked (69,2%) – creating an “unemployment trap” for a large number of long-term unemployed individuals.

According to the RDP, 53% of the poorest are unemployed.<sup>26</sup> While unemployment is an important aspect of poverty, low wages also play a role. Quite a significant number of people fall within the category of the working poor. The 1994 October Household Survey reported that one in seven employed or self-employed earn R 500 or less per month.<sup>27</sup>

**Table 7. Unemployment Rates**

	Male	Female	TOTAL
<i>Urban</i>	19.9	30.8	24.5
<i>Rural</i>	27.3	49.5	37.6
<b>TOTAL</b>	22.5	38.0	29.3

Source: 1995 October Household Survey. CSS. November 1996

### *Labour Market Segmentation*

Not only does South Africa have extremely high levels of unemployment, but the jobs which exist are often highly segmented – yet another legacy of the apartheid years. Highly paid professional and managerial positions largely remain the domain of white men. Within this segment of the labour market (often called the primary labour market), unemployment is low and job security is high. Production workers and service employees (often called the secondary labour market), on the other hand, face higher levels of unemployment and far less job security. Wages are lower and benefits are minimal or non-existent. Workers in the informal sector constitute yet another segment of the labour market. Many of these people face greater risks, very unsteady employment, and little legal protection or regulation of employment conditions.

Labour market segments are divided by race and gender. For example, a disproportionate number of women work within the lower paid, less secure labour market segments. A gender division of labour is clearly reflected in the South African economy in which women’s work is

<sup>25</sup> *Quarterly Bulletin*. Reserve Bank of South Africa.

<sup>26</sup> ANC (1994).

<sup>27</sup> Tørrres (1996).

often under-valued. Perhaps the best example of this under-valuation is domestic work in which women (mostly African) perform household wage labour for relatively wealthy families which would be unpaid labour in lower income households. Likewise, workers from historically disadvantaged groups are often locked into low-paying, unstable jobs and face a much higher likelihood of being unemployed.

Movement between these labour market segments (primary, secondary, and informal) is difficult, if not impossible, in many cases. Workers become trapped in various labour market enclaves with very different access to employment opportunities. Such segmentation and division within the South African labour markets means that these workers in more vulnerable jobs will face heightened risks of poverty.

### *Causes of Unemployment*

The unemployment crisis in South Africa has many causes that underscore the need for an active, interventionist, and comprehensive strategy to address the problem. The problem of unemployment in South Africa is structural – that is, it is characterised by the evolution of the apartheid economy over time and recent policy developments.<sup>28</sup> Some of the key causes of the current high levels of unemployment include:

- The history of apartheid capitalism which depended on a racially marginalised and exploited workforce to secure profits.
- The development of extremely capital intensive production processes in a country with abundant labour resources.
- The dramatic decrease in investment in South Africa in the 1980s and 1990s.
- The decline and labour-shedding practices of important primary industries – agriculture and mining.
- Falling levels of employment in the parastatals during the later years of apartheid.
- The systematic under-development of skills for the vast majority of the labour force.
- The tendency to export low value-added goods using capital intensive technologies and to import high value-added goods.
- The promotion of vast income inequalities which constrained domestic demand and the expansion of productive investments.
- The recent rapid trade liberalisation and reductions in tariffs.
- The marginal economic development of the former homelands and the townships.
- A relatively contractionary monetary environment and the development of a financial sector with uneven industrial and developmental linkages, as mentioned in the section which discusses GEAR.

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<sup>28</sup> Structural unemployment refers to unemployment which cannot be explained by the periodic growth and contraction of an economy. During an economic downturn, unemployment tends to increase and during a period of growth unemployment tends to decrease. This is called cyclical unemployment. Structural unemployment refers to the average level of unemployment across these variations in economic growth.

*Deteriorating Conditions and Underemployment*

The growth in the levels of structural unemployment in many countries internationally over the past several decades has raised an important question concerning the nature of employment and jobs. Do modern capitalist economies destroy jobs? The answer to this question is not straight-forward and critically depends on what constitutes a job. Not all jobs are equivalent. For example, in Great Britain, the country with the lowest unemployment rate in the European Union, only a third of the population capable of work is still employed in a classical "good job" - a full-time position with guaranteed long-term benefits. Two decades ago, the same figure was 80 percent. Furthermore, despite Germany's higher level of unemployment than that of the U.S., new, well-paid, and secure jobs are created at the same rate - the OECD estimates 2,3 percent - in both countries.<sup>29</sup>

In countries such as Great Britain and the United States - heralded as models of flexible labour markets and low unemployment - job creation has been achieved by changing the nature of jobs and work. Unemployment is merely disguised and hidden by an erosion of well-paid, secure, meaningful work. One lesson becomes clear - employment flexibility has little impact on the creation of these secure, well-paying jobs. Furthermore, such labour market flexibility has been shown to increase inequalities in many countries.<sup>30</sup> The new dynamics of the global economy has created jobs, but often too few jobs with the result that unemployment rates have been climbing. In those countries which have maintained a low unemployment rate, good jobs have been destroyed and replaced by more marginal forms of work.

A useful concept to extend the discussion of recent international employment trends would be to introduce the concept of underemployment or sub-employment.<sup>31</sup> Underemployment would refer to a situation in which the conditions of employment associated with a job have eroded substantially due to the mechanics of modern capitalist economies. Underemployment does not just mean accepting part-time work when full-time work is more desirable. It would also refer to all forms of casual, atypical, and contingent labour. Moreover, if we include the failure to pay a living wage as an aspect of underemployment, the scope of discussing the deterioration of employment expands further. Using this concept of underemployment, the extent of the crisis in South Africa and its contribution to sustaining poverty are profound.

Underemployment and casual employment also have a gender dimension. Women are often used by businesses as a reserve supply of labour. They are frequently the last hired and the first fired, and many women work in part-time, casual or unstable jobs. Such employment is sometimes described as a "revolving door" in which women continuously enter and leave employment in accordance to fluctuating demand for labour in the economy.

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<sup>29</sup> Beck (1997).

<sup>30</sup> Gahan and Robinson (1998).

<sup>31</sup> Gordon (1971)

### *Jobs and Poverty*

Clearly, the South African economy, over its recent history, has a dismal record of job creation. Furthermore, South Africa is facing an employment crisis at the same time the government is pursuing a strategy of rapid integration into the global economy. The drive to stream-line government and capitalist businesses, to improve productivity, to moderate wages, and to introduce a high degree of market competition could further compromised the ability of the South African economy to create jobs and the ability of those jobs to lead to improvements in standards of living. In an economy with such an unequal distribution of assets, in which a majority of people depend on jobs for the economic resources they need to survive, and in which the labour market is highly segmented by race and gender, such trends will only entrench the historical patterns of poverty and deprivation.

### **3. Economic resources from household and subsistence activities.**

Wage labour is not the only category of labour which is important for the functioning of a modern economy and not the only form of work which has an important impact on the magnitude and manifestation of poverty in an economy. Unpaid labour performed in the household is critical in ensuring the integrity and continuity of an economy. The responsibility for unpaid labour – strongly shaped by gender power dynamics – directly influences an individual's involvement in other economic activities (e.g. formal sector employment) and the risk of poverty that person faces.

#### *Gender and Reproductive Labour*

Women perform the largest portion of unpaid labour:<sup>32</sup> household production, childcare, care of the sick and elderly, and subsistence activities. Often such work is called reproductive labour because of its central role in ensuring the continuity of society – from day to day, from year to year, and from generation to generation. In addition, women face discrimination and segmentation in the formal labour market, limiting the amount of income women can earn from such activities. Women face much higher levels of unemployment than do men. Property ownership is concentrated among men, further weakening women's economic position. The lack of economic opportunities and the responsibility for reproductive labour, combined with cultural and historical forces which naturalise gender oppression, mean that women are dependent on an outside source of income, often under the control of a man, to sustain the family.<sup>33</sup>

These dynamics place women, and their children, at high risk for poverty in South Africa. Women not only are responsible for unpaid, reproductive labour. They also often must bear the costs of raising children and delivering caring services. These costs tend to increase over time –

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<sup>32</sup> Seager (1997).

<sup>33</sup> For a good discussion of gender and economic structures see Folbre (1994). Nancy Folbre also outlines the history of welfare provision in the United States, Europe, and Latin America.

e.g. the costs of food, housing, education, clothing, etc. Increasing costs combined with on-going economic marginalisation can rapidly push women and children into poverty. This is particularly crucial in South Africa, where an estimated 26 percent of households are headed by single women.<sup>34</sup>

### *Economics and the Invisibility of Gender*

These economic and gender dynamics must be incorporated into an analysis of income distribution, command of economic resources, and poverty. The forces which maintain traditional household economic relations also contribute to sustained poverty and gender inequalities. Orthodox economics and mainstream policy analysis often ignore the role of household and subsistence activities in the functioning of an economy. Economics is seen as the science of formal sector activities – industrial wage labour, trade and exchange, banking, investment, and management. During the history and development of modern economic theories, these occupations were men’s occupations, and much of the legacy of economics contains strong gender biases. These biases must be explicitly recognised and an alternative framework for understanding the relationships between economics, gender and poverty must be developed.

## **4. Transfers of Income**

The income which sustains a family might not come from owning assets or from wage labour. An additional source of income must be considered – transfers of income to a household from another source. There are two broad categories of such transfers which must be considered – private transfers and public transfers. Private transfers refer to income earned by a “bread-winner,” by relatives, or by a private institution which are then used to maintain one or more households. Remittances of income in South Africa are a clear example of a private transfer. Public transfers refer to income grant programmes initiated by the government. They include such programmes as pensions for the elderly and family maintenance grants. The role of both public and private transfers must be incorporated into an understanding of poverty in South Africa.

### *Private Transfers*

Private transfers play a critically important role in the South African economy. Because of the high rates of joblessness and lack of economic opportunities, many families depend on such transfers to survive. The income of one individual could support many others. Such payments form part of a private “safety net” which can be instrumental in preventing the economic desolation of many households and which serves as an informal mechanism of income redistribution – ironically, from low-wage workers to poor households.

Private income transfers are subject to the dynamics of households and the economy. Control over these transfers often lies in the hands of men, due to greater labour market opportunities and lower rates of unemployment. This can produce a strong dependency within the household which can potentially be threatening for women. For example, women might be forced to remain in an

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<sup>34</sup> Naidoo, Nyman, and Caga (1996).

abusive domestic relationship because they do not have alternative economic opportunities. Furthermore, female-headed households are more likely to be poor because of lack of access to this traditional source of income. Single mothers are often blamed for their own poverty because of their perceived inability to sustain a traditional household relationship.

The dependence on this private safety net also puts a large number of people in a very tenuous position in the face of jobless growth, retrenchments, and a drive for wage moderation. The loss of one job places far more than one person at risk. An entire network of people dependent on private transfers can be devastated by the developments in a modern capitalist economy (e.g. jobless growth, downward pressures on wages, and the erosion of conditions of employment).

### *Public Transfers*

Public income transfers could be an alternative to private transfers of income. South Africa has developed a number of public income transfer programmes which, given the widespread lack of economic opportunities and access to assets, can reduce the negative impacts of an economy which generates wide-spread poverty. Internationally, similar programmes have come under increasing attack, largely from a drive to reduce the level of government spending and to cut back on the size of budget deficits. Public transfer programmes to the poor seem to be a relatively easy target of such macroeconomic policy initiatives. Public transfers are claimed to produce “perverse incentives” (e.g. women choosing to become single parents or individuals choosing to remain unemployed) which compromise economic performance. The elimination of such support measures are supposed to reclaim values of self-sufficiency and support.

### *Income Support and Poverty*

The connections between public transfers, private transfers, and poverty are important.<sup>35</sup> Cutbacks to public support programmes expand the dependency on private support measures. This can be problematic for a number of reasons. First, private income transfers to help sustain low income families come from the poor themselves. Cutbacks to public transfers can be therefore seen as an extremely regressive tax on the poor to fund poverty alleviation. Second, such cutbacks can intensify gender oppression in the context of few economic opportunities for women. If women are not allowed to choose to live independently, then many women could be forced to remain in exploitative relationships. Finally, without a commitment to a broader programme of economic transformation to eliminate poverty, such cutbacks amount to an abdication of responsibility for the inequalities passed down from apartheid and retrenched by a modern economic system.

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<sup>35</sup> Public transfers have been attacked as support for the “undeserving poor.” The history of poverty relief in industrialised countries has shown a reluctance to support strangers – naturalising a preference for private transfers. The attacks on public transfers often emphasise individual choice, individual responsibilities, and “perverse incentives.” Social causes of poverty are not evoked. See Katz (1989).

## **5. Income from self-employment**

Self-employment, in the formal and informal sectors, can also generate flows of economic resources to sustain households. Self-employment, however, does not guarantee that sufficient income will be generated so as to fend off conditions of poverty. In particular, self-employment in the informal sector can be characterised by low incomes, high levels of insecurity, and a lack of regulation and protection by government policies. Informal self-employment must be examined critically, especially given the emphasis on micro-enterprise development – that is, the development of very small-scale informal production – as a strategy for providing economic opportunities to low income households.

### *Characteristics of Informal Work*

The conditions which the self-employed face are often directly linked to other factors which have already been mentioned – access to assets, unemployment, and household dynamics. Lack of access to productive and financial assets can prevent self-employed individuals from improving their standards of living by expanding their activities. High levels of unemployment can push increasing numbers of people into marginal forms of informal self-employment. Larger numbers of informal sector workers – for example, more and more hawkers – can increase competition within the informal sector and lead to deteriorating standards of living, conflict, and, at times, violence. Finally, household responsibilities could limit women’s economic opportunities to low-income forms of informal self-employment.

In South Africa, little is actually known about the informal sector – for instance, incomes earned, conditions of employment, economic relationships, and linkages to the formal and to the household economies. This lack of knowledge makes it difficult to recommend specific policies to address poverty among the self-employed. The very fact that the sector is called informal means that government policies meant to regulate the economy and protect individuals largely do not apply to the informally self-employed. Unless the informal sector is incorporated into specific measures to address poverty, these people can remain invisible. In many respects, the informal economy is seen as a residual segment of the economic system – absorbing people who cannot find economic opportunities in the formal sector. This is not to say that there are no lucrative opportunities in the informal sector; nevertheless, a large number of informal sector activities, however, remain marginal.

As mentioned above, opportunities for workers in the informal sector are constrained by lack of access to economic resources - for example, finances and land. There is much international evidence showing that lack of access to financial resources severely limits informal sector economic opportunities in small and micro enterprises. For example, the operation of the Grameen Bank in Bangladesh demonstrates that if women working in the informal sector gain access to even very small amounts of financial resources, large gains in economic development and welfare can be achieved.

In South Africa, poorer regions have relatively much larger informal sectors than do wealthier regions. Table 8 summarises the estimated size of the informal sector by province. Provinces such as the Eastern Cape and the Northern Cape have a larger percentage of informal sector employment than do Gauteng and the Western Cape – provinces with a history of strong formal sector economic development.

*Women in the Informal Sector*

The table also shows that a large number of the informally self-employed are women – 70 percent for South Africa as a whole. Women are concentrated into lower-income and subsistence activities in the informal sector. There is an informal gender division of labour which is parallel to the gender segmentation in the formal sector.

**Table 8. The Informal Sector**

	<b>Informal workers as % of employed population</b>	<b>Informal sector. Self-employed women as % of total self-employed.</b>
Gauteng	14%	58%
Western Cape	12%	67%
Free State	21%	90%
Northern Cape	14%	88%
Eastern Cape	23%	76%
Northern Province	25%	65%
Mpumalanga	17%	78%
North-West Province	18%	67%
KwaZulu/Natal	18%	67%
<b>SOUTH AFRICA</b>	<b>17%</b>	<b>70%</b>

Source: 1995 October Household Survey. November 1996

Often, policies which aim to expand economic opportunities focus on micro-enterprises and informal sector economic activities. Such an approach to economic empowerment ignores the fact that most informal sector activities are characterised by low incomes, unstable employment, high risk, long hours, and, as mentioned above, a lack of regulation. Promoting micro-enterprises uncritically can mean the continued marginalisation of many workers, particularly women, within the economy and a failure to address the concrete sources of poverty and dislocation in South Africa.

## VI. Developing a Way Forward

If poverty is to be successfully addressed in South Africa, an alternative approach to economics must be developed and appropriate policies implemented. Again, it is important to remember that economics is only one aspect of poverty and, while necessary, economic transformation by itself is not sufficient to overcome the crisis in South Africa. Nevertheless, the workings of the economic system and the economic policies which are adopted have far-reaching consequences. These consequences are not only in terms of income distribution; they also influence how health care is provided, the focus and extent of education, how work and workers are valued, and the role of women in society. Therefore, a programme of economic transformation must occupy a central place in a strategy to end poverty.

The idea of economic *transformation* must be stressed. The operations of the current South African economy, if left alone, will entrench and replicate the conditions of poverty inherited from the apartheid era. While poverty relief programmes can mitigate the negative impacts of these outcomes, they will not eradicate the crisis situation. This is the central problem of the orthodox economic approach to poverty – it takes existing economic structures as given. The current macroeconomic policy direction also adopts this general mindset. Higher rates of growth and productivity improvements are assumed to be necessary and sufficient, more fundamental economic changes are not.

Furthermore, the economics of poverty cannot be reduced to a simple essential formula. A wide range of class, racial, gender, historical, and productive relationships influence the manifestation of poverty in South Africa. In order to develop an economic strategy which moves towards the elimination of poverty, an equally textured approach is required. Therefore, job creation alone cannot eliminate poverty, nor can the development of a public social security system. Transforming gender dynamics can form part of the solution, but does not make up the entire picture. A more comprehensive set of strategies which build on the interactions between these different elements is required.

### *Areas of Focus*

Building from the alternative analysis of poverty offered in this discussion document, several areas of focus emerge as forming a possible foundation on which to move forward. These areas could be summarised as follows:

- (1) *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.

Asset redistribution can be linked to alternative ways of organising production, which emphasise participatory and co-operative management.

- (2) *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.
- (3) *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, providing 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.
- (4) *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 which have been mentioned previously. Furthermore, such dependency places female-headed households at a much grave 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.
- (5) *Develop 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.

In developing approaches to these issues it is important that 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. In many cases, there is no need to re-invent the wheel. It is rather a question of bringing policies together in a single framework and developing strategies for implementation.

There is a set of interventions which have not received adequate attention in this paper, largely because they will be addressed in the other hearings on poverty. These are the areas of public service provision and meeting basic needs. Public provision of basic goods, services, and infrastructure – for instance, water, housing, electricity, education, and health care – must form part of an alternative approach to economics and poverty. It can be argued that a basic level of these goods and services must be publicly provided in order to address poverty and inequalities in society. Such provision reflects an alternative to the dominant mechanics of a capitalist economy – they would not be produced for sale in a market in order to generate profit, but would be provided as an essential human right.

## **VII. Conclusions**

This paper has attempted to outline the general linkages between poverty and economics. The extent of poverty, as narrowly measured by a household's or individual's control over economic resources, was documented within the confines of existing data. A framework for thinking about basic socio-economic rights within the function of an economy was suggested. Following this background, how economic theory explains poverty was explored – looking briefly at the orthodox approach and then putting forward a more complex alternative. From this alternative analysis, discussions could begin on how to move the economy, and economic policy in particular, in a direction which effectively address the crisis of poverty in South Africa.

Moreover, the document has attempted to link poverty to how an economic system is structured. The analysis is not based on examining “the poor” and “the non-poor” as distinct social groups; rather the approach is to look at the economy as a system which can produce and entrench poverty – a system in which both “the poor” and “the non-poor” play crucial roles.

This document is meant to fuel discussion and debate. It is not meant to be a complete exposition of all the issues and alternatives raised. Nevertheless, it is hoped the ideas suggested here can help frame the difficult analysis of the interaction between the economy and the perpetuation of poverty.

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