

Inequality in the Giants: South Africa

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South African Inequality: Existing literature

- Widely accepted as one of the most unequal societies in the world
- Gini coefficient is very high, above 0.65.
- Continued debate on actual level of Gini due to different datasets, imputation methods, missing data issues etc.
- Long history of racialized inequality.
- This included a historical policy of limiting educational opportunities to the Black majority of the population.
- Substantial empirical literature already exists. In our project, we produced four papers that extend the literature.

I: The Drivers of Inequality

- Compares data from 1993 with NIDS 2008 and 2014.
- Main contribution is to extend the decomposition of inequality measures.
 - Static decomposition. (Used previously by Leibbrandt et al, 2012)
 - Dynamic decomposition.
- Major difference is the static approach assumes 'all else constant' when calculating decomposition, whereas dynamic approach allows other components of aggregate incomes to adapt in response to a change in one source of income.
 - E.g. Think of job loss and remittances.

Main findings

- Labour income contributes the most to SA inequality, as well as to changes in said inequality.
- Recent decrease in inequality is driven by both labour market changes as well as demographic changes that have manifest in changes in household composition.
- The dynamic decompositions shows that social grants have been strongly redistributive
- Overall income inequality increased between 1993 and 2008, from 0.68 and 0.69, then decreased to 0.66 in 2014. Primarily due to the labour market becoming relatively less inequality enhancing than is previously was.
- Some concerns about data quality and measurement errors, especially due to attrition in the panel.

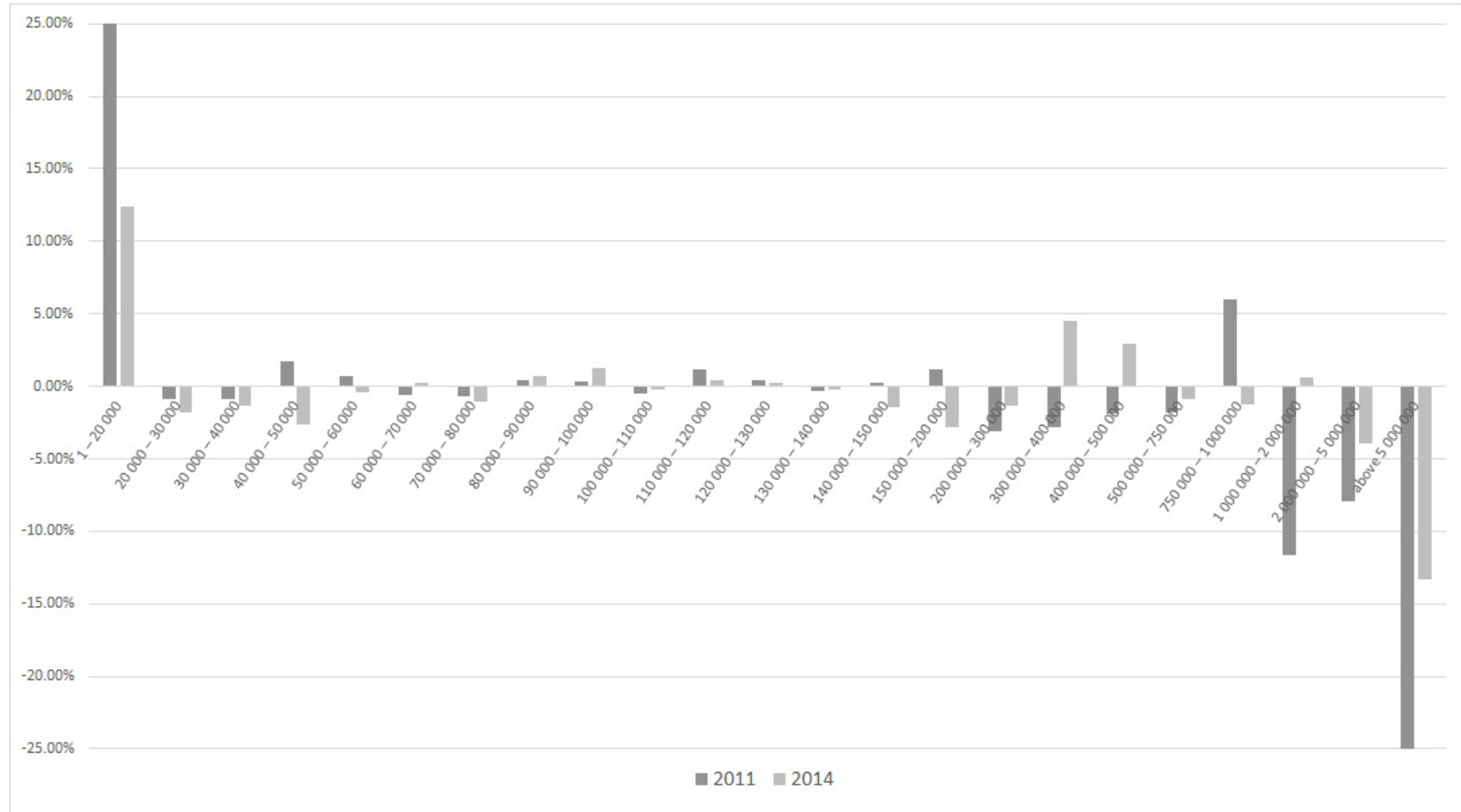
II: Effect of Top Incomes on Income Inequality in SA

- Common challenge with most empirical studies that measure inequality is the concern with non-response from high income individuals.
 - Complete non-response
 - Refusal to answer questions about income
 - Possible mis-reporting of income to understate it.
- Possible solution is to use tax administration data to complement survey data.
- Question becomes how best to combine these two sources of information.

Methods/Contribution

- Follow work by Diaz-Bazan (2015)
- Use NIDS data for 'low' income individuals, and tax data for 'high' income individuals.
- Argue that the best threshold for combining the survey data and the tax administration data is obtained by using the compulsory tax filing threshold.
- Applies to NIDS data from 2011 and 2014, with thresholds of R120 000 and R240 000 p.a. respectively.
- Estimate a Gini of taxable income of 0.83 in 2011, which decreases to 0.79 in 2014

Difference in estimated mean taxable income between NIDS and PIT by income bracket



III: Evolution and determination of labour market earnings inequality in SA

- Makes use of PALMS dataset
- Decomposes changes in earnings inequality into endowments and returns to endowments.
 - Focus is on labour market here.
- Uses RIF methodology to not only focus on mean decompositions.
- Three data points, 2000, 2011 and 2014.
- Data issues with imputations render implausibly large changes between 2011 and 2014.
- Earnings inequality changes primarily driven by changes in returns to education and experience.

IV: Revisiting the impact of taxes and transfers on poverty and inequality in SA

- Makes use of the 2014/15 SA Living Conditions Survey.
- Uses an alternative dataset to extend the work by Inchauste et al (2015).
- Follow the CEQ framework (Lustig, 2017)
- Two major contributions:
 - Extends earlier work by investigating tax exemptions on the distribution of disposable income.
 - Measures the poverty impact of taxes and transfers by groups, where groups are defined by race, gender and age.

Figure 3: Concentration curves for direct taxes

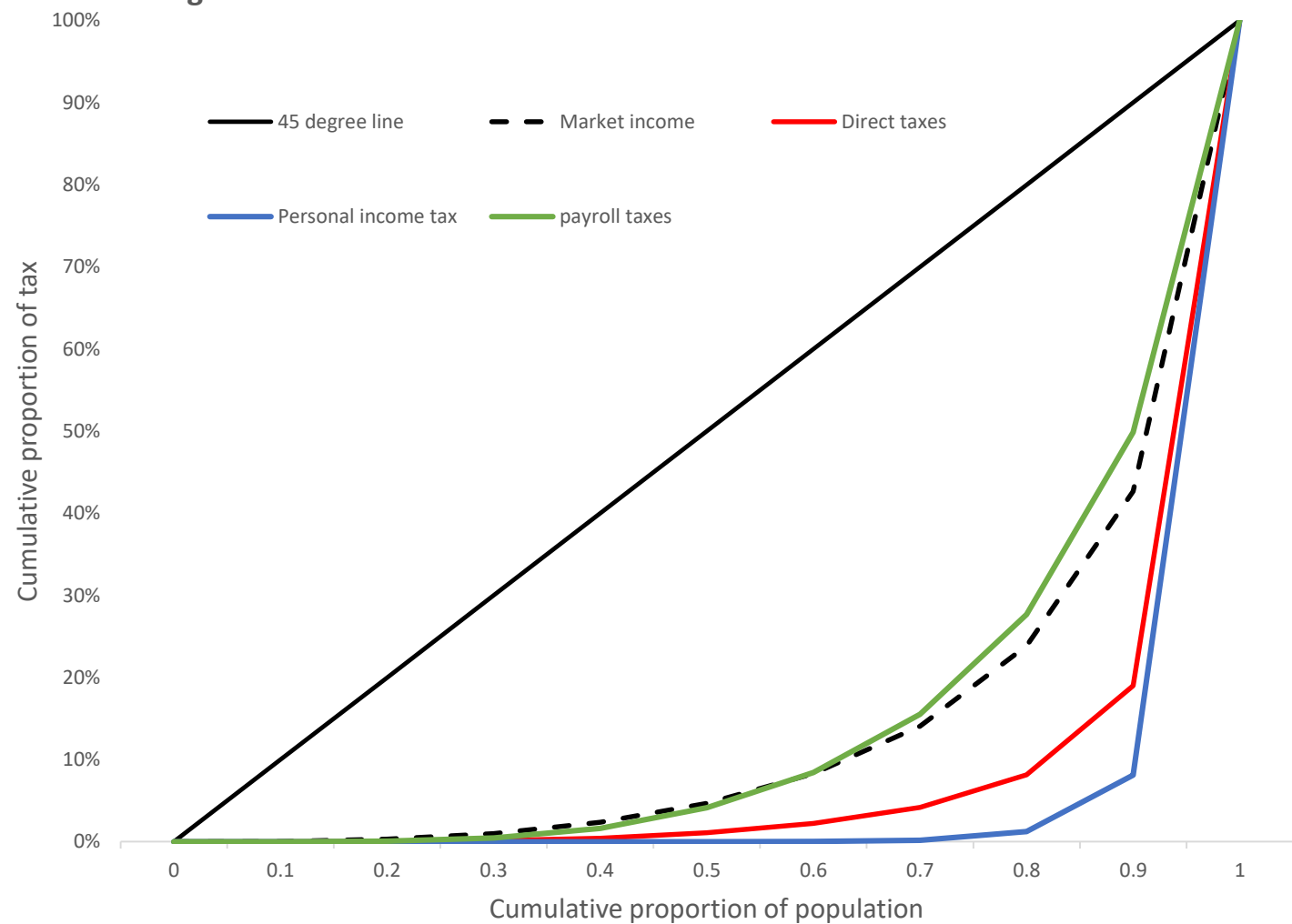


Figure 4: Distribution of selected fiscal benefits

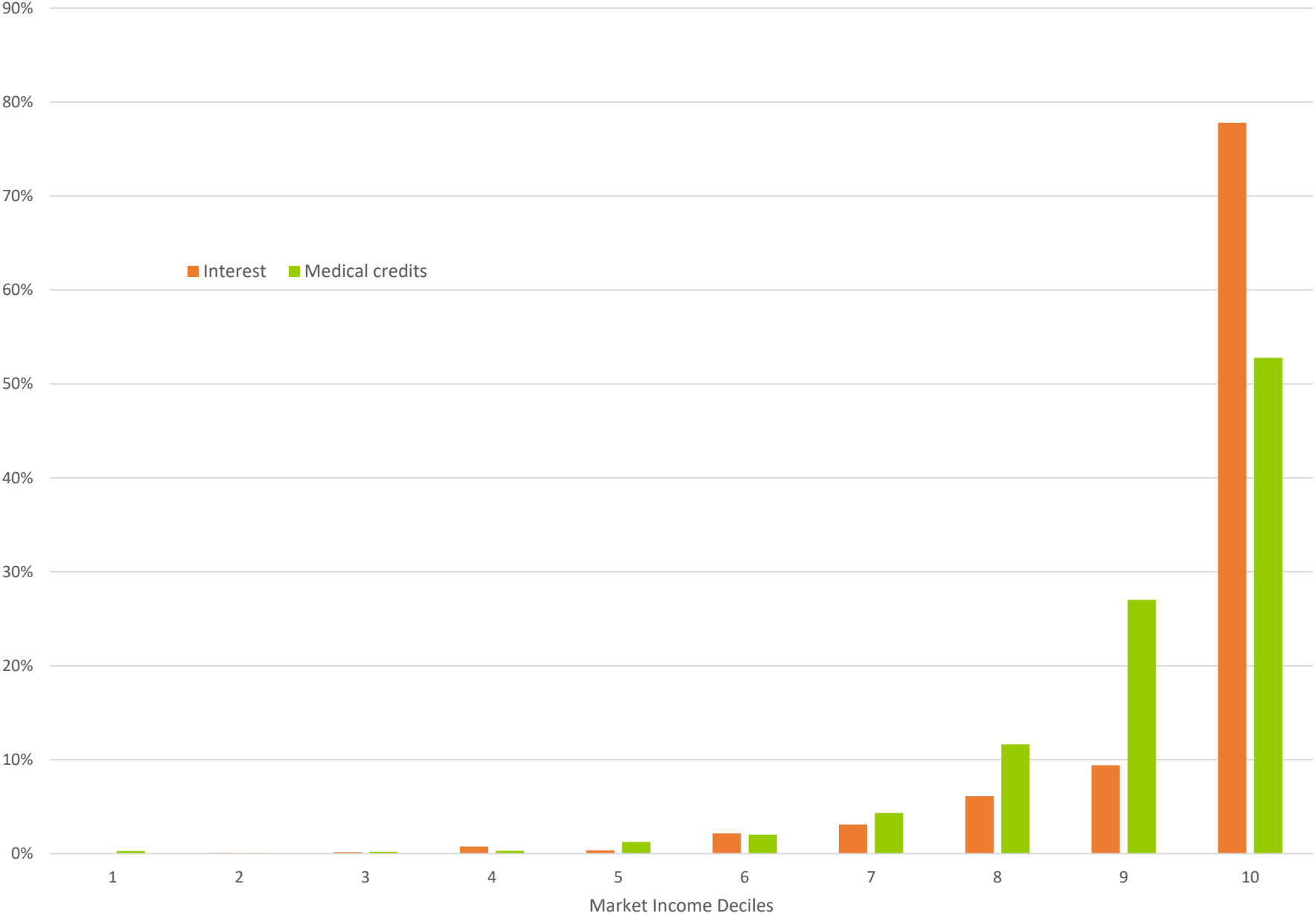
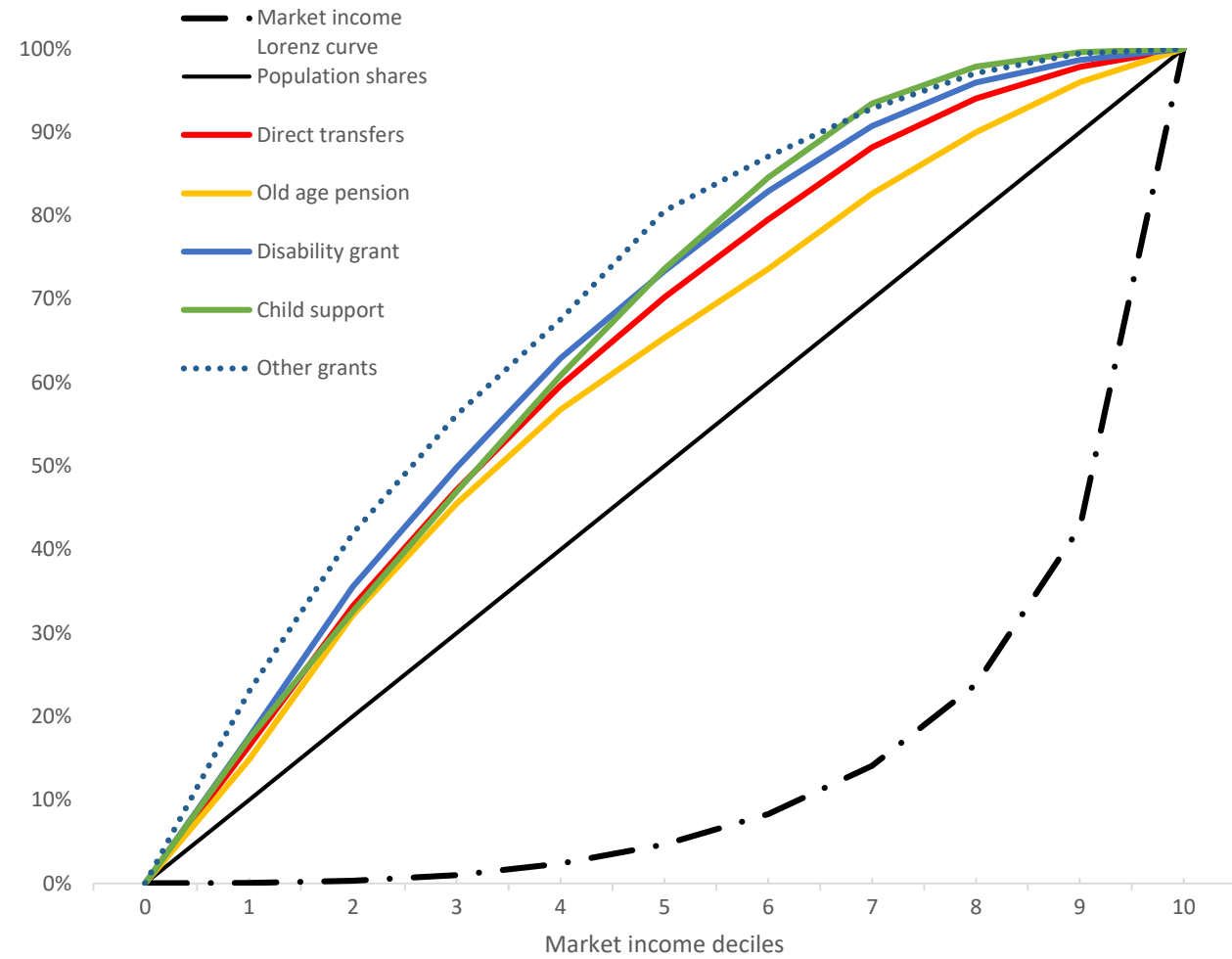


Figure 6: Concentration curves for social cash grants in South Africa, by decile



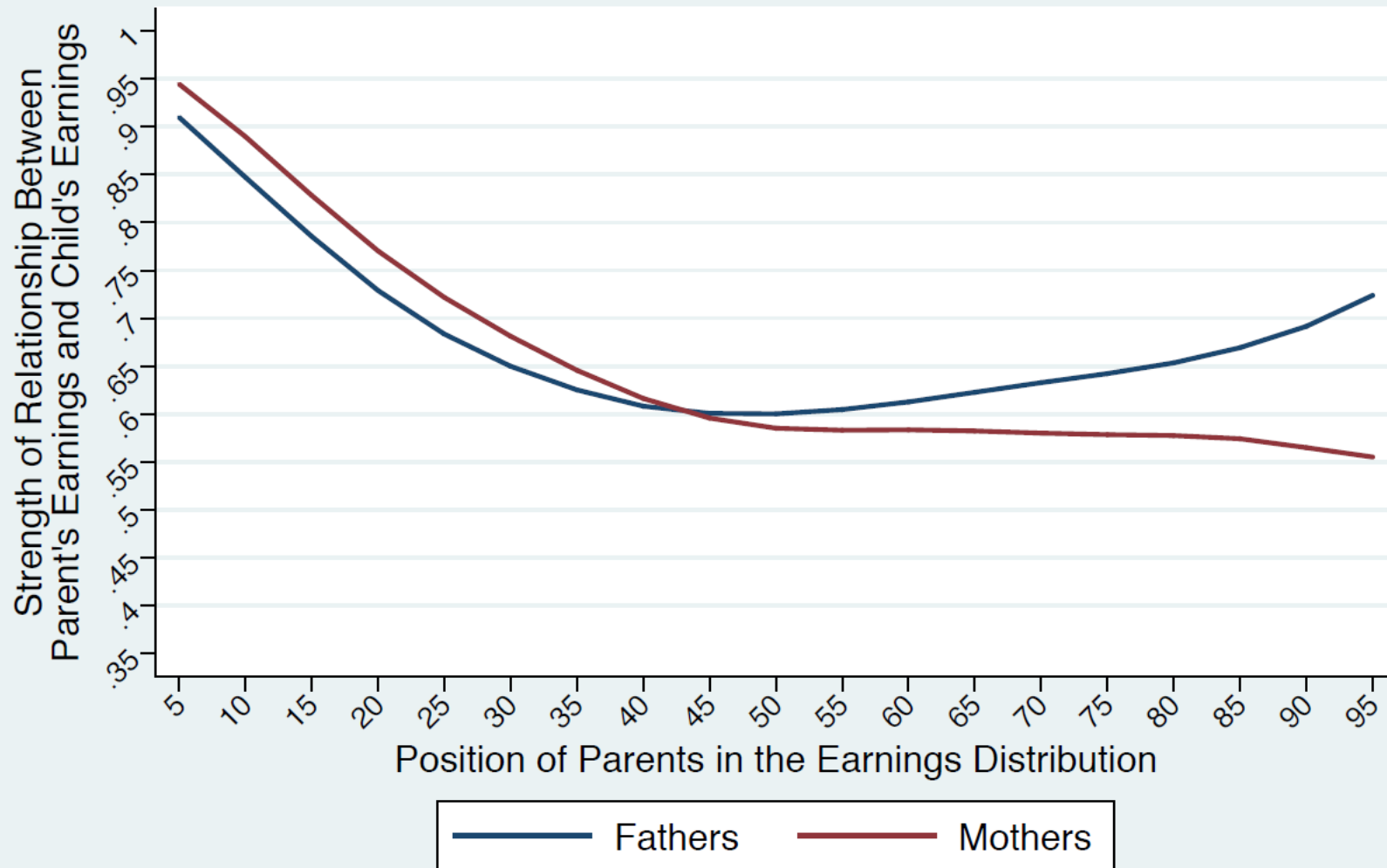
Main findings

- Direct taxes are highly progressive.
 - Top 3 deciles of income distribution contribute 96% of direct personal taxes.
- Social cash transfers are also highly progressive.
 - Nearly 50% of transfers accrue to the bottom 3 deciles of income distribution.
- Together reduce Gini by estimated 0.06 units.
- Tax exemptions, especially for medical aid and interest income, are regressive.
 - Although caution is warranted for policy as these also have implications for healthcare and retirement funding.

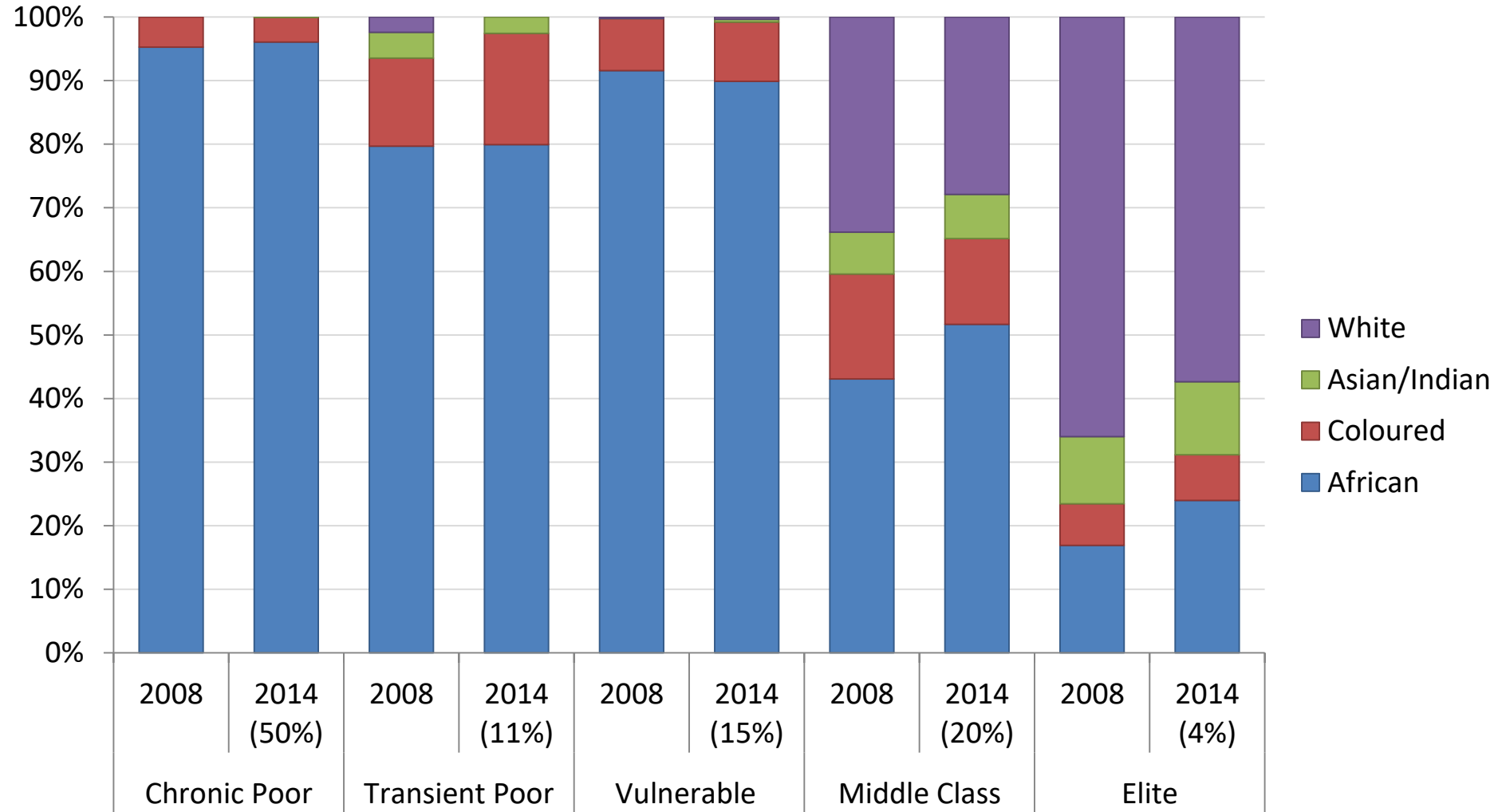
V: Related Work

Intergenerational Failure

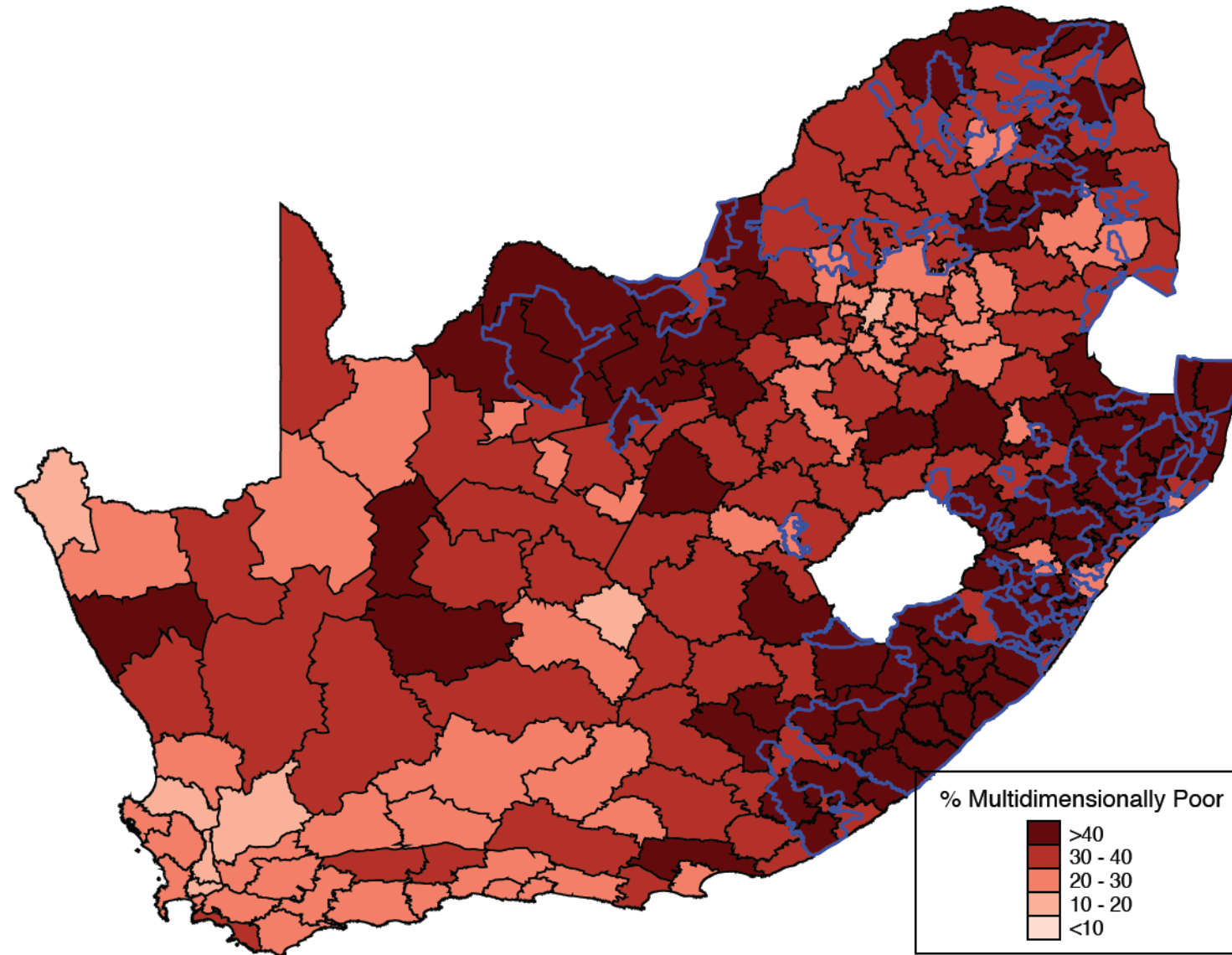
The Transmission of Earnings Advantages or Disadvantages Across South Africa's Generations



South Africa's five classes, 2008 and 2014/15



Incidence of multidimensional poverty amongst youth in South Africa, by municipality, 2011 - including former homeland boundaries



Discussion

- We corroborate the existing literature with new evidence that inequality remains high in SA, and a primary driver of said inequality derives from the labour market.
- Taxes and transfers are both progressive, but there is likely a limit to such redistribution.
- Subsequent policy that is aimed at reducing inequality will have to address the underlying distribution of market based income.
- Started to sort out the data issues to enable this:
 - Top-end issues with income and wealth
 - Merging survey and administrative data more generally to move closer to measuring the quality of services (education and health) and returns to people
 - Spatial mappings

Ways forward (The evolution and persistence of income inequality)

- Asset and wealth inequality and its relation to income inequality remains an under-explored dimension of
- What does multi-dimensional inequality imply for the dynamics of income inequality?
- How labour market success interacts with pre-labour market factors
- Spatial inequality and network inequality interactions with multi-dimensional inequalities
- 'Culture' as a social norm and the social impact on inequalities



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**CHALLENGING INEQUALITIES THROUGH POLICY
RELEVANT ACADEMIC RESEARCH.**