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**South Africa's Gini coefficient: causes, consequences  
and possible responses.**

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A research project submitted to the Gordon Institute of Business Science,  
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# ABSTRACT

South Africa is acknowledged as having the highest Gini coefficient in the world. The Gini coefficient is a measure of income inequality in a country. The eradication of all forms of inequality was probably the most important aspiration for people pre-democracy. After two decades of democracy, not only has the eradication of inequality not materialised, but inequality has worsened. The aim of the research is threefold. Firstly, to understand the origins and the ensuing reasons for inequality as it is experienced in South Africa in 2013 and secondly, to investigate what the effects of this inequality are on the lives of South Africans, socially, politically and economically. Lastly, the research aims to find what, if anything, South Africans can do to address the issue, in order to determine if the aspiration is indeed attainable.

Qualitative exploratory research was conducted by interviewing 16 prominent South Africans with the requisite knowledge of the topic and experience in their respective fields. Semi-structured, in-depth face-to-face interviews were performed. Content and theme analysis were carried out on the transcripts, followed by the recording of the responses in logically ordered tables. The literature informed the interpretation of the results in the tables.

The reasons for and causes of South Africa's high Gini coefficient were identified, with the apartheid legacy and the present government's governance style as the two greatest contributors. The effects of the high inequality in the South African context were considered far more detrimental to society, than to the politics and the economy of the country. The research yielded a number of actions that could be considered to reduce inequality, thereby improving the Gini coefficient. The two most important proposals were addressing the current poor education system and finding a solution for unemployment.

## **KEYWORDS**

Gini coefficient, inequality, income inequality, South Africa.

# DECLARATION

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other university. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

Liana Harmse

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# CONTENTS

<b>ABSTRACT .....</b>	<b>i</b>
<b>KEYWORDS .....</b>	<b>ii</b>
<b>DECLARATION .....</b>	<b>iii</b>
<b>ACKNOWLEDGEMENTS.....</b>	<b>iv</b>
<b>CHAPTER 1: INTRODUCTION .....</b>	<b>1</b>
1.1 The Gini Coefficient .....	1
1.2 The Gini Coefficient for South Africa.....	2
1.3 Research Aim .....	4
<b>CHAPTER 2: LITERATURE REVIEW.....</b>	<b>7</b>
2.1 The Gini coefficient of Inequality .....	7
2.2 The History of Inequality .....	8
2.3 Present Day Inequality .....	10
2.4 Income Inequality in South Africa.....	12
2.5 Inequality in Emerging Economies.....	16
2.6 Causes of a high Gini coefficient.....	18
2.6.1 Predisposition and History .....	18
2.6.2 Global Economic Practices.....	18
2.6.3 Culture .....	19
2.6.4 Unemployment .....	19
2.6.5 Education.....	20
2.6.6 Corruption.....	21
2.7 Effects of a high Gini coefficient.....	22
2.7.1 Effects on Society .....	22
2.7.2 Effects on Politics and Economics .....	23
2.8 Ways of decreasing the Gini coefficient .....	24
2.8.1 Lessons from Brazil .....	25
2.8.2 Education.....	27
2.8.3 Social Spending.....	28
2.8.4 Corruption.....	30
2.9 Conclusion .....	30
<b>CHAPTER 3: RESEARCH QUESTIONS.....</b>	<b>32</b>
3.1 Research Question 1 .....	32

3.2 Research Question 2 .....	32
3.3 Research Question 3 .....	32
3.4 Research Question 4 .....	32
<b>CHAPTER 4: RESEARCH METHODOLOGY AND DESIGN.....</b>	<b>33</b>
4.1 Introduction .....	33
4.2 Research design .....	33
4.3 Unit of Analysis .....	34
4.4 Population .....	35
4.5 Sampling.....	35
4.6 Interview Guideline .....	35
4.7 Data Collection Method.....	36
4.8 Data Analysis .....	37
4.9 Reliability and Validity .....	39
4.10 Research Limitations .....	40
<b>CHAPTER 5: RESULTS.....</b>	<b>41</b>
5.1 Sample Description.....	41
5.2 Research Question 1: .....	42
What are the reasons for South Africa currently having the highest Gini coefficient in the world? .....	42
5.3 Research Question 2: .....	45
What is the effect of high income inequality on the South African society, politics and the economy? .....	45
5.4 Research Question 3: .....	52
Should South African leadership attempt to reduce the Gini coefficient? ..	52
5.5 Research Question 4: .....	53
If the answer to question 3 is yes, what actions can be taken to effect the improvement and by whom, and if the answer is no, why?.....	53
<b>CHAPTER 6: DISCUSSION OF RESULTS.....</b>	<b>60</b>
6.1 Introduction .....	60
6.2 Research Question 1 .....	60
6.2.1 History .....	61
6.2.2 Education.....	63
6.2.3 Unemployment .....	64
6.2.4 Governance .....	65

6.2.5 Social.....	67
6.2.6 Globalisation .....	67
6.2.7 A Middle Class.....	68
6.2.8 Other.....	69
6.3 Research Question 2 .....	69
6.3.1 Effects on Society .....	70
6.3.2 Effects on Politics .....	71
6.3.3 Effects on the Economy.....	72
6.4 Research Question 3 .....	74
6.5 Research Question 4 .....	74
6.5.1 Government.....	75
6.5.2 Business .....	77
6.5.3 Labour .....	78
6.5.4 Society.....	78
6.5.5 Conclusion.....	79
<b>CHAPTER 7: CONCLUSION.....</b>	<b>80</b>
7.1 Introduction .....	80
7.2 Main Findings.....	80
7.2.1 Causes .....	80
7.2.2 Effects.....	80
7.2.3 Actions.....	81
7.3 Recommendations to Stakeholders for Future Action.....	81
7.3.1 Government.....	81
7.3.2 Business .....	83
7.3.3 Labour .....	83
7.3.4 Civil Society .....	83
7.3.5 In Collaboration .....	83
7.4 Recommendations for Future Research .....	84
7.5 Conclusion.....	85
<b>REFERENCES.....</b>	<b>86</b>
<b>APPENDIX 1: Interview Guideline.....</b>	<b>91</b>
<b>APPENDIX 2: Consistency Matrix.....</b>	<b>93</b>



## FIGURES

Figure 1: 2007 Income flowing to the top 1% of population in the USA.....	11
Figure 2: USA – share of National Income earned by share of population over 60 years .....	12
Figure 3: RSA - share of National Income earned by share of population before and 15 years into democracy .....	13
Figure 4: Flow of 80% of National Income in 1993 and 2008 respectively .....	14
Figure 5: BRICS Countries – Share of National Income Earned by Share of Population .....	17

## TABLES

Table 1: Length of time taken to increase human population with 1 billion: inception to current.....	8
Table 2: People living in poverty and extreme poverty .....	9
Table 3: Summary of South Africa’s 2011 Incomes .....	15
Table 4: Distribution of 2011 Annual Incomes.....	15
Table 5: BRICS countries – comparing inequality and population size .....	16
Table 6: List of Interviewees.....	41
Table 7: Reasons for SA’s High Inequality.....	43
Table 8: Effects on Society .....	45
Table 9: Effects on Politics .....	47
Table 10: Effects on the Economy .....	50
Table 11: Responses to Question 3 .....	52
Table 12: Possible actions to be taken.....	53

# CHAPTER 1: INTRODUCTION

The Gini coefficient - a globally accepted measure of income inequality - for South Africa, as listed by The World Bank as well as the Central Intelligence Agency, is the highest in the world. South Africa is now recognised by Oxfam International as “the most unequal country on earth and significantly more unequal than at the end of apartheid” (Slater, 2013, “Extreme wealth and inequality”, para. 1). The research seeks to find the causes of the very high inequality, interrogate the impact thereof on society, politics and the economy, as well as seek actions that could address and reduce such inequality.

## 1.1 THE GINI COEFFICIENT

The Gini coefficient is a globally used measure of income inequality in countries (The World Bank, 2013). The coefficient ranges between 0 and 1, where 0 represents complete equality and 1 represents complete inequality. The World Bank definition states that it measures the extent to which the distribution of income or consumption expenditure, among individuals or households within an economy, deviates from a perfectly equal distribution (The World Bank, 2013).

It is important to distinguish between income inequality and wealth inequality (Bosch, Rossouw, Claassens, & Du Plessis, 2010). Income refers to current monthly income received from salaries, wages, rentals, interest and profits (Bosch et al., 2010). Social transfers such as pensions and grants are included in this category. Wealth refers to household assets accumulated by savings or preserved through generational transfers (Bosch et al., 2010).

Inequality is however not always bad. According to Branko Milanovic, a World Bank lead economist, ‘good’ inequality is necessary to incentivise people to study and work harder as there is always a possibility of unequal economic outcomes (Milanovic, 2010). It is however important to be mindful of the fact that high levels of inequality reduce the impact of economic growth on poverty reduction (Wade, 2011). This seems to outweigh whatever impact high inequality might have on entrepreneurship and hard work. Inequality reduction

and poverty reduction should not simply be conflated , as the former does not equate to the latter (Wade, 2011).

For the sake of balance, it should be mentioned that the Gini coefficient has recently come under criticism by supporters of the Palma ratio. This measurement tool is named after the Chilean economist, José Gabriel Palma (Cobham & Sumner, 2013). The main reason for the criticism is that the Palma ratio is easier to understand for non-mathematically inclined people. It should be noted that, although easier to comprehend, the basis of calculation for the Palma ratio is not the same as for the Gini, and that when the Palma was developed certain assumptions regarding income levels were made (Cobham & Sumner, 2013). The Palma ratio is based on the observation that the five 'middle' deciles (D5 to D9) of the income distribution tend to capture around 50% of total national income (Cobham & Sumner, 2013). An analysis of income distributions in chapter 2 shows that this measure is not appropriate for South Africa.

## **1.2 THE GINI COEFFICIENT FOR SOUTH AFRICA**

Results for South Africa, as published by The World Bank, showed a coefficient of 0.59 in 1993 and 0.67 in 2006 (The World Bank, 2013). The Central Intelligence Agency published 0.59 for 1994 and 0.65 for 2005 (Central Intelligence Agency, 2013). The Institute for Justice and Reconciliation reports a Gini coefficient of 0.70 for 2008 in their 2012 Transformation Audit (The Institute for Justice and Reconciliation, 2012). These numbers indicate a clear deterioration in income equality in the years following South Africa's democratisation in 1994. The tables also reflect that South Africa is the most unequal country in the world as far as household income goes. In its 15-Year Review, the new democratically elected government acknowledges the fact that inequality is on the rise (The Presidency, 2009). This report alludes to a Gini coefficient of between 0.25 and 0.4 to be healthier and sets it as a goal to work towards (The Presidency, 2009).

One of the country's problems stems from the high expectations that were pinned on democratisation to reduce income poverty and inequality, brought about under apartheid (Seekings, 2007). In their 1994 election campaign, the African National Congress (ANC) promised "a better life for all" (Seekings, 2007, p. 2). The election manifesto promised that "attacking poverty and deprivation" (p. 2) would be "the first priority of the democratic government" (Seekings, 2007, p. 2).

In an attempt to make sense of this socio-economic dilemma, the Centre for Development and Enterprise convened a Round Table discussion in March 2010, at which some of South Africa's leading experts spoke on the politics and economics of inequality and what policy makers could do about it (Altbeker, Hay, Bernstein, & Schlemmer, 2010). The participants of the discussion concurred that with the high levels of inequality, the country's history and the racialised character of the inequality, there is a real danger present in its potential to be destabilising (Altbeker et al., 2010).

Understanding the causes of and the potential responses to South Africa's high inequality is both challenging and controversial (Altbeker et al., 2010). People's attitudes to inequality and their views on what should be done about it, often depend on their beliefs, commitments and prejudices (Altbeker et al., 2010). According to Altbeker et al. (2010) the first question to be asked should be: what *can* be done about it? The annual number of grants paid since the ANC became the ruling party in 1994, have increased so significantly, that South Africa could be the most redistributive state of all developing countries today (Altbeker et al., 2010). Yet, inequality stubbornly persists.

In 2012, the minister for economic development, Ebrahim Patel, convened a panel on income inequality (Molefe, 2012). The reasoning behind this discussion was that as South Africa looks to the developed world for ideas on how to grow, it should also be aware of mistakes made in the developed world and adjust its actions accordingly (Molefe, 2012). Patel's view was that the state of inequality in South Africa was not sustainable and presented a threat to social cohesion (Molefe, 2012). He mentioned the need for a partnership between government, business and labour, as government alone could not be

expected to effectively manage the triple threat of inequality, poverty and unemployment that South Africa is facing today (Molefe, 2012). The aforementioned panel discussion was part of his department's strategy to utilise the inputs of influential individuals from developed countries towards achieving, what he termed 'policy coherence', in South Africa in the fight against inequality (Molefe, 2012). The visiting panellist was the head of the United Kingdom's High Pay Commission, a commission set up by the UK government to investigate the exorbitantly high incomes of top executives. The commission had previously published their findings and subsequently produced a 12-point recommendation, including a list of actions to take with a view on transparency (Molefe, 2012). This panel discussion therefore focused on the top end of South Africa's inequality spectrum.

Unfortunately, nothing of what is being discussed, no action that is being taken, manages to displace the shadow that is cast on the future of the majority of people in South Africa. Most recently, Prof Adam Habib, in his keynote address at the Mail & Guardian Literary Festival, referred to "the challenges of our historical moment" (p. 1), when he opined that "democratic South Africa is approaching its moment of reckoning" (Habib, 2013, p. 2). He however argues that an 'African Spring' is not inevitable, as South Africans managed to avoid an uprising in 1994 (Habib, 2013). What is needed though, is a mature response to this moment of reckoning by government, business and labour (Habib, 2013). This time around South Africa might not have another 20 years in which to achieve co-operation between government, business and labour. The urgency of the matter spoke for itself in his closing statement when he stated that "while we wallow on in this moment of reckoning...we remain trapped in South Africa's suspended revolution" (Habib, 2013, p. 8).

### **1.3 RESEARCH AIM**

From the onset, it has to be stated that the aim of the research is not to question the validity of South Africa's Gini coefficient. For the purpose of this research, it is accepted that it is the highest in the world. Cognisance has to be taken though, that different parties often report on the Gini coefficient without

mentioning which combinations of income have been included in the calculation. For that reason, it should be noted that this research aims to make use of the after tax, after transfer results.

South Africa's inequality is a topic high on the agenda of many forums. Inequality is debated and discussed, reasons and causes are mentioned, solutions and actions are suggested, but mostly participants walk away from these forums without reaching agreement on future action (Molefe, 2012).

The first purpose of this study is to obtain and consolidate the views of a range of experts from various fields on the causes of South Africa's rising income inequality. It is relatively easy to comprehend inequality as stemming from the apartheid legacy. However, since democratisation, public spending has been radically reshaped with affirmative action programs and large amounts of spending on black economic empowerment, yet inequality has become worse. This is troubling (Altbeker, Hay, Bernstein, & Schlemmer, 2010).

The second purpose of the study is to analyse the impact of this extremely high inequality on the society, the politics and the economy of South Africa. Discussion forums often become trapped between the question of whether it is wiser to focus on inequality *per se*, or to focus on mass poverty and unemployment. The intention of this study is to address the state of inequality, as quantified by the Gini coefficient (Altbeker et al., 2010; Molefe, 2012).

Thirdly, the study aims to gain insight into whether there should be any intervention in the state of inequality in the country at all. As previously mentioned, the redistributive policies have not had any positive influence on the Gini coefficient (Bhorat, Van der Westhuizen, & Jacobs, 2009). Furthermore, redistribution is not sustainable and every rand spent on social transfers is a rand not spent on maintaining infrastructure such as schools and roads (Altbeker et al., 2010). Additionally, continuous redistributive spending creates a deeper dependency, which in turn restricts economic growth (Altbeker et al., 2010).

Lastly, the research aims to search for responses or actions that can be taken to mitigate the problem. It is clear that solutions are not evident, and coming full

circle, the question is once again raised whether the causes of inequality in South Africa are fully understood. Have South Africans created a situation for themselves that is so complex, that even a nation heralded for a peaceful transition to democracy, cannot untangle the problem? Alternatively, are the causes of inequality in fact understood, the solutions fairly evident, but inaction or unwillingness by people in positions of power result in the persistence of this social dilemma?

# CHAPTER 2: LITERATURE REVIEW

## 2.1 THE GINI COEFFICIENT OF INEQUALITY

The Gini coefficient is an international standard for measuring the distribution of income or wealth in a country (Bosch, Rossouw, Claassens, & Du Plessis, 2010)

The Gini coefficient is an established measure of income inequality, by analysing the statistical dispersion of income (Dorfman, 1979). In 1912 Corrado Gini proposed the coefficient as a measure of the variability of a statistical or probability distribution in his classic paper *Variabilità e Mutibilità* (Gini, 1921; Dorfman, 1979). He based it on the average of the absolute differences between pairs of observations, and defined it as the ratio of half of the average to the mean of the distribution (Dorfman, 1979).

The Gini coefficient is a ratio between 0 and 1 (Bosch et al., 2010). Equal income for every individual is indicated by 0 and one individual receiving all the income is indicated by 1. Sometimes it is also reported as a Gini index, which ranges between 0 and 100 (Bosch et al., 2010).

Outcomes for the calculation of the coefficient sometimes lead to confusion, as different institutions include different combinations of incomes in their calculations and use different weighting of incomes (Bosch et al., 2010). It is important to be clear on the choice of either household income or individual income as being the indicator for income. The World Bank uses weighting per household size and calculates the share of income held by individual, as opposed to households (Bosch et al., 2010). Statistics South Africa excludes the impact of certain government policies such as the provision of free housing and free basic services to poor households, and uses the household size multiplied by the household weight to weigh per capita income (Bosch et al., 2010). That would explain why there are often differences between the outcomes published by the different institutions (Bosch et al., 2010).



## 2.2 THE HISTORY OF INEQUALITY

Before addressing the matter of inequality in South Africa, it will be meaningful to look at the history of the phenomenon globally and then position the country within that history in the context of its own political history.

The history of the world's population growth provides a framework for the economic development of nations and the subsequent inequality that economic progress has given rise to. As indicated in Table 1, the human population first reached the one billion mark between the years 1800 and 1820 (after thousands of years) (Chilosi, 2010). The two billion mark was reached around 1930 (in just over 100 years) (Chilosi, 2010). The total population reached three billion in 1960, in only 30 years (Chilosi, 2010). The year 1975 marked four billion (15 years later) and 1986 marked five billion (11 years later) (Chilosi, 2010). Six billion was reached around 1996, in only ten years (Chilosi, 2010). In 2011 the global human population reached seven billion people, after a period of 15 years (Population Reference Bureau, 2012).

**Table 1: Length of time taken to increase human population with 1 billion: inception to current**

	1 Bil	2 Bil	3 Bil	4 Bil	5 Bil	6 Bil	7 Bil	8 Bil
Year reached	1820	1930	1960	1975	1986	1996	2011	Predicted 2024
Number of years to reach next billion	Up to 10 000	110	30	15	11	10	15	13

(Chilosi, 2010; Population Reference Bureau, 2012)

Historically, the world population growth was slow up to the Industrial Revolution (1750 to 1800) (Chilosi, 2010). Thereafter it has been changing rapidly. After the Second World War (post 1945) there was an explosion both in population and wealth (Chilosi, 2010). Simultaneously Chilosi (2010) contends that never before had the number of absolute poor people been so high,

although the percentage of poor people had never been so low (Chilosi, 2010). Seen from the perspective that the world’s human population is constantly growing and economic inequality is at an all-time high, it is not as a result of the lot of poor people worsening, but rather as a result of improvements in the lives of many (Chilosi, 2010). Chilosi (2010) highlights, as can be seen in Table 2, the fact that the portion of the world population living in poverty changed from 94.4% in 1820 to 39% in 2005, while people living in extreme poverty changed from 83.9% in 1820 to 21% in 2005 (Chilosi, 2010). Nevertheless, there is still a large part of humanity living in appalling conditions of poverty (Chilosi, 2010). In 1820 84% of the population equated to 840 million, but in 2005 21% of the population equated to 1.365 billion people.

**Table 2: People living in poverty and extreme poverty**

	1820	2005
<b>% people living in poverty</b>	94.4%	39%
<b>% people living in extreme poverty</b>	83.9%	21%
<b>Number of people living in extreme poverty</b>	840 mil	1 365 mil

(Chilosi, 2010)

The reasons for the large growth in population and wealth are many, such as technical progression and industrialisation, progress of medicine, intensified international trade and investment as well as the improvement in global transport, travel and communication (Chilosi, 2010). During the post-war years (1949 to 1978), referred to as the ‘30 golden years of capitalism’, executives of large corporations began substantially increasing their income (Bresser-Pereira, 2010). In the name of meritocracy, the practice of executives awarding themselves higher salaries, bonuses and stock options began taking root (Bresser-Pereira, 2010). Professionals and techno-bureaucrats – the controllers of administrative, technical and communicative knowledge – also benefitted (Bresser-Pereira, 2010). Meanwhile, since the productivity of both labour and capital increased, benefits should have accrued to all workers, but they mainly

accrued to executives and financiers (Bresser-Pereira, 2010). It is Bresser-Pereira's (2010) contention that since the 1950s professional executives and since the 1980s also the financiers gained enough political power to capture a substantial part of the economic profits produced by the economic system (Bresser-Pereira, 2010).

During the '30 neo-liberal years of capitalism' (1979 to 2008), as a result of political coalition and trade liberalisation, developing countries with low paid workers became more competitive and immigration to rich countries increased (Bresser-Pereira, 2010). Exports of manufactured goods from fast-growing middle income countries and immigration resulted in depressed wages in rich countries. The increase in immigration was not as a result of the rich countries opening their borders, but rather the need of the poor to emigrate to improve their own bad circumstances (Bresser-Pereira, 2010). To a large extent, lower transport and communication costs served as enablers and the unacknowledged interest of rich countries in employing cheap labour aided the increase in immigration (Bresser-Pereira, 2010). Since 1980, wages have increased slower than productivity and the salaries and bonuses of executives and professionals have increased significantly (Bresser-Pereira, 2010).

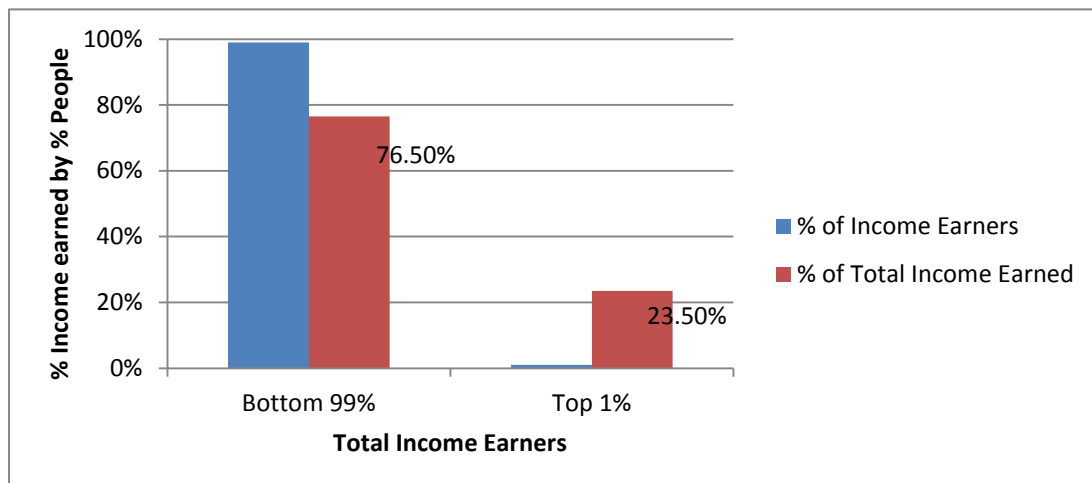
With regard to developing countries, Bresser-Pereira (2010) is of the opinion that inequality will continue to increase for as long as there is no limit to available labourers and the reserve of unemployed or underemployed workers do not become exhausted (Bresser-Pereira, 2010). Considering the difference in trends of population growth in developed and developing countries, the prospects of a limit to available labourers do not seem high (Chilosi, 2010). There seems to be an inverse correlation between developed countries and a reduction in population growth (possibly related to income growth and infertility) and developing countries and increased population growth (Chilosi, 2010).

### **2.3 PRESENT DAY INEQUALITY**

In illustration of the extent to which modern inequality has progressed, it is useful to use figures provided by the United States of America's Internal

Revenue Service. During the period 2002 to 2007, incomes for the bottom 90% of households increased annually by 0.8%, while the top 1% of households experienced average annual increases of 10.1% (Feller & Stone, 2009). In 2007, shortly before the financial crisis, 23.5% of the nation's income flowed to the top 1% (see Figure 1). The last time income concentration levels reached this height was in 1928, shortly before the Great Depression, when 23.9% of national income flowed to the top 1% of the population (Feller & Stone, 2009; Palma, 2011 in Wade, 2011).

**Figure 1: 2007 Income flowing to the top 1% of population in the USA**

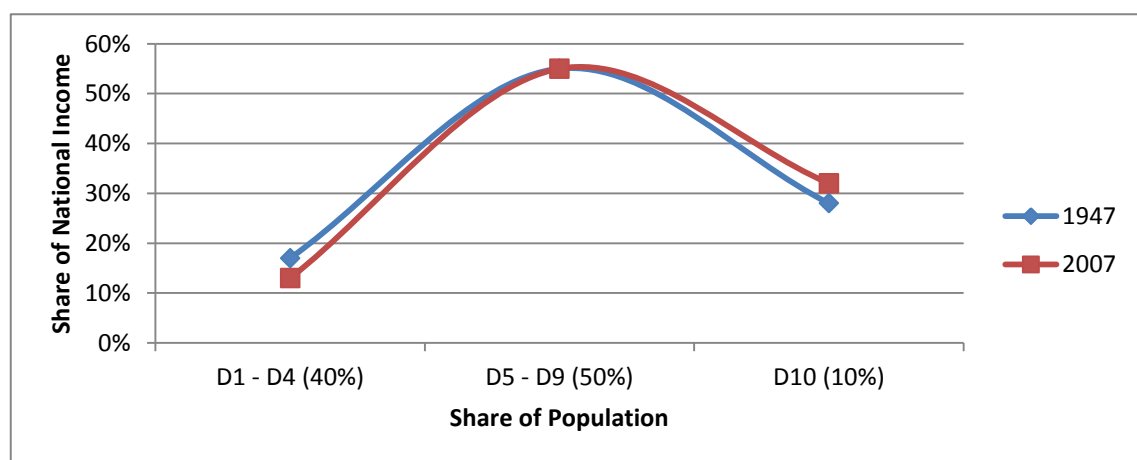


(Feller & Stone, 2009)

There seems to be a common pattern among middle- and high-income countries when inequality is assessed by each decile (10%) of the population (Wade, 2011). Denoting the poorest decile as D1 and the richest as D10, it is noted that the people falling into deciles D5 to D9 (50% of the population) earn roughly half of the nation's income, across a 134 countries, including the United States of America (Palma, 2011 in Wade, 2011). The people who fall into these deciles are school teachers, middle managers, civil servants, young professionals, as well as self-employed people with costly assets such as owner-drivers of taxis (Palma, 2011 in Wade, 2011). However, the income shares of D10 and D1 to D4, together the other half of the population, differ largely between countries (Wade, 2011). This difference is the reason behind the difference in the average inequality between countries (Wade, 2011). In

high inequality countries the share that D10 receives is much higher than the share of D1 to D4, while in low inequality countries, the difference between the two groups is much smaller (Wade, 2011). In Figure 2 it can be seen how statistics show that for the United States of America, the income share for deciles D5 to D9 remained stable over the entire period 1947 to 2007, while shifts in income happened between deciles D1 to D4 and D10 (Palma, 2011 in Wade, 2011).

**Figure 2: USA – share of National Income earned by share of population over 60 years**

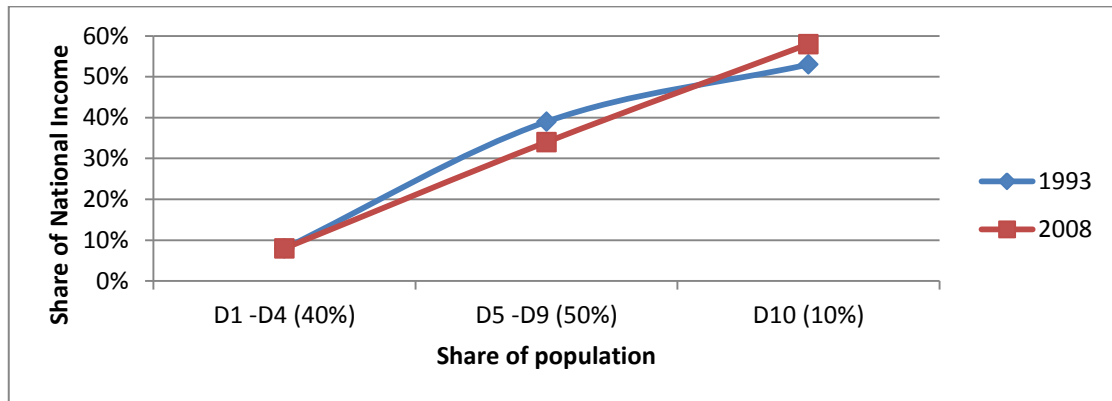


(Palma, 2011 in Wade, 2011)

## 2.4 INCOME INEQUALITY IN SOUTH AFRICA

In a similar analysis done for South Africa (as above), using income statistics for 1993 and 2008, a number of differences were found (Leibbrandt, Finn, & Woolard, Describing and Decomposing Post-Apartheid Income Inequality in South Africa, 2012). Firstly, as illustrated in Figure 3, deciles D5 to D9 (50% of the population) receive only between 34% and 39% of the nation's income (Leibbrandt et al., 2012). That leaves deciles D1 to D4 and D10 (the other 50% of the population) with between 61% and 66% of national income. What is alarming about these numbers, is that D1 to D4 (40% of the population) only receive 8% of the nation's income, which leaves the richest decile D10, with between 53% and 58% of the income (Leibbrandt et al., 2012).

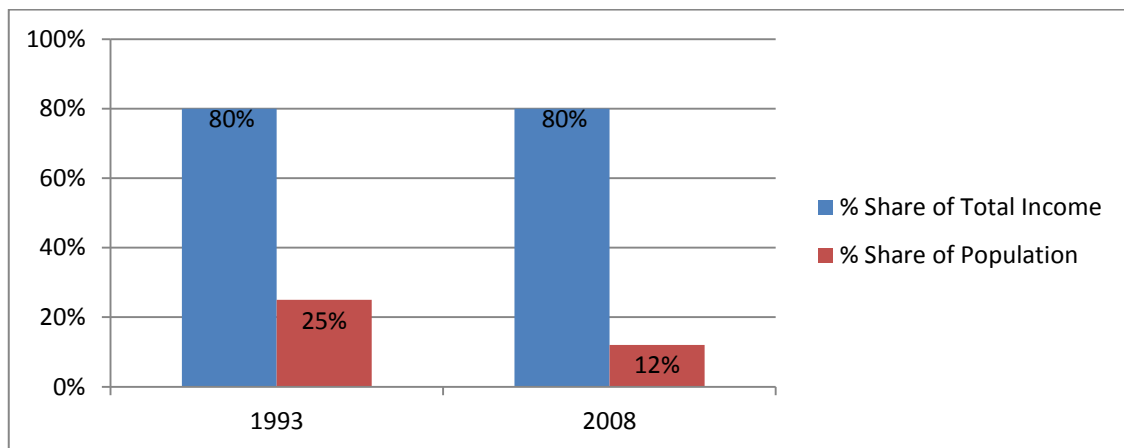
**Figure 3: RSA - share of National Income earned by share of population before and 15 years into democracy**



(Leibbrandt, Finn, & Woolard, 2012)

South Africa has a long history of inequality (Frye & Kirsten, 2012). The policies of the pre-1994 government marginalised the majority of the population by excluding them from the political, social and economic activities in the country (Frye & Kirsten, 2012). This describes South Africa's apartheid legacy and could be a great contributing factor to the income inequality statistics mentioned above. In the abovementioned analysis, the years 1993 and 2008 were used in order to draw an inference on how well the new democratic government has performed in addressing the inequality fifteen years into democracy (Leibbrandt et al., 2012). As mentioned before (see Figure 3), no difference had been made to the incomes of the bottom 40% of the population, while it is noteworthy that two-thirds of the income to the bottom quintile in 2008 came from social assistance, mainly child support grants (Leibbrandt, Woolard, Finn, & Argent, 2010). However, the incomes of the middle 50% (D5 to D9) decreased from 39% in 1993 to 34% in 2008 (Leibbrandt et al., 2012). More alarming though, is the increase from 53% in 1993 to 58% in 2008 of national income for the top 10% (D10) of the population (Leibbrandt et al., 2012). Expressed differently (see Figure 4), in 1993 the top 25% of the population received 80% of the nation's income and in 2008 80% of the nation's income was concentrated to the top 12% of the population (Leibbrandt et al., 2012).

**Figure 4: Flow of 80% of National Income in 1993 and 2008 respectively**



(Leibbrandt, Finn, & Woolard, 2012)

These data show that the high level of income inequality on the aggregate increased between 1993 and 2008 (Leibbrandt et al., 2012). Further to that, it is also true for inequality within each of the country's racial groups, with the highest increase in inequality within the African group (Leibbrandt et al., 2012). The between-race inequality however shows a decrease, suggesting that a new dynamic has been introduced to this complex phenomenon in South Africa (Leibbrandt et al., 2012).

Table 3 below provides a snapshot of South Africa's 2011 census results positioned over the results from calculations done by Leibbrandt et al. (2012) on 2008 incomes (Statistics South Africa, 2012; Leibbrandt et al., 2012). In 2011 the South African population size was 51,770,560 (Statistics South Africa, 2012). That means that the bottom 40% equals 20.7 million people, the middle 50% equals 25.9 million and the top 10% equals 5.2 million people. Total household income was R1,567,455 million (Statistics South Africa, 2012). Based on the work of Leibbrandt et al. (2012), who found that 8% of total income flowed to the bottom 40%, 34% flowed to the middle 50%, and 58% flowed to the top 10%, it could be inferred that 46.6 million people lived off R658,331 million in 2011, while 5.2 million people lived off R909,124 million in the same year (Statistics South Africa, 2012; Leibbrandt et al., 2012). Further to this, the numbers reflect that in the aggregate, the bottom 40% of South Africans had on average R500 per person per month to make a living from, and the middle 50% had R1700 per person per month.

**Table 3: Summary of South Africa's 2011 Incomes**

	Deciles D1 to D4 Bottom 40%	Deciles D5 to D9 Middle 50%	Decile D10 Top 10%
Total Population - 2011	51,770,560		
No of People per Category - 2011	20,708,224	25,885,280	5,177,056
Total National Household Income - 2011	R1,567,455,000,000		
% Income Split in 2008	8%	34%	58%
2011 Income Split as per 2008 %'s	R125,396.4mil	R532,934.7mil	R909,123.9mil
Average per Capita Income per Annum – 2011	R6,055	R20,588	R175,606
Average per Capita Income per Annum – 2011 – across all households (weighted)	R31,050		
Average per Capita Income per Annum – 2011 – across total population (not weighted)	R30,277		

(Statistics South Africa, 2012; Leibbrandt, Finn, & Woolard, 2012)

Unfortunately, Statistics South Africa (2012) reported the 2011 income distribution in income quintiles, as opposed to the 2006 results which they reported in deciles (Statistics South Africa, 2008). Although having the 2011 results in deciles would have been more convenient, inferences can still be drawn from the 2011 income quintiles. Table 4 shows how annual per capita incomes were distributed.

**Table 4: Distribution of 2011 Annual Incomes**

Bottom Quintile	2 <sup>nd</sup> Quintile	3 <sup>rd</sup> Quintile	4 <sup>th</sup> Quintile	Top Quintile
Up to R4,543	R4,544 to R9,886	R9,887 to R21,002	R21,003 to R57,099	R57,100 and above

(Statistics South Africa, 2012)



Consideration of these numbers in a simplified way results in the following conclusions. In 2011 the tax threshold was R57,000 (South African Revenue Service, 2011). Based on the information in Table 4, only approximately 20% of the South African population contributes to the fiscus. The World Bank defines extreme poverty as living on less than \$1.25 per day (The World Bank, 2012). At a 2013 exchange rate of R10.00 to the Dollar, it means that as per Table 4, at least 20% of the South African population is living in extreme poverty (Statistics South Africa, 2012).

## 2.5 INEQUALITY IN EMERGING ECONOMIES

**Table 5: BRICS countries – comparing inequality and population size**

	GINI Index (latest available year)	GINI Index (earlier available year)	Population Mid-2012 (millions)	Projected Population Mid-2025 (millions)	Projected Population Mid-2050 (millions)	2050 Population as Multiple of 2012
Brazil	54.7 (2009)	60.1 (2001)	194.3	210.3	213.4	1.1
Russia	40.1 (2009)	39.6 (2001)	143.2	140.8	127.8	0.9
India	33.9 (2010)	33.4 (2005)	1259.7	1458.2	1691.1	1.3
China	42.1 (2009)	42.6 (2005)	1350.4	1402.1	1310.7	1.0
S. Africa	63.1 (2009)	57.8 (2000)	51.1	54.2	57.2	1.1

(The World Bank, 2013; Population Reference Bureau, 2012)

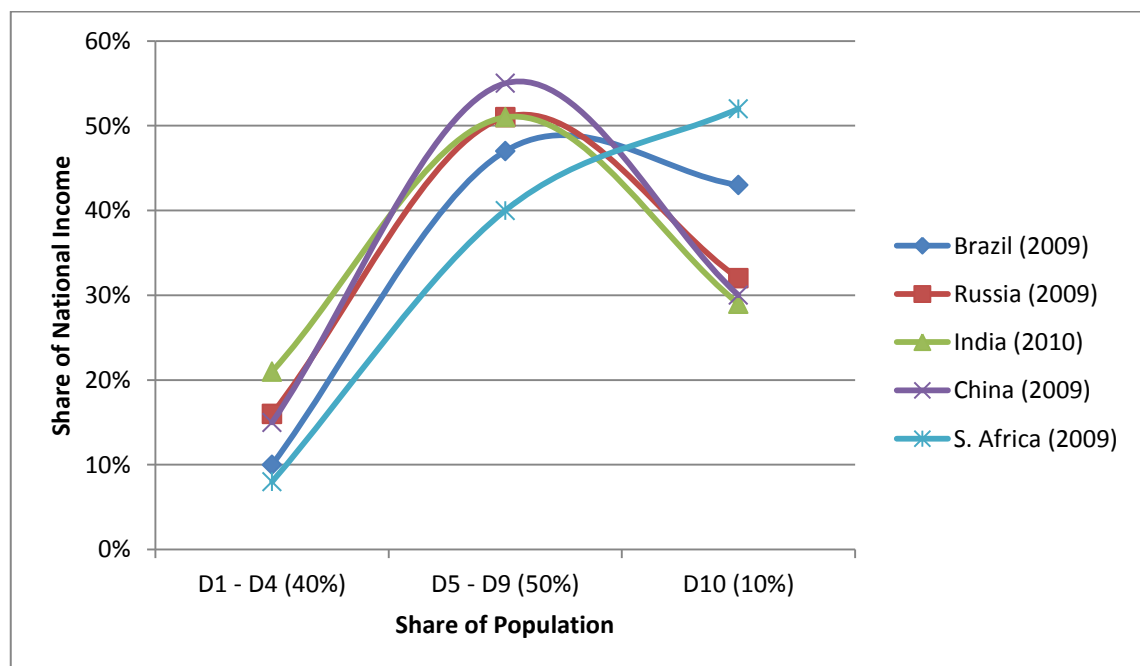
Emerging economies (EEs) consist of a highly heterogeneous group (see Table 5) of countries in terms of economy size, population size, per capita incomes and growth performance over the last decade (OECD, 2011). Not only have EEs reached different stages of development, but their long-term patterns of development also differ (OECD, 2011).

The Organisation for Economic Co-operation and Development (2011) contends that all emerging economies (EEs) have levels of income inequality significantly higher than the average of the OECD member countries (OECD,

2011). Additionally, the underlying forces of inequality are different from those in the OECD countries, such as large and persistent informal sectors, large divides between urban and rural life, gaps in access to education, and barriers to employment for women (OECD, 2011). In EEs the benefit and tax systems play a lesser role than in OECD countries in easing market driven inequality (OECD, 2011). EEs seem to be burdened with problems such as tax evasion and administrative bottlenecks in collecting taxes on personal income. The high levels of self-employment and the large informal sectors limit the ability of tax authorities to verify taxpayers' declared income (OECD, 2011).

Figure 5 illustrates the comparison of income distributions of EEs against each other, similar to the data illustrated in Figure 2 and Figure 3.

**Figure 5: BRICS Countries – Share of National Income Earned by Share of Population**



(The World Bank, 2013)

In Figure 5 it can be seen that the four BRICS countries, other than South Africa, have income distributions similar to the USA and another 133 countries, with the income of D5 to D9 clustered around 50% (Wade, 2011). Figure 5 demonstrates that whilst Brazil does not display ideal statistics, the income distribution for South Africa is the most alarming. Figure 5 depicts that South Africa's income flow to the bottom 40% is lower than any of the other countries,

the income flow to the middle 50% is significantly lower than the other countries, and lastly, the flow of income to the top 10% is consequently the highest of the five countries. Figure 5 shows that Brazil's distribution still somewhat resembles a curve similar to the other countries, but South Africa's distribution is completely outside of the general norm found by Palma (Palma, 2011 in Wade, 2011).

## **2.6 CAUSES OF A HIGH GINI COEFFICIENT**

### ***2.6.1 PREDISPOSITION AND HISTORY***

Wade (2011) opines that countries fall either into a high-inequality or a low-inequality cluster. According to Wade (2011) the high-inequality cluster starts at a Gini coefficient of 0.5, and that roughly 75 - 80% of the world population live in countries in the high-inequality cluster (Wade, 2011). The upper boundary for the low-inequality cluster is a Gini of 0.33. The two recent exceptions are the United States and the United Kingdom that have moved from the low-inequality cluster to the intermediate zone (Wade, 2011).

According to Wade (2011) there seems to be a 'lock-in' or 'path-dependence' mechanism at work, which keeps high-inequality countries unequal and low-inequality countries fairly equal (Wade, 2011). In low-inequality countries, long histories of relatively inclusive economic and political institutions are found, and there seems to be a large middle-class labour force, operating in a labour market where remuneration is related to skills (Wade, 2011). Contrary to that, high-inequality countries seem to have long histories of exclusive economic and political institutions. Here one finds political executives being unchecked by impersonal justice institutions (Wade, 2011).

### ***2.6.2 GLOBAL ECONOMIC PRACTICES***

Wade (2011) mentions an interesting point. He states that globally, within country inequality has slowly been rising since 1980, regardless of the cluster a country falls in (Wade, 2011). A second interesting point he makes, is that

changes in within country inequality are more likely caused by factors with wide geographic distribution, such as global financial regimes, global commodity regimes, and the trend towards more open national economies, than by characteristics and policies of an individual country (Wade, 2011).

### **2.6.3 CULTURE**

In a 1996 study it was found that cultural and economic factors played a complementary role in economic development (Granato, Inglehart, & Leblang, 1996). Although it is stated that cultural factors alone do not explain all cross-national variations in economic growth rates, evidence suggests that cultural differences play an important role, together with a society's economic and political institutions (Granato et al., 1996). The authors explain that in using the term culture, they refer to a system of basic common values that helps shape the behaviour of people in a given society (Granato et al., 1996). Virtually all pre-industrial cultures were hostile to social mobility and individual economic accumulation. However, a protestant version of Christianity played a key role in the rise of capitalism, and later, a more modernised version of Confucian-influenced society encouraged economic growth through its support of education and achievement (Granato et al., 1996).

### **2.6.4 UNEMPLOYMENT**

According to Seekings (2007) there are two direct causes of income poverty and inequality, the first of which is unemployment (Seekings, 2007). The effect of unemployment on poverty is emphasised by a growing group of people who are systematically disadvantaged, with no prospect of escaping from poverty. Often, unemployed people experience poverty temporarily, as it is brought to an end by finding employment (Seekings, 2007). Others however, lack skills, credentials and social capital necessary to secure employment. Seekings (2007) is of the opinion that social capital is probably the most important factor in securing employment – having family or friends who are employed and can

assist with finding a job (Seekings, 2007). The proportion of unemployed people living in workerless households has grown at an alarming rate to almost 50% of total households in 2004 (Seekings, 2007).

Cysne (2009) states that multiple studies have found that any increase in structural unemployment has a substantial aggravating impact on income inequality. He continues to say that these studies documented that unemployment leads to a shift in the shape of income distribution, with a rise in the flow to the top decile (Cysne, 2009).

### **2.6.5 EDUCATION**

The second direct cause of poverty and inequality is education (Seekings, 2007). Education and skills of new entrants to the labour force are of great importance in shaping the ways that inequalities evolve over time (Seekings, 2007). In South Africa in the last decade at least, it has been unclear what skills are associated with any particular grade attainment, including matric. A weak correlation exists between the grade in which students are enrolled and their scores in literacy and numeracy tests. Many students are promoted into higher grades without having mastered basic numeracy and literacy (Seekings, 2007). The reasons for this seem clear: most South African schools provide a very low quality of education. Despite the government spending up to 7% of GDP on public education, school leavers are not equipped for skilled or even semi-skilled employment (Seekings, 2007).

Leibbrandt, Finn, & Woolard (2012) state that although there have been real improvements in average years of schooling, especially among people previously disadvantaged, there has not been a significant increase in people with completed secondary schooling and no increase in people with tertiary qualifications (Leibbrandt et al., 2012). It is therefore unfortunate that the demand for labour has moved to favour those with completed secondary schooling and higher levels of education. As a result only very highly skilled individuals have been able to enter the labour market and move up the earnings distribution (Leibbrandt et al., 2012). The labour market therefore seems to be

the driving force behind wage income inequality (Branson, Garlick, Lam, & Leibbrandt, 2012). Borat, Van der Westhuizen, & Jacobs (2009) concur and state that the labour market is characterised by a mismatch in the demand and supply of labour, with a continuing increase in the demand for skilled labour, while there is a vast pool of unskilled labour available. They emphasise that a relatively small portion of the South African population is skilled and that it is this skill premium that causes the skewed wage distribution (Bhorat, Van der Westhuizen, & Jacobs, 2009).

Branson et al. (2012) state that more and better education is needed from the South African education system, in order for it to become a more egalitarian force in the labour market and in general. Unlike other developing countries, South Africa's school enrolment rates are high. The challenge lies in increasing average years of schooling, so that most youth can complete secondary schooling (Branson et al., 2012). They however contend that it is doable. The difficult issue is how central the improvement of the quality of education is to the achievement of these objectives (Branson et al., 2012). In line with global trends, South Africa experiences a skills twist, with returns to matric and post-secondary education rising and returns to levels of education below matric falling sharply (Branson et al., 2012). There will be no going back, as technological change results in an increasing demand for highly educated workers (Milanovic, 2011). Jan Tinbergen, a late Dutch economist, stated that inequality is the result of the race between technology and education (Milanovic, 2011).

### **2.6.6 CORRUPTION**

The capacity of the state to deal with poverty properly is considerably enhanced in circumstances where the government is effective and behaves with integrity (Hoffman, 2012). When a government loses as much as R30 billion a year in the state tender process, a process which has to be compliant with the values of the country's constitution, the state's ability to fund social expenditure aimed at sustainably alleviating poverty, is negatively impacted (Hoffman, 2012). The

argument therefore stands that on-going corrupt activity, especially in the public sector, is a major concern in the effectiveness of the fight against poverty (Hoffman, 2012).

## **2.7 EFFECTS OF A HIGH GINI COEFFICIENT**

The Gini coefficient in itself is harmless, while inequality, which is measured by the Gini, has been shown in recent years by various authors to be detrimental to entire societies, and that greater equality not only improves the wellbeing of whole populations, but also the performance of countries in different fields (Wilkinson & Pickett, 2010). Adam Smith is quoted as having emphasized the importance of being able to present oneself in society without the shame and stigma of apparent poverty (Wilkinson & Pickett, 2010).

### **2.7.1 EFFECTS ON SOCIETY**

Wilkinson and Pickett (2010) contend that inequality gets under the skin of people. They describe how inequality affects issues such as trust in fellow humans, mental and physical health, educational and academic performance, violence and imprisonment, as well as social mobility (Wilkinson & Pickett, 2010). Inequality and teenage pregnancies can be directly associated, with each problem fuelling the other. On the topics of criminality and violence, the authors quote a speech made in 1886 by Frederick Douglas, when he said that where justice is denied, where poverty is enforced, where ignorance prevails and where one class is made to feel that society is in an organised conspiracy to oppress, rob and degrade them, neither persons nor property will be safe (Wilkinson & Pickett, 2010). This resonates particularly with the South African case, as well as the finding that the fear of crime and violence might be as big a problem as the level of violence itself. Fear of violent crime affects the quality of life of many, and disproportionately affects the vulnerable – an important infringement of basic human freedoms (Wilkinson & Pickett, 2010).

Wilkinson and Pickett (2010) developed their Index of Health and Social Problems based on the UNICEF index of child wellbeing. The authors contend that inequality is divisive and quote the philosopher Alain de Botton saying that when people cannot maintain their position in a social hierarchy, they are condemned to consider the successful with bitterness and themselves with shame (De Botton, 2004 in Wilkinson & Pickett, 2010).

The authors conclude that regardless of any individual or household's level of income, in general people tend to do better in more equal societies (Wilkinson & Pickett, 2010). Unfortunately all the research which Wilkinson & Pickett (2010) use in their work, seem to have been conducted in developed countries, which is a limitation as South Africa is classified as a developing country.

### ***2.7.2 EFFECTS ON POLITICS AND ECONOMICS***

Analysts agree that persistent and high levels of inequality can harm the quality of democracy and potentially lead to social conflict, and in a worst case scenario it can threaten the survival of democracy (Bhorat & Van der Westhuizen, 2012). Positive economic growth in South Africa's first decade of democracy resulted only in modest gains in terms of poverty reduction, while individuals at the top-end of the distribution gained the most from the post-apartheid growth dividend. What this suggests is that the current democratic growth model is crafted around supporting incomes at the bottom-end of the distribution through extensive social grants, whilst offering few returns to those in the middle of the distribution (Bhorat & Van der Westhuizen, 2012).

The development of a middle class holds promise for the development of the rest of an economy (Visagie & Posel, 2013). Various studies in a number of countries over a 25 year period have shown that a sizable middle class could help foster higher levels of economic growth (Visagie & Posel, 2013). This could be through attitudes and behaviours specific to the middle class, stimulation of optimal levels of effective demand, higher overall rates of human capital accumulation, or through promoting democracy and political stability (Visagie & Posel, 2013).



The international economics literature adopts two broad definitions of a middle class. The first is a middle class defined by the middle share of the national income distribution. The second is a middle class defined by an absolute level of affluence and lifestyle – that is, what would normatively be considered a middle class standard of living (Visagie & Posel, 2013). In South Africa, a large share of people in the middle income strata live in relative poverty (refer Figures 2, 3 and 5), while a middle class identified by affluence is found in the upper end of the income distribution (refer Tables 3 and 4) (Visagie & Posel, 2013). Visagie and Posel (2013) found that the middle class identified by affluence relies mostly on labour market income (85.3%), followed by income from investments (8.8%), while the middle class defined by the middle strata also relies mostly on labour market income (58%), but is heavily subsidised by social transfers (39.2%) (Visagie & Posel, 2013). This alludes to a very weak culture of saving, which is clearly necessary for growing a middle class.

It is therefore possible to infer that the middle class in South Africa, as defined by income strata, is much too poor, and the middle class defined by affluence, is much too small, to fulfil the role of economic and political stabiliser as described earlier (Visagie & Posel, 2013). Visagie and Posel (2013) did however find that mean incomes correspond to individual labour market status and educational attainment (Visagie & Posel, 2013).

## **2.8 WAYS OF DECREASING THE GINI COEFFICIENT**

According to Bresser-Pereira (2010) there are three central questions that could be asked about inequality in a capitalist system. Firstly, what the structural economic constraints are that nations face in reducing domestic inequality, secondly what the level of freedom is that they allow within those constraints, and thirdly what could be done internationally (Bresser-Pereira, 2010)? For the purpose of this study, the focus remains on the domestic question.

The history of South Africa's inequality, this widening gulf between rich and poor with its roots going deep into the past, cannot be undone (Wilson, 2011). It has, however, to be acknowledged and understood if we are to find effective

strategies to overcome it (Wilson, 2011). It has to be recognised that the extractive philosophy, as opposed to sustainable, which has infused all economic activity since Europe arrived in South Africa in the seventeenth century, now has to change radically (Wilson, 2011). The long-term consequences of amongst others mining without care for the water, smelting without care for the atmosphere, growing the economy without care for the unemployed, and governing without care for the quality of education of all the children, are all too apparent today (Wilson, 2011). Fundamental rethinking of policies is needed to reshape South Africa's path into the twenty-first century (Wilson, 2011).

### **2.8.1 LESSONS FROM BRAZIL**

Brazil is a good example of a country that has successfully been able to reduce inequality in recent decades. Brazil's Gini index has significantly and steadily decreased from 60.8 in 1993, 58.8 in 2003 to 54.7 in 2009 (The World Bank, 2013). This improvement reflects changes in both wages and social transfers (Arnold, 2011). Although much remains unknown about why inequality has fallen, two sets of known causes stand out (Hailu & Soares, 2009).

For Brazil, one factor to which the improvement can be attributed is education (Arnold, 2011; Hailu & Soares, 2009). The 'education premium', that is the gap between the remuneration of skilled and unskilled work, fell markedly as the supply of skilled labour increased. Simultaneously, better access to education allowed more households to earn higher wages (Arnold, 2011). Together with other demographic trends, for example a decline in family size and improvements to family dependency ratios, access to education helped reduce inequality (Hailu & Soares, 2009).

A second contributing factor, and possibly more significant, is Brazil's effective use of social policies, such as direct cash transfers, particularly the conditional cash transfer program *Bolsa Familia* (Arnold, 2011; Hailu & Soares, 2009).

According to Loureiro (2012), the Brazilian conditional cash transfer (CCT) program can be distinguished from other welfare programs in that the conditional aspects incentivise children's education and healthcare, the grant is paid in cash and the responsible individual is almost always a woman (Loureiro, 2012).

The *Bolsa Familia* proved to be very cost-effective at 0.4% of Brazilian GDP (Arnold, 2011). Other transfers however, did not lag behind. Old-age pensions also reduced poverty and inequality. There has been a sharp rise in pension benefits and it is mainly due to the fact that minimum pension benefits are indexed to the minimum wage, of which the real value increased by 70% over ten years (Arnold, 2011).

Although only two thirds of the improvement can be explained by education policy, demographic trends and social protection, and although Brazil still has a long way to go, the knock-on effects of better income distribution can already be seen (Hailu & Soares, 2009). After decades of very volatile macroeconomic conditions and high inequality, Brazil has been able to generate jobs at an increasing rate in the new century (Menezes-Filho & Scorzafave, 2009). It has led to a decline in unemployment and informal work, despite an increasing labour force participation rate. The increasing level of human capital accumulation, together with the conditional cash transfer programs, led to a steady decline in inequality (Menezes-Filho & Scorzafave, 2009).

Recommendations for the future of Brazil are of interest to the South African case. In order to continue on this path, it is recommended that Brazil continues to expand the education of its workforce, and in so doing increase the transitions from high school to college education (Menezes-Filho & Scorzafave, 2009). Another recommendation is for Brazil to improve their conditional cash transfer program, *Bolsa Familia*, so that the 11 million families benefitting from it can find a way out of poverty in the long run and start participating more effectively in the labour market (Menezes-Filho & Scorzafave, 2009). Further recommendations include the decrease of informality, by promoting institutional reforms to speed up the process of creating new firms, reducing the tax burden levied on small firms, simplifying the tax and labour judiciary systems, and

implementing labour market reforms so that hiring and firing of formal employees become less expensive in Brazil (Menezes-Filho & Scorzafave, 2009).

### **2.8.2 EDUCATION**

The decomposition of inequality by income source shows that wage income is the dominant component in overall income inequality (Van der Berg, 2010). To a large extent wage inequality derives from differences in both educational levels and educational quality (Van der Berg, 2010). Given the way the labour market interprets educational attainment, the many young people who do not complete high school, are effectively excluded from the economic mainstream (Van der Berg, 2010). Even if enrolment and completion rates are good by developing country standards, inequality in terms of education quality remain problematic (Branson, Garlick, Lam, & Leibbrandt, 2012).

Certain policies to better the formal education system can be adopted from international experience to address South Africa's specific problems (Branson et al., 2012). Given South Africa's limited resources, it is important to evaluate what spending options deliver the best results for the lowest costs. Due to South Africa's extremely poor performance in international numeracy tests, a greater investment in mathematical skills seems worthwhile (Branson et al., 2012). Various countries have tried different approaches to achieve school quality and educational achievement. These include policies designed to increase school accountability to the community and policies to improve teacher performance (Branson et al., 2012).

In 2011, The Organisation for Economic Co-operation and Development published an insightful report on the teaching profession, derived from various successes achieved globally (Schleicher, 2011). The report addresses issues such as:

- Making teaching an attractive career choice

Highly qualified graduates are unlikely to be attracted to teaching if they see an existing teaching corps with low skill levels that is not trusted to act as professionals. Successful countries have shown how a teaching profession that assumes a high level of responsibility and is well rewarded, can attract some of the best graduates into a teaching career (Schleicher, 2011).

- Continuous professional development

Dramatically increasing the quality and prestige of a nation's teaching corps include measures at recruitment stage, but more importantly involve transforming the profession from within (Schleicher, 2011).

- An effective teacher appraisal system

Continuous professional development needs to be integrated into both the teacher's career and into the school system. At the career level, in-service education, appraisal and reward need to be closely aligned (Schleicher, 2011).

- The securing of a strategic relationship between government and teachers' unions

As educational reform often becomes politicised, it is essential to build a constructive political process in which teachers share with politicians and administrators the main goals of reform. The interests of any particular group should not be ignored and compromise will always be necessary, particularly when some individuals are threatened by change. It has been shown that collaborative models of educational reform can be highly effective (Schleicher, 2011).

### **2.8.3 SOCIAL SPENDING**

South Africa's fiscal process has been particularly successful in shifting resources on a large scale from the previously privileged to the poor, without over-reaching the boundaries set by fiscal constraints and responsible macroeconomic policy (Van der Berg & Moses, 2012). Yet, issues of limitations to redistribution continually arise with regard to how effectively the shifts in social spending translate into shifts in social outcomes, also how much can be

spent on social grants without encouraging perverse incentives associated with the grants (Van der Berg & Moses, 2012). After the advent of democracy in 1994, improved revenue collection, good fiscal discipline and a growing tax base allowed government the fiscal flexibility to increase social spending by 70% per capita in the first decade. (Van der Berg & Moses, 2012).

Although targeting of social spending improved radically, affecting the Gini coefficient positively, questions are still being raised with reference to the outcomes as far as poverty, education and health goals are concerned (Van der Berg & Moses, 2012). Results from a study by Van der Berg and Moses (2012) on social service delivery, conveyed an overwhelming message that social spending often did not produce the desired social outcomes, both in social delivery programs and in households. Households differ in their propensity to convert social grant spending into improved living standards (Van der Berg & Moses, 2012).

The scope for reducing inequality any further through fiscal shifts is therefore limited, as the true goal of welfare spending is not simply to transfer resources, but rather to ensure that the desired outcomes are achieved (Van der Berg & Moses, 2012). The primary challenge facing South African policy makers is to strengthen the links between fiscal resource shifts and social outcomes. After two decades of democracy, the policy discussion should therefore focus on why the conversion of fiscal inputs to desired outputs have been largely unsuccessful, as well as how it could be remedied (Van der Berg & Moses, 2012).

When the Child Support Grant was initially introduced, receiving thereof was subject to certain conditionalities, such as participation in 'development programs' and immunisation of the child in question (Leibbrandt, Woolard, Finn, & Argent, 2010). The requirement in respect of 'development programs' was dropped after it became apparent that the programs were not available in all areas. The requirement of immunisation was dropped, because some children were already disadvantaged in terms of access to health services (Leibbrandt et al., 2010)

If the welfare state is to be extended in ways that reduce poverty without providing disincentives to people to provide for themselves, then it should probably extend to reducing the pension age for people, especially those living in rural areas (Seekings, 2007). Men and women without skills, above the age of 50 years, and living in rural areas are unlikely to find employment again. Removing them from the labour force would have few costs other than the direct costs of the cash transfers themselves (Seekings, 2007). It would indeed have the political benefit of reducing unemployment and poverty rates, without actually increasing employment (Seekings, 2007).

#### **2.8.4 CORRUPTION**

Hoffman (2012) opines that with millions of South African citizens living in various states of poverty, the continuation of corruption is intolerable (Hoffman, 2012). The author states that in 2012, the Public Protector pointed to three strategies to steer the country away from a tipping point in the area of corruption that she saw looming. Firstly, public accountability needs to be promoted, secondly transparency needs to be reinforced, largely via the media, and thirdly, the culture of impunity that is abroad needs to be addressed via better law enforcement in relation to criminality giving rise to corruption (Hoffman, 2012).

It is Hoffman's (2012) view that combating corruption and fighting poverty are in many ways two sides of the same coin: the better the results for the former, the better the prospects for the latter. Hoffman (2012) contends that if tender fraud and corruption are eliminated, it would free up R30 billion per year that could be spent on worthier causes than the feathering of the nests of the corrupt among South Africans (Hoffman, 2012).

#### **2.9 CONCLUSION**

The literature provides a robust background for the understanding of the general problem of income inequality and how it historically developed. There is also sufficient information for a researcher to understand that differences exist

between inequality in developed and developing economies. South Africa's struggle with inequality, with its roots deeply seated in apartheid, is well documented, and so is any progress made or lack thereof since the inception of democracy. From the literature it is also clear why high inequality is regarded as an undesirable prevailing state with reference to a country's people and their moral fibre, as well as with reference to a country's economic growth. Additionally the literature provides information on how some countries have been able to keep inequality low or which policies have been documented as successfully dealing with high levels thereof. The literature provides a sound background for the researcher to continue the study on South Africa's high inequality ratio.

This study aims to consolidate existing knowledge, from literature as well as from experts on South Africa's inequality, and to interpret it in a meaningful way in order for any interested party to take it forward and apply the newly derived information in a useful and constructive way.



## **CHAPTER 3: RESEARCH QUESTIONS**

The research seeks to gain a clearer understanding of the South African problem of high income inequality as reflected by a high Gini coefficient.

### **3.1 RESEARCH QUESTION 1**

What are the reasons for South Africa currently having the highest Gini coefficient in the world?

### **3.2 RESEARCH QUESTION 2**

What is the effect of the high income inequality on the South African society, politics and economy?

### **3.3 RESEARCH QUESTION 3**

Should South African leadership attempt to reduce the Gini coefficient?

### **3.4 RESEARCH QUESTION 4**

If yes, what actions can be taken to effect improvement, and if no, why?

# **CHAPTER 4: RESEARCH METHODOLOGY AND DESIGN**

## **4.1 INTRODUCTION**

The study aimed to extract information in the form of opinions and recommendations from a group of people who were perceived by their peers as having the requisite knowledge of the subject or parts of the subject. The subject under investigation was South Africa's rising income inequality and the effect thereof on the social welfare of society, the inevitable economic effect, as well as the effect on the politics of the country.

The study sought to pull together the known and predicted possible outcomes of rising income inequality, in a country that was already part of the high inequality cluster. At the same time, the study aimed to establish the reasons why income inequality kept rising, since it was one of the most important changes people believed they would be voting for in the advent of democracy. Further to that, the study also aimed to obtain and consolidate opinions on whether intervention for better equality would have a positive outcome, or whether it was a natural phenomenon best left to the forces of the market. The intention was that each participant would substantiate a negative answer with reasons, and a positive answer with suggestions of what could be done.

The outcome of the study was intended to be a comprehensive report, consolidating a variety of learned opinions with existing literature, in order to produce a useful source of information for further, more conclusive research into a possible course of action (Zikmund, 2000).

## **4.2 RESEARCH DESIGN**

During the literature review, the writings of only a core number of academics were found on income inequality in South Africa. The opinions of economists were widely available, as were the recommendations of politicians. Political, academic and economic leaders had also attempted to convene panels or work

groups for discussion of this phenomenon. Outcomes however always remained fractional. During discussions and in the written word, participants seemed to become distracted by side issues, or focused on only one part of the problem. Conflicting opinions was another obstacle, with consistence of implementation ideas being virtually unattainable.

For this reason, since it appeared that the requisite knowledge was in fact vested within individuals with particular experience, it was decided that exploratory research would be most appropriate. It was decided that in-depth interviews would yield the most comprehensive set of data and it was estimated that 15 interviews could provide data saturation.

As the study was exploratory and therefore qualitative, it was executed by conducting in-depth interviews with 16 experts on the subject (Saunders & Lewis, 2012). There were four open-ended questions, resulting in the interviews being semi-structured with minimum guidance given by the questions. Participants were encouraged to talk freely without influence from the researcher on the direction of the conversation (Zikmund, 2000). Welman, Kruger and Mitchell (2005) state that in qualitative research, the researcher constitutes the primary research instrument. The researcher should observe without affecting that which is being observed, as well as keep his or her expectations under control (Welman, Kruger, & Mitchell, 2005).

According to Zikmund (2000) there are three interrelated purposes for exploratory research: one – to diagnose a situation, two – to screen alternatives, and three – to discover new ideas (Zikmund, 2000). The research design allowed for all three these purposes to be addressed.

### **4.3 UNIT OF ANALYSIS**

The units of analysis were the experience, opinions, perceptions and insights of experts on various aspects of South Africa's Gini coefficient and income inequality, as obtained and recorded during semi-structured interviews that were later transcribed.

#### **4.4 POPULATION**

The population consisted of all experts in the Republic of South Africa who were considered knowledgeable about the South African Gini coefficient and the problem of the country's income inequality. Examples of experts interviewed were economists, academics, business leaders and political writers.

#### **4.5 SAMPLING**

The aim was to interview a sample of 15 experts. Potential participants were identified based on their background and current area of expertise. Amongst the 15 experts, the intention was to have approximately four economists, four business leaders, four academics from different disciplines, and three political analysts. For the selection of participants for the interviews, judgement sampling was primarily used, along with some snowball sampling where deemed valuable (Saunders & Lewis, 2012). The final sample ended up having 16 participants.

Judgement sampling is a nonprobability sampling technique, which a researcher uses to select a sample to serve a specific purpose (Zikmund, 2000). Snowball sampling is a sampling method whereby additional participants are obtained from referrals by initial participants (Zikmund, 2000). Both these sampling techniques are appropriate to exploratory research.

#### **4.6 INTERVIEW GUIDELINE**

An interview guideline, developed based on the research questions identified in chapter 3, was followed during the interviews. The guideline can be viewed in Appendix 1. The interviews were expected to last approximately one hour each. The interview questions were open-ended and were to be posed to the participants one by one in a semi-structured fashion (Saunders & Lewis, 2012). The researcher expected that responses from the participants would have to be probed for elaboration for the purpose of better clarity and understanding (Saunders & Lewis, 2012).

The interview guideline was pilot tested to iron out any possible problems (Saunders & Lewis, 2012). The pilot interview was done with a work colleague, who himself has vast knowledge of South Africa's inequality, as he is currently a PhD fellow on the topic of transformation. During and after the pilot interview, it became clear that adjustments had to be made to the initial explanation, the introduction as well as to the structure of one of the questions, in order to facilitate the flow of the interviews better.

The pilot interview made it possible to identify the necessity to emphasise to the respondents that it would be an in-depth interview, which would require of them to provide extensive explanation of their views. It also became clear that it would work better to run through the questions before the start of the interview, as it would provide the respondents with a framework for their expectations and enable them to order their responses according to the different questions.

During the pilot interview, the recording device was utilised, to ensure familiarity with its operation and rule out the possibility that it could be faulty.

#### **4.7 DATA COLLECTION METHOD**

The researcher conducted face-to-face in-depth interviews with each of the selected sample of experts. Alternative methods of interviewing, such as telephonic and skype interviews, were avoided by travelling to the cities where some of the respondents resided and worked. The reasoning behind this was to ensure consistency, as well as ensuring that the respondents' full attention and focus would be captured.

The interviews lasted just under an hour each. Before the start of each interview, the purpose of the study was explained, after which each interviewee was asked for permission to record the interview and requested to read and co-sign a consent statement with the researcher, which would guarantee confidentiality (Welman, Kruger, & Mitchell, 2005). The interviews were recorded and complimented with notes taken by the researcher, in particular with reference to non-verbal behaviour (Welman et al., 2005). In a number of

instances the researcher had to probe the respondents for elaboration (Zikmund, 2000).

The interviews were done at the offices of the interviewees, or a location of their choice, to ensure a comfortable environment that would encourage openness and focus on the subject.

#### **4.8 DATA ANALYSIS**

Each interview was successfully recorded and the services of a transcriber was procured to document the interviews verbatim. Great care was taken to ensure accuracy of the transcripts, by listening to the recordings while simultaneously reading the transcriptions, before correcting any typing errors. This exercise also served as an opportunity to start the process of becoming familiarised with the content of the interviews.

Transcripts were coded while performing content analysis, themes were identified and narrative analysis was done.

According to Ryan and Bernard (n.d.) in Welman, Kruger and Mitchell (2005), theme identification is one of the most fundamental tasks in qualitative research. Theme identification techniques include word analysis such as word repetitions and keywords in context, comparing and contrasting of material, and physical manipulation of texts (Ryan & Bernard, n.d., in Welman et al., 2005).

Saunders, Lewis, & Thornhill (2009) discuss three main types of qualitative analysis processes. The different processes are summarising of meanings, categorising of meanings, and ordering of meanings, using narrative (Saunders et al., 2009). The aforementioned processes allow the researcher interaction with the qualitative data in order to comprehend them, integrate related data from different transcripts, identify patterns for further exploration, and to draw and verify conclusions (Saunders et al., 2009).

Before starting with the analysis, it was decided to treat each question as a different theme, namely causes, effects and actions. The question 1 section of

each transcript was carefully read and coded. Once the material was prepared, a list was compiled of the causes, one by one, as mentioned by each interviewee. Corresponding causes were then identified and coded. Before categorising the corresponding points together as one theme, care was taken to ensure accuracy of interpretation, so as to prevent a separate idea from being absorbed and lost in an incorrect category. A table was then drawn up, listing all the different causes, and the number of interviewees who mentioned each cause. Lastly, the list of causes were ranked according to the number of times they were proposed, from the highest number to the lowest number.

The same method was applied to questions 2, 3 and 4. Question 2 was however subdivided into three further themes, namely effects on society, effects on politics and effects on the economy. Each of these sub-themes were analysed in the same way as question 1 described above. Analysing question 2 was much more time consuming than the first question. While question 1 contained one theme and the analysis proved quite simple, the second question had three sub-themes. While answering the question, most interviewees did not stick to the order in which the question was posed. If one of the themes was an area of interest or speciality for them, they would focus most of their answer on that particular area, even after being probed, suggesting response bias.

Certain of the interviewees seemed to resonate strongly to one or more of the effects under discussion, leading to their responses being emotionally loaded. Some interviewees would cover all three of the themes in question 2 concurrently, which led to the material becoming vague in areas. Exceptional care had to be taken to ensure accurate interpretation and avoid confusion of the themes. Once the analysis was completed, separate tables were compiled for each of the sub-themes in the way described for question 1.

Whilst busy with the analysis of questions 3 and 4, it became evident that while one interviewee answered in the negative and three others did not answer explicitly in the positive, none of the respondents suggested total inaction. All of the respondents suggested actions that would lead to the topic, namely income inequality, being impacted.

Question 4 had once again a single theme – suggested actions. The same method of analysis as described for question 1 was used. Since the research was qualitative and the interviews were intended to be in-depth, respondents were allowed to speak freely, without researcher intervention. That resulted in the interviewees often reverting back to elaborating on points already covered in questions 1 and 2. During analysis, it was particularly important to exclude these irrelevant sections without losing potentially valid suggestions in the process. This particular complexity resulted in the analysis of question 4 requiring tremendous attention to detail, as well as making it very time consuming.

#### **4.9 RELIABILITY AND VALIDITY**

Saunders and Lewis (2012) state that one of the principal factors which threaten the validity of research findings is the researcher bias that may result in the selection of research participants who may be unrepresentative of the research population (Saunders & Lewis, 2012). Another factor could be the effect that the data collection process itself may have on participants, for example a non-neutral response to the interviewer (Saunders & Lewis, 2012). Oakley (1981) in Welman, Kruger and Mitchell (2005) suggests that the interviewer and the respondent should be regarded as faceless and invisible and that the discussion of the topic should be value-free. These factors fall in the internal validity category, as research can be affected by various factors that can render the findings invalid (Saunders & Lewis, 2012).

There is also external validity (Saunders & Lewis, 2012). It refers to the extent to which research conclusions can be generalised to other research settings. The response to this possible problem is for the researcher to simply increase the number of respondents interviewed (Saunders & Lewis, 2012).

For research to be reliable, methods of data collection and analysis that produce consistent findings have to be used (Saunders & Lewis, 2012). A possible factor that could threaten consistency and therefore the reliability of the research findings would be observer bias. Observer bias refers to how different



researchers can interpret the same data in different ways and in so doing, prejudicing the findings and conclusions (Saunders & Lewis, 2012).

Welman et al., (2005) are of the opinion that as far as qualitative research is concerned, validity is considered to be more important, because the objective of the study should represent what the researcher is investigating (Welman et al., 2005).

#### **4.10 RESEARCH LIMITATIONS**

Accessibility and availability of participants were foreseen to be research limitations. Early action from the side of the researcher in contacting these individuals and setting up meetings helped to ease the process.

As interviews can be time-consuming and certain participants had only limited time available, the interview questions were provided to these particular participants beforehand to allow them to be prepared for and to deliver their response within the available time (Welman, Kruger, & Mitchell, 2005).

According to Zikmund (2000) exploratory research has limitations in itself. The techniques are qualitative and the interpretation of the findings is typically judgemental (Zikmund, 2000). Conclusions can also be subject to interpreter bias (Zikmund, 2000).

# CHAPTER 5: RESULTS

## 5.1 SAMPLE DESCRIPTION

The final sample included 16 interviewees, as seen in Table 4 below. Prominent South Africans possessing a wide range of expertise were interviewed. A higher number of economists were included than were initially planned, but from different backgrounds with different specialities. The initial plan was to interview four economists, but that number increased to six during the course of the process. Of the six, one was an agricultural economist, one a labour economist and one from the banking industry. Another was an investment manager with academic ties, while the last two were consultants, of whom one specialises in government finance.

Aside from the two academics who were included, there was also a participant from the mining environment, someone who served in the pre-democratic government, a political analyst and a newspaper editor. Business and labour were represented, while a strategy advisor completed the sample. The list of interviewees can be seen in Table 6.

**Table 6: List of Interviewees**

NO	RESPONDENT	DESIGNATION
A	Jabu Maphalala	Deputy Head: Communications at Chamber of Mines of South Africa Experienced Strategic Communications Professional
B	Michael W Spicer	Vice President, Corporates and Africa at Business Leadership South Africa
C	Jerry S Vilakazi	Member of the National Planning Commission in the Department of The Presidency of the Republic of South Africa Chairman of Netcare Limited
D	Dr Azar Jammie	Director and Chief Economist at Econometrix (Pty) Ltd

E	Aubrey M Matshiqi	Independent Political Analyst Research fellow at Helen Suzman Foundation
F	Dave Steward	Executive Director at the FW de Klerk Foundation and the Centre for Constitutional Rights
G	Nazmeera Moola	Economist and Associate Director at Macquarie Bank
H	Herman (Hemmanth) Singh	Strategist and CEO at Future Advisory
I	Dr Mandla Adonisi	Academic in Organisational Behaviour and Development, HR Management and Strategy, Change Management at the Gordon Institute of Business Science, University of Pretoria
J	Tracy Ledger	Agricultural Economist and Doctoral Research Fellow at the Public Affairs Research Institute (PARI)
K	Dawie Roodt	Chief Economist and Director at Efficient Group Ltd
L	Loane Sharp	Labour Economist at Adcorp Holdings Limited
M	Ferial Haffajee	Editor in Chief at City Press Newspaper
N	Prof Jonathan D Jansen	Vice-Chancellor and Rector at University of the Free State
O	Patrick Craven	Spokesperson for the Congress of South African Trade Unions (COSATU)
P	Prof Adrian Saville	Economist and Chief Investment Officer at Cannon Asset Managers

## 5.2 RESEARCH QUESTION 1:

*WHAT ARE THE REASONS FOR SOUTH AFRICA CURRENTLY HAVING THE HIGHEST GINI COEFFICIENT IN THE WORLD?*

A content and theme analysis was done on the transcribed responses of all 16 interviewees on a question by question basis. Each transcript was carefully read

and coded, where after responses to the different questions were identified and listed. As part of the process, contributions from all the interviewees were combined into coherent themes. Tables were then drawn up, listing all the different themes, and the number of interviewees who mentioned each theme.

During analysis, question 1 from each transcript was coded, where after causes were identified and listed. A table was then drawn up, listing all the different causes, and the number of interviewees who mentioned each cause. The list was rank ordered according to the number of times each cause was proposed, from the highest number to the lowest number.

Table 7 sets out the findings of the analysis of the responses to question 1. A total of 20 causes were mentioned, with the apartheid policy of the previous government being the dominant cause, followed by the poor education system, unemployment and the power of trade unions.

**Table 7: Reasons for SA's High Inequality**

<b>RANK</b>	<b>REASON</b>	<b>NUMBER</b>
1	The apartheid policy of the pre-democratic government, marginalising black people on the economic and social terrain, and the lingering generational effect thereof	13
2	A poor education policies in the current dispensation, and worse implementation of those policies	9
3	Large scale unemployment and underemployment	8
4	The ruling government allowing the trade unions to have enough power to make increasingly high wage demands, introduction of minimum wages, resulting in the contraction of job opportunities for unskilled and semi-skilled people	7
5	Poor management by the democratic government of policies such as Black Economic Empowerment (BEE) and Affirmative Action, resulting in the fast tracking of the careers and subsequent wealth of only a few, leaving the	4

	majority behind.	
6	South Africa's history of colonisation that began almost 400 years ago, and the convergence of different cultures and value sets that influenced resource allocation and decision making	4
7	Various methods of calculating the Gini coefficient, therefore not achieving one standard comparable result	2
8	High population growth amongst the poor	2
9	The social grant trap	2
10	The structure of the South African economy favours large corporations, rather than small business	2
11	The African National Congress' struggle policy of "Liberation first, education later"	2
12	The economy has developed into a high-skill requirement economy, with the job market growing at the high-skill level and shrinking at the unskilled level.	2
13	Emigration of highly skilled people	1
14	Exorbitant executive remuneration	1
15	Global development and technological innovation in financial markets in the last 30 years, leading to an explosion of growth in world liquidity	1
16	The confusion in general and by the government of the two concepts of economic growth and development	1
17	South Africa's too small middle class	1
18	The government's inconsistent application of immigration policy: it is very difficult to employ a highly skilled foreigner to supplement scarce local skills vs. the millions of migrating people from neighbouring countries, over supplying the low skilled market and putting pressure on the wages of unskilled and semi-skilled people	1
19	Increase in corruption	1
20	Failure of the trade unions to organise the non-unionised and unemployed workers	1

### 5.3 RESEARCH QUESTION 2:

*WHAT IS THE EFFECT OF HIGH INCOME INEQUALITY ON THE SOUTH AFRICAN SOCIETY, POLITICS AND THE ECONOMY?*

A content analysis was done on the 16 transcribed responses to research question 2. Content analysis was followed by theme analysis. The second question covered the theme of the effect of inequality, but in three sub-themes, effects on society, effects on politics and effects on the economy. Interviewees were allowed to speak freely, the research being qualitative, using in-depth interviews. It resulted in interviewees answering the question haphazardly in some instances and vaguely in other instances. Interviewees naturally preferred to speak about areas of personal interest or experience. The analysis of question 2 therefore was laborious and required discernment and attention to detail. A table was compiled for each of the sub-themes, ranked from the highest number of times mentioned, to the lowest. The results for the three areas mentioned in the question are listed below.

Respondents felt that the greatest effect of South Africa's high inequality on society, is the hopelessness it brings and the ensuing frustration that can easily be turned into unrest and/or violence. Interviewees mentioned eight different effects on society.

**Table 8: Effects on Society**

<b>RANK</b>	<b>EFFECT</b>	<b>NUMBER</b>
1	Societal frustration levels, as seen in delivery protests throughout the country, reflects a deep dissatisfaction in people who have no hope, because government is detached and disconnected from reality. This kind of dissatisfaction in a community does not relate to actual circumstances only, but to the difference between circumstances and expectations. The hopelessness is a fertile ground for agitators and political extremists, who	9

	instigate unrest. People who have nothing, have nothing to lose and so easily resort to unrest, crime and violence.	
2	South Africa is not a homogenous country such as Sweden or India. Instead, it is very heterogeneous and when high income inequality is added to the mix, causing frustration, anger and unhappiness, any possibility of social cohesion is undermined. As a result, SA's income inequality is racially polarised. The growing within-race inequality is not widely acknowledged, the reduction of between-race inequality is not acknowledged, but the existing historical between-race inequality remains widely acknowledged. This worsens already vulnerable inter race relationships. Tension grows, rendering society unable to unite behind a common vision for the future and have a shared identity. Society becomes paralysed and unable to regenerate and renew itself.	7
3	High income inequality manifests itself in low levels of social trust, crime, violent crime, mental illnesses and divorce, and it spirals into a perpetuation of inequality. At the bottom end, in squatter camps and slums, the poor social conditions create a breeding ground for many social ills and bad behaviour. In exchange for a means to survive, young girls end up prostituting themselves to older men, resulting in children giving birth to children.	3
4	Inequality and poverty is a weight holding black people back psychologically, to where they used to be during apartheid. It perpetuates the feeling of inferiority brought about by being 'non-white' in the apartheid era. Black children of the post-1994 era, are told that they are free, have rights and equality, while their reality is completely different.	2
5	The effect of inequality is worse than the effect of poverty. The absolute level of poverty is less important than the	2

	relative position of poverty. Poor people do not benchmark themselves against other poor people. They look around them and make a judgement based on what they see.	
6	Inequality poses no problem to society, as long being at the top end is the perceived result of hard work and good qualifications – a reward for effort. Unemployment is a problem, not inequality.	2
7	Around the world, middle classes develop societies of interest rather than societies of colour. As a result of high income inequality, the South African middle class is too small and does not grow sufficiently.	1
8	Inequality is reflected in the differentiations we see in housing, healthcare, education and other material possessions. These stratifications are also reflected in relationships. Relationships between people are strained and the society becomes unstable. In an unequal society human relationships are affected, security is affected, corruption is rife and the value system of the society becomes corroded. Social conflict invariably arises.	1

Judging by the responses from interviewees, the effects of income inequality on politics seem to be mild if any. This section of question 2 solicited a much milder reaction from the interviewees than the previous section, suggesting that the ruling party still have relative free reign and if there is resistance, it is only beginning to build up. Eight effects were mentioned.

**Table 9: Effects on Politics**

<b>RANK</b>	<b>EFFECT</b>	<b>NUMBER</b>
1	Discontent with the ruling party does not result in people changing their vote. People support their political party for reasons other than the performance of the government,	5



	such as loyalty and psychological indebtedness. In many countries where there has been a liberation struggle, the party that led the struggle still has electoral credit for a long time. As a result of the ANC being a symbol of liberation and the large number of poor people in SA, they have become complacent and are therefore not focused on service delivery.	
2	There is a disenfranchised component in the electorate: the productive and qualified. They vote for the opposition. Basically the protest vote goes to the opposition. The productive therefore fundamentally cannot change the country. At the same time, the large number of poor people vote for the party that gives them social grants, and the unproductive vote into power those who keep them alive. The government therefore has to keep adopting policies that favour the unemployed and poor, ultimately penalising the productive. Through rules and taxes, the productive is subsidising the unproductive.	4
3	As poor people do not benchmark themselves against other poor people in the world, but respond to the levels of wealth they witness around them, the effect of inequality could hold a political threat. Revolutions are not started because of a country's ranking on a poverty index. Radical politicians exploit the class and racial divisions within the country and encourage unrest.	3
4	Politically, a lot of positioning and grandstanding can be seen, but very little is done. Income inequality is a great platform to be heard, but if it meant anything, a difference would be visible. The 2014 election will be fought on income inequality. It will be a radicalised election, because the middle class is still relatively small and because inequality is still so racially skewed.	2
5	Day-to-day politics is not influenced by the unemployed or	1

	the under privileged. Outcries about inequality come from insiders, the employed and relatively privileged, to raise their own wages even higher and to make it harder for those on the outside to become employed.	
6	People who do very well are usually the ones who set up businesses. This leads to a growing resentment towards business, where business is seen as the enemy. The government is called upon for support, who creates stifling regulatory measures, preventing especially small businesses from functioning well, leaving no desire for existence or employment of people.	1
7	In prior years the ANC's main political priority was unemployment. They have now expanded their range of problems to also include poverty and inequality, for political reasons, as they are unable to resolve the problem of unemployment. The government utilises inequality to deflect attention from other policy failures.	1
8	It has become the norm that municipalities are directly in conflict with political authorities, and there are no solutions. Keeping a lid on political conflict results in costs to democracy, and being distracted from building the country is such a cost. Without a strong enough opposition, the ruling party cannot be replaced and the persistently dominating party becomes arrogant.	1

The question about the effect of the high income inequality in South Africa on the economy, was also not responded to dramatically. Points that were made seemed rather serious, but these points were not supported by the majority of the interviewees. Eleven different effects on the economy were mentioned, although the majority of the points were mentioned by only one individual.

**Table 10: Effects on the Economy**

RANK	EFFECT	NUMBER
1	<p>The effect is detrimental, for example the value of the Rand dropped after recent labour unrest and wage demands by the trade unions. The country was also downgraded by rating agencies, resulting in higher cost of borrowings. High levels of inequality clearly leads to the loss of business and investor confidence, less exports and a drop in the value of the Rand. The substantial improvement in economic growth that South Africa achieved in the last 20 years, has meant nothing. Income gains are still only going to the same small percentage of people, even though more diverse, still a minority.</p>	4
2	<p>The fact that 30 to 40% of the population is effectively locked out of the greatest part of the consumer market, dampens demand. If that percentage were involved, demand would be higher and there would be more economic activity. This percentage of the population does not consume and is not productive and therefore, also does not contribute. They do however consume social grants, infrastructure, education and healthcare - consuming the common good, but they are not adding to the common good.</p>	4
3	<p>South Africa has a two-speed economy. In retail the upper end buys elite global brands, and the bottom end buys single units and very small volume packaging. On the upper end purchases are based on wants and not needs, and at the bottom end purchases are based on satisfying the need for today, one day's worth, only. It is unsustainable. Rich people cannot consume enough to keep the economy of the country going. Eventually they effectively stop consuming. Funds become trapped as the rich start saving, and an economy cannot be built purely by</p>	2

	saving. Consumption is necessary and the rich cannot provide those consumption engines.	
4	An economy with high income inequality cannot grow when the inequality is related to low skill sets in the society. South Africa has a high number of vacancies in the science, engineering and technology fields. It makes it very difficult to build a competitive economy. Concurrently the economy is choking because of a lack of management skills.	2
5	Businesses, trade unions and civil servants who have privileged relationships with political power, use their positions to benefit over and above what they contribute, to the disadvantage of the economy as a whole, in particular those who are being kept out, when they could in fact have been in.	1
6	Inequality and poverty lead to increased urbanisation, as jobs are perceived to be in cities. That in itself leads to a different set of problems and opportunities, such as a large increase in the populations of Gauteng and Western Cape.	1
7	It is not sustainable for SA to subsidise a third of the population with social transfers. A tax base of 7 million people cannot look after a social base of 16 million people receiving transfers.	1
8	If the level of a person's income is driven by skills and the level of skill is driven by education, the logical deduction in South Africa is that production is lower than it can potentially be.	1
9	As a result of inequality, similar to how it happened in the apartheid era, a lot of talent is going to waste due to a lack of opportunities.	1
10	Fundamentally there is no economic problem with inequality. The problems that arise are because of unemployment. Inequality is a convenient scapegoat, used	1

	to bash rich people and draw attention away from unemployment.	
11	People need to earn more so that they can spend more, which in turn will create jobs for the unemployed.	1

#### 5.4 RESEARCH QUESTION 3:

*SHOULD SOUTH AFRICAN LEADERSHIP ATTEMPT TO REDUCE THE GINI COEFFICIENT?*

**Table 11: Responses to Question 3**

<b>RANK</b>	<b>RESPONSE</b>	<b>NUMBER</b>
1	Yes	12
2	Undecided	3
3	No	1

The results to this question were as shown above. The majority of the participants responded positively to question three, with only one emphatic no. However, all the participants responded positively to question four and even the individual who responded in the negative, put forward suggestions for change that would have an improving effect on the Gini coefficient. The difference in opinions in response to question three, related to where the focus should be placed when attempting to find solutions. The four participants who did not answer yes, did not promote total inaction. Their intention was only that inequality should not be a policy objective, but that the underlying causes should be addressed. For that reason the results for question four below, are recorded as suggested actions, in spite of a positive or negative answer to question three.

## 5.5 RESEARCH QUESTION 4:

*IF THE ANSWER TO QUESTION 3 IS YES, WHAT ACTIONS CAN BE TAKEN TO EFFECT THE IMPROVEMENT AND BY WHOM, AND IF THE ANSWER IS NO, WHY?*

For question 4, the same method of analysis was used, as for the other questions. Interviewees felt particularly strong about the role of the government in reducing inequality. It did however seem that there were no new or extraordinary expectations of the government, merely that they should perform the job which they were appointed to perform. Two other areas that came out strongly were education and unemployment. Below in Table 12 is the list of actions to be taken.

**Table 12: Possible actions to be taken**

<b>RANK</b>	<b>ACTION</b>	<b>NUMBER</b>
1	Government is a critical enabler in any environment. It must provide leadership and create a conducive environment for investment in business. The National Development Plan of the National Planning Commission contains a number of recommendations which speak to the heart of the inequality problem, for example getting the education system right, breaking down barriers between business and labour, getting business and government to work together, reducing corruption, developing small business activity in order to create jobs – it only falls short in the execution. An important way of addressing the problem of inequality, is by empowering people through the provision of decent services, such as proper police forcing, a good medical system and basic municipal services. If government delivered the social services which they should, the burden on employers for higher wages would be less. The biggest threat to the South African economy is the civil service that is collapsing under its own weight and	16

incompetence. Yet, the ultimate responsibility for this high inequality lies with the people who are in charge of the economic policy. Policy makers have to understand how the South African economy actually works, not how it should work based on the theory. It should be understood who has access to value and how the value accrues to them. Inequality exists because the value that is created accrues to a very small percentage of the population. Policy makers must realise that countries, just like human beings, are unique, and every country has a different relationship between standard of living, inequality and GDP growth. Therefore, it is necessary to understand how value accrues in South Africa's economy. However, inequality and the reduction thereof should not be a policy objective. The emphasis has to be on economic growth, because only through growth will there be job creation, poverty alleviation and eventually reduction in inequality. In the process, government has to get rid of obstacles in the way of business, such as legislation that makes it difficult and expensive to start a business and employ people. Government is locked in an iron triangle with big labour and big business. Industries in South Africa are concentrated and becoming more so. Concentration leads to job shedding. Small companies grow their headcount, not big companies. To grow job opportunities, this has to be addressed and the Competition Commission could address industrial concentration that is perpetuated by centralised government, centralised labour and concentrated business. South Africa's high income inequality does not have a simple solution. A set of intersecting actions needs to be taken across the board. One example is that there should be investment in the construction and engineering industry. Spend on infrastructure has by far the biggest impact on

	<p>economic activity and jobs, compared to any other industry. Installed infrastructure sustains growth. Another example would be to learn from other countries – to learn what the commonalities are between more equal countries, and to learn what Brazil did differently in the period during which they improved their inequality.</p>	
2	<p>The performance of the South African education system has to be turned around. The way to address the problem of inequality is by empowering people through decent education. In order to resolve unemployment, build national wealth and improve the Gini coefficient, a functional education system is needed. South African skills are ageing, while the average age of the population is young. In order to regenerate, the wisdom and knowledge of age have to merge with the innovation and creativity of youth. Economic growth can only be sustained with an education system in place that produces enough people who can contribute meaningfully and productively to the economy, and not adults who are functionally illiterate and innumerate. Teacher accountability is necessary. Educational reform however, will be impacted by whether the influence and power of the South African Democratic Teachers Union (SADTU) is addressed satisfactorily.</p>	11
3	<p>Unemployment has to be dealt with in order to lessen inequality. The focus should not be on economic growth, expecting a trickle-down effect. The focus has to be on inclusion. Economic growth takes place parallel to technological development. Currently the economy is the biggest it has ever been, but labour force participation is the lowest it has ever been. Government has to make it as easy as possible to create jobs at the lower end by reducing business regulation. Entrepreneurs should find it easy, quick and low cost to start companies and create low</p>	11



	<p>skilled, low waged employment. New opportunities for employment are provided by small and medium companies, not big companies, small companies can grow and achieve scale. Another possibility is the reform of labour laws and regulations. Dismissal of an employee is difficult, regardless the reason. Work is available, but positions are being filled by people from neighbouring countries who are prepared to accept lower wages and are not protected under labour law against dismissal. In sectors such as mining and farming, the larger employers, wage increases have to be managed well to prevent reduction of the available number of jobs. Published unemployment figures should lastly be investigated, as there is a possibility of significant under-reporting of people in the informal sector. The fact that South Africa's informal sector is so much smaller than any other informal sector in the emerging markets, is questionable.</p>	
4	<p>It is the political leadership in South Africa that begs for change, because most of the people in government know how to effect a change to inequality. They however do not lead and govern to remove the high inequalities, nor are they open to any constructive criticism. Instead of working together, the alliance of the ANC, COSATU and the South African Communist Party (SACP) each work to satisfy their own agendas. It is an example of weak political leadership. In South Africa leaders in government are also not accountable to the voting public. They are accountable to their political parties who employed them into their seats in government. Further to that South Africa has to change its political culture. A political culture in which one party is dominant for too long, promotes corruption and perpetuates incompetence in the state. It can also promote a culture where people capture the dominant party in order</p>	6

	to capture the state, but not with the aim of delivering to citizens, rather for their own benefit. South Africans should keep the conversation going about the economic problems, because when a government fails at its job, it must be voted out. However, the electorate is not voting the ANC out, so government is not changed with the view of changing policy. Consequently, the only way to change policy is to put pressure on the government, and the only way to do that is through protests.	
5	South African citizens, civil society, have to form a pact about what kind of society they want to have and agree on what a South African civilized society is. Such a pact can lead to the state, labour, business and civil society developing a common understanding of what a civilized society is. These groups can, as partners, plan targets for the future of the country, with the role of each of these partners set out – each partner’s contribution, but also sacrifice. The partners, in particular labour and business can adopt a philosophy of imperfect pragmatism, by getting together with the intention of achieving sustained growth, and agreeing on sacrifices, compromises and postponed benefits. Insisting on benefits today will lead to mutual destruction. Further to that, citizens have a moral responsibility to be active citizens. They have to be active by holding the government accountable for how it uses citizens’ taxes and how efficiently it is used.	3
6	The time has come to build a new culture of doing business, without over-regulation by government. A business ‘Codesa’ is necessary, where business can consider the moral obligations of doing business in an environment with such dire poverty. Business leaders can have a great impact if they speak as a collective. South Africa has to create a social compact, but as the parties are	3

	so far apart, one big national social compact is too ambitious. Business can lead by creating sectorial social compacts, for example, the mining sector has to rewrite the industry as a whole. Taking steps incrementally will provide the building blocks over time for a national solution.	
7	There is only one way an aggregate society can become sustainably successful and that is through productivity. Productivity seems to be a concept that South Africa has to be reminded of. A lot is being said about headcount, and very little about productivity. While higher wages make people more well-off, a mismatch between high wages and productivity leads to the loss of jobs. Workers receive pay increases unrelated to productivity and unions do not want to agree to productivity related wages.	3
8	Individuals who can afford three meals, a house and a car, have to re-evaluate their contribution to improving the conditions in society, aside from the tax that they pay. If people realise that “it begins with me”, a movement of philanthropic citizens can be rolled out. South Africans as a society need to be more vociferous and as individuals everyone has to do something. The country can be changed through the work of individuals.	2
9	People receiving social grants have to be enabled to graduate from that system back into normal, economically productive life. Conditions have to be considered and built into the system to ensure exit points.	1
10	The focus should be taken off BEE as a means to promote equality. BEE has helped the black middle class and black industrial elite, but has had no effect on the bottom deciles of the population.	1
11	SA has to create a deep middle class: not of professionals, but people earning between R7500 and R16500. These are people who can imagine a future, for themselves and	1

	for their children.	
12	The most important way to counteract inequality, is by establishing a minimum wage.	1
13	Action has to be taken against people who are getting rich illegally, through corruption or collusion.	1
14	A possible solution could be a new tax system, which the international trade union movement has been promoting. This proposed system replaces tax on income with tax on financial transactions, as and when money flows through a bank account.	1
15	The role of women in society have to be appreciated, their education and health. Young girls have to be educated in order to get rid of the patrimonial society South Africans live in.	1

# CHAPTER 6: DISCUSSION OF RESULTS

## 6.1 INTRODUCTION

This chapter discusses the findings of the research as guided by the research questions in chapter 3. The findings in chapter 5 are presented in the same order that the questions were posed to the respondents during the in-depth interviews. Chapter 2, containing the information collected during the literature study, was ordered according to the research questions in chapter 3, as well. Chapter 5 contains the results from 16 semi-structured in-depth interviews with prominent people from various disciplines and backgrounds in the South African landscape, chosen based on their areas of expertise. The procedures followed during the data analysis allowed for the results to be collated and ordered according to themes, based on the frequency with which the different themes were come across in the data sets. This chapter therefore deals with each research question, the results for that question from chapter 5 and the literature on the topic from chapter 2. A consistency matrix of the research is presented in Appendix 2.

## 6.2 RESEARCH QUESTION 1

*What are the reasons for South Africa currently having the highest Gini coefficient in the world?*

Income inequality is not only a South African phenomenon. It is a global phenomenon, which judging by the different Gini rates, is dealt with at differing levels of success by different countries. In comparison to the rest of the world, South Africa is a country with a relatively short, but very specific history. The objective with research question 1 was to attempt to understand what the circumstances were that led to South Africa becoming the most unequal country in the world.

Table 7 lists 20 reasons from the data, ranked in order of importance, from the most important to the least important, for South Africa's state of income

inequality. These 20 reasons can in turn be combined and grouped into 8 themes as follow:

- History
- Education
- Unemployment
- Governance
- Social
- Globalisation
- Middle class
- Other.

### **6.2.1 HISTORY**

The literature provided a scenic historical backdrop to present day inequality, as it developed over the centuries. After the Industrial Revolution, which took place between 1750 and 1800, population growth accelerated significantly for the first time, but after World War II (WW II) during the 1940's, both population growth and wealth exploded (Chilosi, 2010). Table 1 shows how rapidly the world population grew in the last century only. The post WW II wealth that accompanied the growth in population was responsible for the fact that the percentage of people living in poverty dropped significantly (Chilosi, 2010). However, in Table 2 it can be seen that the growth in wealth was not sufficient to keep up with the growth in number of people, resulting in the percentage of people living in extreme poverty reducing by 63%, while the number of people living in extreme poverty increased by 62%.

During this period, the 30 years until the late 1970's, large corporations were established, technology evolved, global communication improved, productivity of capital and labour increased, and executives became increasingly rich while wages remained stagnant (Bresser-Pereira, 2010). This was followed by the era of increased mechanisation and the start of globalisation, as we know it today. Labour was less in demand and the supply of low cost labour from middle-income countries increased (Bresser-Pereira, 2010).

One respondent remarked that it was during this time, when globalisation had just really taken off, that after years of isolation, apartheid was being dismantled and South Africa became a democracy. South Africans entered the global economy with the wrong skills within the workforce and as a result are still seen trying to catch up after 20 years.

Parallel to what was happening in the rest of the world, South Africa's contemporary history begins in the 17<sup>th</sup> century when Europe arrived in the Cape. Europeans did not have direct access to the Indian Ocean to reach the spice-rich East and used the route around the southern tip of Africa. The Cape of Good Hope was first colonised by the Dutch and later in the early 19<sup>th</sup> century by the British. In 1910, the country as we geographically know it today, became the Union of South Africa, a self-governing Dominion under the British Empire. After WW II, in 1948, the South African government began implementing legislation to enforce the segregation of black people, known as apartheid. South Africa became a republic in 1961 and was forced to withdraw from the Commonwealth. The apartheid government remained in power until 1994, when after many years of international pressure and isolation, the first democratic government was voted into power (Seekings, 2007).

The results in Table 7, under the theme of history, show that the earliest influence came from the periods of colonisation (point 6), that also saw immigration from other European countries. It resulted in the convergence of a number of different African and European cultures and sets of values, which influenced decision making and subsequent resource allocation. One respondent explained that different cultures value different concepts and therefore different cultures have different views on what wealth means to them. In India, knowledge is seen as wealth and there is a lot of focus on education. Indian people may therefore not be monetarily rich, but they are intellectually rich. In China, people are family rich. In Africa, people are cattle rich and in Europe, people are asset rich. That which is defined as wealth is what will be achieved. This respondent asserted that South Africa is in its current position as a consequence of a series of decisions that were made around the way

resources were allocated for centuries. Blame is fruitless as everyone made choices and therefore everyone is guilty.

Granato, Inglehart and Leblang (1996) concur that cultural factors play an important role in economic development, although not all cross-national variances in economic growth rates could be explained by culture alone (Granato et al., 1996).

Under the history theme, Table 7 shows that the overwhelming majority (point 1) of respondents in this research were of the opinion that the apartheid policies of the pre-1994 government, with its lingering generational effect, caused the most damage to the development of the country on different terrains and on every level of society. Respondents who did not make mention of it, took the problems of the present as a point of departure to address the future, as history cannot be altered. It can however not be said that these individuals discount the influence of the apartheid past.

All literature, academic and non-academic, when addressing the subject of South Africa's income inequality, acknowledge the effect of apartheid's legacy (Altbeker, Hay, Bernstein, & Schlemmer, 2010; Bhorat, Van der Westhuizen, & Jacobs, 2009; Leibbrandt, Finn, & Woolard, 2012; Seekings, 2007; Van der Berg, 2010; The Presidency, 2009). Every study done and article or book written on the subject, wrestles with ways to rectify the past.

Although it speaks to the theme of education as well, point 11 of Table 7 is included with the history theme, in keeping with the view that history cannot be altered and hindsight is a perfect science. People who supported the ANC's struggle policy of 'Liberation first, education later', are the ones who are at a loss today. Although it was mentioned as a contributing cause to inequality by two of the respondents, it was not covered by the literature that was read.

### **6.2.2 EDUCATION**

The second theme that emerged from the results as an important cause of income inequality is education (point 2). Although it could be addressed under



the fourth theme, governance, the magnitude of the burden of a poor education system on the South African nation and its future, warrants it to be addressed on its own. One respondent can be quoted saying that “education is a critical door opener that unlocks opportunities for people to improve their life” (*sic*). The majority of respondents were of the opinion that the education policies of the ruling government are poor, and that the government’s implementation abilities are even worse. These views are supported by South Africa’s ratings in the World Economic Forum’s Global Competiveness Report for 2013. With regard to education, South Africa rated 146<sup>th</sup> out of 148 countries for the quality of the education system, 148<sup>th</sup> out of 148 countries for quality of maths and science education (World Economic Forum, 2013).

Seekings (2007) writes about the poor results which school-going students achieve in basic numeracy and literacy tests, highlighting the fact that students are found to be promoted to higher grades despite not having mastered the required levels for a particular grade (Seekings, 2007). The typical problem with education outcomes, is that although average years of schooling has seen great improvement, there is still not sufficient increase in the number of students completing high school and promoting to tertiary level (Leibbrandt, Finn, & Woolard, 2012). The result is that a very small portion of South Africans is skilled, which is the skill premium causing the skewed wage distribution (Bhorat, Van der Westhuizen, & Jacobs, 2009).

### **6.2.3 UNEMPLOYMENT**

As with education, unemployment could also be addressed under the governance theme. However, unemployment is an equally large problem (point 3), which at least partially follows directly on the country’s education outcomes. Seekings (2007) is of the opinion that firstly unemployment and secondly education, are the two direct causes of poverty and inequality. Over time, the unemployed end up lacking the skills, credentials and social capital necessary to secure employment (Seekings, 2007). They end up becoming trapped in a vortex of workerless households. Further to that, studies have proved that an

increase in structural unemployment, results in a shift in the shape of income distribution, with an increase in the flow of income to the top decile (Cysne, 2009). Altbeker, Hay, Bernstein and Schlemmer (2010) assert that in the short and medium term, redistribution in the form of social transfers, cannot do what a job can do. It could marginally ameliorate the worst poverty, but it cannot create the sense of self-worth that comes from fully participating in society (Altbeker et al., 2010).

#### **6.2.4 GOVERNANCE**

Table 7 contains six reasons for South Africa's high income inequality that can be grouped together under the theme of governance, aside from education and unemployment (points 4, 5, 10, 16, 18, 19). The governing style of the ruling party and the quality of work execution came under criticism from the interviewees.

The matter that drew the most attention, was the power that the government allows the trade unions to have. This argument is corroborated by Seekings (2007). It was argued that the progressively high wage demands and the enforcing of minimum wages result in ever reducing opportunities for unskilled and semi-skilled people. One should be cognisant of the fact that the government is in a political alliance with COSATU. Research has not been able to prove that union-friendly legislation responsible for increased wages and other costs of employment such as retrenchment costs, has had a marked effect on employment (Seekings, 2007).

Respondents were also quite critical of the government's management of policies such as Affirmative Action and Black Economic Empowerment. While the objectives behind these policies were to right the wrongs of the past by enhancing the opportunities of previously disadvantaged individuals, the careers of only a few were fast tracked, allowing a very small number of people to accumulate extreme wealth. One interviewee contended "there are a lot of people in this country who are very high earners and their only skill is knowing politicians". The unintended consequences of these policies were that people 'in

the know' optimised opportunities and the majority was left behind. The majority of the previously disadvantaged are still presently disadvantaged.

The third point of contention that interviewees had with government, was the fact that the South African economy favours large corporations, rather than small businesses. The reason for this contention is that it is incredibly difficult for small companies to enter into the economy. Small businesses struggle to comply with requirements structured for big businesses. The administrative burden of compliance often has a paralysing effect on small business, as they have very limited resources. For an economy to grow, business needs to grow and there is a limit to how much the growth of already large corporations can add to the economy as a whole. Ultimately, new businesses have to be established and grown to provide more employment and in the process contribute to reducing poverty. A higher number of small businesses are associated with a more equitable distribution of income.

The fourth point under the theme of governance refers to government's general confusion of economic growth and development. Growth of the economy does not equate to development. Economic growth can fund development and development can facilitate growth, but growing the economy does not automatically mean the country is being developed.

The fifth problem with government that emerged was their inconsistent application of immigration policy. While government allows millions of migrating people from neighbouring countries in, adding to the already oversupplied market of unskilled and low-skilled labour and putting pressure on those wages, it is extremely difficult to employ a highly skilled foreigner to supplement scarce local skills.

The sixth and last matter ascribed to poor governance, is the increase in corruption. The opinion was expressed that a number of people at the top end of the income distribution got there by dubious means and are sharing undeservedly in a limited pool of money, to the detriment of the poor. This opinion is supported by Habib (2013) and Hoffman (2012).

During the literature review for this research, no academic journals in criticism of the South African government and any of the above matters under the governance theme was found, especially relating to the topic of income inequality.

### **6.2.5 SOCIAL**

Interviewees mentioned two matters that contribute to the aggravation of income inequality. The first is that high population growth is usually found amongst poor people. It tends to perpetuate poverty and perpetuate the number of poor people who are unemployed and unemployable, therefore perpetuating inequality. Affluence seems to bring along the reduction of the number of children families have and poverty increases the number of children families have (Chilosi, 2010).

The second social dilemma mentioned by interviewees, is the fact that despite the poverty relieving qualities of social transfers, there is always the danger that it could dis-incentivise people from leading productive lives (Van der Berg, 2010; Seekings, 2007). In reality, social grants only just sustain people and keep them alive. Therefore it is referred to as the social grant trap.

### **6.2.6 GLOBALISATION**

Point 12 and 13 of Table 7 can be dealt with together. Interviewees mentioned that the South African economy has developed into a high skill requirement economy, with the job market shrinking at the unskilled level. With technology continuously changing and improving, it could be said that the change in demand for skill levels is a global phenomenon, not exclusive to South Africa (Chilosi, 2010). Interviewees also mentioned that South Africa has experienced large numbers of highly skilled people emigrating. If the timing of democratisation is considered, together with the fact that the country experienced substantial isolation prior to 1994, as well as it happening during the period that globalisation started gaining prominence, and the human

tendency to fear the unknown (in this case the insecurity accompanying a new dispensation), it could possibly be seen as expected. The timing of the loss of these skills was certainly unfortunate, but could very well have been a naturally unstoppable force (Bailey, 2003). The combination of the change in the skills demand and the reduction of skilled resources has left South Africa in a predicament.

Point 14 addresses exorbitant executive remuneration. This is also a global phenomenon that has continuously been gaining traction over the last four decades and is not exclusively a South African problem (Bresser-Pereira, 2010).

Point 15 talks to the development and technological innovation in financial markets in the last 30 years that led to an explosion in the growth of world liquidity. During this period, the financial industry grew significantly, making exorbitant profits, with people accruing enormous wealth, finally leading to the financial collapse in 2008. Bresser-Pereira (2010) corroborates this in his analysis of inequality's history (Bresser-Pereira, 2010). This event is a great example of the painful reality of inequality. While people at the top of the income distribution were directly responsible for the economic meltdown that was followed by the crash, it was the regular worker who was adversely affected the most. People at the top simply retrenched workers in order to manage savings, leaving workers unemployed, while they themselves could still keep living off the proceeds of their asset bases.

### **6.2.7 A MIDDLE CLASS**

Only one respondent mentioned South Africa's small middle class (point 17) as a contributing factor to the high Gini coefficient. It is however evident from Figures 2, 3 and 5, as well as Table 4 that this could be a substantial problem. The literature shows that not only does the development of a middle class hold promise for the development of the rest of an economy, but a healthy middle class promotes democracy and political stability (Visagie & Posel, 2013). One

respondent contended that state capacity is reliant on the middle class, because of its skills and education levels.

### **6.2.8 OTHER**

The second last point in Table 7, point 7, covers the various methods of calculating the Gini coefficient, resulting in different outcomes being incomparable. The literature states that usually different institutions use the incomes that are available to them at the time and that could be for example income before or after tax, or income before or after transfers (Bosch, Rossouw, Claassens, & Du Plessis, 2010). It would therefore be logical to use a single source of information, for example The World Bank, to ensure consistency.

The last point mentioned as a contributing factor to income inequality, is (point 20) the failure of trade unions to organise unemployed workers. While it would certainly give a voice to people who are job-seeking, trade unions survive on the income from membership fees, normally deducted and paid over by the employer, leaving the practicality of unionising the unemployed in question. Such a possibility has also not emerged from the literature.

## **6.3 RESEARCH QUESTION 2**

*What is the effect of high income inequality on the South African society, politics and economy?*

Oxfam International has recently released a document in which they state that extreme wealth and inequality is harmful to human progress, as it is socially divisive, politically corrosive and economically inefficient (Slater, 2013). The document also stated that the World Economic Forum's Global Risk Report has rated inequality as one of the top global risks in 2013 (Slater, 2013). In the same report, South Africa was named the most unequal country in the world, drawing to the fore the high risk that South Africans should be aware of they could be facing.

The aim of research question 2 was to gain an understanding from knowledgeable South Africans what they considered to have been the impact of high inequality on the morale in country.

### **6.3.1 EFFECTS ON SOCIETY**

Table 8 contains the concerns of the respondents, ranked in order of importance, from the most important to the least important, regarding the effect of high income inequality on the South African society.

The majority of the interviewees identified a sense of hopelessness (point 1) in a large section of South African society. This hopelessness stems from dissatisfaction and frustration, manifesting in service delivery protests, escalating to unrest, crime and finally violence. Although a lack of basic service delivery to poor communities speaks to non-income inequality, access to basic services is an important measure of living standard as it has a direct impact on quality of life (Bhorat, Van der Westhuizen, & Jacobs, 2009). Basic services include basic housing, water, electricity and sanitation. Respondents also pointed out that the dissatisfaction does not only relate to actual circumstances, but more poignantly to actual circumstances *vis-à-vis* the expectations resting on the democratic dispensation. Respondents opined that the hopelessness stemming from undesirable living conditions is ideal for political extremists who further their own causes by instigating unrest amongst vulnerable people who have nothing to lose. Oxfam's statement that extreme inequality is socially divisive, is explained by the following: when rich people buy services, for example private schooling or private healthcare, they have no interest in the quality of public services or how the taxes that are paid to support such, are appropriated (Slater, 2013).

In the South African context, the second most important effect (point 2) that inequality has on people is division. When income inequality is super-imposed on an already unfortunate history of colonisation, apartheid and fierce heterogeneity, people are divided along the lines of colour, culture, status, education, sophistication and self-belief. The discomfort and subsequent

tension and anger it brings, prevents any form of social cohesion. Society is a chequerboard of future visions, unable to identify a common vision for the future and certainly unable to find a shared identity. The literature read corroborates these views of the respondents (Seekings, 2007; Wilson, 2011; Wilkinson & Pickett, 2010).

The sad thing about high income inequality is that without intervention, it becomes a black hole of perpetuity. Points 3, 4, 5, 7 and 8 of Table 8 can be discussed in combination, as these effects of inequality described by the interviewees cover a range of societal problems, most of which are concurred with in literature. Examples of what were mentioned are violent crime and mental illness. Others are teenage prostitution and pregnancy. Another is a generational inferiority complex, emphasised by communities with exceptional wealth living right next to communities with utter poverty – extreme opposites and no middle ground. Inequality is highly visible in the streets of Sandton when looking at the combination of vehicles lined up at a traffic light. This visibility affects aspects like security and encourages escalation of problems such as corruption, corroding societal values.

Two respondents did however contend that there is no inherent problem with inequality (point 6), as long as wealth is understood to be the reward for good academic qualifications and very hard work. The literature does not support this view, as inequality is a very complex problem. A good example illustrating the opposite of this view, is the period of extreme wealth accumulation in the financial sector globally, leading up to the financial crash in 2008 (Wade, 2011).

### **6.3.2 EFFECTS ON POLITICS**

Table 9 contains the views of the respondents regarding the effect of income inequality on politics, ranked in order of importance, from the most important to the least important. Essentially all the interviewees spoke to the fact that the current ruling party, the ANC, used to be the liberation movement. That liberation movement existed and worked for 80 years, before coming into power in 1994. A large number of the faces from the struggle days are still leading the



party. Although there are pockets of people very dissatisfied with service delivery by the government and there are productive tax paying citizens who are uncomfortable with subsidising the unproductive majority, the government still has large electoral credit. The poor (more than a third of the population) are maintained with social transfers and will not bite the hand that feeds them, especially not since it is the symbol of freedom. Any dissatisfaction is exploited by radical politicians and works in favour of the ruling party. So, currently the opposition parties receive the protest vote and the ANC still has the support of the majority, meaning that while the rhetoric might change, income inequality will not be the cause of any political change very soon. As a result of the government's pro-poor policies, the poor is dependent on the government to sustain them, and the ruling government need the poor to keep them in power. This view is supported by Bresser-Pereira (2010).

These findings are supported by the literature and highlights the fact the South African democracy is still a very young one (Bhorat & Van der Westhuizen, 2012).

### **6.3.3 EFFECTS ON THE ECONOMY**

It almost seemed that the interviewees each had a different opinion of what the effect of income inequality is on the economy of the country, making the impact of their views weaker than expected. Perhaps this alludes to the possibility that income inequality firstly affects society, where after society's behaviour in dealing with it would influence politics, finally spilling over into directly influencing the economy. Inferring from the previous section, perhaps the South African process has not reached full circle. Table 10 lists the effects of income inequality on the economy, ranked in order of importance, from the most important to the least important.

The first of the effects mentioned by respondents was that the consequences of inequality such as labour unrest and very high wage demands by trade unions contribute to international loss of confidence, resulting in a drop in the value of the South African currency and the country's credit rating being downgraded.

The second effect mentioned was that a large percentage, between 30% and 40%, of the population is effectively inactive in the consumer market. Demand is severely dampened and economic activity subsequently 30 to 40% slower. This section of the population does however consume the common good which is paid for by active members of the economy.

This leads to the third effect. The rich section of the population is too small and can therefore not consume enough to keep the economy sufficiently stimulated. The necessary consumption engines cannot be provided by the rich alone.

Fourthly, an economy riddled by high inequality cannot grow nor be built if the inequality is tied to a shortage of highly skilled people, such as scientists and engineers.

The rest of the points made by interviewees, are compiled in summary. One respondent contended that people and organisations who abuse their privileged relationships with politicians, do so at the disadvantage of those that are kept outside of the economy, while they could have been in. Altbeker, Hay, Bernstein and Schlemmer (2010) state that there is a possibility that it is not the Gini coefficient or the underlying income distribution that leads to discontent. It is rather the pervasive sense that the unemployed have become 'outsiders' and that they are locked out of the economy (Altbeker et al., 2010). Subsequently, it was asserted by another respondent, inequality and poverty also increase urbanisation to economic hubs like Gauteng and the Western Cape, resulting in a whole new set of problems. Another respondent felt that it is unsustainable for South Africa's tax base of 7 million to subsidise upwards of 16 million people receiving government grants. A point that was made is that considering an individual's income is determined by skills, and skills by education, production in South Africa can potentially be much higher than it is. Judging by the large number of unemployed people in the country, a lot of talent is going to waste as a result of a lack of opportunities. Altbeker et al. (2010) concur with this opinion, saying it might not be correct to equate high levels of inequality with high levels of frustration and discontent, rather to see high levels of unemployment and lack of opportunity as the core source of potential political instability, subsequently affecting the economy adversely (Altbeker et al., 2010).

One interviewee opined that unemployment is the real economic problem, while inequality is used to lambaste the rich in order to draw attention away from unemployment. Lastly, an interviewee contended that on average people should earn more, to be able to spend more and in turn create more jobs.

Although very diverse, the list of effects on the economy does seem to agree with the Oxfam's statement that inequality makes the economy inefficient (Slater, 2013).

### **6.4 RESEARCH QUESTION 3**

*Should leaders in South Africa attempt to reduce the Gini coefficient?*

Research question 3 provided interviewees with the opportunity to express their opinions on whether there should be intervention in South Africa's state of inequality. Table 11 holds the various responses from the interviewees. Only one individual did not support any intervention at all, but as explained before, did not suggest complete inaction. The particular person, together with the three who were undecided, opined that the underlying causes of inequality should be addressed, which would then result in an improvement of the Gini coefficient.

### **6.5 RESEARCH QUESTION 4**

*If the answer to question 3 is yes, what actions can be taken to effect the improvement and by whom, and if the answer is no, why?*

The objective of the last research question was to obtain suggestions from the interviewees on what they believed could be done to reduce income inequality in South Africa. The different suggestions can be seen in Table 12. Respondents suggested actions that should be taken by government, business, labour and society. Instead of discussing the results to question 4 in the same manner as questions 1 and 2, ranked in order of importance, from the most

important to the least important, the suggested actions are ordered according to whom should be taking the action.

### **6.5.1 GOVERNMENT**

Every one of the interviewees argued that government is the most important role player in a drive to reduce South Africa's income inequality. Suggested actions for government are as follow:

- Government should provide leadership.
- Government should create an environment conducive to investment in business.
- They should ensure the execution of the National Development Plan.
- Government has to deliver the services that they are responsible for, to everyone whom they are responsible to deliver the services to, for example basic municipal services and a good police service. The literature corroborates this (Bhorat, Van der Westhuizen, & Jacobs, 2009).
- Government officials responsible for economic policy have to understand how the South African economy actually works, who has access to value and how and to whom the value accrues along any given supply chain, because the value that is created accrues to a very small percentage of the population. Bhorat et al. (2009) contend that even though economic growth in South Africa was pro-poor, it benefitted the top end of the distribution more than the bottom end (Bhorat et al., 2009).
- To stimulate economic growth government should remove any obstacles in the way of business, such as legislation and regulation that make it difficult and expensive to start small businesses and employ people.
- Unemployment has to be dealt with by making it as easy as possible to create jobs at the lower end, for low skilled people at low wages, to allow small and medium companies to grow and achieve scale. Labour regulations has to be reformed to make it less onerous and costly to dismiss employees, with the main purpose of preventing jobs being filled

by migrants from neighbouring countries who are prepared to work for lower wages and are not protected by labour law. For the larger employers such as farming and mining, wage increases have to be managed carefully to prevent the reduction of the available number of jobs. In the Global Competitiveness Report, South Africa rates 148<sup>th</sup> for labour-employer relations, 144<sup>th</sup> for flexibility of wage determination, and 147<sup>th</sup> for hiring and firing practices, out of a total of 148 countries (World Economic Forum, 2013).

- An opposing argument is that government should establish a minimum wage in order to counteract inequality.
- Government should invest in infrastructure through the construction and engineering industry, because such spend has the biggest impact on jobs and economic activity and because installed infrastructure sustains growth. This view is supported by Altbeker, Hay, Bernstein and Schlemmer (2010).
- Government should learn from other countries, for example Brazil.
- The performance of the entire education system should be turned around, for example by instilling quality measures, holding teachers accountable for outcomes and by reviewing the power and influence of SADTU. If education is not improved, the efficient functioning of the labour market will be adversely affected (Van der Berg, 2010). Additionally, now that human capital is scarcer than machines, widespread education has become the secret to growth (Milanovic, 2011).

On the topic of education, one interviewee was questioning the current situation, saying: “Why is education bad? Because we were missing things. What were we missing, we have got good schools? It is not about the school. We have got good facilities, it is not about the facilities; we have got good books, it is not about the books. So what is it? Why is maths and physics bad in this country? Well, have you seen the teachers that teach maths and physics?” (*sic*).

- Government has to enable people receiving social transfers to graduate from that system by building in exit points.
- Government should acknowledge BEE as an ineffective means of promoting equality.
- Government has to take action against people who gain financially through corruption or collusion. In their 2011 report on inequality, the OECD proposed that the fight against corruption would also help to improve tax collection (OECD, 2011). In the Global Competitiveness Report, South Africa rates 120<sup>th</sup> out of 148 places with reference to favouritism in decisions of government officials (World Economic Forum, 2013).
- Government could replace the income tax system with a tax on financial transactions proposed by the international trade union movement. Such a tax would be levied on the flow of money through bank accounts and consequently reduce tax evasion and avoidance substantially. The literature read did not cover this aspect.
- Government should take steps to demonstrate appreciation for the role of women in society, by promoting their education and health in order to get rid of the patrimonial traditions of the society they live in. Borat and Van der Westhuizen (2012) find that African female-headed households account for a disproportionate share in poverty (Bhorat & Van der Westhuizen, 2012).

### **6.5.2 BUSINESS**

- Interviewees were of the opinion that the time has arrived for South Africa to build a new culture of doing business, starting with arranging a business 'Codesa'. It would provide a forum for business people to consider the moral obligations of doing business in an environment with the prevailing levels of high inequality and poverty. Business should not only be held responsible for environmental rehabilitation, but also for the people in the environment.

- South Africa needs to create a social compact, but as one national social compact is too ambitious, business can lead by creating sectorial social compacts. With reference to the previous point, the mining sector for example can rewrite methods of doing business responsibly for the industry as a whole. Incrementally a national solution will be achieved.

### **6.5.3 LABOUR**

- Three respondents mentioned that labour should start considering the productivity of their constituents. Unions progressively demand higher wages, but has until now refused to agree to productivity related wages. This mismatch leads to the loss of jobs. This opinion is supported by South Africa's rating in the 2013 Global Competitiveness Report of 142<sup>th</sup> place out of 148 countries in the category of pay and productivity (World Economic Forum, 2013). Granato, Inglehart and Leblang (1996) contend that research findings suggest that economic growth rates can be positively influenced without having to change a society's whole culture. They assert that one specific dimension, namely achievement motivation, is highly relevant to economic growth (Granato et al., 1996).

### **6.5.4 SOCIETY**

- The first responsibility that respondents ascribed to society was the responsibility of changing the people in political leadership when they do not fulfil their roles satisfactorily – when government fails at its job it must be voted out. If citizens do not want to vote the ruling party out of office, the only way to get government to change policies is to put pressure on government through protests.
- South African citizens should adhere to their moral responsibility to be active citizens and engage with each other to decide what kind of society they want and what a South African civilized society looks like. That

could lead to society interacting with business, government and labour to plan for the future of the country, agreeing to compromises, sacrifices and postponed benefits for each party until goals are achieved. Ethically, it is difficult to justify extreme wealth and inequality (Slater, 2013).

- Individuals who are able to live a decent and dignified life should re-evaluate their contribution to improving conditions in society. Every person has to do something for the benefit of society, because a country can be changed through the work of individuals.
- South Africans have one last duty for which they will have to reach out for co-operation to business, government and labour in order to achieve success. A deep middle class has to be established. This middle class consists of people earning upwards from R7,500 monthly to approximately R16,500. These will not be professional people, but people with hope and dreams for the future, who can raise a new generation that is socially mobile.

### **6.5.5 CONCLUSION**

This chapter answered the research questions in chapter 3, through interpretation of the results in chapter 5, with the use of the literature in chapter 2, thereby deriving insight into the data. The research aims as set out in chapter 1, have been met.



# **CHAPTER 7: CONCLUSION**

## **7.1 INTRODUCTION**

This chapter summarises the work described in the previous chapters. The main findings are highlighted, recommendations are made for stakeholders, as well as recommendations for future research.

## **7.2 MAIN FINDINGS**

### **7.2.1 CAUSES**

The circumstances that led to South Africa having the highest Gini coefficient in the world and therefore being seen as the most unequal country are rooted in history and poor management. In a gulf of development inequality increased globally. In South Africa it was amplified by colonisation for three centuries, after which the remaining European settlers, a minority, for fear of losing the upper hand over indigenous Africans, the majority, implemented segregation laws to protect their own future, leaving Africans with very little opportunity. After being in power for half a century, the apartheid government lost control in the first democratic South African election in 1994.

Under the new dispensation, the democratically elected government took office with a deficiency in governing and management skills. This resulted in an inability to improve the unemployment problem, the collapse of the education system and rapid population growth under the poor.

### **7.2.2 EFFECTS**

The research has found that the main effect of the high inequality in South Africa is seen on society, with very little effect on politics and a mild effect on the economy.

The social effects of high inequality on South Africans include demoralisation to the extent of hopelessness of the majority of the people and the division of the people along the lines of race, class and level of affluence. These intangible effects give rise to tangible problems, such as violence and crime, as well as child prostitution and teenage pregnancies.

The prevailing high income inequality has had very little effect on the politics in the country. This could be attributed to the youth of the democracy and the fact that the electorate has not yet reached a level of maturity sufficient to move on from the liberation ideology.

The economic effects identified in the data included loss of confidence, resulting in the devaluing of the currency and downgrading of the credit rating, adversely affecting potential foreign direct investment. The widespread poverty also has a dampening effect on consumption and therefore slows down economic activity.

### **7.2.3 ACTIONS**

The research yielded valuable suggestions with reference to what actions could be taken to reduce income inequality and achieve a healthier Gini coefficient. It transpired that government has the greatest responsibility, but also has the greatest influence, to improve conditions in the lives of millions of South Africans. It should however be emphasised that the success of any achievement will be influenced by how much co-operation is possible between government, business, labour and society. While chapter 6 contains an extensive list of proposed actions, a core number of recommendations are discussed below.

## **7.3 RECOMMENDATIONS TO STAKEHOLDERS FOR FUTURE ACTION**

### **7.3.1 GOVERNMENT**

- The value of education in reducing income inequality can be seen in the example of Brazil. One of the conditions of Brazil's conditional cash

transfer program is the enrolment of children in schools. Education has helped to close the wage gap between unskilled and skilled work, by increasing the supply in skilled labour. While South Africa has a very high school enrolment rate, the poor quality of education hampers the number and quality of matriculants, further reducing the number of tertiary enrolments. Government would be wise to take direction from other global successes, such as those reported on by the OECD in 2011 in their report on building a high-quality teaching profession.

- Unemployment will in turn be positively affected by higher standards in education. South Africa, as the rest of the world, is experiencing a change in the level of skills required by the economy. The demand for highly skilled workers has surpassed the supply, resulting in the unemployment of low and semi-skilled workers, as well as an increase in the remuneration of skilled workers. Considering that according to the World Economic Forum, South Africa globally performs the worst in the areas of higher education and training, as well as labour market efficiency, government should be obligated to effect a change in these two areas. No stone should be left unturned to facilitate job creation for unskilled and low-skilled people.
- Redistribution policies (social grants) should facilitate the improvement of education and unemployment levels in the country. Firstly, lowering the pensionable age for a predetermined period to 50 years of age, would improve the unemployment statistics. People who become unemployed at that age are unlikely to find new employment. Persons who are still employed should however not be affected. Secondly should smaller families be encouraged, as it would put parents in a better position to ensure that their children complete their education. One example of achieving smaller families, would be to double the current child support grant for the first child, keep the child support grant for the second child at the current level, where after no grant is awarded from the third child on.

### **7.3.2 BUSINESS**

- Business should take ownership of the leading role they have to play in greater society. Business can take the lead in building a social compact in South Africa and a business 'Codesa' would be an ideal platform for such discussions. Similarly, would it be a suitable platform for holding participants accountable. Various matters can be addressed, for example moral issues such as people upliftment and conservation of animals and the environment. Assisting government by lending private skills to them is a possibility. By accepting their moral and social responsibilities, by taking their place in society, business can successfully lead South Africa into a future for which there is hope.

### **7.3.3 LABOUR**

- Labour has to realise their role and accept their responsibility in the future of South Africa. Serving their constituents does not only mean demanding higher salaries, but also encouraging productivity and achievement in order to promote work ethic, pride and subsequent employability – all of which will lead to economic growth.

### **7.3.4 CIVIL SOCIETY**

- South African society has to realise that the future of the country is in their hands. It however requires active citizenship. Individuals should vote, they should drive co-operation between society, business, government and labour, and each individual has to know that they owe something to society. Giving back to the society that raised a person should be a key element of the South African culture.

### **7.3.5 IN COLLABORATION**

- The research pointed clearly to South Africa having the most unequal income distribution due to a lack of a substantial middle class. The group

of people that can be classified as middle class based on their level of affluence is too small and the group in the middle strata of the income distribution earn too little. Government's current redistribution programs are aimed at people living in poverty and are therefore unable to make the necessary difference to incomes in the middle of the income distribution. A middle class has to be built. However, the building of a middle class can certainly not be achieved by only one of the role players mentioned above.

Government's improvement of the education system will make a big contribution to building a middle class. Labour's support of meritocracy and encouragement of their members to work harder will also contribute to growing a middle class. Business' rewarding of further education and achievement, as well as society's enthusiasm about future possibilities, can indeed add to growing a South African middle class and thereby improving the inequality in the income distribution. The willingness of all role players to work together, sacrifice and delay benefits, will ensure the success of a collaboration.

## **7.4 RECOMMENDATIONS FOR FUTURE RESEARCH**

This research has contributed to the body of knowledge on South Africa's income inequality. The following could be done to add to that knowledge for the purpose of making it easier to reduce said inequality:

- Researchers have shown that the middle 50% (D5 to D9) of the income distribution in most countries earn 50% of the income, while in South Africa it was only 34% in 2008. In the context of the South African income distribution, determine what the range of incomes should be for people in D5 to D9, in order to push the income for that section of the population up to at least 50%.
- Establish a model for building a middle class in the South African context.

- Develop a workable plan for bringing South Africa's education system to a world class standard.

## **7.5 CONCLUSION**

The research contributed to a greater understanding of South Africa's income inequality. The findings have produced a number of reasons for South Africa having the highest Gini coefficient in the world. The negative effects of a high Gini coefficient became evident from the literature and the responses of the interviewees. The research findings provided valuable insight into possible responses to the high Gini coefficient. The recommendations to stakeholders of actions that could be taken to mitigate the problem, are few in number. Although results might only be achieved in the medium and long term, these recommendations are simple to implement and essential to enlarging the human and social capital of the country.

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# APPENDIX 1: INTERVIEW GUIDELINE

## Ethics

*I am conducting research on South Africa's income inequality. My aim is to consolidate expert opinions, in order to deepen the understanding of the South African inequality problem and put forward a clear and concise set of suggestions for future use. **Your participation is voluntary and you can withdraw at any time without penalty.** All data will be aggregated and no statement will be tied back to any interviewee. If you have any concerns, please contact me or my supervisor. Our details are provided below.*

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Signature of participant: \_\_\_\_\_

Date: \_\_\_\_\_

Signature of researcher: \_\_\_\_\_

Date: \_\_\_\_\_

## Welcome and Introduction

Thank you for agreeing to this interview and for giving up your time for the benefit of this research. I am doing research on South Africa's income inequality.

You may be aware that the Gini coefficient is a globally accepted measure of income inequality in countries. In 2000 SA's Gini index was 57.8 and in 2006 it was 67.4, an increase of 17%. Publications by the government in more recent years have not reported any improvement.

**Questions**

1. How did it happen that South Africa currently has such a high income inequality, resulting in the country gaining the reputation of one of the most unequal countries in the world?

Interviewee response:.....  
.....  
.....

2. What is the effect of the high income inequality on South Africa in three areas:
  - a) On society?
  - b) On the politics?
  - c) On the economy?

Interviewee response:.....  
.....  
.....

3. Should South Africans attempt to reduce income inequality?

Interviewee response:.....  
.....  
.....

4. If yes, what actions can be taken and by whom? And if no, why not?

Interviewee response:.....  
.....  
.....

(During the course of the interviews, the researcher may have to probe participants for elaboration.)

## APPENDIX 2: CONSISTENCY MATRIX

QUESTIONS	LITERATURE REVIEW	DATA COLLECTION TOOL	ANALYSIS
<p><b>1.</b> What are the reasons for South Africa currently having the highest Gini coefficient in the world?</p>	<p>Leibbrandt et al.,2012 Wade, 2011 Granato et al., 1996 Seekings, 2007 Cysne, 2009 Branson et al., 2012 Bhorat et al., 2009 Milanovic, 2011 Hoffman, 2012</p>	<p>Question 1 in Interview Guideline.</p>	<p>Content, thematic and narrative analysis of the data.</p>
<p><b>2.</b> What is the effect of the high income inequality on the South African society, the politics and the economy?</p>	<p>Wilkinson &amp; Pickett, 2010 Bhorat &amp; Van der Westhuizen, 2012 Visagie &amp; Posel, 2013</p>	<p>Question 2 in Interview Guideline.</p>	<p>Content, thematic and narrative analysis of the data.</p>
<p><b>3.</b> Should South Africans attempt to bring the Gini coefficient down and reduce income inequality?</p>	<p>Wilkinson &amp; Pickett, 2010</p>	<p>Question 3 in Interview guideline.</p>	<p>Content, thematic and narrative analysis of the data.</p>
<p><b>4.</b> What actions can be taken to bring improvement about and by whom?</p>	<p>Bresser-Pereira, 2010 Wilson, 2011 Arnold, 2011 Hailu &amp; Soares, 2009 Loureiro, 2012 Menezes-Filho &amp; Scorzafave, 2009 Van der Berg, 2010 Branson et al., 2012 Schleicher, 2011 Van der Berg &amp; Moses, 2012 Seekings, 2007 Hoffman, 2012</p>	<p>Question 4 in Interview Guideline.</p>	<p>Content, thematic and narrative analysis of the data.</p>