

Performance-related assessments and efficient public finance management have improved the integrity of the State.

Overall, the dynamic of popular legitimacy, macroeconomic stability, improving social conditions and a security system changing for the better defines the trajectory of social relations in the first decade of freedom. The greatest progress was manifested in those areas in which the State has direct control, raising a critical question about the leadership role of the State in mobilising society to take active part in the processes of change.

Further, the observed major social trends have thrown up new challenges: changes in demographic patterns reflected in the massive growth in the number of households; a dramatic increase in the economically active population; restructuring of the economy with new sectors gaining prominence and redefining labour needs; and migration which has changed the economic, political and social profile of many communities.

### **III SOCIAL STRUCTURE AND SOCIAL MOBILITY**

In order to understand changes in the social structure of society, particularly trends with regard to mobility, a number of factors need to be taken into account. These include measurements of poverty in its various dimensions, trends in employment, the interface between household demographics and income, as well as the composition of various income groups within society as a whole.

Further research on these issues is required, but some trends can be gleaned from the Census and other data.

#### **5 Assessing poverty and inequality trends**

Two main sources of income mobility are demographic and economic events. The former refers to changes in household size and composition while the latter examines changes in employment, wage income and unearned incomes.



According to 1995 and 2000 income and expenditure surveys' figures, between 1995 and 2000, the rural share of income poverty declined by approximately 5%, while it increased by about 5% in the urban areas. In 1995, 28% of households lived below the estimated poverty datum line of R322 per month – calculated on the basis of expenditure – while the figure for 2000 was just under 33%.

Due to sluggish economic growth and weak labour market outcomes, the proportion of people with low (poverty) income increased marginally during the period 1993 to 2000. A recent study by Van der Berg *et al* (2005) shows that there has been a marked decline in poverty since 2000, from approximately 18,5 million poor people to approximately 15,4 million poor people in 2004. This may largely be due to the unprecedented expansion of social grants expenditure in the last four years – an increase of R22 billion in real terms.

The second important trend to note is that across all sectors of society, between 1994 and 2000, average household size declined substantially. This is further attested to by the fact that the dependency ratio (population not working to those who are working) decreased from 3,5 in 1996 to 3,4 in 2002 (HSRC, State of the Nation Address, 2004). However, poor households still have a much bigger household size:

**Table 1: Changes in average household size by poverty group**

Year	Very poor	Poor	Non-poor	All
1995	6,57	5,86	3,45	4,53
2000	6,07	5,22	2,85	3,92

Source Stats SA: 2004 Very poor poverty line = R174 per capita expenditure monthly

Another dimension of poverty is access to opportunity and services (social assets). In terms of electricity, piped water, sanitation and telecommunications, such access improved substantially between 1995 and 2000 though poor households still fare much worse than non-poor ones. To these can be added other social services such as education and health.

**Table 2: Changes in access to basic services by poverty group**

Basic Service	% of poor households		% of non-poor households	
	1995	2000	1995	2000
Public electricity	34,9	58,4	79,8	85,6
Piped water	59,3	77,2	88,7	94,0
Sanitation facility	74,6	71,7	93,7	91,3
Telecommunications	5,9	16,1	41,8	52,2

Source: Stats SA(2004)

Poverty line = R322 per capita expenditure monthly

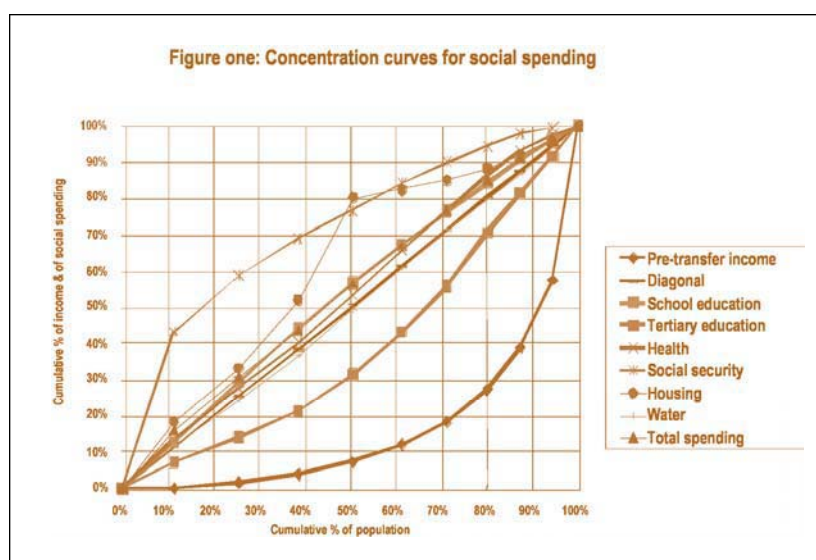
Public electricity: connected to public network

Piped water: piped water inside the house or in the yard at a public tap

Sanitation facility: modern sanitation facility, excluding bucket toilet

Telecommunications: cellphone or landline

Recent research conducted by Borat *et al* (2006) shows that the share of the poorest 10% of households with access to piped water increased by 187% between 1993 and 2004, with similar gains reported for sanitation services. The authors contend that the share of households with access to electricity for lighting and cooking has shown particularly spectacular gains – access to electricity for lighting for the poorest households – those in decile one – grew by a phenomenal 578%. The study further shows, respectively, that access to formal housing grew by 42% and 34% for deciles one and two between 1993 and 2004, and 21% and 16% for deciles three and four.



Source: Van der Berg, et al (2005)

As shown in figure one, the direct assault on human capital poverty is most pronounced through the provision of basic services such as education, health and so on. Van der Berg, *et al* (2005) shows, using concentration curves, that school education, access to water, cash transfers and access to healthcare benefit the poor most.

For asset poverty, housing and land reform programmes have played an important role. Indirectly, mobility resulting from the advent of democracy, Broad-Based Black Economic Empowerment (BBBEE) and assistance to SMMEs as well as changes in the tax structure have improved the asset profile of black South Africans.

In terms of inequality, using expenditure share measures, data shows that in 2000 the poorest 20% accounted for 2,8% of total expenditure. In contrast, the wealthiest 20% of households accounted for 64,5% of all expenditure in 2000. The Gini coefficient, another widely used measure of inequality, was 0,59 in 2000 when social transfers were excluded. If these were included, it was 0,35.

## 6 Dynamics of income mobility

What are the major dynamics of income mobility? Reference used is the KwaZulu-Natal Income Dynamics Study (KIDS) *et al* (2000) which collected follow-up data in 1998 of 1 003 African households surveyed in the 1993 Project for Statistics on Living Standards and Development. The major conclusions arising from this research are that:

- 63% of the households experienced increased income (median monthly income increasing from R990 to R1 270) while only 39% reported increased expenditure.
- Both the income and expenditure Gini coefficients point to rising inequality among Africans, with the educated and upwardly-mobile better able to take advantage of opportunities that have come with freedom.
- The rigidity (persistence) index is low at about 0,89, compared with advanced countries (0,95), which reflects a high degree of social mobility (note that Spain, which is experiencing rapid structural change is comparable with South Africa at 0,90).
- There is less mobility in the top and bottom quintiles than in the middle of the distribution, with the bottom quintile reflecting a poverty trap – indeed two economies in one country. Preliminary calculations from the latest KIDS dataset imply the same trends.

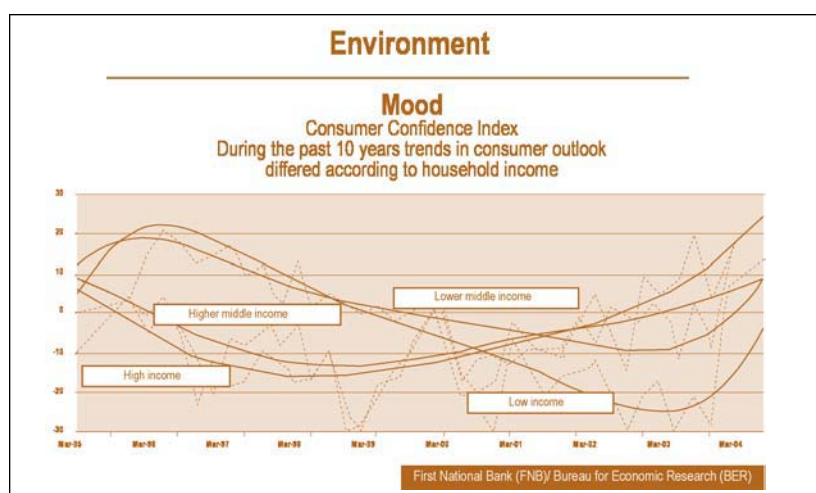
**Table 3: Quintile mobility matrix using data purged by outliers of wage regressions**

		Quintile in 1998					
1993 quintile	1	2	3	4	5	(now) total	
1	37,44	28,44	18,01	11,85	4,27	100,0	
2	31,90	27,62	25,71	13,33	1,43	100,0	
3	19,05	26,19	27,62	22,38	4,76	100,0	
4	10,00	16,19	24,76	37,62	11,43	100,0	
5	1,90	1,43	3,81	14,76	78,10	100,0	

Source: Woolard and Klasen (2005)

This is also reflected in the trend with regard to consumer confidence over the past 10 years, with recent figures showing a general improvement all-round. While the poorest were the most confident at the advent of democracy, the reality of the two economies influenced the evolution of this indicator, with the confidence of low-income earners having fallen below that of the rest.

**Figure two: Consumer confidence by income group**



Source: FNB/BER Consumer Confidence Index (2004)

Detail regarding the impact of an individual factor (e.g. household size, education, age and/or gender of household head) is important in its own right in the mobility trends. For instance, households with individuals of over 60 years of age are less likely to have experienced a fall in income due to social pensions. However, compared to this univariate approach, the multivariate analysis demonstrates the central importance of unemployment as an inhibitor to mobility, where unemployment largely corresponds with poor average education.

Given the predictors of 'movers' and 'stayers', the poverty trap is also shown in the Reduced Transition Matrix.



**Table 4: Reduced Transition Matrix**

Work status 1993	Work status 1998			Total
	Formal	Informal	Not employed	
Formal	62%	17%	21%	100%
Informal	20%	40%	40%	100%
Not employed	21%	21%	58%	100%
TOTAL	36%	23%	41%	100%

Source: Cichello, et al 2003

## 7 Mobility and the middle strata

A critical layer of any society, in terms of its intellectual contribution, its influence on culture in the broad sense, and its role in determining national identity and value systems is the middle strata. In examining demographic and economic trends within these strata, an attempt is made to assess the impact of democracy on their size and dynamics within them in terms of income.

Definitions of these strata as a group are highly contested, on account of changes in the production process such that most of them today do not occupy a middle position between the 'two great contending classes, the proletariat and the bourgeoisie', but are in a subordinate relationship to capital-owning employers. On the other hand, divorce between ownership and control in many private and even public establishments, renders managers rather than shareholders the typical decision-makers. This is besides the trend of direct and indirect ownership of at least institutional capital by the middle strata and even the working class.

For purposes of this discussion, 'new middle strata' are identified, comprising professional, technical, managerial, executive and administrative as well as clerical, service and market sales workers (roughly above R3 500 per month at 1995 prices). The trend is also tracked through an examination of segments of the labour market.

Table 5: Proportions of employees by occupational category, race and gender (Census: 1996 &amp; 2001)

Category	Year		African		Coloured		Indian or Asian		White		Total		
	M	F	M	F	M	F	M	F	M	F	M	F	
Legislators, senior officials and managers	1996	2.0	1.2	1.7	3.2	2.1	2.7	9.2	4.5	7.5	14.1	7.1	11.1
	2001	2.7	1.7	2.3	4.1	2.8	3.5	14.5	7.2	11.7	19.4	10.3	15.4
Professionals	1996	4.9	11.8	7.5	4.5	9.4	6.6	9.7	14.8	11.5	15.3	19.3	17.1
	2001	3.7	4.3	4.0	3.9	4.0	3.9	11.7	12.8	12.1	18.5	16.8	17.8
Technicians and associate professionals	1996	2.6	3.9	3.1	4.3	5.7	4.9	9.8	10.4	10.0	12.8	16.4	14.4
	2001	5.6	11.4	8.0	6.5	10.7	8.4	11.1	14.2	12.3	13.0	18.0	15.2
Clerks	1996	3.3	6.1	4.4	5.4	14.2	9.3	9.2	24.9	14.8	4.6	30.9	15.9
	2001	6.2	10.3	7.8	7.9	19.3	13.1	14.4	32.0	21.1	6.3	31.8	17.5
Service, shop and market sales workers	1996	10.2	7.2	9.0	7.6	9.0	8.2	10.3	8.9	9.8	9.7	8.6	9.2
	2001	11.7	8.3	10.3	8.3	8.9	8.6	13.4	10.2	12.2	11.3	9.2	10.4
Skilled agricultural and fishery workers	1996	5.9	2.7	4.7	4.6	1.3	3.1	0.6	0.3	0.5	4.2	0.8	2.7
	2001	3.8	2.1	3.1	3.4	1.4	2.5	0.5	0.1	0.4	3.6	0.9	2.4
Craft and related trades workers	1996	22.1	5.4	15.7	21.4	5.0	14.2	15.5	4.9	11.7	16.9	2.0	10.5
	2001	18.9	4.9	13.2	19.2	5.6	13.0	13.3	5.2	10.3	13.8	1.5	8.4
Plant & machine operators and assemblers	1996	15.4	2.1	10.3	9.8	7.5	8.8	9.6	10.0	9.8	4.3	0.8	2.8
	2001	16.7	2.7	11.0	10.3	5.4	8.1	9.4	6.5	8.3	3.4	0.5	2.1
Elementary occupations	1996	22.4	52.1	33.8	29.3	37.6	33.0	5.3	5.0	5.2	3.3	2.5	2.9
	2001	24.7	47.7	34.0	29.3	35.0	31.0	5.6	4.9	5.3	3.1	2.4	2.8
Undetermined/Other	1996	11.2	7.3	9.7	9.9	8.2	9.2	20.9	16.3	19.2	14.8	11.5	13.4
	2001	5.9	6.7	6.2	6.9	6.8	6.9	5.9	6.8	6.3	7.6	8.6	8.0



While the data may require more rigorous interrogation, the following major trends seem to emerge:

- the proportion of skilled categories among the employed increased from about 40% in 1996 to 46% in 2001
- there is a reduction in craft and related trades – reflecting in part the restructuring of the economy, but also a weakness in the training of artisans – and this trend is more pronounced among Africans
- there has been a slight increase in the proportion of Africans in the category of ‘legislators, senior officials and managers’, from 1,7% in 1996 to 2,3% in 2001; and given the massive increase in the ‘legislators’ category, the trend in the other categories should be dismal
- by far the most significant proportion of African employees remains in elementary occupations, with a disproportionately large percentage made up of women.

Research by the SAARF (2004) showed a rapid rise in the percentage of blacks in the slightly higher echelons of the middle strata (average household income of R4 075 per month and above) between 2000/01 and 2003/04.

[NB: In table six, ‘black’ means African, excluding coloureds and Indians. Other research also uses the term narrowly, or refers to ‘black Africans’. However, generically, in this document, ‘black’ is used broadly. As such, each illustration will need to be examined in this context.]



**Table six: Living Standard Measure (LSM) categories by race**

UPWARDLY MOBILE Racial composition and changes in LSM categories							
LSM	Average monthly household income	No of black individuals Jun '00 – Jul '01	% who are black	No of black individuals Jun '03 – Jul '04	% who are black	Gain/loss	% gain/loss
LSM 1-5	LSM 1: R879 LSM 5: R2 427	-	-	-	-	-	-
LSM 6	R4 075	2 435 000	67,3%	2 933 000	69,1%	498 000	20%
LSM 7	R6 455	661 000	38,5%	846 000	45,1%	185 000	27%
LSM 8	R8 471	372 000	22,4%	370 000	25,1%	- 2 000	-0,5%
LSM 9	R11 566	144 000	9,2%	244 000	13,6%	100 000	69%
LSM 10	R18 649	39 000	2,7%	102 000	6,3%	63 000	161%

Source: SAARF (2004)

However, the SAIRR Survey 2002/03, published in 2004, suggests that income accruing to the upper middle strata is increasing, while the share of that of the lower middle strata is decreasing. Hence, average annual income of heads of households from managerial, professional, technical and administrative grades increased from R116 000 per year to R150 000 (29,3%) between 1995 and 2000 (at year 2000 market prices), while decreasing from R79 000 to R59 000 for those from clerical and sales grades.

The recent study of 750 black professionals aged 21 – 39 years in the LSM7 by the School of Management Studies of the University of Cape Town suggests that black South Africans are the future engine/stimulus of the growth of the economy.

## 8 Trends in small, medium and micro enterprises

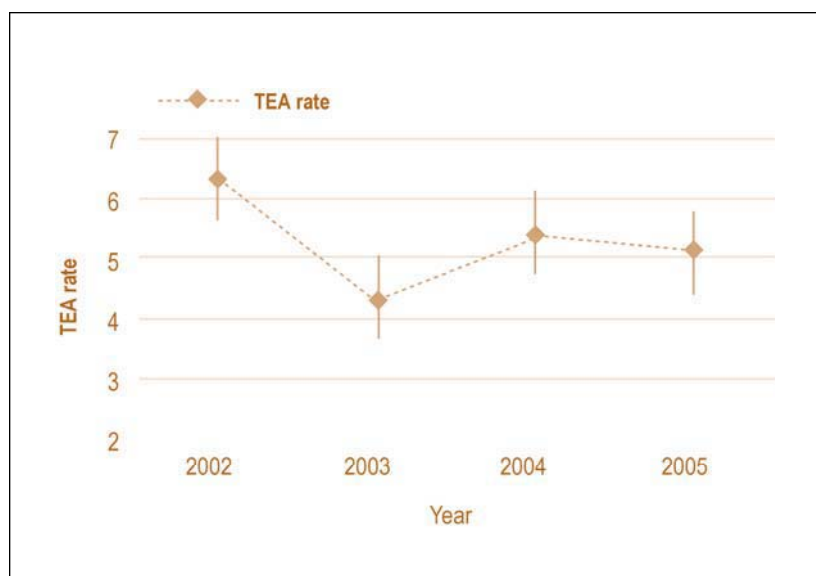
The contribution of the SMME economy towards poverty alleviation is the subject of growing controversy. Although a number of critical studies question the potential of the SMME economy to attain the goals of extensive employment creation, most

observers concur that it can be a positive factor in contributing towards poverty alleviation through job creation (Kesper, 2002, Gumede, 2004). This role is not necessarily a reflection of the success or impact of government programmes; indeed, once again it can be viewed as a default option for household survival (cf. Driver *et al*, 2001).

Although South Africa ranks substantially below other countries on the degree of entrepreneurial activity, a substantial amount of activity within both survivalist or opportunistic and true entrepreneurial activity is noted.

**Figures three, four and five compare South Africa's Total Entrepreneurship Activity (TEA) rates by year from 2002 – 2005.**

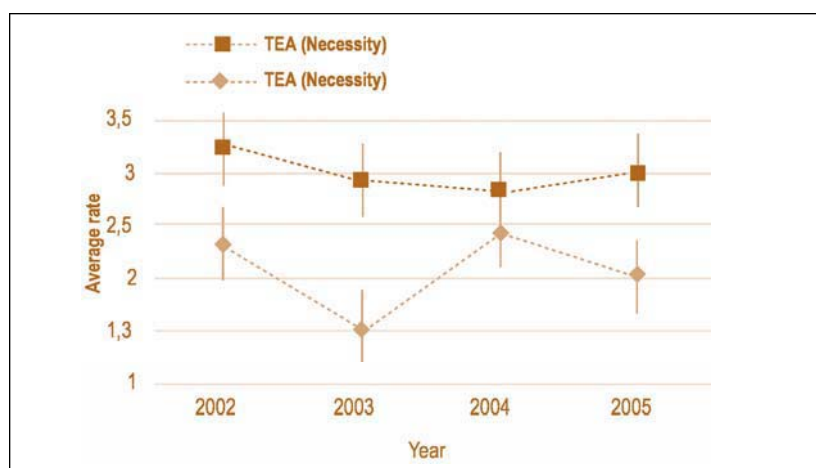
**Figure 3: South Africa's TEA rates (2002 – 2005)**



Source: Global Entrepreneurship Monitor (GEM) (2005)

In figure three, South Africa's TEA rates between the years 2002 and 2005 remained relatively the same. The TEA index measures the percentage of individuals between the ages of 18 and 64 who are involved in starting a new business. Individuals may start the business on their own account. They may also start the business in collaboration with or on behalf of an existing business. They do need to own the business, either partly or wholly, and to manage it, either on their own or with others.

**Figure four: South Africa's opportunity and necessity rates (2002 – 2005)**

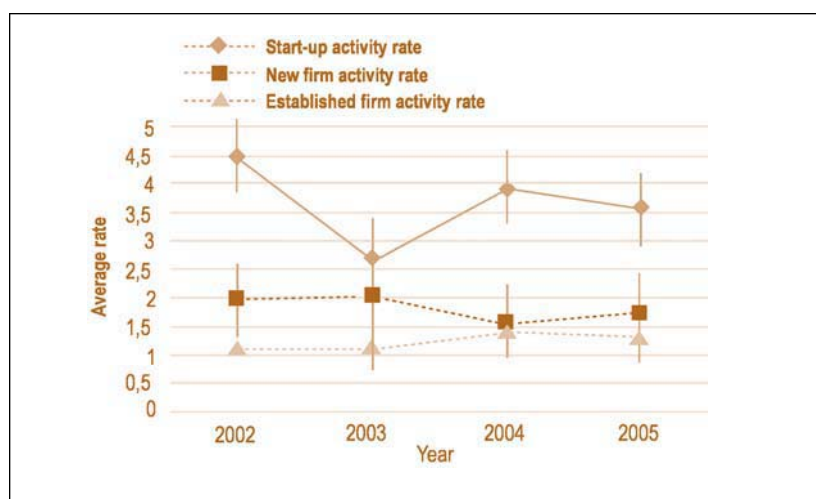


Source: GEM (2005)

In figure four, the TEA rates are disaggregated into 'opportunity' and 'necessity' enterprises. These figures give some indication of why the TEA rates in 2002 and 2003 differed. Figure four indicates that annual variation in the TEA rate seems to be attributable to variance in the rate of necessity-motivated entrepreneurship. While part of the graph suggests sampling error, what is encouraging is that the 'opportunity' entrepreneurship rate, which makes a far more significant economic contribution than 'necessity' entrepreneurship, is stable.

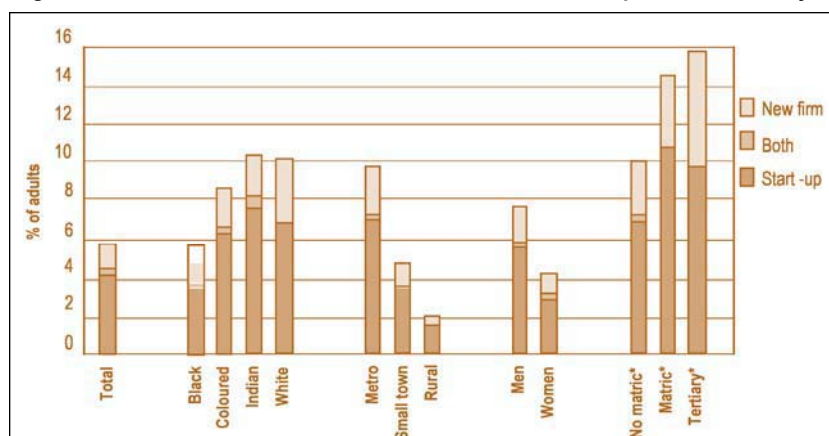
Figure five compares start-up, new firm and established firm activity. The start-up rate in 2003 was significantly lower than was the case in 2002. This difference in start-up rate provides an explanation for the difference in TEA rate between 2002 and 2003.

**Figure five: Start-up, new and established firm activity (2002 – 2005)**



Source: GEM (2005)

According to the GEM report of 2001 (see figure six), entrepreneurial activity levels, including 'necessity entrepreneurship', are higher among women than men, with nearly twice as many female as male entrepreneurs. Entrepreneurial activity is highest in the 35 – 54 age group, for both men and women.

**Figure six: Race and location differences in levels of entrepreneurial activity**

Source: GEM (2001)

These age and gender patterns of entrepreneurial activity are similar for those in all the GEM countries combined. Figure six shows:

- racial differences in levels of entrepreneurial activity: with more than double among the whites (10,1%) and Indians (10,3%) than among Africans (4,6%)
- locational differences are more striking: nearly 10% of metro adults are engaged in a start-up or new firms, while in rural areas it's fewer than 2%.

The low TEA index for black adults is explained in part by the fact that the black population is concentrated disproportionately in rural areas, where rates of entrepreneurial activity may be lower due to low economic activity.

## 9 The relevance of education to entrepreneurship

Higher levels of education are associated with significantly higher levels of entrepreneurship. Those with matric and tertiary education are significantly more likely to own and manage a start-up. As indicated in table seven, having tertiary

education significantly increases the probability that a person will be an owner-manager of a new firm – a firm that has survived beyond the start-up phase.

These findings suggest two things: firstly, that a matric qualification increases one's capacity to pursue entrepreneurial activities; and secondly, that tertiary qualification education increases the durability of entrepreneurial activity.

**Table seven: Necessity- and opportunity-motivated entrepreneurial activity among young adults by educational attainment for all developing countries in the GEM (2003 sample)**

	Not completed secondary schooling	Completed secondary schooling	Tertiary education
Probability of opportunity entrepreneurship (%)	5,8	7,5	12,6
Probability of necessity entrepreneurship (%)	6,1	3,8	3,5
Sum of opportunity and necessity entrepreneurship (%)	11,9	11,3	16,1
Ratio of opportunity to necessity entrepreneurship	0,95	1,97	3,60

Source: GEM (2005)

#### IV DIVERSITY – DEMOGRAPHICS OF RACE AND NATIONALITY

The history of South Africa since the advent of colonialism has been shaped by race as a critical determinant of social relations within and among classes.

Progress in building a non-racial society finds expression in the new constitutional order which guarantees equal rights and promotes equal access to opportunity. As indicated in Section II, much progress has been made in building a legitimate state based on the will of the people. The Reconstruction and Development Programme