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Assessing the Impact of Social Grants on Inequality: A South African Case Study
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8.1 Introduction

The purpose of this chapter is to investigate the role of social grants in reducing income inequality during the first 15 years of democracy in South Africa. Since the transition to democracy in 1994, the South African government has dramatically expanded this system of social grants. Building on an existing but racially biased social security system developed by the apartheid government, the social grant system was expanded to include all races and then, through the 1990s, additional social transfers were instituted.

The reform of the social safety net coupled with increases in per capita household income associated with modest economic growth has reduced poverty levels in the country. However, the very high levels of inequality that were bequeathed as a legacy of apartheid have remained stubbornly high and static income source decomposition work in South Africa suggests that these grants do not and have not reduced inequality. Given the magnitude and apparently effective targeting of these social grants, this seems incongruous and has to raise the question of whether this result may be more a consequence of the technique rather than the actual operation of the grant system itself. The chapter uses the South African situation over the post-apartheid period for a side-by-side assessment of a variety of income source decomposition techniques. It interrogates what insights can be gleaned from each technique about the impact of the extensive and growing social grant system on inequality over this recent period.

Section 8.2 outlines the relevant survey data employed. Drawing on the rich datasets from 1993 and 2008, a detailed picture is obtained of household income sources and their changes over time. We begin in section 8.3 by applying a static, within period decomposition of per capita household income for both periods. This replicates the established result that social grants seem to have a limited impact on the distribution of income. This discussion is followed in section 8.4 by the application of a dynamic income decomposition technique, which
directly captures the effect of changes in the composition of income sources on changes in inequality. With the decomposition framed in this way, we find that changes to some of the social grants do indeed appear to have reduced inequality but others do not. In section 8.5 we apply a dynamic decomposition to simulate the role of different income components in the changing real income distribution. Again we find that changes to some of the social grants appear to have reduced inequality but others do not. These dynamic simulations allow us to disentangle the effect of changes in household composition on inequality from the impacts of social grants on inequality. However, changes in household composition are shown to notably lower the direct impact of the social grants on inequality.

In the concluding section (8.6) we look across these techniques. It seems that the large State Old Age Pension scheme, which has played a large poverty reduction role, has not had an equalizing effect on income inequality. On the other hand a large new program of social grants directed at caregivers of poor children has had an equalizing effect.

8.2 Data

To sufficiently assess the impact of government transfers on welfare measures of inequality and poverty adequate data containing comprehensive income measures for all components and for both periods are crucial. For the apartheid period the choice is limited to the Project for Statistic on Living Standards and Development (PSLSD) dataset conducted by South Africa Labour and Development Research Unit (SALDRU) at the University of Cape Town. The PSLSD, was conducted in 1993 in an attempt to overcome the lack of national data collected by the apartheid government as, no nationally representative dataset including all races existed (Wilson, 1995, PSLSD 1994). A complex survey design was implemented with sampling executed as a two stage self-weighting approach with Census Sub Enumeration Districts and household as first and second stage units respectively, which can be weighted to be national representative. In contrast the post-apartheid period contains plethora of potential datasets thanks to the data gathering efforts of the strong national statistical office, Statistics South Africa, as well as various academic and private research units. The National Income Dynamics Study (NIDS) is the preferred dataset of choice as it is conducted in a similar fashion to the PSLSD. A two stage clustering design was implemented in 2008 by first selecting on enumeration level before randomly selecting households within the selected Enumeration Areas (EA) (Leibbrandt et al., 2009). By taking into account the complex survey designs, nationally representative statistics can be obtained.