



INEQUALITY

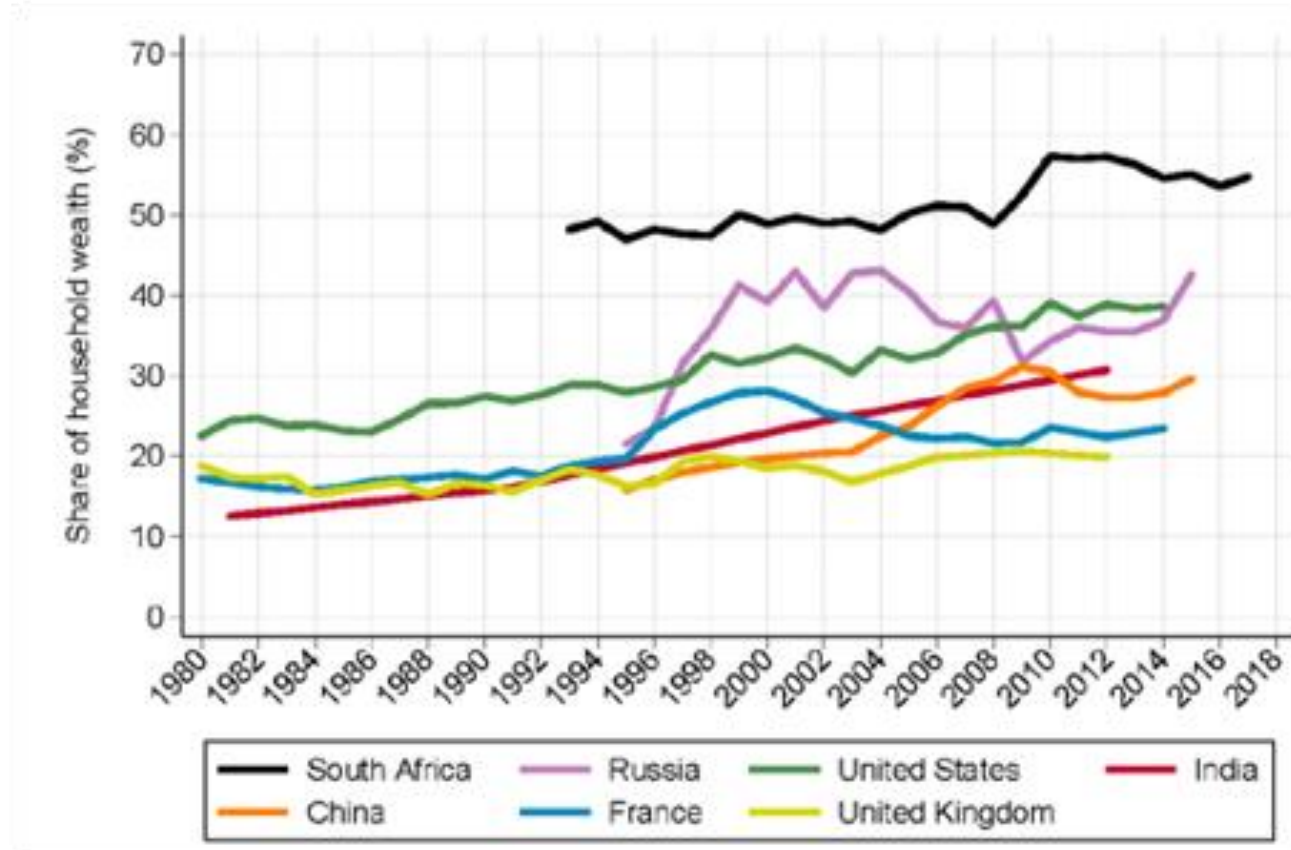
CHALLENGES AND SOLUTIONS

THE WORLD'S MOST UNEQUAL COUNTRY

- The top 10% of South African wealth holders own more than 85% of household wealth
- The the top 1% wealth share reaches 55%
- The top 0.01% (about 3,500 adults) own a higher share of wealth than the bottom 90% as a whole (about 32 million individuals)
- Wealth inequality has not decreased since the end of the apartheid regime.
- The available evidence suggests that the share of wealth captured by the top 1% and the top 0.01% may have increased (Chatterjee *et al.*, 2021)

THE WORLD'S MOST UNEQUAL COUNTRY

Figure 1: South African wealth inequality in comparative perspective:
top 1% wealth share



Source: SA-TIED (2020)

THE WORLD'S MOST UNEQUAL COUNTRY

- The top 1% of South African earners take home almost 20% of all income in the country
- The top 10% take home 65%
- The remaining 90% of South African earners get only 35% of total income (World Inequality Database, 2021)
- The largest contributor to overall income inequality came from the labour market at 74,2%
- Female workers earn approximately 30% less, on average, than male workers
- Mean real earnings between 2011 and 2015:
 - Black Africans: R6 899 per month
 - Coloureds: R9 339
 - Indians/Asians: R14 235 per month
 - Whites: R24 646 per month (Statistics South Africa, 2019)

GROWTH AND INEQUALITY

- Early thinkers in the field of economic development were of the view that inequality did not matter for economic growth and development.
- This position was underpinned by the Kuznets hypothesis which stated that high/rising inequality is inevitable in the early stages of economic development and is indeed an acceptable trade-off, especially if the incomes of the poor are rising and poverty is falling.
- Empirical evidence investigating the effect of economic growth on inequality reveals no systemic empirical association from growth-to-inequality.
- Empirical evidence investigating the effect of inequality on economic growth has shown that, far from being benign, high or rising inequality has a negative effect on the rate of growth or the length of growth spells

THE EGALITARIAN GROWTH OF EAST ASIA

- The rapid growth of East Asian newly industrialising countries (NICs) has lifted millions of people out of poverty.
- The growth of countries East Asian NICs was accompanied by egalitarian income distribution
- The newly industrialised countries, namely, China, Japan, South Korea and Taiwan, all implemented extensive and 'highly egalitarian land reforms after World War II' (Boyce et al., 2005)
- Land reform allowed for the emergence of a large land-owning and asset holding middle class capable of making a successful transition to industrial entrepreneurs
- These reforms helped to significantly cut rural poverty while improving agricultural productivity.
- A form of growth that allows all sectors of society to participate in it and where policies at its centre involve all sectors of society as actors in the new economy (Mennen, 2010)

CHALLENGES OF INEQUALITY



INEQUALITY AND POOR ECONOMIC GROWTH

- Post-war period confirm an association between high inequality and lower growth
- If creditworthy borrowers cannot borrow because they are too poor, without collateral to comfort lenders (given imperfect information, another “failure” in the competitive model) then the resulting liquidity constraint will limit investment.
- The inability of their parents to borrow to send children to school (compensating for lost work income of children as well as to finance direct costs) may condemn the children of the poor to limited education and low future income, generating a self-perpetuating “poverty trap.”
- Similarly, poor insurance markets may trap the poor in inefficient informal systems of risk-sharing such as low-interest savings clubs.

INEQUALITY AND POOR ECONOMIC GROWTH

- Other studies focus on inequality of assets as the key impediment to growth in developing countries
- Inequality of land is linked to rural poverty that in turn limits human capital accumulation and thus growth (Deininger and Olinto, 1999)
- In a similar vein, Birdsall and Londono (1998) show that along with inequality of land, inequality in the distribution of education – a good proxy for the asset human capital – reduces growth
- Concentration of land ownership is associated over long subsequent periods with concentration of income, even in countries where the economic relevance of agriculture has diminished (Carter, 1999)

INEQUALITY AND EQUAL OPPORTUNITY

- Inequality concentrates opportunities for socioeconomic mobility within the wealthy few. Poverty and wealth are therefore inter-generational.
- Inequality is deeply spatial. Opportunities for better healthcare, education and even employment are concentrated in suburban islands
- Inequality leads to unequal access to quality educational experiences throughout a child's lifetime
- Children from families with less income are more likely to experience the type of "toxic" stress that can hamper brain development and long-term academic, health, and economic outcomes

INEQUALITY AND DEMOCRACY

- Inequality means a concentration not only of economic power and opportunity amongst a few but also the concentration of social and political power
- The wealthy, through their control over think tanks, media groups and academic institutions are also able to exert intellectual and cultural influence on society
- We then witness deeper social segregation that threatens democratic fairness and creates class stratification as society is shaped dramatically by relative income levels
- Individuals and groups are also deprived from having access to the means to influence decision making and to the political process of their countries

INEQUALITY AND VIOLENCE

- Inequality fuels violent crime. Whether people feel safe walking home alone or not shows the strongest relationship with inequality
- Inequality predicts homicide rates better than any other variable
- The connection is so strong that, according to the World Bank, a simple measure of inequality predicts about half of the variance in murder rates between American states and between countries around the world
- Crime is concentrated in areas of economic disadvantage

POLICY RESPONSES



TARGETING INEQUALITY

- Fiscal Redistribution where progressive, direct taxation underpins increased social spending
- Wealth Tax
- Increasing the minimum wage
- Investment in education (from early childhood through to higher education)
- Broad-based black economic empowerment