



**NCPT**

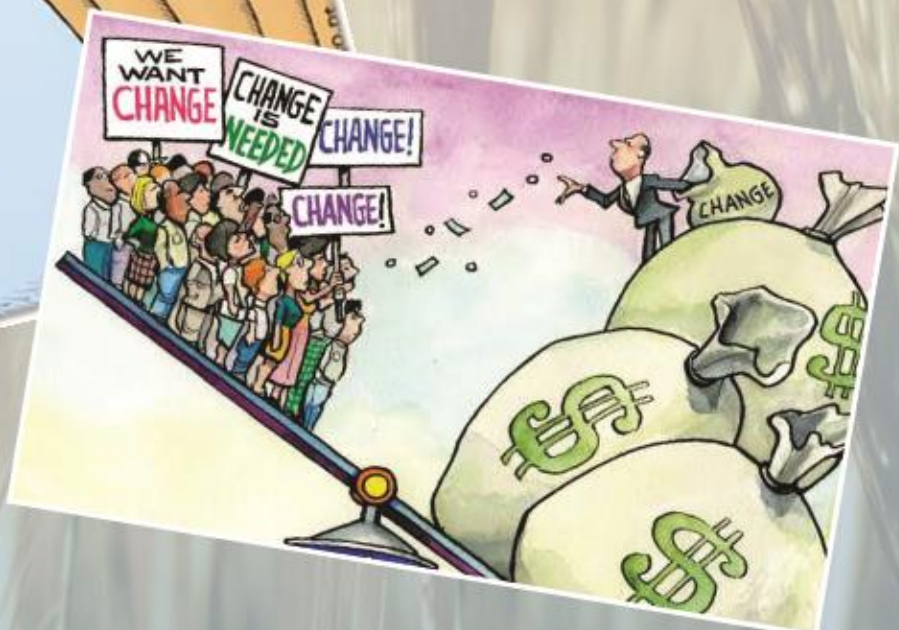
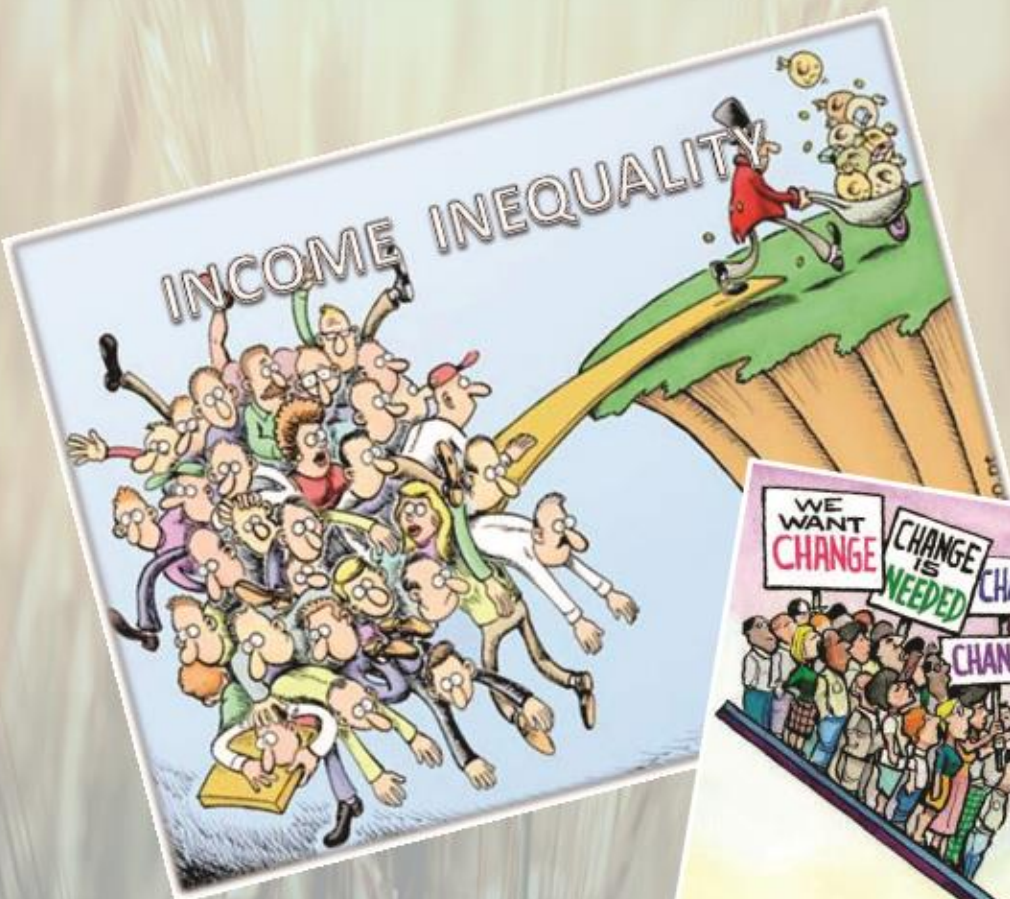
**NORTHERN CAPE PROVINCIAL TREASURY**

# Policy Brief

Income Inequality in the Northern Cape

Issue No: 33/2017

Directorate: Economic Analysis



## Table of Contents

1. Introduction .....	1
2. Background .....	1
3. The Global and South African Context.....	1
4. Effects of Inequality .....	4
5. Policies for Reducing Inequality .....	5
5.1 Fiscal Redistribution: Taxation and Public Spending .....	5
5.2 Social Grants .....	5
5.3 Social Services Provision: Public Health and Education.....	5
6. Conclusion.....	6
References .....	7

## 1. Introduction

The study of income inequality is important for a province like the Northern Cape that has high unemployment and low economic growth rates. Reducing inequality remains one of the major goals of the current government and as such, the Northern Cape's contribution towards that should be clearly seen, especially now after 23 years of democracy. This policy brief seeks to enlighten the provincial authorities as well as citizens on the current state of income inequality in the province. The analysis for this policy brief will be based on household and individual income distribution and in some instances will be broken down into gender, race and education level. The effects of income inequality will also be looked at and some recommendations will be provided.

## 2. Background

There is extensive empirical literature on inequality in South Africa but only a few focuses on provinces, especially the Northern Cape Province. Inequality can be defined as the state of being unequal and the focus in this case is on income distribution. Income inequality still remains a challenge for South Africa. This is due to persistent racial undercurrents that drive disparities and social stratification in South Africa as a whole. These disparities transcend income to negatively impact on access to employment opportunities, education, quality healthcare and basic necessities such as electricity, water and sanitation (Chitiga *et al.*, 2014).

According to Gelb (2004), inequality in South Africa is rooted in military conquest and political exclusion, which took a colonial and racial form, and was buttressed by continuing repression of political and social organisation. The establishment of the shipping post in the 1650's on the Southern tip of Africa resulted in political and economic exclusion, for black people were initially prevented from equal access to resources, and their potential for asset accumulation was prohibited. Income inequality can exist between people of different race, gender and age, and it is linked to the education level in most cases.

## 3. The Global and South African Context

It is acknowledged that a lot has been done in reducing income inequality between countries; however, inequality within countries remains a challenge. This is attributed, in most cases, to the low economic growth that is not inclusive and not able to reduce poverty. According to the United Nations Development Programme (UNDP), income inequality rose by 11 per cent

on average in developing countries between 1990 and 2010, taking into account the population size. Furthermore, the UNDP indicated that the largest percentage of households in developing countries are now living in more unequal income distribution societies than it was the case in the 1990s. Reducing inequality remains one of the top priorities internationally as is evident from the Sustainable Development Goals (Goal 10: Reduce inequality within and among countries).

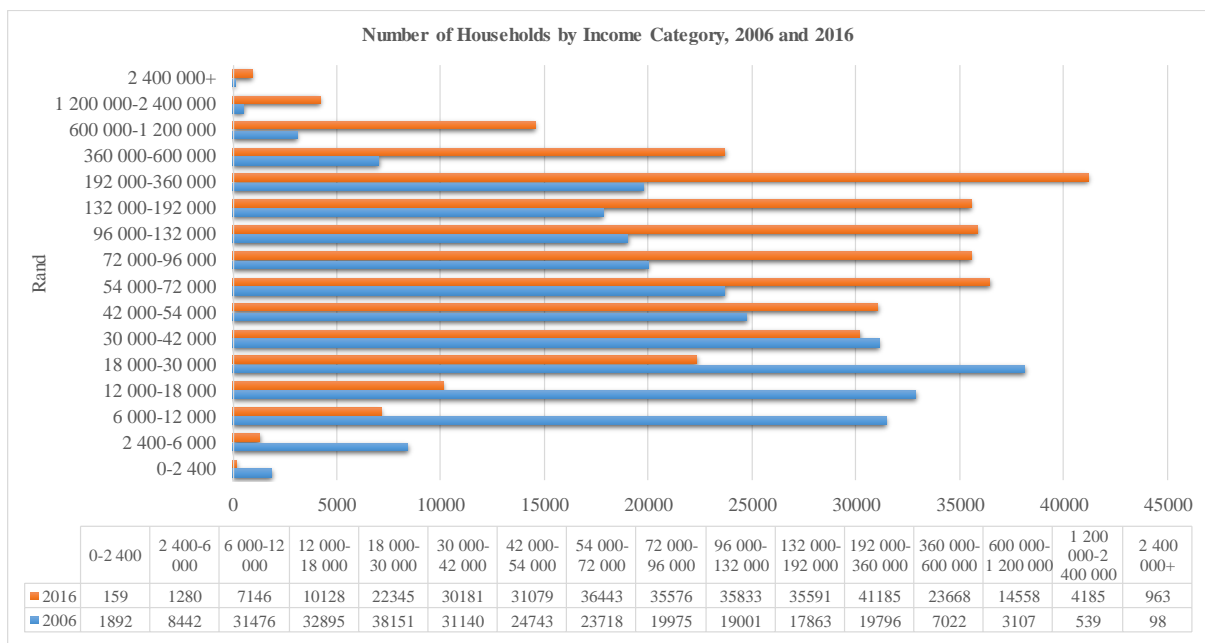
South Africa is known to be one of the most unequal countries in the world. According to Global Insight (2017) the country’s Gini Coefficient was 0.65 in 2005 and 0.63 in 2015 while that of the Northern Cape was 0.62 and 0.60 respectively. Although the Gini Coefficient has decreased over the years, the gap between the rich and the poor is still wide. It is for this reason, reducing inequality and poverty has been on the agenda of the South African government since transitioning to democracy in 1994.

### 3.1 The Northern Cape Context

This section responds to the main question of this policy brief by showing income distribution per households and monthly income earned by Northern Cape individuals in terms of gender, race and education.

The following graph illustrates the number of households by income category in the province for 2006 and 2016.

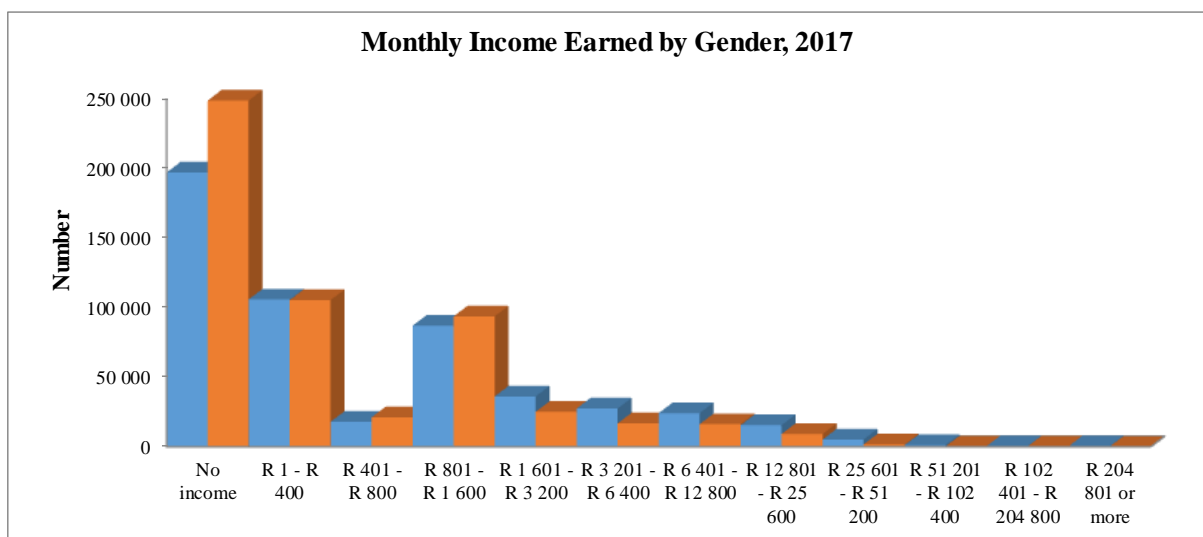
**Figure 1: Number of Households by Income Category, 2006 and 2016**



Source: Global Insight, 2017 [Version 1070 (2.5y)]

The largest number of households were found to be earning between R18 000 and R30 000 in 2006, and this was followed by the R12 000 to R18 000 income category. The highest income category (over R2 400 000) had the smallest number of households. In 2016, most households were earning within the R192 000 to R360 000 whereas the smallest proportion were falling within R0 to R2 400. It is clear that the largest number of households is concentrated at low- and middle-income categories while few are found to be earning high income, thus showing the level of income inequality in the Northern Cape. This is, however, due to a number of factors including the level and quality of education of individuals.

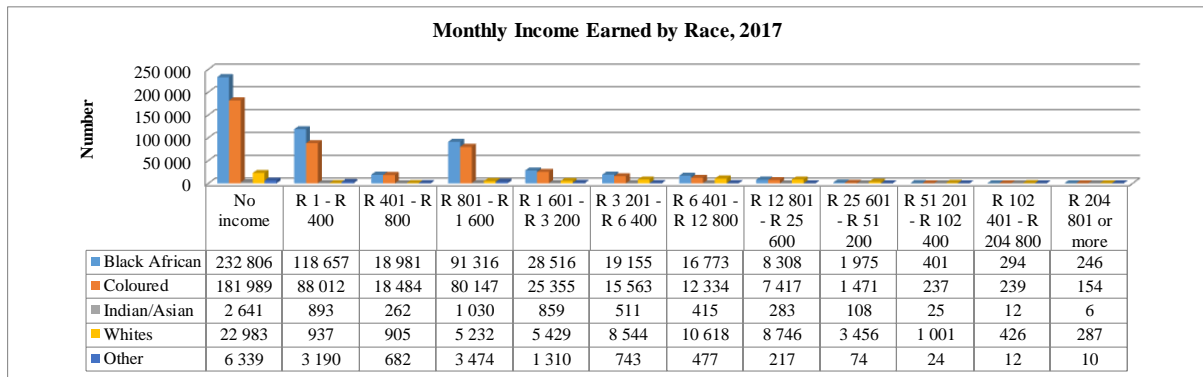
**Figure 2: Monthly Income Earned by Gender, 2017**



Source: Statistics South Africa, SuperCross, 2017

Figure 2 indicates that the numbers of people per income category decreased as higher income levels are recorded. What is of great concern is the high number of individuals that have no source of income, with females surpassing their male counterparts. The number of those earning higher income is small compared to those with a lower income, pointing to the high degree of inequality in the province. More females are found to be earning a lower income (R401-R1600) whereas more males are found in the middle and upper income categories.

**Figure 3: Monthly Income Earned by Race, 2017**



Source: Statistics South Africa, SuperCross, 2017

A similar pattern is observed in terms of race, where the number of people drop as middle and high income categories are approached. Africans are at the top of the no income and some middle-income categories and this can be attributed in part to the large number of African people relative to other population groups. This is followed by the Coloured population. Whites are found to be dominating from the R12 801 to R25 600 income category up to the highest one (R204 801 or more).

**Table 1: Monthly Income Earned by Education Level, 2017**

Level	No income	R 1 - R 400	R 401 - R 800	R 801 - R 1 600	R 1 601 - R 3 200	R 3 201 - R 6 400	R 6 401 - R 12 800	R 12 801 - R 25 600	R 25 601 - R 51 200	R 51 201 - R 102 400	R 102 401 - R 204 800	R 204 801 or more
No schooling	29 046	8 422	3 894	38 854	4 412	1 358	469	211	113	11	15	9
Less than primary	106 498	102 761	12 367	51 243	7 979	3 416	1 421	632	228	29	66	36
Primary complete	29 033	11 070	3 348	15 239	3 654	1 748	617	212	43	11	18	10
Secondary incomplete	161 719	25 098	12 669	56 490	24 847	14 577	7 764	3 157	774	162	153	97
Secondary complete/Matric	67 541	2 858	3 770	16 037	17 563	17 716	18 803	8 505	2 010	478	257	201
Other tertiary	3 338	134	154	687	883	1 565	2 268	1 389	393	50	49	22
N6/NTC6	785	30	39	132	196	329	506	376	147	20	6	11
Diploma with Grade 12/Std 10	2 067	102	113	497	643	1 439	2 997	2 363	587	127	89	60
Higher Diploma	1 415	66	97	389	470	1 087	2 469	2 895	618	158	92	57
Post Higher Diploma Masters; Doctoral Diploma	202	11	9	59	58	153	335	458	168	70	34	23
Bachelors Degree	818	35	56	185	260	475	1 373	2 075	855	201	72	65
Bachelors Degree and Postgraduate Diploma	331	12	16	58	96	184	427	704	306	80	35	27
Honours Degree	275	19	26	60	74	139	559	1 159	428	136	26	45
Higher Degree Masters/PhD	157	14	16	60	51	100	230	451	292	128	38	28

Source: Statistics South Africa, SuperCross, 2017

Most people in the province are concentrated between the no schooling and matric level of education groups. This explains the income distribution gap that exists between them and those with tertiary education, who are few. This case is even worse for those having postgraduate education. This is a challenge to the provincial government and thus raises the need to improve the situation and bring more initiatives to address the lack of skills in the Northern Cape.

#### 4. Effects of Inequality

The high level of inequality brings with it tremendous societal problems in South Africa and thus also in the Northern Cape Province. The potential threats associated with high levels of

inequality include increased crime, corruption and social exclusion. According to Van der Westhuizen (2012), another less mentioned effect inequality might have is the potential for political destabilization. This can come from the youth having few economic opportunities available to them. Unequal societies also tend to do worse on social indicators including health, life expectancy, lack of trust and teenage pregnancy (Wilkinson and Pickett, 2009). Inequality has also been found to jeopardize economic growth and poverty reduction (UNDP, 2013).

## 5. Policies for Reducing Inequality

The trends illustrated above necessitate some actions especially by the provincial government. This section will assess some of the policies that have been designed at national level to reduce the gap between those who are poor and those who are rich. Whether these policies have been successful or not is a crucial area to explore.

### 5.1 Fiscal Redistribution: Taxation and Public Spending

The South African tax system is generally progressive as people get taxed based on their income levels. The higher the income is, the higher the tax becomes. Income tax constitute government's major source of income. The social spending is, however, regarded as more progressive. This is based on services that are directed mostly to the poor population. According to Woolard *et al.* (2015), the national fiscal system has substantially reduced income inequality and the extent of that reduction was found to be even greater than that of 12 comparable middle-income policies. The challenge remains the more unequal after-tax income. Woolard *et al.* (2015) further suggested that the fiscal policy should be more progressive as a way to responding to the inequality challenge. An achievement of a more inclusive economy is also proposed.

### 5.2 Social Grants

Social grants have been one of the policy instruments that the government has introduced to reduce the gap between the poor and the rich. Statistics show that these grants have been increasing since the dawn of democracy. In 1994, there were 2 million social grants recipients and this number had increased to more than 17 million by the end of 2016 (SASSA, 2017).

### 5.3 Social Services Provision: Public Health and Education

The provision of healthcare and education has been part of the top priorities of the democratic government in order to correct past imbalances created by the apartheid

system. The two comprise the largest proportion of government's total budget. There is no doubt that higher education levels will increase the chances of people to get better paying jobs and thus narrowing income inequality. With regard to health, government has been ensuring that the poor get healthcare services for free or at least cheaper. The introduction of the National Health Insurance (NHI) was part of government's attempt to reduce the gap between poor and rich people.

## 6. Conclusion

It has been found that the largest numbers of households are concentrated within the low and middle-income categories. This pattern is the same even at an individual level where few are found to be falling within the upper-income category. The number of females decreases as higher income levels are approached, which indicates that more needs to be done in terms of women empowerment in the province. In terms of race, the analysis revealed that more Africans are found to be having no source of income with some earning low income. Whites are dominating when it comes to higher income levels. With regard to education, the province has few people with postgraduate qualifications and these are the people who are found to be falling within the middle to upper-income categories. Based on these findings, the Policy Brief thus recommends that:

- The skills demand of the Northern Cape should be determined to ensure that people are skilled in areas where there are employment opportunities so as not to cause a mismatch between the supply and demand of skills.
- Skills development programmes aimed at upskilling Africans and in particular women should be intensified.
- Implementation of strategies and plans (e.g. NDP, Nine Point Plan) aimed at growing the economy and reducing inequality should be intensified.
- More support should be provided to small, medium and micro enterprises (SMMEs). These are the businesses that employ a large portion of the low-skilled people and increased support should ensure their survival.
- An assessment should be undertaken to ensure compliance with the National Minimum Wage Regulations.



## References

- Chitiga, M., Owusu-Sekyere, E. and Tsoanamatsie, N. (2014). Income Inequality and Limitations of the Gini Index: The Case of South Africa. Research Output, Human Sciences Research Council. South Africa: Pretoria
- Gelb, S. Inequality in South Africa: Nature, Causes and Responses: African Development and Poverty Reduction the Macro-Micro Linkage Forum Paper 2004
- Global Insight. (2017). Version 1070 (2.5y)
- Julian May, Victor Sulla and Precious Zikhali: South African Poverty and Inequality Assessment Discussion Note, Drafted January 2016
- South African Social Security Agency (SASSA). (2017). Accessed online [[www.sassa.gov.za](http://www.sassa.gov.za)].
- Statistics South Africa. (2017). Supercross.
- United Nations Development Programme (2013). Humanity Divided: Confronting Inequality in Developing Countries. USA: New York
- Van der Westhuizen, C. (2012). South Africa: Economic Growth, Poverty and Inequality. Foresight Africa: Top Priorities for the Continent in 2012. USA: Washington, D.C
- Woolard, I., Metz, R., Inchauste, G., Lustig, N., Maboshe, M. and Purfield, C. (2015). How much is Inequality Reduced by Progressive Taxation and Government Spending? Econ3x3, South Africa
- Wilkinson, R.G. and Pickett, K. (2009). The Spirit Level: Why Equal Societies Almost Always Do Better. *Canadian Public Policy*, Vol. 35, No. 1, pp. 1-147