



Chapter 2

Measuring Inequality

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Introduction

The theories on inequality are imperfect and dynamic, and the measurement of inequality is multidimensional, as Section 2 will explore. This chapter aims to give the reader insight into what scholars have to say about inequality, the measurement of inequality, and the current stand in South Africa.

What do Economic Theory and Scholars Say about Inequality?

Economics studies the problem of scarcity in terms of limited resources and unlimited needs.¹ In dealing with the problem of scarcity, people are required to direct their behaviour towards meeting their needs. In addressing the economic problem of scarcity, economic activities in society are directed to answer the questions of (1) What must be produced, (2) How it must be produced, and (3) To whom it is distributed. The three questions are also referred to as the allocation, production, and distribution problems.²

Economic literature distinguishes between two broad perspectives in answering the allocation, production, and distribution questions: the free-market economic system (capitalism) or the command system (socialism). The free-market system will, as Adam Smith theorised,³ guide economic behaviour by self-interest, without interference from authorities, and by ensuring private property rights. The interaction of markets will, like an invisible hand, allocate scarce resources, produce the most effective way, and distribute goods and services effectively. Under public ownership and a centrally planned economy, the state answers what must be produced, how, and to whom.⁴

The distribution problem refers to how goods and services or income are distributed amongst the population, either locally, nationally, or internationally. The two fundamental questions of distributive justice are: (1) Who shall receive benefits or burdens from society? and (2) On what principles shall benefits and burdens be distributed?

The Free-market System (Capitalism) and the Distribution Problem

Capitalism continues to generate high economic growth rates, excellent benefits and opportunities, diverse goods and services, and innovation as well as addressing business cycle fluctuations in different economies.⁵ A common criticism of the free market, or capitalism, is that it does not produce a 'just' income distribution or distribution of goods and services. Inequality seems to be an inevitable product of capitalist activity, as some individuals and communities exploit the opportunities offered by capitalism more than others. Capitalism does not conform to *a priori* principles in distributing income to individuals. Income is distributed to the production factor (entrepreneur, capital, labour, technology), which is scarce, urgently needed, and highly rewarded. The distribution of income is also fundamentally affected by ability, differences in intensity of work, schooling, distortive starting positions, inherited wealth, compensating wage differentials, and the result of taking risks in individuals' choices.

The fall of the Berlin Wall on 9 November 1989 had significant global ideological implications. Because of the fall of communism and the zeitgeist in the West, a perception emerged that capitalism and liberal democracy are the only successful models for development and modernisation and that no alternative for neoliberalism and globalisation should be considered for the global economy.⁶

Neoliberal thought was founded by establishing the Mont Pelerin Society in 1947, dedicated to implementing liberal and free-market policies. At the time, with Europe in ruins, the Keynesian ideas of a welfare state and socialist policies (the New Deal in the US) were eagerly accepted. However, the founders of

the Mont Pelerin Society – Milton Friedman and Fredrich Hayek – continued to blame all the world’s economic problems on government intervention and participation in the economy. In his book *Capitalism and Freedom*, Friedman’s solutions to economic problems were based on free markets, individual freedom, and privatisation to ensure a better and prosperous future. Fredrich Hayek was concerned about the rise of the totalitarian state, especially the socialist planning and administrative regulation of the economy. He advocated a balanced approach between the state and markets, where the state only addresses externalities and provides public goods, a safety net, and social insurance to limit inequality.

Command System (Socialism) and the Distribution Problem

Karl Marx believed that the history of society is all about a struggle between different classes.⁷ He identified six stages throughout history: tribal communalism, slave labour, feudalism, capitalism, socialism, and communism as the final utopia. During each stage, capital accumulation leads to the concentration of wealth. A different stage replaces each stage after some form of revolution. During socialism, the means of production would be seized from the ‘*bourgeois*’ by the ‘*proletariat*’, and hence society would be eradicated of class distinctions based on private property. Only public ownership, as the means of production, could guarantee distributive justice.⁸ In order to achieve equal distribution, the principle of remunerative distribution should be replaced by distribution according to people’s needs.

Distributive Justice

Distributive justice refers to a process whereby a society allocates certain rewards and resources to persons based on a moral belief or set of moral beliefs. Literature indicates that there needs to be a consensus on the criteria or foundation of a just distribution. In addressing distributive justice, the debate criteria revolve around effort, merit, need, and social contribution.

Adam Smith, in his book *The Theory of Moral Sentiments*, theorises how individuals are naturally inclined to be concerned about the fate of the wealthy and the poor.⁹ The primary role of self-interest will influence human sentiments and direct ethical behaviour.¹⁰ Friedman and Adler,¹¹ and Crusto¹² warn that capitalism in its current form, based on greed and only the pursuit of self-interest, will only cause harm. They argue that Adam Smith, in his book *The Theory of Moral Sentiments*, envisaged economic growth within a moral context. Friedman and Adler propose that moral capitalism, founded on biblical principles such as material wealth and not greed, industriousness, social responsibility, and human dignity, should replace the current capitalist system.

The utility theories initiated by economists like JS Mill, A Marshall, and A Pigou state that injustice consists of the loss in utility compared to what could have been achieved.¹³ Utility is regarded as some measurement of a person's pleasure or happiness. In an unjust society, people are less happy than they need to be. The utility theories tend to ignore inequalities in the distribution, and no importance is given to claims of rights and freedoms.

John Rawls's egalitarian theory, *A Theory of Justice*, is built upon safeguarding liberty.¹⁴ Classes of rights, from personal liberties to property rights, are to have complete precedence over the pursuit of social goals. Ensuring that each person has fundamental freedoms will lead to maximum social welfare. Actions will be considered fairer if no one is placed in a worse financial position than before by the action. A society that maximises members' welfare in the worst circumstances or functions to the most significant benefit of the least advantaged are considered most just. Emphasis is given to procedural priorities, irrespective of the consequences.

Robert Nozick's libertarian theory relies on no interference with people's freedom of choice, minimum state intervention, and protecting life, liberty, and property as prerequisites for justice.¹⁵ According to Nozick, the state's duty is to protect citizens from invaders, enforce contracts, and secure free markets in property,

capital, and labour. Justice is not connected with distribution but is associated with liberal rules applied in the marketplace of society.

Jurgen Habermas and Theodore Adorno, as part of the Frankfurt School's rethink of Marxism under new social and historical conditions, conceptualise a way of achieving consensus amidst individuality, difference, and diversity.¹⁶ By advocating a social justice of communication, which focuses on the communicative processes, citizens can make just decisions about their needs and social order. The right to speak and be heard provides a communication procedure for reaching a consensus on social justice.

Amartya Sen argues that,¹⁷ in providing equal opportunities, interventions are needed to strengthen an individual's capabilities to lead the life a person has reason to value. Emphasis on human development and targeting resources to specific kinds of persons will address capability deficits. The efficiency of the market mechanism is acknowledged, but does not guarantee distributive equity. Creating essential social opportunities for social equity and justice must supplement the market mechanism.

Thomas Piketty's Analysis of the Distribution Problem

Literature indicates that different forms of inequality exist within countries, amongst countries, and in world regions.¹⁸ More recently, Piketty revealed the rising share of capital's income share compared to that of labour. Terreblanche believes that the vast inequalities between "the West and the Rest" can be attributed to Western empire-building and Christianity's application of their four sources of social power: ideological, economic, military, and political relationships through centuries. According to Terreblanche, poverty and inequality in the world have increased due to the continuation of the American-driven, neoliberal economic system.

In Piketty's *Capital in the Twenty-First Century*, he compares the average return on capital: profits, dividends, interest, rents, and other income (r) with the rate of growth in the economy (g).

His research shows that, during the 19th century, the rate of return on capital exceeded the rate of growth and income ($r > g$), leading to an increase in inequality. This period is followed by a reduction in capital's share of income, due to the occurrence of the two world wars (1914–1918; 1939–1945), the Bolshevik Revolution (1917), and the Great Depression (1929). The reverse of the trend – a rise in capital's share of income – is attributed to Margaret Thatcher and Ronald Reagan coming to power, the collapse of the Soviet Bloc in 1989, and financial globalisation and deregulation. Piketty notes that the divergence is even higher when economic growth is weak, resulting in a high return on capital despite a low growth rate, and implying that wealth accumulated in the past grows more rapidly than the economic growth rate. Piketty acknowledges that the history of inequality has been shaped by economic, political, and social factors, and cannot be reduced to economic mechanisms only.

A distinction is made between forces of convergence – such as knowledge, skills, and technology – in decreasing inequality, and forces of divergence and the accumulation and concentration of wealth. Different theories that have evolved have theorised the factors of convergence and divergence. Thomas Malthus, Arthur Young, and David Ricardo theorised that overpopulation would result in the stagnation of wages and the increase of rent on scarce land. This would result in inequality, as the rate of return on capital would be larger than the rate of return on labour. Piketty distinguishes between theories of capital accumulation (Karl Marx, David Ricardo) leading to the concentration of wealth and theories where growth, competition, and technical progress (Simon Kuznets, Robert Solow) lead to reduced inequality in later stages of development.¹⁹ Kuznets and Solow believe the inclusion of technology and improved productivity would counter the accumulation and concentration of capital.

Piketty is not interested in denouncing inequality or capitalism, but rather in organising society, institutions, and policies to achieve a just social order. Justice to be achieved under the Rule of Law should be applied to all and derived from universally understood statutes subject to democratic debate. Piketty proposes that institutions regulate capitalism justly and

efficiently on a global basis. Piketty proposes a global tax on capital or the net value of assets or wealth of individuals to regulate capitalism, stop the increase in wealth inequality, and impose effective regulation on the financial and banking system to avoid crises. Piketty foresees the state's inevitable more significant role in introducing a tax on wealth to regulate capitalism.

According to Piketty, capitalism automatically generates inequalities. Democratic ways are to be applied to regain control over capitalism to ensure that the general interest takes preference over the private interest. By referring to “democracies” and the “will of the people,” it is assumed that Piketty's foundation for a fair and just distribution will be determined by democratic consensus. Piketty's failure to provide a clear foundation for establishing a just and fair distribution necessitates a debate and dialogue in searching for a foundation or criteria to measure, assess, or determine what is a fair and just distribution.

Piketty's views and findings led to a reaction.²⁰ Moreover, the author uses “capital” and “wealth” interchangeably. The accepted definition of wealth is a household's net worth, which is calculated by assets – liabilities. On the other hand, capital is regarded as a production factor used to produce products and services.

Rent-seeking

The theories and views of researchers and scholars range between the far right (minimum government participation in the economy) and the far left (maximum government participation in the economy) to views between the two perspectives. The common ground for the outrage against inequality can be summarised and explained by rent-seeking. Rent-seeking is how the current political process helps the rich become wealthy at the expense of others. Rent-seeking takes on many forms, such as hidden and open transfers and subsidies from the government, laws that make the market less competitive, not enforcing competition laws, and allowing big corporations to take advantage of others or to pass costs on to the rest of society.

Acemoglu and Robinson think that a balance of power is needed, a state with the capacity to enforce laws, control violence, resolve conflicts, and provide public services controlled by a well-organised society.²¹

Measuring Inequality

Worldwide, there is a growing concern that inequality is on the increase. According to the World Bank (2009),²² inequality is partially due to the global shift in dynamics driven by the fast-growing economies of the developing world. As economies grow, economic inequality tends to follow suit. Inequality is seen between various groups, including genders, population groups, and neighbourhoods.

In South Africa, the labour market is heavily racialised and gender biased. The most significant contributor to overall income inequality comes from the labour market at 74.2%.²³ On average, female workers earn approximately 30% less than male workers. Furthermore, males are more likely to be employed and have relatively better-paying jobs than females.

The earnings distributions starkly depict the heavily racialised inequality in the South African labour market. In addition to having the worst employment outcomes, black Africans also earn the lowest wages when they are employed. Whites, in contrast, earn substantially higher wages than all the other population groups. To put racialised inequality into perspective, the mean actual earnings per month between 2011 and 2015 amongst employed workers, according to Stats SA,²⁴ were:

- R6 899 (actual earnings) for black Africans
- R9 339 for Coloureds,
- R14 235 for Indians/Asians,
- Moreover, R24 646 amongst whites (more than three times as high as black Africans).

Income inequality is not only seen in race and gender, but is also depicted in neighbourhoods, as seen in Figure 1.



Fig. 1 South Africa is the most unequal country. Source: *Time Magazine*, 13 May 2019

The cover image of *Time* in Figure 1 shows two neighbourhoods outside of Johannesburg, with wealthy Primrose on the left and the informal settlement of Makause on the right. The picture is evidence of inequality in SA, but how is income inequality measured?

This section provides a conceptual analysis of the inequality indices. The conceptual analysis for income inequality will focus mainly on the Gini coefficient and Palma ratio. Reference will also be made to other income inequality measures, including General Entropy (GE), with reference to Theil's index and some

asset indices. However, the Gini coefficient will receive more attention in the following discussion since South Africa's National Development Plan lists reducing inequality – measured using the Gini coefficient – as one of its fundamental objectives.²⁵

The Gini Coefficient

The Gini coefficient is used as a measure of income inequality in a country. It has been one of the most used measures of inequality in South Africa. The Gini coefficient ranges between 0 and 1. The value of 0 indicates a state of perfect equality where all individuals have identical incomes. The value of 1 indicates a perfect inequality where one person has all the income while the rest does not. It is widely used as it has some advantages, such as giving one value reflecting the overall income differential, providing for international comparison, and for decomposition analyses at the local level. If a country's Gini coefficient is closer to 1, it indicates inequality in the population. When it is closer to 0, it indicates a more equal population.

Figure 2 below is used to explain the measure of inequality using the Gini coefficient and Lorenz curve.

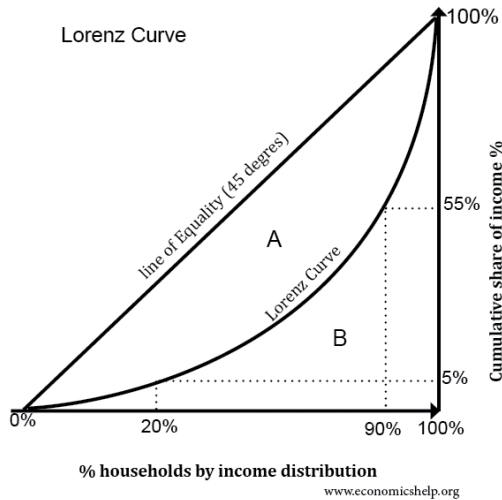


Fig. 2 Gini coefficient and Lorenz curve

In Figure 2, according to the Lorenz curve, the poorest 20% of households have 5% of the nation's total income, while the poorest 90% of the population holds 55%. That means the wealthiest 10% of income earners gain almost half (45%) of total income. The Gini coefficient is calculated as follows:

The Gini coefficient is area A/A+B

Thus, should the Lorenz curve be precisely on the line of equality, the value of area A would be 0, and the Gini coefficient would be 0.

In the mid-2010s, South Africa was among three countries that reported Gini coefficients over 0.60, while the majority were between 0.30 and 0.49.²⁶ In 2018, according to World Bank data, SA ranked as the most unequal country globally, with a Gini Coefficient of 0.67. Except for Lesotho, the Gini coefficients of all other SACU countries (Botswana, Namibia, and Swaziland) exceeded 0.50.²⁷

According to Stats SA (2022), South Africa is in the top five most unequal countries globally, as the Gini coefficient of household *per capita* income was measured at 0.63 in 2022. The settlements in the Eastern Cape, KwaZulu-Natal, and Limpopo²⁸ are the most deprived and associated with impoverished areas. In addition, studies show that expenditure inequality increased in Limpopo and the Eastern Cape from 0.56 and 0.63 (in 2006) to 0.61 and 0.65 (in 2015) respectively.²⁹ This might shed light on the argument that people with lower incomes are getting poorer.

The implication of massive poverty in South Africa leads to government dependency. According to Statistics South Africa,³⁰ the bottom 60% of households depend more on social grants and less on income from the labour market. In contrast, there was greater reliance on income from the labour market in the top deciles. While labour market income is overwhelmingly the most significant contributor to income inequality compared to other income sources, social grants and remittances have played a crucial role in reducing the income inequality gap between the bottom and top deciles over the years in South Africa.

The Gini coefficient, however, is sensitive to changes in the middle group, where shifts in income less frequently occur. The Palma ratio can give a broader perspective on inequality than the Gini coefficient. The Palma ratio will be explained in the next section.

The Palma Ratio

It may be argued that the main driver of inequality is that the richest get richer and the poorest get poorer. This section explores this argument using the Palma ratio.

The Palma ratio is the ratio of the national income and expenditure shares of the top 10% of the population compared to the bottom 40%. The Palma ratio has been steadily increasing since 2005, suggesting that South Africa's inequality is worsening. According to Stats SA (2020), the top 10% of the population spent 8.6 times more than the bottom 40% in 2006.³¹ The Palma ratio for South Africa was 8.4 in 2019, indicating a very high degree of inequality. This figure is much higher than the average for the European Union, which stands at only 3.7.

The Palma ratio can also be used to explore income inequality in terms of gender over time. The Palma ratio corroborates the Gini coefficient in that more inequality exists among individuals living in male-headed households than in female-headed households. According to a Stats SA report (2019)³² regarding inequality trends, there was a significant drop in the Palma ratio for individuals living in male-headed households from 8.9 to 7.7 (between 2006 and 2015), while the Palma ratio for those living in female-headed households slightly decreased from 6.1 to 6.0 during the same period. The significant drop in the Palma ratio for individuals living in male-headed households was due to the transfer of expenditure share from the top 10% to the middle 50% of this population, with the bottom 40% also having minimal gains in their expenditure share. On the other hand, while the middle 50% of individuals living in female-headed households increased their expenditure shares, the bottom 40% and the top 10% of this population decreased their expenditure. Thus, a

minimal drop in the Palma ratio for individuals living in female-headed households during the analysis period was indicated.

The consistent trend of the Palma ratio to the Gini coefficient resulted from an increase in the share of expenditure going to the middle 50% of the population, which led to a decline in the share of expenditure for the top 10%. In comparison, the bottom 40% kept their spending share constant.³³ Thus, we may ask: Is the rich (top-10) getting wealthier over time, or is 'poverty' distributed more equally?

The following discussion explains how General Entropy (GE) – specifically the Theil index – aims to identify the source of income inequality.

GE: Theil's Index

Theil's indices can be categorised under the generalised entropy inequality measures (GE (α)), which are based on ratios of incomes to the mean. Theil's L index (or mean log deviation) and Theil's T index (often referred to as the Theil index) are the most popular GE indices. Both indices are equal to 0 in the case of perfect equality and increase as the distribution becomes more unequal, but unlike the Gini coefficient, they are not capped at 1. The Theil index is not a relative measure of inequality; thus, its values are not always comparable across populations of different sizes or group structures.

Alpa (α) is the weight given to distances between income and expenditure at different income or expenditure distribution points. The α parameter can only be absolute values that equate to 0, 1, and 2.

When the α equates to 0, then:

GE (0) index = Theil's L index

GE (1) index = Theil's T index

GE (2) index = the coefficient of variation (CV)

Another feature of these two indices is that Theil's L is sensitive to changes at the bottom of the income distribution, while

Theil's T is sensitive to changes at the top. Thus, comparing the evolution of the two measures can be informative for identifying which part of the distribution is driving the observed changes in inequality. When the α is positive and significant, the GE index will react more to movements at the upper tail of the income and expenditure distribution.

While the Theil index does not have an intuitive explanation, it is often used in empirical studies because of its decomposability. Suppose the population can be divided into several sub-groups (e.g., based on age, education, region, etc.). In that case, the Theil index can quantify how much income inequality is due to differences across individuals *within* and *between* these groups. This is valuable for policymakers in trying to identify the sources of inequality. For example, the Theil T index can decompose global inequality into between- and within-country inequality, showing that about 70% of global inequality is explained by the between-country component. For South Africa, the Theil index shows inequalities in peripheral areas of metropolitan areas, mainly historically black, residential areas.³⁴

Atkinson Index

The Atkinson index identifies the percentage of total income a population would sacrifice to have more identical income shares between its people. Atkinson (1970) proposed an inequality measure based on welfare called Atkinson's class of inequality measure ($A(\epsilon)$).

Where:

ϵ = inequality aversion and can range from 0 to infinity.

The greater the ϵ (aversion parameter), the greater the inequality aversion in the stipulated society. The Atkinson index, therefore, is more focused on the base of income and expenditure distribution. The greater the ϵ indicates that the Atkinson index becomes more sensitive to changes at the end of the income distribution.

This index can be used to compare different countries and regions and to track inequality changes over time. The Atkinson

index is important for understanding the level of inequality in South Africa. It can be used to determine the impact of different economic policies on inequality and to identify areas where interventions can be made to reduce inequality. This can help to develop effective strategies for reducing poverty and improving the lives of the poorest in society.

Besides income (as a flow concept), assets (as a stock concept) contribute to inequality in SA.

The Asset Index, Wealth Index, and the Returns on Financial Assets (including Home Ownership)

In South Africa, asset inequality is a significant issue that the coronavirus pandemic has exacerbated. The asset index uses 18 assets comprising public and private assets to calculate asset indices. The smaller 18 indices are used to statistically establish an overall asset index to identify the disparities in wealth. The smaller asset indices vary in the composition of indicators and the weights used to generate the overall asset index. Congruent to income inequality measures, the Gini coefficient for the calculated asset index ranges between 0 and 1 and is interpreted the same way as income inequality.

The gap between the wealthiest and poorest households has widened even further. In 2019, the wealthiest 10% of households owned 61.2% of all assets, compared to 56.7% in 2018. The poorest 40% of households owned just 1.5% of all assets, a decrease from 2.0% in 2018.

The financial value of assets owned by individuals and households dictates the level of wealth that they accumulate. Wealth inequality in South Africa is more significant than income inequality and requires more attention. Over 60% of private wealth is in assets such as bonds, life insurance, deposits, pension funds, and equities. In South Africa, the top 1% of the population's income from shares and financial assets equates to roughly 50% of their total income, accentuating the disparities in income inequality. The income from the capital for the top 5% grows faster than the economy, which also perpetuates wealth inequality. It is of paramount importance that policymakers understand the

wealth and returns on financial assets to formulate relevant policies to counteract growing wealth inequality.

In terms of financial assets, the wealthiest 10% of households own 84.2% of all financial assets, compared to 81.2% in 2018. Conversely, the poorest 40% of households own only 0.2% of all financial assets, a decrease from 0.3% in 2018. This indicates a growing wealth gap between the wealthiest and poorest households. In terms of non-financial assets, the wealthiest 10% of households own 66.3% of all non-financial assets, compared to 61.3% in 2018. Conversely, the poorest 40% of households own only 1.5% of all non-financial assets, a decrease from 2% in 2018. This indicates that the wealthiest households are accumulating more non-financial assets.

The profiling of inequality in asset ownership can be used to measure wealth inequality. This measure provides a broader scope of the level of welfare of households and individuals in South Africa. The measure looks at the trends of 18 assets broken down into public (3) and private (15) assets to gauge household asset ownership.

According to the Inequality Trends in South Africa report (2020),³⁵ black Africans reported the most significant increase in the average number of assets owned. A consistent increase in average asset scores for black Africans led to a decline in asset inequality between groups. Despite this increase, within-group asset inequality for black Africans has increased.

Limitations of Inequality Measures

The South African economy has reflected great inequality in recent years. Despite the government's focus on reducing inequality, several limits exist to the efficacy of inequality measures in South Africa. One of the primary limitations of inequality measures in South Africa is that they often need to capture the full extent of the problem. This is because much of the inequality in the country is hidden and not accounted for in traditional measures. For example, inequality may be hidden in access to resources or wealth (not captured in unemployment or poverty statistics). This means that traditional inequality measures may overlook the

problem's true extent. Another limitation of inequality measures in South Africa is that they may need to reflect the experiences of different groups of people accurately. This is because the data used to measure inequality often fails to capture the experiences of certain groups, such as women and racial minorities. This means the true extent of inequality between these groups may need to be considered or addressed. Finally, the lack of reliable data can limit the use of inequality measures in need of more Africa.

Despite the comparative strengths and weaknesses of the available measures, empirical studies demonstrate that they are mainly in agreement when comparing inequality differences across countries. However, the evolution of inequality within a country or the effectiveness of a specific policy can be perceived differently depending on the specific metric under consideration and the variable being measured. For instance, if policymakers care more about what happens to people experiencing poverty, they should use the Palma ratio instead of the Gini coefficient as their inequality measure and focus on consumption instead of income data.

Remedies

No single country can measure itself out of misery. Therefore, the challenge for countries that experience inequality is to institute pro-poor policies that will make people's living standards more uniform across space. The National Development Plan (2011) is an example of such an initiative by the South African government, which has aimed to reduce poverty since the end of apartheid. Other efforts by the democratic state to address these challenges centred on improvements in core government services. Dominated government programmes are focused on the following:

- improving government services and providing cash transfers to poor households;
- protecting labour rights and instituting minimum wages; and
- enhancing representativity in business ownership and senior management through broad-based Black Economic Empowerment (BEE) policies.³⁶

While government services improved significantly in low-income areas, they remained heavily inequitable. One of the reasons for the failure of government programmes is that the state needed to undertake substantial innovation in most delivery systems outside of social grants and the development of lower standards for municipal services in low-income communities.

To successfully reduce inequality in South Africa, several remedies must be implemented. The government must address poverty. South Africa has a high level of poverty, inflation, and weak currency, with roughly 50% of the population living below the poverty line. Many of those living in poverty are from marginalised communities, such as black and Coloured South Africans. The government must implement policies that improve access to education, healthcare, and job opportunities to reduce poverty. This can be done through increasing access to social welfare programmes, providing incentives for businesses to employ from poorer communities, and increasing access to education through free tuition and grants.

In addition, the government must address discrimination. South Africa has a long history of discrimination that has led to several disparities in outcomes, such as access to education, job opportunities, and healthcare. To reduce discrimination, the government must implement policies that promote equality and inclusion, which ensure that marginalised communities are represented at all levels.

Fiscal policy needs to be used effectively to reduce inequality. A progressive tax system and effective social safety net decrease overall inequality (relative to the market income). However, South Africa's high debt level has further reduced the government's scope to leverage fiscal policy as a redistributive tool.

Economic growth is essential for more job opportunities, lower poverty, higher inclusion, and equal distribution of limited income and opportunities. Subdued growth has jeopardised efforts to support inclusion. With growth stagnating over the past decade, the economy needs to create more jobs to absorb the unemployed and new entrants to the labour market. Broad-based

growth that generates more low-skilled jobs for the unemployed will support inequality reduction.

In the future, South Africa will need further fundamental reforms for more robust and inclusive growth. The focus must be on creating a business environment more conducive to private investment and job creation. This requires improved governance, reducing business costs, making goods and services markets more open to competition, allowing firms to compensate workers in line with their skills and productivity, and making state-owned service providers more efficient. Policies will also be needed to create opportunities to support the marginalised population through improved education, health, and transportation quality.

Conclusion

This chapter provided an overview of what scholars say about inequality and the different measurements of inequality. In South Africa, inequality manifests through skewed income distribution, unequal access to opportunities, and regional disparities. Low economic growth and rising unemployment have contributed to the persistence of inequality.

The South African government has used different tools to tackle the stubborn levels of inequality that have plagued the country, including progressive fiscal redistribution. However, progress has stagnated in the last decade.

Efforts to reduce inequality have focused on higher social spending, targeted government transfers, and affirmative action to diversify wealth ownership and promote entrepreneurship among the previously marginalised. These measures must be complemented with reforms promoting private investment, jobs, and inclusive growth.

Structural challenges and weak growth have undermined progress in reducing poverty, heightened by the COVID-19 pandemic. The achievement of progress in household welfare is severely constrained by rising unemployment. According to the Quarterly Labour Force Survey (QLFS), SA's unemployment rate in the last term of 2022 was 32.7%.³⁷

South Africa remains a dual economy with one of the highest and most persistent inequality rates in the world, with a Gini coefficient of 0.63 in 2022.³⁸ High inequality is perpetuated by a legacy of exclusion and the nature of economic growth, which is not pro-poor and does not generate sufficient jobs. Inequality in wealth is even higher, and intergenerational mobility is low, meaning inequalities are passed down from generation to generation with little change over time.³⁹ This becomes a vicious circle.

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