

**Poverty and the 'Second Economy' in
South Africa: An Attempt to Clarify
Applicable Concepts and Quantify the Extent
of Relevant Challenges**

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1. Introduction

The paper starts off by dealing with the three most common money-metric measures of poverty. It goes on to argue that looking at poverty purely from an income perspective is limiting, as there are other issues that also affect quality of life – such as access to housing, sanitation, running water, education and so on. Different definitions of poverty are dealt with, as well as poverty lines.

The paper also gives an overview of analyses of poverty in South Africa, and mentions the difficulties in comparing poverty levels before 1994 to those after South Africa became a democracy (because after 1994, poor ‘homelands’ were included in the figures for the first time.) The paper largely deals with poverty analyses from the late 1990s and the recent past, with particular reference to whether poverty has declined over time or not. It provides information on the percentage of individuals below the poverty line according to different definitions based on data drawn from Statistics South Africa’s surveys.

The paper next turns to social mobility, and argues that education is more critical than other factors in shaping one’s mobility. Using data from the South African Advertising Research Foundation, the paper finds that between 2000 and 2006, a large number of Black people moved to the higher echelons of the middle strata of society.

Then the paper tackles the issue of the ‘second economy’, making the point that there is a dominant, cutting-edge first economy and marginalised ‘second economy’ that exist side by side. The next – crucial – section is an attempt to measure the ‘second economy’, using Statistics South Africa’s Labour Force Survey.

In conclusion, the paper finds that the question of the extent of poverty and ‘second economy’ challenges in South Africa remains unresolved. Different researchers give different estimates, although the trend seems to be showing a decline in poverty which appears to have begun around 2000.

The paper attempts to present some broad description of poverty measures and trends as well as the ‘second economy’ phenomenon in South Africa. The

analysis makes it clear why there is ongoing debate in South Africa about poverty and the 'second economy'. It is also clear that South Africa is grappling with huge challenges.

2. Measuring Poverty in Money Terms

There are three most common money-metric based measures of poverty. First, the headcount, which measures the proportion of the population whose consumption is less than the poverty line. Second, is the poverty gap index, which is the average, over all people, of the gaps between poor peoples' living standards and the poverty line. Third, is the squared poverty gap index which is a weighted sum of poverty gaps (as a proportion of the poverty line). This last measure is difficult to read and interpret and is cumbersome for policymaking purposes. The abovementioned measures are better interpreted together for policy purposes.

It is important to note that all analyses of poverty rely on the setting of a poverty line. Many researchers of poverty in South Africa have assumed their own poverty lines, because South Africa does not yet have a formal poverty line.

Many countries use the World Bank's definition of the poor, which identifies them as people who live on less than \$1 a day.

3. A Wider Perspective on Poverty than just Money

In most countries, the definitions of poverty are largely based on money-metric measures as reflected in poverty lines. Income – or, more often, consumption – is usually used as a valid proxy for well-being and quality of life. However, many have argued that poverty is a complex and multi-dimensional socio-economic phenomenon. This has led to the development of indicators such as the Human Development Index (HDI). The HDI is predominantly run by the United Nations and is compiled by using different indicators, including life expectancy.

Broad definitions of poverty are seen as ideal. They emphasise social inclusion, involvement and participation specific to a given society at a specific time. In this approach, the standard of living and quality of life of an individual, household or family is assessed in the context of, and in relation to, the socio-economic and resources profile of society.

4. Overview of Analyses of Poverty in South Africa

4.1 The early 1990s

One useful report was done by the Reconstruction and Development Ministry, called *Key Indicators of Poverty in South Africa*, October 1995. Depending on what rand amount per month one used as a cut-off, the proportion of people living in poverty in 1993 varied between 56,7 percent and 28,8 percent. Prior to the abovementioned report, Wilson and Ramphele (1989) had documented various issues in relation to poverty in South Africa – drawing from the outcomes of the Second Carnegie Inquiry into Poverty and Development in Southern Africa.

4.2 The late 1990s and the recent past

Over this period, there has been a growing body of research showing levels of poverty and trends over time. As reported in *South Africa's Millennium Development Goals Country Report* (2006), in terms of money-metric measures, according to Stats SA, using national estimates of poverty in South Africa in 2000, 11 percent of people were living on less than \$1 a day and 34 percent were living on less than \$2 a day.

Although still contested, in the recent past there have been many studies that show that poverty is declining in South Africa. Bhorat et al (2006) have produced a study showing that the delivery of basic services has been strongly pro-poor. For instance, they show that access to formal housing grew by 42 percent and 34 percent for deciles 1 and 2 respectively between 1993 and 2004. Access for lighting for the poorest households – those in decile 1 – grew by an extraordinary 578 percent over the same period. Bhorat et al also show that, while in 1993 40 percent of South African households were asset- (and service-) poor, by 2004 this figure had been almost halved to 22 percent.

Another recent study showing a decline in poverty in South Africa was undertaken by Van der Berg et al (2005). They find that poverty stabilised since the political transition and decreased since 2000. They use a poverty line set at R250 income per month per household or R3 000 per year in 2000 rands. They conclude that, whilst the proportion of people living in poverty increased during 1993-2000, in more recent years the proportion of poor people appears to have declined substantially – from 18,5 million in 2000 to 15,4 million in 2004. These figures remain contested.

Van der Berg et al also show that per capita real incomes of individuals comprising the poorest two population quintiles rose by more than 30 percent during 2000-2004. They conclude that for all poverty lines ranging from R2000-R4000 per capita income per annum, poverty decreased since about 2002 after a modest rise at the end of the previous decade. They argue that the impact of the recent expansion of social grants for the poor is likely to have been major.

Lately Bhorat et al (2008), using poverty lines of R174 per person per month and of R322 per person per month, in 2000 prices, conclude that during 1995-2005 poverty has been reduced. At R322 per person per month, money-metric poverty declined from 53 percent in 1995 to 48 percent in 2005. At R174 per person per month, poverty declined from about 31 percent to 23 percent. Linked to this are improvements in job creation and social transfers to the most vulnerable. For instance, Van der Berg et al (2007) using the Labour Force Survey show that “approximately 1, 7 million jobs were created between 1995 and 2002 and 1, 2 million between 2002 and 2006.” In relation to social transfers, the government records (refer to the *Mid-Term Review*, 2007) suggest that almost 12,5 million South Africans receive cash transfers, this excludes the social wage in terms of free basic water and electricity, subsidised housing and so on.

5. Social Mobility

There is much evidence that there has been an encouraging income mobility among many Black South Africans, especially those gaining in the recent net job creation. Surveys of the SA Advertising Research Foundation (SAARF) show that between 2000 and 2006, a large number of Black people moved to the higher echelons of the middle strata.

Looking at higher LSM levels, in 2001 there were 2 435 000 blacks in LSM 6. The figure grew to 2 933 000 in 2004 and it increased further to 3 406 000 in 2006. LSM 7 grew from 661 000 in the year 2001 to 846 000 in 2004. In 2006 there was a significant increase to 1 281 000. Although downward movement was recorded in LSM 8 between 2001 and 2004, the figure rose from 370 000 to 592 000 in 2005. In 2006, a further increase was registered at 653 000. Another relatively significant improvement was recorded in LSM 9 as numbers grew from 144 000 in 2001 to 244 000 in 2004. In 2005, the number of black people in LSM 9 was 394 000.

6. Clarifying the Notion of the 'Second Economy'

The notion of “two economies” in South Africa is a metaphor implying that part of the economy is cutting-edge and globalised, and part is marginalised and underdeveloped. Obviously, these two economies don't occupy distinct geographic spaces, but are interconnected in many ways. About two-thirds of the population is to be found in the first economy, as employers, workers, professionals and others. The development of the second economy has to be carried almost exclusively by the democratic state. The level of underdevelopment of this economy and the small size of its market makes it an unattractive target for the industrial economy.

6.1 An Attempt to Measure the 'Second Economy'

The following (debatable) definition is offered up for people in the second economy: “Persons aged 15 years and above whose level of completed education is primary (Grade 7/Standard 5) or below.”

The September 2006 Labour Force Survey is used to quantify the second economy. It is found that the total number of people in the second economy is about 9,5 million, of which 31% are women. In terms of age profile, it would seem that it is relatively older people that are found in the second economy. Broadly, people in the second economy are relatively widely distributed across SA, with the Eastern Cape having most of the second economy individuals.

Of about 9,5 million people in the second economy, 3,1 million were employed. Of those that were employed, more than 70 percent were in jobs that were elementary in nature. About half of the individuals in the second economy were in the informal sector, including domestic work.

Calculations suggest that more than 60 percent of the employed in the second economy earned R1 000 or less per month.

Data further shows that almost all the people who were available for work had not been trained in skills that could make it easier for them to get work.

More than half of them (about 57 percent) had never worked before. These are individuals in the second economy who are defined as 'unemployable' by virtue of having primary or less education, no training in any skill that would enable them to work and not having any work experience.

7. Conclusion

The question of the extent – of both poverty and second economy challenges – remains unresolved. Different researchers give different estimates, although the trend seems to be showing a decline in poverty in South Africa which appears to have begun around the year 2000 or so. There are research initiatives under way that should assist in arriving at the most accurate estimates of poverty and its dynamics in South Africa. There are also initiatives under way to arrive at a better understanding of the 'second economy'. These should help in the formulation and/or reformulation of policy.

This paper demonstrates why there is an ongoing debate in South Africa about poverty and the 'second economy'. But about one thing there is agreement: The extent and magnitude of the challenge that South Africa faces is huge. As a way forward, a more rigorous analysis of poverty and the second economy, based on the methodology in this paper, could be pursued.