

Review

Haroon Bhorat, Murray Leibbrandt, Muzi Maziya, Servaas van der Berg and Ingrid Woolard (eds) (2001) *Fighting Poverty: labour markets and inequality in South Africa*. Cape Town: UCT Press.

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Bhorat et al's book, *Fighting Poverty*, represents a timely and welcome contribution to the burgeoning literature documenting the extent and nature of poverty and inequality in South Africa that has emerged over the past decade. Its publication occurs at a time when there is much public concern over the rising incidence, depth and severity of poverty. This is evident at the level of the state, as indicated by the government's commitment to eradicating poverty and underdevelopment by means of, for example, its commitment to the Millennium Development Goals and the New Partnership for Africa's Development (NEPAD). It is also a critical issue amongst civil society, as reflected by the Speak Out on Poverty Hearings (1998) and the War on Poverty declaration. It is also worthwhile mentioning that the book's release comes on the eve of the 20th anniversary of the Second Carnegie Inquiry into Poverty and Development, which in the words of the authors themselves represented 'a daunting benchmark of the mountain that had to be climbed' (2001:15), especially in terms of the enormity of the country's poverty and inequality challenge. The book's focus on the intersections between labour markets, poverty and inequality is also germane given rising unemployment trends and the continued decline in formal sector employment growth in spite of government's anti-poverty strategies, including the Poverty Alleviation Fund, Integrated Rural Development Programme and Public Works Programmes (Department of Social Development 2002, Aliber 2002).

This book, which is based on a collection of working papers (some of which were published elsewhere earlier), provides an excellent account of the relationship between poverty, inequality and labour markets in South Africa. The study's genesis dates back to the African Economic Research Consortium's (AERC) training workshop on Poverty, Inequality and Labour Markets held in Kampala in August 1997. The country study, which was jointly funded by the AERC and the South African Department of Labour, partly involved the twinning of the research team with an international researcher and university, in this instance Gary Fields of Cornell University. This collaboration exposed the authors to a range of eminent labour and development economists, which resulted in an awareness of the limitations of the South African literature and the prospects for the application of various 'new' techniques. The circumstances surrounding the book's creation and publication has meant that it has an appeal not only to students and academics interested in the field being studied, but that it also has immediate relevance to policy makers.

The overarching purpose of the book is to:

make a contribution to the analysis of poverty and inequality in South Africa by addressing four major issues that are pertinent to this policy milieu, namely: household inequality and poverty; vulnerability in the South African labour market; labour market participation and household poverty; and labour market and social policy interventions. (2001:16)

The structure of the book is arranged according to these four research themes. The initial section, comprising Chapters 1 and 2, attempts to develop a deeper understanding of the nature of household-level inequality, with specific reference to the labour market, and construct a profile of poverty in contemporary South Africa. In so doing, the authors have sought to complement existing descriptive research on poverty and inequality with a clear but methodologically rigorous approach. This is achieved partly by applying recently developed techniques in poverty and inequality decomposition analysis to several nationally representative data sets. For instance, in the inequality chapter, various categorical decomposition techniques (Theil-T, Theil-L and Atkinson measure) are employed, allowing for an in-depth exploration of the racial dimensions of South African inequality, in particular the relative importance of inequality *between* the different race groups on the one hand and inequality *within* race groups on the other. The authors additionally conduct *income source analysis*, a form of decomposition analysis that exposes the income sources that dominate

the distribution of income. Most of these decomposition techniques have only recently begun to be utilised in South Africa.

The authors also make an original contribution to the literature by consistently using methods that enable assessment of the robustness of empirical results to the choice of different poverty and inequality measures, the choice of individual poverty lines, and the aggregation of individual poverty lines into household poverty lines. This ranges from basic techniques such as testing for the validity of results and exploring differences using different data sets to the more sophisticated methods, such as the use of cumulative frequency distributions (CFDs) for the purpose of poverty orderings/rankings.

The second section of the book is directed at providing a nuanced understanding of the nature and operation of the South African labour market, with particular attention being afforded to vulnerability amongst its participants. Essentially, it is attempting systematically to address two fundamental questions. Firstly, what is the current situation, and in which sectors and segments of the labour market are the most vulnerable participants to be found? In responding to this question, an empirical overview of poverty and the labour market is developed in Chapter 3, consisting primarily of a descriptive analysis of the level of earnings in different labour market segments together with the measurement of the extent and distribution of low earnings in the labour market. Interestingly and importantly, in accomplishing the latter effective use of the poverty methodologies of CFDs and dominance to describe individual earnings in the labour market is made. This yields graphically powerful information about segmentation in the labour market and represents an original application of an analytical tool that has predominantly been used at the household-level to the individual level.

The second question being addressed is: what are the key determinants that allocate individuals to different segments of the labour market and then determine their earnings within segments? In investigating these determinants, some of the more formal econometric work is undertaken. This begins with a comparative analysis of the South African earnings function literature of the 1990s, after which the authors develop their own model, one that adequately captures the various correlates of labour market vulnerability (such as race, gender, rural/urban, and education) that were revealed in previous chapter. The resultant model was designed in such a way as to be able to determine the relative importance of these correlates

in explaining the three stages of the labour market selection process, namely participation, employment and earnings. Given that approximately 90 per cent of the vulnerable (low-earners and no-earners) were African, the modelling is exclusively focused on African individuals. Separate models were estimated by gender and rural/urban location since important differences were suggested by earlier work.

The third section represents, at least at the thematic level, the drawing together of the poverty and inequality profiles presented in the first section of the book and the labour market analysis of the preceding section. Chapter 5 considers the extent to which *individual*-level labour market participation influences the poverty and inequality status of that household. More specifically it estimates and presents four multivariate models relating to the determinants of household income, poverty and inequality, with the express objective of issuing policy-makers with a feel for the relative importance of these factors. The modelling provides strong evidence that labour market factors are salient determinants of poverty and inequality in South Africa, even after controlling for the household demographics, race, location and household educational factors:

Employment of adult labour market participants is shown to be the biggest single contributor to household per capita income, household poverty avoidance and household inequality. (2001:153)

This signifies that poor households are, to an extent, poor because they contain clusters of no-earners and low-earners. Another salient finding is that having adults with secondary education and above has notable returns in terms of household income poverty avoidance, most especially for African households. The analysis lends credence to the authors' assertion that anti-poverty policies pay particular attention to labour market factors and to the role of education.

Chapter 6 makes use of the poverty gap (PG) measure of poverty, which indicates the percentage shortfall of households or individuals below a specified poverty line, to undertake a series of simulations that explore the minimum expenditure requirements that government would need in order to alleviate poverty by means of a large-scale income transfer programme. Analysis reveals that, in 1995 prices, the minimum value of the financial commitment that would be required of the state to eradicate poverty would be in the order of R12.9 billion per annum, which translates into an estimated 8.3 per cent of the total state expenditure for 1995. Similarly, it would cost the state at least R15 billion per annum (9.7 per cent of the total

state expenditure) to keep all individuals in the labour force out of poverty, most of which would be devoted to the unemployed. From this Bhorat concludes that, from a policy perspective, the poverty reduction expenditure needed, for both individuals and households, is fairly modest. Other policy lessons extrapolated from the simulation include the importance of race, location and occupation (all correlates of poverty) as determinants of this expenditure, and that targeting households with domestic workers, farm workers or the unemployed residing in them would serve to capture a sizeable share of societal poverty in society.

Further simulations are then undertaken to test the likely impact of two different types of public intervention in order to assess which has the most appreciable impact on poverty. The first of these is the additive income grant, which is an absolute transfer independent of the income earned by the recipient. The second type of is the multiplicative transfer, the value of which is equivalent to a fixed percentage of the recipient's given income, resulting in differential absolute amounts being received. Increasing old age pensions by R50 would be an example of the former, while reduced average tax rates for people earning within a certain income bracket represents an example of the latter. The simulations illustrate that transferring R200/mth to each poor household would reduce poverty by 49.5 per cent and cost the state R7.2 billion. Assuming that the same total resources were available for a multiplicative transfer would result in an income transfer of 35.7 per cent of each poor household's income, the result being a 41.8 per cent decrease in poverty. For obvious reasons, the multiplicative approach also has less of an impact on poor households with unemployed individuals than the additive approach. Based upon the evident smaller impact of a multiplicative transfer simulation, Bhorat concludes that:

The lesson for policy makers, then, is that in order to maximise the impact on poverty alleviation, additive grant schemes are a better option than a multiplicative programme, which disadvantages those at the lower end of the income profile. (2001:168)

The findings based on the simulations make for interesting reading and are particularly appropriate vis-à-vis the state's commitment to the Millennium Development Goals, one of targets being the halving of poverty by 2015. Nonetheless, on a cautionary note, the highly stylised nature of the simulations means that the conclusions arrived at need to be carefully scrutinised. Bhorat himself acknowledges that assuming such fiscal transfer schemes would have no administrative or set-up costs and

would achieve perfect targeting is unrealistic. He also points to the fact that the simulations do not consider the continued costs and perverse labour supply incentives that may be associated with such a scheme. There are also other unknown issues that Bhorat does not touch on that should be considered, such as intra-household resource allocation.

Despite these limitations, the authors sides with international evidence as to the efficiency and efficacy of state transfer schemes in reducing poverty (no citations provided), and suggests that the poverty alleviating effects of two alternatives be immediately explored: introducing a more narrowly focused grant scheme, such as a Basic Income Grant (BIG) to the unemployed, and increasing the value of the old age pension (OAP) scheme.

The final section of *Fighting Poverty* is devoted to two chapters on the policy implications and recommendations of various aspects of the empirical work, one on social policy and the other on labour market policies. Chapter 7 argues that based on the analysis presented in the book, four promising options exist for improving equity and reaching the poor in South Africa. The first of these is social transfers to the poor. The coverage of current social security system in South Africa is shown to offer inadequate protection to two basic groupings, the unemployed (largest contingency) and poor households that lack access to both employment and elderly or disabled members receiving social transfers. A possible approach to addressing the needs of these cohorts is the expansion of low-wage public works programmes as a form of self-targeted poverty relief. Secondly, there is a need to expanding and improving the educational system, particularly in relation to quality and type. The third possibility is improving access to financial services, especially credit facilities that will support entrepreneurial ventures. The final suggested policy intervention is improving the poor's access to other social services, such as health, housing and social infrastructure. The book only details the first two of these policy options.

Chapter 8 examines the various labour market reforms that the post-apartheid government has introduced and their potential role in addressing poverty and inequality. The major pieces of labour legislation that have been enacted as a means of redressing historic imbalances in the labour market are the Labour Relations Act (1995), the Basic Conditions of Employment Act (1997), the Employment Equity Act (1998) and the Skills Development Act (1998). While these are shown to be important potential

tools in the struggle against poverty and inequality, especially for low-paid workers, it is argued that in the implementation of these policies, further consideration should be afforded to the likely impact of job losses on the most vulnerable workers. This adds further justification to the need for the extension of the social security system to the unemployed and education in the form of skills training as advocated earlier in the section.

A key limitation of the policy section is that for a book addressing trends in the labour market, with specific reference to poverty and inequality, it is surprising that the issue of HIV/AIDS remains virtually absent. Indeed, the *only* mention of the epidemic is found in a chapter entitled 'Social Policy to Address Poverty' by Servaas van der Berg:

Another growing problem is the HIV/AIDS epidemic, which is likely to have a major impact on the welfare of many South Africans. The number of projected deaths is worrying, but the many orphans are also likely to have a profound impact on social support structures. In this respect, the demand for social security may grow sharply. (201)

Although analytical work on the potential macro impact of the epidemic on the South African economy got off to a slow start in South Africa (Arndt and Lewis 2000:868),¹ and given that it may prove difficult to extrapolate AIDS related projections from the data used for the book, it is a serious oversight that more attention was not paid in the policy chapters to the effects that AIDS is undoubtedly going to have on the labour market, and consequently on poverty and inequality, over the next decade. Even describing some of the projections to which the above quotation refers would have been instructive.

From a methodological perspective, the authors must be commended for their meticulous application of methods that are *de rigueur* in modern labour economics and poverty studies to various national data sets. In so doing, they endeavour to overcome what they perceive as a critical weakness of previous South African literature, namely 'that it has not kept up with significant theoretical developments that have taken place in the international poverty and inequality literature over the last decade' (2001:17). Their analysis, based upon these techniques, represents an important benchmark against which future labour market surveys will be assessed. Moreover, the authors not only provide a critical appraisal of various studies that were undertaken during the 1990s, but they also reflect on the limitations of the data that they rely on and the implications this has in respect of their analysis, most notably in terms of distinguishing between

the formal and informal sector. They also are thoroughly transparent in specifying the various assumptions that underpin their modeling and other empirical work. This self-reflective approach in itself yields some salient insights for those decision-makers and researchers that are involved in or considering surveys with a labour or living standards slant. It is also invaluable for those wishing to conduct secondary analysis on the same data sets and, for example, test the robustness of their results under different assumptions.

The empirical analysis presented in the book is based upon data from the 1993 Project for Statistics on Living Standards and Development (PSLSD), the 1995 October Household Survey (OHS) and the accompanying Household Income and Expenditure Survey (IES). At the time of publication, this was the first time that the 1995 IES had been used in describing poverty and inequality in South Africa. As such, the findings generated serve to validate the findings of other established poverty and inequality research. As one reads through the book, the benefit of using more than one national data set for analysis quickly becomes apparent, as the robustness of the results can be, and are, further tested by applying the decomposition and other techniques to the different data sources, and possible explanations for any significant differences that arise are able to be explored. Despite these noteworthy attributes, a lingering concern remains in relation to the data. Although the study represents an important baseline (1993-1995) against which we can monitor changes in poverty and inequality, the interaction between the labour market and such changes, as well as the effect of policy interventions, a natural question emerges as to the changes that have occurred in the intervening seven years. While any study remains bound to the constraints of data availability, more attention could have been devoted to the relationship between the results generated by the data and some of the relevant dynamics and events that have occurred since then. This is after all a period in which we have witnessed, *inter alia*, the closure of the RDP Office, the emergence of GEAR, shocks such as the East Asian crisis, the proliferation of the AIDS epidemic, and worsening poverty, inequality and labour market indicators.

Nonetheless, these criticisms aside, *Fighting Poverty* is an innovative and insightful read that has important implications in terms of developing a culture of evidence-based policy making in South Africa. It is undoubtedly going to be a popular read amongst scholars, researchers and policy-makers alike and, as Cornell-based economists Gary Fields and Erik

Thorbecke declare in the foreword, is set to become 'the major reference work on labour markets, poverty and inequality in South Africa' (2001:v, original emphasis).

Note

1. A cursory glance through past volumes of the *South African Journal of Economics* reveals that there was only one article on AIDS during the 1990s. The similar trend can be observed with regard to *Development Southern Africa*. However, from 2000 onwards, coinciding with the International AIDS conference held in Durban, there has been a relative proliferation of articles on the issue.

References

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