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**SOCIAL INCOME IN SOUTH AFRICA,
AN ECONOMY MARRED BY HIGH
UNEMPLOYMENT, POVERTY
AND EXTREME INEQUALITY**

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Acronyms

AHC	after housing costs are deducted
AIDS	Acquired Immunodeficiency Syndrome
AMPS	All Media and Products Surveys
ANC	African National Congress
BHC	before housing costs are deducted
BI	basic income
CASASP	Centre for the Analysis of South African Social Policy
COIDA	Compensation for Occupation Injuries and Diseases Act
COSATU	Congress of South African Trade Unions
CPI	Consumer Price Index
DWP	Department for Work and Pensions
EITC	Earned Income Tax Credit
EPWP	Expanded Public Works Programme
FOSATU	Federation of South African Trade Unions
GCIS	Government Communication and Information System
GHS	General Household Survey
HBAI	Households Below Average Income
HSL	Household Subsistence Level
HSRC	Human Sciences Research Council
IES	Income and Expenditure Survey
ILO	International Labour Office
IPSE	Indicators of Poverty and Social Exclusion
LFS	Labour Force Survey
LIS	Luxembourg Income Survey
NEDLAC	National Economic Development and Labour Council
NHS	National Health Service
NIC	National Insurance Contributions
ODMWA	Occupational Diseases in Mines and Works Act
OECD	Organisation for Economic Co-operation and Development
OHS	October Household Survey
ONS	Office for National Statistics
PCAS	Policy Co-ordination and Advisory Services
SARS	South African Revenue Service
SASAS	South African Social Attitudes Survey
SI	social income
SRM	Social Risk Management
UIF	Unemployment Insurance Fund
VAT	Value Added Tax
WTC	Working Tax Credits

Executive summary

Disagreements in South Africa over what has happened to the severity of poverty and, less prominently, inequality, have served to stimulate debate about the social wage. Although government has made much of the few pieces of research on the question of the impact of the social wage on poverty, the truth is that, given the extreme difficulties of measurement, not much reliance can be placed on existing attempts anywhere to value the social wage. Acknowledging that some way has to be found to estimate the impact of social spending, the paper proposes the augmentation of income poverty measures to take account of the impact that that spending has on people's disposable income.

Commencing with an account of the way in which the concept of the social wage was thrust into the debate on poverty in South Africa, the paper glances at a literature which highlights the many different views on what constitutes the social wage and how it should be valued. It then turns to one of the very few published estimates of the value and distribution of the social wage (HSRC, 2004). Critical analysis of this effort, buttressed by reference to the method used in the UK (with equally indifferent outcomes), suggests that its results are at best weak, and at worst, misleading. The major problem is that caused by the difficulties of valuing in-kind benefits such as education and health services, as well as housing, the three items that, apart from social grants, account for the bulk of social spending in South Africa (and elsewhere).

Although analysts in the UK stop short of incorporating estimates of the notional income derived from spending on in-kind benefits into estimates of inequality, the UK approach is not without its weaknesses. Two of these, of particular relevance to South Africa, are examined. The first has to do with the likelihood that rand-for-rand (or pound-for-pound) the outcomes of social spending are more positive as one moves up the income scale. The other, an equally vexed matter, is concerned with the possibility that the process of equivalising (estimating the numbers of adult equivalents in a household) may be incorrect, leading to a serious under-estimation of initial (pre-social spending) inequalities.

Because the social wage (even if not always referred to by that name) looms so large in debates about social protection, the next step in the paper is to review developments in social protection, focusing on the movement from a relatively simple social insurance and social grant milieu to the changing climate in which active labour market policy, negative income tax to the low-wage employed, and a preference for public works over social grants have gained prominence. This review provides a context within which the concept of social income (Standing, 1999, 2002) can be explored.

The paper takes Standing's concept of social income (applied originally only to the employed and unemployed) and moulds it into an instrument capable of dealing with the incomes, in all forms, of all members of households. Before doing so, a brief introduction to its use in analysis, including an application of the approach during the heyday of welfare capitalism, is offered. The approach is tested on the stylised facts of social well-being in South Africa at the height of the apartheid period.

Standing's basic proposition is then presented, and four augmentations to the schema are proposed. The first of them attempts to incorporate into the measure the value of the 'bankable' components of the social wage. These turn chiefly on the aforementioned difficulties of valuing in-kind income. In place of the methodologically flawed attempts to furnish grand estimates of the value of the social wage, the paper proposes that the observable impact of social spending, dubbed the 'bankable' component, be measured instead, and that these estimates be added to the more modest concept of social income.

The second augmentation consists of an expansion of the earnings concept to acknowledge, explicitly, the importance of informal economy earnings. In addition, since government seems set on promoting the Expanded Public Works Programme (EPWP) as the primary instrument of social protection for the able-bodied unemployed, a further term is added to the earnings equation to enable progress to be tracked. The third augmentation tries to insert tax into the income measure. Finally, the not economically active, of any age, are brought into the picture.

Given that the primary concern of the paper is with the effect of social spending on income poverty, the paper indulges itself in the luxury of a digression on some of the obstacles that confront the would-be constructor of a (socially acceptable) income poverty measure. Central to this is the question of what is to be done, once a comprehensive measure of income (an admittedly poor proxy for the consumption of the poor) has been developed. To make sense of an income measure, some way is needed of identifying thresholds over which people pass from destitution (or chronic poverty), into the mere bleakness of poverty, and from there into the comfort of relative prosperity (be it ever so insecure). That leads us into what could loosely be described as the poverty line debate, a terrain which, though much-traversed, has yet to yield satisfactory responses to a number of fairly basic questions. Shying away from the mainstream, the paper glances at a new initiative in South Africa, the attempt to determine, by consensual means, the minimum level of socially necessary consumption that marks the (fuzzy) boundary between poor and not poor.

The genie of adult equivalence having been allowed out by the discussion on the way in which the income-in-kind question is handled in the UK, some mention is made of the need for further research into this matter in South Africa. Last up for consideration under the rubric of what to do now that we have a (hypothetical) measure of social income in hand, is the question of how to address questions of intra-household distribution.

Although the foremost concern of the paper is with the development of an income measure robust enough to withstand the criticism that it has not taken the (income) effects of social spending into account, sight is not lost of Standing's motive for developing the concept of social income. Designed in the first instance as a device for revealing, albeit in an impressionistic way, changes in the sources of income (market vs. non-market), the measure is argued to be capable of tracking changes over time or within and between regions, with some precision. The resulting measure, it is argued, could provide a useful indicator of the extent to which social and economic policy were meeting their desired ends.

A test for conformity with the standard economic definitions of income is conducted, after which the question of whether or not existing household surveys, conducted by

Statistics South Africa, can be used to measure social income, is posed. Some of the shortcomings of the Labour Force Surveys (LFSs) and the General Household Surveys (GHSs) are discussed and a research agenda that looks into the menu of surveys that should be conducted is proposed. Other surveys, such as the Income and Expenditure Surveys (IESs) and the proposed Poverty Survey, are also commented on.

Four appendices are tacked onto the end of the paper. The first asserts the continuing significance of income poverty and offers a defence of the development of a means of refining income poverty measures, against the tide, as it were, of widespread insistence on the multi-dimensionality of the phenomenon. The second collects all of the terms and expressions used to identify the various components of social income (they are scattered over more than 20 pages in the paper). The third presents a handful of tables produced by the Office for National Statistics (ONS) in the UK (Jones, 2007) on, amongst other things, the value of various components of the social wage, estimated using the benefit incidence (cost apportionment) method. The fourth appendix digs into aspects of the problem of valuing education – by far the largest component of the social wage.

Discovering the extent to which the conditions of the poor have improved (or not, as the case may be) is of the utmost importance. The way in which government in South Africa has set about doing so is not satisfactory – a different approach is required. Having said that, however, it is necessary to acknowledge that government is correct to insist that account be taken of the impact of the social wage on people's welfare. Even the best researchers in South Africa have, in the past, shied away from attempting to measure the value of the social wage. The paper offers an approach which, although it cannot cope with the big-ticket social wage expenditures (health, education and housing), could at least render income poverty estimates less vulnerable to the charge of neglecting all effects of social spending on people's welfare. Tackling the job of producing the necessary information will be an ambitious undertaking, one whose satisfactory execution will require more than the preliminary examination carried out here. The paper should thus be viewed as a first stab at a quite difficult problem.

1. Introduction

The twin aspects of economics, as both an intellectual discipline concerned with understanding and as an input into policy prescriptions, create peculiar tensions. On the one hand, economic problems cry out for urgent action to enhance individual well-being and alleviate the misery of poverty and deprivation. On the other, the complexity of economic systems challenges our ability to understand how best to set about such tasks. This tension is clear in the literature on public expenditure benefit attribution. On the one hand, the policy-minded economist is impatient to measure and to draw policy conclusions, while on the other hand, the theorist worries about the slender foundations on which such endeavors necessarily rest. (Cornes, 1995, p.86)

Social spending improves, or should improve, the economic and social well-being of those fortunate enough to be on the receiving end of such expenditure. If a government is targeting the poor, even when its targeting is only moderately successful, the chances are that the conditions of some of them will improve. By providing goods and services, either free of charge or at subsidised prices, government effectively increases their incomes. Under these conditions, measuring income poverty without taking social spending into account is almost certain to overstate the severity of the problem. The benefits, both pecuniary and non-pecuniary, which social spending confers on households are sometimes referred to as the social wage. As even the briefest acquaintance with the literature will disclose, valuing the benefits to individuals of government expenditure is hard to do with any precision (Demery, 2000). It is presumably for this reason that many of the social wage elements are habitually excluded from income poverty studies.¹

No reputable scholar would attempt to measure income poverty without taking into account the information that can be squeezed out of the statistics on every scrap of income accruing to households. It is likely, though, that because not enough attention has been paid to the effects that government expenditure has on the disposable income, income poverty is sometimes over-estimated. The present paper is concerned with refinements to the concept of income that could reduce the possibility of such errors being made. The primary concern of the paper is with the work required to ensure that the measure of income used in such efforts is as comprehensive as can be. Since the focus is not on income poverty measurement *per se*, no attempt will be made to present estimates of income.

Measuring absolute income levels and tracking changes in them is a difficult and imprecise business. It is partly for this reason that economic history is so hard to write. As Lal and Myint (1996) argue, to do so it is necessary to employ a methodology that is "essentially forensic", drawing a parallel between writing economic history and the proceedings in a court of law. The "resulting answer", they observe:

¹ Woolard's and Isibbrandt's (2001) study of poverty in South Africa is a case in point. See their discussion of the difficulties of the problems involved in valuing access to public goods on p.42.

...will not be infallible, but should still meet the requirement that the jury arrives at a conclusion that is 'beyond reasonable doubt'. (Lal & Myint, 1996, p.6)

They go on to argue however, that:

...of course, there will always be debate about what is reasonable doubt, and in that sense it is unlikely that any important empirical issue in economics will ever finally be settled. (1996, p.7)

Discovering the 'truth', beyond reasonable doubt, about the contribution of the social wage to people's well-being since the accession of the democratic government to power in South Africa is immensely difficult. The social wage is defined in several ways – what they all agree on is that it consists of income in cash and in kind. Valuation of cash benefits presents a few, not insurmountable problems; valuation of in-kind benefits, by contrast, has defeated some of the best brains in the world. There is no hope of expressing the 'truth' about the social wage in a single number or indicator – the hunt for a way to do so is fruitless. Even so, rigorous scrutiny of the concept can help us to discover the limits of what can and what cannot be known about it.

Proposed as a compromise because of the social wage's insoluble valuation problems, the concept of social income offers a particular way of thinking about the total income received by households and their members (Standing, 1999, pp.88 – 89). Presented originally as a framework within which to comprehend broad changes in the form in which income is received (wage and non-wage), Standing says that the concept of social income "would be hard to translate into empirical form" (1999, p.89). Used in the way he intended (as illustrated in Tables 3 and 4 below), this income concept, with its qualifier 'social', reminds us constantly of the political economy of income generation and distribution processes (one definition of political economy is the study of the social laws of production and distribution). Given the inescapably political nature of the division of total income between private and public uses, and within the sphere of public uses, of the competing claims on limited funds, I am keen, in my work, to hang onto the 'social' aspect of the concept. At the same time, however, I would like to challenge Standing's pessimism about empirical translation, the scope for which, I think, is probably quite good. Focusing as it does on changes in the sources of income, it looks as though the Standing approach could be adapted to allow some of the effects that social spending has on well-being, especially among the poor, to be examined in a fairly rigorous manner.

If there are 'truths' about the impact of social spending on poverty to be revealed, my preferred approach to them is via the notion of the 'bankability' of the elements of the social wage, that is, the direct impact they have on disposable income. A slight reworking of Standing's formulation of the concept of social income is all, in my view, that is necessary to accommodate these effects (some of which arise as a result of in-kind provision). Viewed in this way, the concept becomes a device for guiding the collection of income data (without losing sight, as noted above, of the political economy side of the story).

Several ways to organise information on incomes exist, the most basic of them being a fourfold division into the returns to the four factors of production, namely wages to workers, profits to entrepreneurs, interest to owners of capital and rent to owners of

land. Essentially, Standing's social income approach sorts income into wage (earned income) and non-wage categories, arguing that changes in the relative shares of each act (roughly) as a mirror that reflects, and can form a useful basis for examining, changes in the conditions of the poor.

That the process of sorting income in a systematic way is more than mere taxonomy is obvious from the fact that behind every social division of the spoils of production, represented by a particular distribution of income from various sources, lies a political economy. The conventional distribution among the four 'factors of production' cited above, for example (the so-called 'functional distribution'), simplistic though it undoubtedly is, is clearly not simply a set of post-boxes. It is derived from a theoretical model which asserts that the returns to each of these factors is equal (under competitive conditions) to its marginal revenue product. The apolitical nature of such a claim is profoundly political, denying (or ignoring) as it does the importance of power relations (of a class, gender, ethnic or generational form). Every distribution of the social product (the fruits of the often antagonistic co-operation between what is euphemistically referred to as the 'social partners') is the outcome of particular struggles, political, social and economic. So, too, are changes in the distribution of this social product.²

To understand the socio-economic dynamics of any social formation at any point in its history, it is essential to have at least a rough idea of the absolute value of the total social product and of its distribution. To comprehend the ways in which this changes it is necessary to know something about changes in both the absolute size of social income and the relative sizes of its various components. Changes in the proportional contributions of the components to the total occur as economic and political conditions change. This may be in response to changing circumstances at the international, national or even the local level. Many forces give rise to such changes – typical among them are technological and institutional developments. Natural resource discovery or exhaustion is another. At the macro-level, the wage share of total income may fall, as has happened in South Africa in recent years.³ At the micro-level, income from wages or salaries in households whose members become unemployed is likely to diminish or disappear entirely. Such changes may be expected to vary with the severity of unemployment. Social spending in these circumstances may be crucial to survival.

² Table 6.6 in Seckings and Natrass (2006, p.213), for example, shows the distribution of household income from various sources in 1993. This represents the outcome of several centuries of segregation, four decades of its more strenuous offspring, apartheid, and the attempts of the National Party to ameliorate the effects of some of the more egregious injustices entailed in the political economies of those evolving forms of oppression. In the bottom decile (decile 1) wage income accounts for 23.5 per cent of household income, remittances for 48.5 per cent and capital income for just 3.5 per cent. In the 10th decile, by contrast, wage income accounts for 64.5 per cent of the total, remittances for 0.4 per cent, and capital income for 18.1 per cent.

³ Net operating surplus, expressed as a percentage of remuneration of employees, rose from 52 per cent in 1998 to 67 per cent in 2005. Remuneration of employees as a percentage of GDP at market prices (in current prices) fell from 50 per cent in 1998 to 45 per cent in 2005 (estimated from the data in South African Reserve Bank, 2006, p.S-112).

Looking critically at the concept of the social wage requires an account of the context in which it surfaced. The paper therefore commences with a brief history of the debate about poverty in South Africa in recent times. This is followed by an overview of the various ways in which the social wage has been defined internationally. After working through the Human Sciences Research Council (HSRC) attempt to measure the social wage in South Africa, reference is made to British practice to show why it is not appropriate to estimate Gini coefficients on incomes estimates that include the notional income accruing to households because of social spending.

As a precursor to the examination of the concept of social income, the paper tries to situate the social wage within the broader concept of social protection, the latter being itself a concept over which there has been a tussle between conservatives, who would seek to limit the scope of social protection, and progressives, who seek to broaden it. This is followed by a reproduction of the Standing schema, along with his interpretation of the distribution of its components, and the ways in which these have changed as the world slipped, post-1975 or so, into the 'age of insecurity' (Elliott & Atkinson, 1998). Once that has been done, the modifications necessary to bend the Standing framework to our purposes can be contemplated.

2. Debates over poverty and the social wage in South Africa

Judging by the frequent references to poverty (often described as apartheid's legacy) in speeches by the President and senior cabinet ministers, the need to alleviate and/or eradicate it is seldom far from government's mind. Coupled with this, however, is an apparent belief that the many billions of rands devoted to social spending each year, not to mention the success government has enjoyed in achieving macro-economic stability and steady (if unspectacular) economic growth, have had a greater impact on poverty than critics of current anti-poverty policy (with their pessimism about its prospects of success) are prepared to acknowledge. In such a climate, good news about poverty, from whatever quarter, must be comforting to government. Yet some of the good news that is forthcoming rests on flimsy foundations. There is an urgent need to move beyond the present, somewhat unsatisfactory state in which the debate about poverty and inequality (reviewed briefly below) is mired. The present paper attempts to contribute to the search for a way out of this impasse.

The social wage has come to feature prominently in the debate about poverty and inequality in South Africa. It has been deployed by government to counter the repeated claim that inequality has increased and that income poverty in South Africa worsened in the period after 1994. Most commentators (Hoogeveen & Özler, 2004; Leibbrandt et al, 2004; Leibbrandt et al, 2005; Statistics South Africa, 2002; Whiteford

& Van Seventer, 2000) agree that in the period up until 2000 or 2001, income poverty and inequality increased.⁴

Government's response was to point out that while income poverty might have worsened (PCAS, 2003, p.17) the combination of taxes and social spending made or would make a significant impact on both inequality and the living standards of the poor. The term 'social wage' cropped up in a briefing given to parliament's communication committee on the work of the Government Communication and Information System (GCIS), in advance of a debate in the house in 2003 on "... whether conditions in SA had improved since the democratic elections in 1994...". Joel Netshitenzhe, CEO of the GCIS, said that the organisation "... had to correct mistaken views that the poor were worse off than they were during apartheid years..." (*Business Day*, 26 March 2003). He is quoted as saying that:

... the tide had turned on the unemployment front as the economy was beginning to create jobs. A social wage had also been introduced, reflecting government's efforts to deal with poverty. This had contributed to an improved quality of life. The social wage included social grants, tax relief, the provision of free basic services. In addition, the acquisition of human rights had also improved the quality of people's lives.

*While partial data and focus on single points in time may attract shallow claims of no delivery and increasing poverty a contrary conclusion follows from a rounded picture of trends including the social wage, tax relief and social grants over and above cash income from employment... (*Business Day*, 26 March 2003)*

Oddly enough, when government came to assemble these assertions into a more coherent document, the draft *Ten Year Review* (PCAS, 2003), the document in which the implausibly low Gini coefficients reproduced below were launched, it made no reference at all to the concept of the social wage. Instead, resort is had to the terms 'social spending' and 'social transfers'.

The difficulties of measuring the value of the social wage (Demery, 2000; Van de Walle, 1998), not to mention the problems of estimating tax incidence, are extreme. Compounding these difficulties is the well-founded argument by Noble et al. (2004) that at the heart of poverty studies in South Africa there is a gaping conceptual chasm. These circumstances (and the apparent lack of suitable data) drove the debate about poverty and inequality, for a while, into a state of suspended animation. A report on the social wage (HSRC, 2004), commissioned by government, provides some interesting insights but does not solve the valuation problem satisfactorily.⁵ Somewhat surprisingly, the HSRC paper (considered in some detail below) appears to have attracted little attention. For the most part, the contending parties – on the one side, a government anxious to prove that its interventions have substantially bettered the lot

⁴ Fedderkke et al. (2004) and Van der Berg and Louw (2003), respectively, offer an agnostic and a dissenting view.

⁵ In a highly tentative analysis, I have also attempted to estimate the impact of the social wage on poverty. An early and extremely crude attempt was made in Meth and Dias, 2004. Meth, 2005 attempts to refine this. Some results of this attempted refinement were published in Meth 2006c.

of the poor, and on the other, academic analysts struggling to make sense of not very good statistics – talked straight past one another.

A number of interventions in recent times have shifted the debate on poverty in South Africa out of the groove in which it appeared to be stuck. One of them is the work of Prof. Servaas van der Berg and his colleagues at the University of Stellenbosch on estimating income poverty levels (Van der Berg et al. 2005, 2007); a second, concerned with estimating the impact of social spending using the benefit incidence (cost apportionment) approach (Demery, 2000) has grown out of commissioned work Van der Berg has done for the Presidency. Also increasingly cited, despite its esoteric, highly experimental nature, is a paper by Bhorat et al. (2006), which shows some fairly spectacular reductions in asset and service poverty.

It is difficult to believe that the estimates of the extent of poverty reduction presented in the Van der Berg et al. (2005) paper would have found much favour with senior government officials and leading politicians, had they not reported substantial declines in poverty headcounts and poverty gaps. Innovative in its use of the All Media and Products Surveys (AMPS), the Van der Berg et al. (2005) paper estimates that the headcount (using a poverty line of R250 per capita per month in 2000 prices), having risen from 16.2 to 18.5 million between 1993 and 2000, fell to 15.4 million in 2004, largely because of the extension of the social grant system.⁶

In two recently published papers, I have challenged this finding, arguing that the headcount in 2004 was probably between 18 and 20 million. While agreeing that the headcount (and, more than likely, the poverty gap as well) probably did fall between 2001 and 2004 (much of the many billions thrown at the poor must have stuck), the absolute size of the poverty headcount remains a critical indicator of success (or otherwise) in the fight against poverty (Meth, 2006a, 2006b). The 'trend' observed over the period 2000–2004 cannot be extrapolated into the future for very long. As Van der Berg et al. themselves observe, once the expansion of the social grant system reaches its planned limits, no more poverty alleviation can be expected from that quarter – henceforth, the burden of poverty alleviation will fall fair and square upon economic growth, and the jobs that it should deliver (2005, pp.22–23).

The other intervention from the Van der Berg stable has given rise to a misperception about income inequality, one that has proven to be remarkably impervious to criticism. Officials in the Policy Co-ordination and Advisory Services (PCAS) in the Presidency, apparently extrapolating the results from an unpublished paper by Van der Berg (PCAS, 2003, p.91)⁷ came up with some highly flattering estimates of

⁶ Some time during the first half of 2007, Van der Berg and his colleagues published a revised set of poverty estimates (Van der Berg et al., 2007). In place of the headcounts of 18.5 and 15.4 million for the years 2000 and 2004 offered in the 2005 paper, they now claim that the headcounts were 16.3 and 13.1 million, respectively (p.19). No explanation for the dramatic decrease in the severity of poverty is offered. These figures came to my attention shortly after the draft of the present paper had been submitted to the HSRC (June 2007). The Van der Berg et al. oeuvre on poverty and inequality, and its use by the Presidency, is critically analysed in Meth 2008a.

⁷ The paper by Van der Berg (undated), which was commissioned by the Presidency, bears the title "Poverty, Fiscal Incidence and Social Outcomes". It is cited in the references in the *Ten Year Review*

inequality before and after tax and social spending. Presented in the draft *Ten Year Review* (PCAS, 2003), these suggest that social spending in 1997 reduced the Gini coefficient from a level of 0.68 (excluding social transfers) to 0.44 (including social transfers). The Gini coefficient for the year 2000 (excluding social transfers) was estimated at 0.59 (how the pre-transfer fall came about is not made clear). In any event, taking social transfers into account allegedly causes the figure of 0.59 to fall to 0.35 (PCAS, 2003, pp.90ff).⁸

Claims of spectacular (and incorrect) increases in the 'wealth' of those in poverty in the popular press were made because of the confusion surrounding the meaning of the results of the benefit incidence study that yielded the after-transfer and tax decile shares which yielded, in turn, the reduced Gini coefficients referred to above. Particularly instructive is the fate of an article that appeared in the (sadly defunct) newspaper *This Day* of Monday 3 November 2003, headlined "We have closed SA's wealth gap – ANC", with a strap claiming that "Poor are 40% richer than 10 years ago, Presidency research shows"⁹. Greeted with disbelief by opposition politicians (their views were reported in the article), and with contempt by economists, the event posed for government the problem of how to back away from the mistaken media conclusion, without losing the propaganda value of the claim about how much better off poor people were as a result of ANC policies.

Presumably recognising the silliness of the claim about the closing of the wealth gap, and its likely reception in the wider world, the GCIS moved swiftly to limit the damage. An article in the same newspaper a week or so later, under the headline "Government spending has reduced inequality sharply", and referring to the earlier piece as "a perceptive article on the wealth gap", offered at the same time a gentle rebuke for the simplification of "complex research beyond recognition [and to a point where] distortions set in." Netshitenzhe took advantage of the space offered him to stress the academic pedigree of the estimates, the originality of the research¹⁰ that formed the basis of the attempt in the *Ten Year Review* to establish the extent to which the conditions of the poor had been improved during the ANC's reign. He repeated

(PCAS, 2003, p.138), with the author's surname misspelled. The present paper is highly critical of the way in which government has made use of work by Van der Berg et al. Although the work done by this group is innovative (as noted above), producing results using contentious methodologies is high-risk behaviour. Under conditions where government is desperate for good news, even those who seek to protect their findings with a moat of caveats may find themselves being abused. Those who discover favourable outcomes using disputed technologies, but who do not warn sufficiently of any weaknesses in their findings, are completely exposed.

⁸ The discussion below on the estimation of the value of in-kind benefits in the UK makes it clear that estimation of Gini coefficients for aggregates that contain estimates of 'notional income' (the value of in-kind benefits as estimated by the cost-apportionment method) is inappropriate.

⁹ The confusion between wealth (a stock) and income (a flow) may be mere media ignorance, and as such, can be overlooked; the invitation to the reader to conclude from the study's results that massive improvements in the welfare of the poor have been brought about, can not.

¹⁰ Commenting on Van der Berg's work, Andrew Merrifield, Presidential Policy Unit researcher, said that it "... had been presented to peer review [sic] and had been presented to several seminars..." (*This Day*, 3 November 2003).

the claims about inequality being reduced by about 33 per cent through the social wage, but gave no coherent explanation of what that meant. Netshitenzhe was at pains to emphasise the fact that government's efforts over the previous nine years had "substantially reduced inequality", and although "... this may not have made the poor 40% richer, it has certainly made a significant improvement to their quality of life" (*This Day*, 12 November 2003). His inability to say what the exuberant Gini coefficients actually meant (or his unwillingness, if he knew they were meaningless) is a direct reflection of the confusion caused by treating social spending as though it were income. Dismissed by many economists, the implausibly low coefficients are merely a reflection of the deficiencies of the method used to estimate them, the so-called 'benefit incidence' (cost apportionment) approach. Not many people are aware of the weaknesses of benefit incidence studies – those making up the popular audience for whom the *Ten Year Review* is intended, are unlikely to be an exception. While one can sympathise with politicians and government officials who are subject to constant criticism over delivery, resorting to dubious representations of reality, as the *Ten Year Review* does, cannot but harm the cause it seeks to promote. The attempt by government to compress its achievements in the field of poverty alleviation and reduction into a single summary statistic (a Gini coefficient) has led to nothing but confusion.

Even though uncritical application of the predominant technique (cost apportionment to derive benefit incidence) in South Africa has generated meaningless results, it must be acknowledged that government's objections to poverty studies that neglect the social wage have served as a useful corrective. Given the level that social spending has now reached in South Africa, government is right to insist that the social wage be taken into account in poverty studies. Unfortunately, as we shall see, the literature does not offer any easy way of doing this.

A failure to take account of the social wage elsewhere has had serious consequences. Glennerster (2000), for example, has argued that conservatives in the USA have been able to assert, in the absence of adequate measurement of the impact of social spending on poverty, that welfare has 'failed'. Drastic curtailment of welfare benefits has been possible because of a flawed analysis (blaming welfare instead of economic forces that forced down real incomes at the bottom end of the income distribution). He therefore insists that:

[services] that are given free as a right of citizenship or exclusively to the poor have to be in the poverty count one way or another. Otherwise the impact of social policy on the poor cannot be measured. They need to be in both on the cost side, the cost of meeting that basic need, and as the value of benefits received to meet that need. Health expenditure is particularly crucial. But the indicators need to be wider still. The full picture is necessary – all cash and kind income and benefits certainly have to be included as well as income after tax and tax credits. But so do other measures of social exclusion – by geography for example. This can arise from lack of access to public transportation. It can arise from prejudice in those who ration access to housing – public or private.

So my conclusion for the US, as elsewhere, is that we need a variety of measures. (Glennerster, 2000, p.7)

Debates in South Africa do not differ much in principle – conservatives claim that too much is done for the poor, objecting in particular to the 'generous' social grants that allegedly act as a disincentive to work. Progressive critics, by contrast, claim that not enough has been done, and that not enough can be done, by way of 'in-kind'

provision because of capacity problems in government. Sceptical of government's capacity to 'deepen service delivery' in a politically acceptable time period, many of them call for more social grants because of the ease with they can be delivered, and also because unlike 'merit goods', which in some senses are imposed on people, money offers a degree of choice. Government itself has acknowledged the superiority of social grants over public work programmes as means for alleviating income poverty (PCAS, 2003, p.19). What is needed, of course, is a solid empirical platform from which to view the question. At present, that empirical platform does not exist. Apart from the attempt, reproduced in the *Ten Year Review*, to gauge the impact of social spending on the distribution of income in South African estimates, the only estimates of the value of the social wage are those published by the HSRC (2004). Like all attempts to estimate benefit incidence using cost apportionment techniques, the results of that exercise are seriously flawed.

Ironically, the opportunity to say something sensible about changes in income distribution in South Africa has been overlooked in the rush to play with the benefit incidence (cost apportionment) toy. By comparison with the confusing results produced by benefit incidence studies, a study of fiscal incidence that limited itself to tax on the one side, and to grants on the other, would yield meaningful information about the impact of policy, especially in view of the numerous changes that have taken place in both tax and grant systems. Although this more modest undertaking would still face problems, it would generate conclusions that relate directly and identifiably to income poverty and to income distribution. As far as the social wage is concerned, what would be missing from a study of that sort would be the big-ticket items of health, education and housing. Most difficult to value of all the components of the social wage, these items could comfortably have been omitted – they are, after all, already energetically debated, as critics and government do battle over the failures and successes of each. Instead, government has backed itself into a corner where it has felt obliged to defend a set of preposterous single-index estimates of the impact of social spending on inequality, the meaninglessness of the claims notwithstanding.

In the meanwhile, the subjects¹¹ of the research into poverty have not maintained a dignified silence over the matter: numerous violent protests by the poor, angered and frustrated by delivery failures, oblige government to sit up and take notice. What the response will be, however, is by no means clear. Conditions like these could encourage critical reflection in official circles; it is also possible, however, that the desire to shoot the messenger, an almost universal quality of politicians, could grow (Meth, 2007). If that happens, antagonism towards critics is likely to intensify. What is clear is that research into poverty and inequality, and, in particular, the impact of social spending on both, ranks highly among the research priorities facing academics and government alike. It is also clear that ways to lessen the antagonism between them, when the former produce results that do not accord with the hopes of the latter, need to be found.

¹¹ If the research is non-participatory, then presumably the research views people not as subjects, but rather as objects.

As recent events at Polokwane have demonstrated, perceptions of members of the ruling party about the conditions of the poor in South Africa, and the progress made in alleviating their suffering, differ sharply. The ANC in government (but less so in conference), in its eagerness to 'prove' its critics wrong, has been assiduous in its pursuit of good news (Meth, 2007, 2008a). Differences between this optimism and the reality apparently expressed in hundreds (or thousands, depending on how one defines them) of acts of civil disobedience, are evidence of deep-seated animosity, ready to boil over into open conflict at the slightest provocation. Good-quality statistics and information about the conditions of the poor may not contribute much to a lessening of tensions at this point in our history. In the future, however, a better understanding of what people really think about their conditions of existence (giving voice to the poor, to use the jargon), may facilitate the formation and implementation of better policy.

The present paper attempts to contribute to that goal (a better understanding) by building on the concept of social income, as it has been developed by Standing (1999, 2002), with a view to increasing its usefulness as an input into an income poverty measure. We begin by looking at the many meanings that have been attached to the concept of the social wage.

3. Social wage: Two words, many meanings

As Rankin (1997) has pointed out, the discipline of economics does not have an agreed definition of what constitutes the social wage. The problem of providing one can be approached in a variety of ways, depending on the use to which the concept is to be put. Rankin's approach (from the abstract of his paper) is to argue for:

...a careful and comprehensive definition of the social wage, recognising that 'wage' is a word for the remuneration for a factor of production and that 'social' implies universal coverage. Thus the social wage comes to be seen as a form of collective property income, including 'royalties' for the use of natural and intangible 'sovereign' resources that are not subject to freehold ownership. As such, the social wage constitutes all public expenditure, including an income support system that pays pensions, benefits, subsidies and tax concessions.

A similar understanding of the concept seems to have operated in post-war Britain. In what was in essence a debate over "the link between individual and economic freedom", the extent of government claims on the economy sparked the reaction that was to lead to the bleak Thatcher years and the onslaught on the benefits provided by the social wage. In Britain:

...[during the] turbulence of the mid-1970s, the defenders of the existing order [a Labour Party drifting slowly to the right] – among them the intransigent Barbara (now Lady) Castle – squared the circle by insisting that the social wage, the entire package of benefits for which taxation was raised, was itself a form of disposable personal property, a liberating asset placed in the hands of the individual by the community. (Elliott & Atkinson, 1998, p.91)

It does not require much of a leap from this to the more expansive use of the term in Rhodes (2000, pp.22–23), which sees the social wage as the outcome of a social compact, the lack of which in Britain in the late 1970s was to have fateful consequences. Remarking on the absence of unions “as formal participants from the feast [of social reconstruction]” as part of “...one of the biggest flaws in the postwar settlement”, he argues that:

...successfully stimulating growth and full employment via demand management depended ultimately on the predictable behaviour of employers and trade unions. Inflationary pressures in a seller's market for labor could only be contained if the distributional conflict was controllable ... Yet this assumed – wrongly as it turned out – that unions would not endanger full employment by bargaining irresponsibly. In fact, organized labor could not be ‘encompassed’ within the system and the notion of a ‘social wage’ was neither developed nor institutionalized.

From such an intensely political understanding of the social wage to Rifkin's (he of *The End of Work* fame) conception of it as an alternative to welfare, is a leap in an altogether different direction (which is not to say that the concept is stripped of political content). Describing a proposed social wage as payment to the millions of poor in the USA for work in the non-profit sector (Rifkin, 1996, p.258), he goes on to suggest that:

In addition to providing a social wage for the nation's poorest citizens, serious consideration should be given to an expanded concept of social income that would include social workers and management and professional workers whose labor is no longer valued or needed in the workplace. (1996, p.259)

The fate of the proposal is instructive. It is actually quite an old idea in the USA, having:

...received widespread national attention in 1963 when the Ad Hoc Committee on Triple Revolution advocated the scheme as a way to deal with the dual threat of technological unemployment and growing poverty. (Rifkin, 1996, p.259)

Instead of a social income, and in addition to the Clinton administration's proposed “tax credits for hiring welfare recipients”, a public-works type solution to the problems of poverty and unemployment began to attract attention. Commenting on both proposals, Rifkin observes that:

[by] focusing too much attention on financing public-works projects and providing incentives to the private sector to hire the poor, the government is working against the historical curve that is steadily moving society away from public- and private-sector employment and towards work in the third sector. Talk of massive public-works programs makes little sense now when the public will is not sufficient to create such programs on the scale required to meet the current crisis. Similarly, continued efforts to find nonexistent jobs in the formal economy, or jobs that are likely to be eliminated by re-engineering and automation a few years down the line, seem equally misdirected. (1996, p.265)

Say what one will about Rifkin's central thesis – the disappearance of decent jobs in the face of technological advancement – his critique of the proposed solutions to the

twin evils of poverty and unemployment in the USA has eerie resonances for the debate over the way in which the same problems should be addressed in South Africa.

In Australia, the concept is used in yet another way, this time to refer only to non-cash benefits. A paper by Shaver and Saunders¹² on the merits of a basic income (BI), or citizenship income as Standing (2002, pp.204 ff) calls it, commented at a certain point that:

[the] entire discussion so far has proceeded on the basis that in considering BI schemes, attention should be restricted to just monetary income. An alternative approach involves considering whether income should be given a broader meaning to also incorporate noncash in-kind provisions – the social wage.¹³ (Shaver and Saunders, 1995, p.21, emphasis in original)

Elsewhere, Saunders has written that:

[one] of the most significant developments that has occurred in Australia since the early 1980s has been associated with the expanding role of the non-cash social wage, that is, government benefits in the form of free or subsidised health, education, housing and welfare services. (1998, p.8)

Similar use of the concept is made in the UK. Sefton (2002) has constructed a series stretching between 1979 and 2000/01. He says that:

[the] social wage is a measure of how much better off individuals are with the provision of publicly funded welfare services than they would be without these 'in kind' benefits (i.e. if they had to pay the full cost of these services). (Sefton, 2002, p.1)

The term is applied to four items of government expenditure: health, education, housing and personal social services. As far as the last of these is concerned, the approaches adopted by Sefton in the UK and Saunders in Australia, serve to extend the reach of the concept of the social wage. In Australia, a slew of research efforts¹⁴ in the mid-1990s confronted the problems posed by the social wage for the measurement of poverty, and concluded that:

¹² The working paper referred to here consists of two papers, one by Shaver, the other by Saunders. The passage quoted below is from Saunders' contribution.

¹³ In a study that looked at gender, liberalism and social policy in Australia, Canada, Great Britain and the USA, O'Connor et al. (the et al. includes Sheila Shaver referred to above) the authors note:

While child care is not considered within a framework of social citizenship in any of [these] countries, in Australia there is more of a recognition of child care as an element of the social wage. (1999, p.79)

Outside of the Scandinavian and the former socialist economics, this component of the social wage is as rare as it is valuable.

¹⁴ One of these (NATSEM, 1995) looked specifically at the effect of the social wage on income distribution.

any account of trends in living standards [as measured by money income] ... will be extremely misleading if it does not incorporate the effect of changes in the social wage. (Saunders, 1997, p.10)¹⁵

Saunders goes on to observe that:

[equally] important, though less often emphasised, is the significance for this conclusion of the way in which the benefits from the social wage are estimated. (Saunders, 1997, p.10)

He points out that when services and goods supplied under the guise of a social wage (as opposed to income in the form of grants) become significant components of total consumption, not only do households experience a reduction in choice over how income is spent, but income measures themselves become increasingly deficient (1997, pp.10–11). Even though expenditure measures fare somewhat better, they too are subject to a number of well-known problems, some of them considered in the Saunders piece (pp.11–14). These strictures notwithstanding, we would be on moderately safe ground if we could measure well-being using an expenditure measure. When the social wage starts to loom large in people's consumption basket, such measurement must be supplemented by estimates of its value to the individuals concerned.

As the epigraph at the head of the introductory section of the paper points out, there are 'peculiar tensions' between the need, on the one hand, for knowledge to guide policy, and shaky theoretical devices available for acquiring such knowledge, on the other. It is time now to begin to confront some of these tensions, starting with the concepts of social spending and the social wage. Although these have so far been used as though they are synonymous, there is virtue in distinguishing between them. The reason why becomes clear as one starts to dig into the literature on how to measure the effects of social spending. A popular set of instructions for novices in this matter, *Benefit incidence: a practitioner's guide* (Demery, 2000), produced by the World Bank, outlines on its very first page the central problem facing those who wish to estimate the impact of government spending on various groups in society. The good news is that there is a (relatively) conceptually rigorous way of doing so – the bad news is that it is generally not possible for it to be done. In the first paragraph of the second page of the guide, the reason why not is given. Thereafter, the guide describes the compromise usually adopted. It is a variant of this latter approach that has been used by whoever was responsible for the income distribution estimates in the *Ten Year Review* (PCAS 2003).

¹⁵ Saunders was one of the participants in a major research effort that used the Luxembourg Income Survey (LIS) data to look at the effect on non-cash subsidies in health, education and housing in seven OECD countries (Smeeding et al., 1993). Describing their imputation technique, the authors state: "The total (gross) value of noncash benefits is assumed equal to the amount of money a government (or employer) spends on each item. No attempt has been made", they continue, "to value the recipient or cash equivalent value of noncash benefits. This implies", they note, "that the recipient's value of noncash income may be overstated in some cases, particularly for those families on low income who might well have chosen to spend the monetary value of noncash subsidies in other areas had these been provided as cash transfers" (1993, p.237).

In essence, the problem arises from the absence of prices for pure public goods, and from the unreliability of such prices as do exist for the subsidised (and hence, rationed) goods and services provided by government, as indicators of the value that people attach to these goods and services. Tracking the history of this central debate in the theory of public sector economics, Demery notes that in the early 1970s, it was argued that to assess how public expenditures benefit individuals:

*...a rationed publicly-provided good or service should be evaluated at the individual's own valuation of the good (his or her demand- or **virtual-price**). Such prices will vary from individual to individual. (Demery, 2000, p.3, emphasis in original)*

Estimating individual or household demand functions requires large amounts of data, data that are expensive and difficult to collect. Because of this, an alternative to the individual preference method of valuing subsidised goods and services emerged. This "less demanding" approach aims to value publicly-provided goods and services at their marginal cost. In practice much more likely to work with average costs,¹⁶ the technique, which is known as benefit incidence:

...combines the cost of providing public services with information on their use in order to generate distributions of the benefit of government spending. This has become an established approach in developing countries... (Demery, 2000, p.3)

Demery's assessment of the relative merits of the two techniques concludes that the individual preference (behavioural) approach is "more theoretically robust",¹⁷ while benefit incidence measures are "far easier to calculate". If the latter are going to be used (and there may sometimes be little choice in the matter), users need to be aware, when doing so, of their limitations. Although the technique allows:

*...benefit flows to **recipients** of government services [to be] distinguished from the income flows government spending generates to the **providers** of those services and other government administrators...*

this cannot be taken to imply that:

*...benefit incidence analysis is an accurate tool for measuring benefits to service recipients. Perhaps a better term to describe the technique is **beneficiary incidence** since this avoids the suggestion that true benefits are measured, but simply conveys the message that spending is imputed to the beneficiaries. (Demery, 2000, p.50)*

Benefit incidence analysis can be a useful tool for helping to discover whether or not government-provided or -subsidised goods and services are well targeted. Unit costs, however, are a poor proxy for the value of the social wage to individuals (Demery,

¹⁶ Demery gives an example of how marginal returns to primary education have been estimated in India (2000, pp.19-22). The results reinforce the warning that caution is required in "... drawing policy conclusions from average benefit incidence results" (p.21).

¹⁷ Apart from their data-intensive nature, there are other serious limitations to behavioural approaches. These are discussed in Van de Walle 1998, pp.372ff.

2000, p.51). Serious problems are also encountered when the end products of a benefit incidence exercise, pre- and post-fisc distributions, are constructed. One of the more significant of these problems turns on the difficulties of specifying the appropriate (pre-fisc) distribution that constitutes the starting point of an inquiry into the redistributive effects of social spending.

A valiant attempt to rescue the behavioural (demand-side) model from consignment to a resting place in the 'too hard' basket is made by Cornes (1995).¹⁸ It is not the intention to try to compress into a few paragraphs what he does with difficulty in more than 20 pages. His effort is worth mentioning here for one reason – although it is not his expressed intention to do so, he succeeds in making the benefit incidence approach look even more fragile than has been suggested above. Cornes proposes innovative methods for dealing with data deficiencies (paring data requirements to minima; building up proxies for unobservable prices). He attempts to devise a method for tackling the problem from the demand side that requires less information than would be the case using the techniques suggested by others who have worked in the area. Pricing of non-marketed goods and services, he argues, has become less intractable through the work in environmental economics (1995, p.87). The procedure he has devised, one that makes use of index number theory, may, he says, be able to deliver:

(a) an ordering of the individual's initial and final welfare levels and (b) a reliable indicator of whether a given individual's "real" income has risen or fallen... (1995, p.85)

Where the information requirements become "unrealistically demanding", he argues that:

...it may be very misleading to resort to alternative ad hoc procedures of benefit apportionment according to income levels, or whatever, without some rationale along the lines [of the theoretical propositions he makes in the article]. (Cornes, 1995, p.86)

His parting advice to readers is that if the necessary information is not available, then heed should be paid to the wise words cited at the head of his article (1995, p.69). He quotes not just one sage, but four of them, ranging from Confucius (500 BC) to Ralph Waldo Emerson (1850).¹⁹ All are concerned with the need to acknowledge the limits of what can be known. We should not, he says:

...delude ourselves into thinking that ingenious technical procedures can conjure empirical conclusions out of a dataless void... (1995, p.88)

¹⁸ There are also hybrid approaches that introduce behavioural elements into benefit incidence studies. See Van de Walle 1998, pp.375ff.

¹⁹ Emerson says it most succinctly: "Knowledge is the knowing that we cannot know."

That warning applies with almost as much force to benefit incidence (cost apportionment) studies as it does to a demand-side approach. We cannot allow ourselves to be lulled by the presence of data on total expenditure and the identities of the intended beneficiaries of that expenditure into thinking that such information provides a reliable guide to the benefits derived by individuals from that expenditure.

Reference has been made above to the fact that there are very few estimates of the value of the social wage in South Africa. The most prominent of these is the set of (obviously implausible) figures published in the *Ten Year Review* (PCAS, 2003). Another set, the 2004 HSRC estimates, has, as noted above, attracted much less attention. The following section of the paper reproduces the HSRC results, illustrating their implausibility by focusing attention on the difficulties of estimating the value to a household of government expenditure on education, by far the largest component of social spending. Having looked critically at the HSRC's figures, the paper then refers to British practice to show that the use of the technique in that country produces similarly misleading results. It is also shown, however, that in the UK, the trick of estimating income inequality using a measure of final income that includes the 'notional income' accruing to households as a result of social spending, is studiously avoided.

4. The HSRC estimate of the social wage

For the HSRC, charged by government with the production of a set of estimates of the value of the social wage (presented in Table 1 below):

[the] meaning of the social wage is unambiguous: it is the total value of in-kind benefits received by a person or household from government, to that person or household. However, the means of calculating that total value is not straightforward. (HSRC, 2004, p.5)

Defining the social wage thus makes it clear that the HSRC approach to the concept in South Africa is similar to that which obtains in Australia and in Britain.²⁰ In practice, though, the report's authors stretch, as it were, the housing component of the standard 'housing, education, health and welfare services' package so that it consists of housing, electricity, water, sanitation and solid waste removal (HSRC, 2004, Table 1, p.7).

Figures in the first four columns give the value of the components of the social wage when they are distributed across all households. Those in the last column are the estimated values in households that actually receive the component in question. As the share of households receiving any particular subsidised service rises, so the value

²⁰ Although the HSRC authors refer to Sefton's estimates of the value of the social wage in the UK, in the passage from his work that they cite the reference to personal social services is deleted (HSRC, 2004, p.4 and Sefton, 2002, p.46). They appear not to make any attempt to estimate the value of personal social services in South Africa. Total expenditure on personal social services in the UK in 2000/01 was £14.7 billion, on health it was £54.1 billion, and on housing it amounted to £15.8 (Sefton, 2002, Table 1, p.5). It would be interesting to know what it was in South Africa.

in columns 1–4 approaches that in column 5. Its pro-poor impact is evident in the fact that the column 3 figures are closest to those in column 5.

Among the three biggest items in the social wage, 84 per cent of households receive subsidised health care, 47 per cent education and a mere 6 per cent (7 per cent of the bottom 40 per cent of households) receive subsidised housing. These three items account for the vast bulk of the social wage (HSRC, 2004, Table 3, p.9). Education and health account for 87 per cent of the mean social wage among the poorest 40 per cent of households (R379 on education, and R244 on health care, out of a total of R719 per month). Those figures are averages for all households in the two bottom quintiles. When they are adjusted to reflect the values to the households that actually enjoy the benefits of the expenditure, education rises to R660–772 per month. The increase in the value of health care expenditure is more modest; it rises to R250–271 per month, presumably because use of state health services is closer to universal in poor households.

Along with sanitation and solid waste removal, the value to individuals of these three components of the social wage are notoriously difficult to establish. For health and education, the HSRC has used the cost apportionment method, with usage established from the GHS for 2003. This is essentially the method described by Demery (2000) as identifying beneficiaries rather than the value to said beneficiaries of the benefit in question.

Table 1 – HSRC estimates of the average value of the social wage in 2003^a

Component	Value when distributed over all households				Value in households receiving social wage
	Top 40% of households	Poorest 60% of households	Poorest 40% of households	All households	
	Column 1	Column 2	Column 3	Column 4	Column 5
Electricity	2	31	33	19	55 to 57
Water	1	20	22	13	31
Sanitation	1	6	6	4	14 to 15
Solid waste removal	1	10	10	7	31
Housing	20	26	26	24	220
<i>Sub-total</i>	25	93	97	67	
<i>Sub-total as % of total social wage</i>	5.6	13.7	13.5	11.4	
Education	270	347	379	317	661 to 772
Health care	155	238	244	205	250 to 271
<i>Sub-total</i>	425	585	623	522	
<i>Sub-total as % of total social wage</i>	94.7	86.4	86.6	88.9	
Total value of social wage	449	677	719	587	
Social grants	70	208	236	154	536 to 562
Total social wage + social grants	519	886	955	740	

Source: HSRC, 2004, Table 2, p.8 and Table 4, p.10.

Note: ^a Values are R/month per household in 2003 prices.

The review in the HSRC paper of the different approaches to measuring the social wage leaves readers in no doubt of the difficulties to be faced. Comparing the benefit incidence (cost apportionment) and demand-side (behavioural) approaches to measuring the social wage, they observe:

As a gross generalisation, the cost-apportionment method is far simpler to apply, in that the data requirements are more manageable and the sophistication of the modelling is less demanding; but the conceptual deficits are more serious. Even assuming one does it well, there are significant reasons for worrying that it does not produce a good proxy of value. By contrast, the behavioural approaches aim to resolve these conceptual limitations of the cost-apportionment method, but at the cost of introducing a degree of complexity that calls into doubt the robustness of the estimates themselves. (2004, p.35)

A little further down on the same page, they state that.

[regardless] of the method one employs to estimate the value of the social wage and its components, the estimates produced must be used with caution.

They continue thus:

In reviewing a large number of benefit incidence studies employing various versions of these two approaches, Van de Wall [sic] concludes:

*"Provided one is aware of their deficiencies, much of the data and methods commonly used in practice can be useful and informative. The (few) studies that have attempted to compare results on incidence have found that the methodologies are broadly in agreement... **Still, the results should be taken as indicative of likely directions of benefit incidence rather than as precise magnitudes**". (1995:600; emphasis added [by HSRC])*

Cautioning readers to take the 'results as indicative' is as wise as it is necessary. Even that, however, may not be sufficient to prevent a misreading of the true state of affairs. Although the HSRC paper is far from being without merit, the valuation problems it (like every other approach of this sort) fails to solve, at least as far as education (the largest single item in Table 1), and probably health as well, are concerned, are so severe that its results, obtained using the cost-apportionment (benefit incidence) method, serve mainly to mislead. The figures in Table 1, embodying as they do the implicit assumption that the expenditure on inputs is transformed into appropriately useful outputs, do not give us estimates of the value of the social wage on which much reliance may be placed. The briefest acquaintance with the sad story of education in South Africa would be enough to reveal that the education system (and the job market) is failing some substantial number of the poor.²¹ Table 2 suggests reasons why this may be so.

²¹ After the disappointing matriculation results for 2006 had been released, an article under the heading "Opening Pandora's box" appeared in the *Mail & Guardian*, pointing to three major reasons why the poor would continue to fare poorly under the much refurbished education system. Despite the huge

The cells in Table 2 contain estimated percentages (based on 2004 data) of age cohorts of the African population by educational standard and by economic status – employed or officially unemployed. The table covers about 89 per cent of the 7.9 million employed Africans, and 96 per cent of the 3.6 million officially unemployed. Of the 11 per cent of employed Africans who had a higher educational qualification than matric, 6.6 per cent had a certificate or diploma with matric, and 2.7 per cent had a bachelor's degree. Corresponding percentages for the unemployed were 2.9 and 0.4. With the exception of these relatively well-educated Africans, by 2004 (and judging purely by the reported results of what might be an unreliable set of figures) the unemployed were 'better' educated than the employed (ignoring differences in the quality of education). The proportions with no schooling fell, and those with incomplete secondary schooling rose. The proportion with matric rose.²² This is not unexpected. Until some sort of equilibrium point is reached, one would expect each succeeding generation to spend more years in school than their predecessors.

Table 2 – Education by age cohort, employed and officially unemployed Africans

	15–24	25–34	35–44	45–54	55–65	Total
No schooling						
Employed	0.3	1.2	1.9	2.8	2.0	8.8
Officially unemployed	0.2	0.8	0.9	1.0	0.3	3.3
Incomplete primary						
Employed	1.5	3.3	4.7	5.6	2.8	18.2
Officially unemployed	3.3	4.6	3.3	1.8	0.6	13.5
Primary						
Employed	0.9	2.0	2.4	1.9	0.7	7.9
Officially unemployed	1.9	1.9	1.8	1.0	0.3	7.0
Incomplete secondary						
Employed	4.4	12.5	8.7	5.5	2.2	33.5
Officially unemployed	14.6	18.8	6.9	2.8	0.5	43.7
Matric						
Employed	2.8	10.3	5.0	1.5	0.3	20.0

sums devoted to education in the budget, in three critical areas government spending is derisory. These are: early childhood development and adult education, each of which attracts only one per cent of the budget, and teacher training. About 20 000 teachers leave the profession each year; 'new' teachers supplied by the universities average about 6 000 per annum (article downloaded from *Mail & Guardian* online edition, 9 January 2007). For the well-off, this is much less of a problem than it is for the poor.

For an introduction to the problems of the school system in South Africa, see Soudien 2005; Taylor 2006; Van der Berg 2004, 2005.

²² The statistics are a little misleading here: the question asks what the highest level of education is that [the respondent] has completed. A response of 'Grade 12' does not mean that the pupil (learner, in newspeak) has obtained a university entrance qualification.

Officially unemployed	11.0	13.4	3.1	0.6	0.0	28.1
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Source: Estimated from data set for September 2004 I.LFS

The most important feature of the results is the concentration of relatively well-educated unemployed people in the age cohort 25–34 years. Almost one-third of unemployed Africans are in this cohort (as opposed to about 23 per cent of the employed). To label this a problem of ‘youth unemployment’ in a time when life expectancy is falling²³ seems to miss the point somewhat. If the school system has not failed these young people, then the job market certainly has. Whatever the case, the assignment of a positive value to the education they have received as part of the social wage, especially one based on the expenditure incidence method, is highly problematic.

4.1. Using UK figures to disclose weaknesses of cost apportionment

In defence of the HSRC’s figures it must be said that theirs are not the only ones of that sort that are published – as noted above, similarly derived figures appear in other countries. The most recent estimates for the UK use the technique to determine the effect on taxing and spending on ‘standard of living’, for which the proxy indicator is ‘final income’ (Jones, 2007, p.2). By working through the UK results at some length, the weaknesses of ‘final income’ as a proxy for ‘standard of living’ can be exposed. Also, by reference to the details of this technique, the silliness of presenting Gini coefficients like those for South Africa offered in the *Ten Year Review* (PCAS, 2003) may be confirmed.

Four tables from Jones (2007) are reproduced in Appendix 3 of the present paper as Tables 10–13.²⁴ These show, respectively, the effects of taxes and benefits on all UK households in 2005–2006; the effects of taxes and benefits on non-retired households in 2005–2006; cash benefits for non-retired households in 2005–2006, and benefits in kind for non-retired households in 2005–2006 (these are numbered Tables 4, 6, 7 and 10 in Jones, 2007). Households are ranked by equivalised disposable income, making use of equivalence scales developed by McClements (Jones, 2007, pp.44–45), then results are presented in each case by quintiles of households. The tables (and the article itself) would reward close study. This is not the place, however, for detailed analysis of the UK results – it is necessary only to extract a few figures to show that the same intractable problems arise there as do in this country, when attempts to value the social wage using the cost apportionment method are made. These problems occur in the same areas, namely, education and, to a lesser extent, health.

²³ Youth officially (and arbitrarily) ends at 35 years in South Africa. Life expectancy at birth in South Africa is only 50.7 years (Statistics South Africa 2006, p.5).

²⁴ The approach to the problem of measuring non-cash income used by Jones does not appear to differ all that much from the technique used by Smeeding et al. (1993).

'Final income', the indicator in the UK containing the social wage estimates, originates in the Office for National Statistics (ONS). It is obtained by adding 'cash benefits' to 'original income' to obtain 'gross income'. From this, 'direct taxes and employee's National Income Contributions' are subtracted to give 'disposable income'. Taking 'indirect taxes' from this gives 'post-tax income'. Adding the value of 'benefits in kind' to the latter gives 'final income'. This is *not* the indicator that is used in the measurement of poverty in the UK. For official estimates of poverty, one turns to the annual publication *Households Below Average Income*, put out by the Department for Work and Pensions (DWP). The income definition used corresponds roughly to 'disposable income' in the ONS definition above²⁵ (DWP, 2007a, p.15).

To estimate the poverty headcount, the UK follows the OECD convention of counting as poor all those with incomes (as defined above) less than 60 per cent of the median income (which is roughly 50 per cent of mean income).²⁶ Two sets of estimates are offered, the first measuring incomes before housing costs are deducted (BHC); the second after deducting housing costs (AHC). In 2005/06, out of a total population of 59.1 million, the BHC headcount was 10.4 million, while the AHC was 12.8 million. Depending, therefore, on how one defines income, the headcount ratio is either about 0.18 or 0.22, or roughly the bottom quintile of the population. For that part of the population in non-retired households, the ONS estimate of disposable income for those in the bottom quintile of households was £11 550. After deducting indirect taxes and adding the value of in-kind benefits, final income amounted to £15 620 per annum (see Table 10 in Appendix 3 or Jones, 2007, Table 4, p.9). Clearly, if a disposable income of roughly £11 550 is roughly the level needed to set a household at the poverty line,²⁷ then adding the full value of the cost of education to a substantial proportion of the households in the bottom quintile would have a significant impact on income poverty.

Income estimates of this sort contribute little to an understanding of income poverty. In fairness to the creators of such figures, it has to be acknowledged that they make no claims about the relationship between variables like 'final income' and income poverty. Neither do they do so about income inequality. As is proper, the ONS restricts its estimates of income inequality, as measured by the Gini coefficient, to 'original income', 'gross income', 'disposable income' and 'post-tax income'. Estimates

²⁵ It also contains "the cash value of certain forms of income in kind such as free school meals, free welfare milk and free school milk and free TV licences for the over 75s (where data is available)" (DWP, 2007a, p.15).

²⁶ To bring their poverty estimates in line with those for the rest of Europe, the DWP report for the period 1994/95–2005/06 made use of the OECD equivalisation scales. For a discussion of the OECD scales and a comparison between those and the McClements scales, see DWP 2007b, pp.189ff.

²⁷ A bit of sleight-of-hand is involved here? household size in the bottom quintile (2.3 individuals) is slightly lower than the national average (2.4), so that the proportion of individuals in poverty is not the same as the proportion of households in poverty. The difference is, however, not large enough to affect the conclusions of the argument.

that include the 'notional income' components that go to make up the social wage, such as education, are specifically excluded (Jones, 2007, p.45, para.55 in Appendix 2).²⁸

What, then, is to be made of the estimates of 'final income' such as those produced by the ONS (or the similar figures produced by the HSRC)? Two possibilities spring to mind: one is that if the values of in-kind benefits are 'corrected' for quality of service rendered, or outcome, they could tell us useful things about the 'standard of living'. Unless this is done, assigning households a quantum of income based on estimates of the cost of education, or of health care, is (potentially) misleading in the UK, and almost certainly so in South Africa. The other possibility that suggests itself is that of modification of the poverty line to incorporate the expenditures deemed socially necessary to avoid being classed as 'poor'. Let us deal with the quality or outcomes issue first, and, let it be said, in a most cursory manner.

4.1.1. Weaknesses of the ONS approach: Service quality

Converted to a per school-going child basis, expenditure on education per household in the UK does not differ much by income quintile. Yet roughly equal per capita expenditure has very different outcomes. Although inequalities in the UK are far from being as gross as those in South Africa, class remains an important determinant of achievement at school. The gap may be narrowing somewhat, but only 32 per cent of the children of 'routine' and 'other' workers (crudely, unskilled workers) can expect to obtain five or more GCSE (A*C) grades in year 11, as opposed to 77 per cent of the children of higher professionals (Babb, 2005, p.9; Coles & Richardson, 2005, p.275). The likelihood of participating in higher education rises with rising parental occupational status. Inequalities in higher education as a whole in the UK may be declining slowly, but they remain significant, with inequalities for entry to degree courses being wider than those for higher education (Raffe et al., 2006, p.1). Sitting at the top of the income pile (and probably pulling further away) are those with degrees (Babb, 2005, p.8).

Similar considerations apply to expenditure on health. As may be seen in Table 12 in Appendix 3, expenditure on health in poor and rich households does not differ all that much (£2 840 in the bottom quintile vs. £2 410 in the top quintile). Life expectancies for both men and women in lower occupational categories are lower; mortality rates in the age cohort 35–64 years are higher (over 600 per 100 000 among skilled, semi-skilled and unskilled workers, as opposed to about 350 per 100 000 among professional, semi-professional and technical workers), and whereas about 5 per cent of those in professional and managerial jobs are in "self-reported poor health", for the unemployed and never-worked group, the figure approaches 20 per cent (Babb, 2005, pp.11–14).

Parental educational achievement is an important determinant of school performance (Babb, 2005, p.10). In similar vein, 'healthy' lifestyle is significantly related to health – deaths from respiratory diseases among men in partly-skilled and unskilled

²⁸ As noted above, the South African authorities show no such restraint, witness the meaningless Gini coefficients published in the *Ten Year Review* (PCAS, 2003).

occupations were 5.5 times higher than those among professional and managers. It should come as no surprise that smokers are heavily concentrated among the lower-skilled (Babb, 2005, pp.13-14). Examination of a wide range of life-affecting behaviours is likely to produce similar results. This means that £1 spent on education or health in a low-occupational status household does not have the same value, in terms of outcomes, as the equivalent amount spent in a high-occupational status household. To add crude cost figures to post-tax income figures and proclaim that the resulting number measures 'standards of living' is highly questionable. The benefit incidence approach may have some (limited) use as a means of identifying the groups in society at whom social spending is aimed, but it is of little use as a measure of the welfare of those groups. Let us turn away from the awkwardness of the quality issue, to a critique of the ONS approach offered by Glennerster (2006), one which addresses, albeit obliquely, the setting of the poverty line.

4.1.2. Weaknesses of the ONS approach: Inconsistency

Not all PhDs are destined to moulder untouched in the stack rooms of university libraries – some live on in the regular practices of individuals or major institutions. Such is the case with the work of Tibor Barna, the father of the practice described above as the measurement of benefit incidence by the cost apportionment method. A recent paper by Glennerster (2006) recounts the story of how Barna's work as a doctoral student at the London School of Economics during World War II, on the question of the redistributive role of the state, came to form the basis of much of ONS practice to this very day. Fascinating though the story is, it is not the intention to retell it here – one snippet only is required to show how long (and unsuccessful) the struggle to value the social wage has been. Reporting on Barna's approach to five of the major challenges thrown up by the question of the redistributive impact of state expenditures, Glennerster has this to say of in-kind benefits:

How do we assign the value of benefits in kind received by a household? He [Barna] settled on the average sums spent on services received by households of a given size though his ability to do this in detail was restricted. Again the modern approach is the same and not that much more sophisticated. (2006, p.3)

Discussing the ONS practice of not estimating Gini coefficients for income magnitudes that contain the notional income accruing to households from government expenditure on in-kind services, Glennerster points to inconsistencies of some consequence (2006, pp.8–9). The argument used by the ONS for not estimating Gini coefficients on final income (post-tax income plus the value of in-kind benefits) goes as follows:

Strictly speaking, one could argue that the equivalence scales used ... are only applicable to disposable income because this is the only income measure relating directly to spending power. Since the scales are often applied, in practice, to other income measures, we are content to use them to equalise original, gross and post-tax income for the purpose of producing Gini coefficients (and in the tables giving percentage shares of total income). However, we do not think it is appropriate to equalise the final income measure because this contains notional income from benefits in kind (for example, state education): the equivalence scales used in this analysis are

based on actual household spending and do not, therefore, apply to such items as notional income. (Jones, 2007, p.45)

Citing a similar passage from the ONS estimates for the previous year, Glennerster observes that:

[in] the tables which show how far each income group gains and loses from taxes and benefits it does include the gains from benefits in kind. The income ranges used to present these results are of equivalised income. In the final row of these tables the gains and losses for the households concerned are all added together including the gains from services in kind.²⁹

It might seem consistent with the reasoning above [that] the ONS should not include gains from benefits in kind in the same table nor should they sum the totals of incomes in cash and kind for the same reason as they do not in the Gini coefficient table. That would destroy much of the purpose of the exercise and ONS draw back from doing so in the main tables. However, they do apply the strict logic, as they see it, to exclude in kind benefits from the calculation of an overall Gini coefficient. By doing so, they make comparisons over time of the full impact of redistribution impossible, and hence as Barna saw it, destroy much of the purpose of the exercise. This could be particularly important in a period in which there has been a switch towards in kind spending and away from cash benefits. (2006, pp.8–9)

The resonances for South Africa are obvious – when expenditure on education and health is placed alongside social spending on grants, all ostensibly with an explicit bias towards the poor (see Table 1 above), it is clear that they cannot be neglected. Against their better judgment, it would seem, the ONS prepared a set of Gini coefficients for Glennerster, taking in-kind spending into account. This reduces inequality from its post-tax value of 0.36 (the original income Gini has a value of 0.51), to a final income Gini of 0.29 (Glennerster, 2006, Table 1, p.10). This reduction is one-third less (0.22 vs. 0.33) than that claimed for South Africa in the *Ten Year Review*, an outcome which would make the latter seem a little less implausible. It would also mean that income inequality in South Africa is not much greater than it is in the UK (0.35 vs. 0.29). This conclusion is not merely implausible, it is an insult to the millions who live at or below the breadline.

Rescue from the UK findings (a Gini falling from 0.51 to 0.36 to 0.29) comes via Glennerster's argument that it is not the last step in the ONS argument that is problematic (equivalising or not equivalising in-kind incomes), but the first – equivalising original incomes. This is how the argument runs:

In the 'original position' as it were families with children would have to pay medical expenses, schooling, full child care costs. Instead of children aged 11 being weighted as

²⁹ An example of what he is complaining about may be seen in Table 9 in Appendix 3 of the present paper. This shows the impact of taxes and benefits on households, by quintile. In the bottom quintile, an original income of £4 230 per annum grows into a post-tax income of £6 830, which is then boosted by the value of in-kind services of £6 660 to a final income of £13 490.

equal to a quarter of an adult, school fees of, say, £5,000 or more a year would have to be paid. This would bring the child's costs and equivalence score much nearer to that of an adult. An equivalence scale appropriate for this original position would make families with children appear much poorer and the original level of inequality greater than it is now.

If we assume that the political market works well and we spend as a state on children what parents would spend if they had the same average incomes over a lifetime as they now do then we might adopt an equivalence scale that reflected present spending as society's revealed preference spending on children. Or we could use spending data from families who use the private sector or a mixture of both. The Gini for original incomes would then be higher. The effective incomes of families with children would be lower.

If one then moved to a situation in which education was free, and health too, the present equivalence scale could be used. The reduction in inequality would show up as the result of a change in the equivalence scale! Then the other stages in the process could go ahead – the world of cash and preferences expressed in a market place absolved of the need to pay for education and health.

It seems that there is a case for re-examining the present approach to equalisation and benefits in kind. (Glennerster, 2006, pp.9–10)

Coincidentally, my approach to the problem led in a similar direction. The way I posed the question though, was to ask what the implications would be for the setting of the level of the poverty line. That will be addressed below under the heading 'Estimating the value of the social wage'. Noting that in the UK, rightly or wrongly, the ONS does not equalise in-kind income, and noting further that the DWP poverty estimates are based on equalised incomes (now using the OECD scales), where the income measure excludes the value of in-kind benefits, let us cease inquiring into the nature of UK practice and ask instead what the implications are of the problems discussed above for the debate about poverty and the social wage in South Africa.

The HSRC social wage paper (HSRC 2004) (wisely) makes no attempt to measure either inequality or poverty before and after social spending. Even so, in order to see whether or not social spending does reach its intended target, the HSRC paper does need to identify the poor. This is not explained in the paper, but it appears to have been done by using the 2000 IES to group households by income category, and then to divide them into the poorest 40 per cent and poorest 60 per cent. The upper limit to household incomes (in 2003 prices?) for the poorest 40 per cent was about R1 200 per month (HSRC, 2004, p.8).³⁰ There is no reference in the HSRC paper to any equalisation process. Since the authors are not concerned to measure either inequality or poverty, the fact that single or two-person households included among

³⁰ The authors note that the R1 200 per month which cuts off the poorest 40 per cent of households is close to the R1 100 per month used by the National Treasury to determine equitable share allocations (HSRC, 2004, p.37).

the bottom 40 per cent would not have been below some reasonably generous (by South African standards) poverty line, is not a matter of great concern.

In the case of the estimates prepared for the *Ten Year Review* (PCAS, 2003), it is impossible, by reference to the publication itself, to say whether or not incomes have been equivalised. The *Review* uses the 2000 IES to distribute households into deciles by share of total income. These are then adjusted to the distribution in what is referred to as the "1997 Household Survey" (not listed in the bibliography, but one imagines it to be the 1997 October Household Survey (OHS)), to yield a Gini coefficient of 0.59 for the year 2002. The illegitimate operation of adding the notional income generated by social spending to household income then yields the Gini of 0.35 (PCAS, 2003, p.91). Without seeing the background papers that yield the pre-transfer incomes, it is not possible to say anything about their merits. The survey results on which the distributions depend are themselves the subject of great controversy, but the caveats which surround them disappear in the course of writing the *Review* (essentially, an extended piece of propaganda). This is a very long way from the annual ONS pieces on inequality (of which the Jones 2007 paper is a typical example), for all the faults that Glennerster (2006) has found in them. Two things are very clear – one is that no thought has been given in either of the studies consulted to the status of the notional income that is the social wage. The other is that the significance of the process of equivalisation has not received the attention that is its due.

On that unsatisfactory note, let us take leave of the South African estimates of the value of the social wage, to reflect on the changing shape of the social protection climate in which the measurement question is posed.

5. The social wage in the evolving social protection system

My earlier approach to the problem of the social wage (Meth, 2005, 2006c), into which it is not necessary to look in any detail here, sorted the social wage into components of two types – cash (social grants etc.) and in-kind benefits. Apart from cash grants of various types, the major elements of the social wage in South Africa were argued to be the following in-kind transfers (free or subsidised goods and services): housing, electricity, water, sanitation, health care, education, school feeding schemes and transport.³¹ This approach, which may be seen to be similar to that articulated by Netshitenzhe above, was dictated by a desire to address the question of the impact on income poverty of the social wage in South Africa. That project has lost none of its validity (nor any of its urgency). Working out how to incorporate social spending into the Standing schema requires that the problem be approached in a more systematic manner.

³¹ Omitted from the list are such things as welfare services, whose use is probably biased heavily towards the poor.

The social wage is but a subset (albeit an important one) of the set of steps taken to provide comprehensive social protection against the risks of an existence whose defining characteristic is that of vulnerability to a variety of hazards and dangers, which are invariably collective rather than personal in nature (Culpitt, 1999, p.1). Social protection systems are not static – they evolve over time. Before getting to grips with the Standing schema, it will be useful to examine the ways in which social protection systems, particularly in the Anglo-Saxon countries (the UK, USA, Australia and New Zealand) have changed in recent times.

Some of the observed change in the past decade or so has been at least partly the result of World Bank-inspired attempts to circumscribe "...the wider risk-mitigating role of public social protection systems..." by confining government's role to the provision of "'social safety nets for risk coping'" (Devereux & Sabates-Wheeler, 2004, p.8). Although by the turn of the century the Bank's position had moved somewhat from the safety net or residual approach to social protection, to embrace the concept of social protection (its flagship policy paper on 'Social Risk Management' (SRM) has the sub-title "A New Conceptual Framework for Social Protection, and Beyond" (Holzmann & Jørgensen, 2000)), in practice few poor people have been 'trampolined' out of poverty by the asset accumulation that the reduction of variability in income, which growth, under SRM regimes, was supposed to facilitate. In effect a conservative view continues to hold sway. As Devereux and Sabates-Wheeler observe:

In low-income countries, social protection continues to be perceived by governments and donors as comprising fiscally unsustainable "consumption" transfers to the economically inactive or unproductive poor, which diverts scarce public resources from "productive" investment for economic growth, and therefore deserves lower priority as a poverty reduction tool. (2004, p.1)³²

³² Presumably with something like this in mind, the South African government has attempted (without conspicuous success) to make welfare 'developmental' (changing the name of the former national Department of Welfare into that of the Department of Social Development is a concrete manifestation of this commitment). A distaste for social grants has long been evident among the leadership of the African National Congress (ANC). So much is clear in the statement below by the head of the party's social transformation department, Minister of Agriculture and Land Affairs, Thoko Didiza. Under the headline "Didiza cautious about basic income grant", the minister, commenting on the recommendation by the Taylor Committee that a basic income grant should be introduced, is reported as saying that:

[a] basic income grant to the poor should be carefully considered ... The possibility of such a grant creating dependency should be taken into account, she said. "This discussion at the moment is about the values underpinning such a grant." Didiza was speaking at the release of discussion papers for the 51st national conference of the African National Congress (ANC). She was then head of the party's social transformation department. Didiza said discussions about a basic grant as part of a social safety net should not be conducted in isolation. "It must be looked at within the context of other interventions by government to help the poor." This included free health care for pregnant women and children under the age of six. A basic income grant could be linked with public works projects that provided the jobless with temporary employment. This would help prevent the grant from being a mere hand-out, Didiza said. The discussion paper said the ANC believed the state's role should be to enable people to help themselves. For those unable to do so because of old age or health problems, there should be a social security system. The paper said the ANC should concern itself with two strategic objectives, making sure that existing social grants reached their target and improving the provision of

Seeking to emphasise “the positive relationship between livelihood security and enhanced autonomy or empowerment”, they offer the following conceptual definition of social protection:

SOCIAL PROTECTION describes all public and private initiatives that provide income or consumption transfers to the poor, protect the vulnerable against livelihood risks, and enhance the social status and rights of the marginalised; with the overall objective of reducing the economic and social vulnerability of poor, vulnerable and marginalised groups.

The working definition that they use ‘elaborates on the mechanisms that deliver social protection’:

*SOCIAL PROTECTION is the set of all initiatives, both formal and informal, that provide: **social assistance** to extremely poor individuals and households; **social services** to groups who need special care or would otherwise be denied access to basic services; **social insurance** to protect people against the risks and consequences of livelihood shocks; and **social equity** to protect people against social risks such as discrimination or abuse. (2004, p.1, emphasis in original.)*

They continue with the observation that:

[the] key objective of social protection is to reduce the vulnerability of the poor. The full range of social protection interventions can be categorised under protective, preventive, promotive and transformative measures. (2004, p.9)

A more circumspect (in the sense of being less overly critical of the World Bank) paper by García and Gruat (2003) of the International Labour Office (ILO) arrives at a similar conclusion. Briefly tracing the history of the development of social protection through an initial phase of (limited) social assistance (from about 1900 onwards), through a phase whose basis (in the much developed economies) was primarily social insurance (from about 1945), the period after the year 2000 requires:

...[a] broader concept of social protection that focuses on the development and promotion of human and social potentials and opportunities... [This, they argue] will allow social protection to move beyond its traditional instruments, providing only a minimum income, towards the adoption of measures that promote a more holistic and integrated approach in the provision of social protection. (pp.21–22)

The three objectives that for them, this “broader concept of social protection” (broader, when compared with the minimalist or social safety net type of system envisaged by the Bank) should achieve are:

First, it should assure minimum wellbeing through a guarantee of essential goods and services that provide protection against life contingencies for all people.

services. “We must make sure that all departments who have antipoverty programmes, deliver them timely and efficiently,” the paper said. (Business Day, 14 August 2002, p.2, emphasis added)

Second, social protection should adopt proactive strategies and policies to prevent and protect against risks.

Third, social protection should promote individual and social potentials and opportunities. (p.22)

The close correspondence between the approaches spelled out in these two documents is a source of some reassurance – their positions, it would appear, having been arrived at independently (the Devereux and Sabates-Wheeler piece does not cite the García and Gruat paper). Both display a concern with social justice, equity and human rights (the latter is more explicitly rights-based in its approach than the former), which sees Devereux and Sabates-Wheeler argue that while a conventional ‘safety net’ may provide (some) economic protection, it is not ‘social protection’, nor is it ‘socially transformative’ (2004, p.1).

To achieve ‘minimum well-being’ and a shield against risks (the ‘protective’ and ‘preventive’ objectives), the standard instruments are social grants, social insurance and the provision of certain assets and services (either free of charge or subsidised). Social grants are unrequited (transfer) payments, usually, though not always, intended to address aspects of income poverty. With few exceptions (like the child allowance in the UK, an unconditional categorical benefit) social grants are means-tested. Social insurance, as the name implies, entails the payment by those insured of a premium against certain contingencies (examples being unemployment, maternity, illness, occupational injury and disease, or road accidents). Most such schemes are employment-based. In the event of any of the insured risks befalling the insured, the benefit (an entitlement) is paid without regard to financial circumstances.

With the increases in unemployment in the advanced capitalist countries during the late 1970s and 1980s, and the concomitant growth in the numbers of people who had exhausted their social insurance entitlements (or who had never accumulated any claim to benefits in the first place), the numbers of people claiming social assistance grew rapidly. Although varied in severity (and in form) the crisis in capitalism gave rise to a set of pressures on social protection systems in most countries. Social insurance, as we noted above, creates an entitlement – social grants, by contrast (with the occasional exception) are means-tested in some way or other. Government exercises greater (actual or potential) control over the behaviour of social grant recipients than it does over those receiving social insurance benefits. A movement towards more insurance-based benefits could thus be deemed to be progressive (if all of those who wanted employment could find a decent job relatively easily). Greater reliance on (conditional) grants, by contrast, is conservative.³³

Appealing though such a characterisation of the basic social protection mechanisms might be to some, it is necessary to issue a caution against the adoption of too simple-minded an approach to what is, in reality, an extremely complex problem. Although this is not the place to discuss at any length the relative merits of competing social protection systems, it would be irresponsible to leave behind the impression that all is

³³ Social grants can be progressive, but only if they are unconditional (like child benefits in the UK).

well on the social insurance front. It most certainly is not – those desirous of finding out why not would do well to read Chapter 6, 'End of Employment Benefits' of Standing's *Beyond the new Paternalism* (Standing, 2002, pp.124–158).³⁴

The problems of social insurance are writ large in the histories of countries like the USA and the UK, where the combined influences of a number of socio-economic forces have acted to drive policy in a conservative direction. In economies relying as heavily as they all did on gainful labour market participation for the success of their social security systems, the mass unemployment of the late 1970s and early 1980s presented a serious challenge. Not surprisingly, labour market policy featured importantly in reform agendas. Countries adhering to the liberal or Anglo-Saxon model (the UK, USA, Australia and New Zealand) opted for (further) liberalisation of labour markets. In these countries, variations on the theme known as 'workfare' emerged. In the UK, under the slogan of welfare-to-work, a carrot-and-stick approach to the unemployed saw them in danger of losing their benefits if they failed to abide by new and more onerous qualifying conditions.

As forms of social protection, workfare and welfare-to-work have serious limitations. They rely for their successful operation on the possibility of those 'on welfare' being placed in employment. In many cases, the long-term unemployed are capable only of filling the most menial posts. Invariably, such jobs pay low wages. A precondition for the success of such a policy is a relative abundance of low-paid jobs to absorb the unemployed. If the difference between benefit levels and the wage paid is small, economically rational workers have to be coerced into accepting such jobs, especially when doing so means paying for child care.

To entice the unemployed (or economically inactive) into jobs, policies have been introduced that owe their origin to the suggestion that the working poor should be paid a negative income tax if their income falls below a certain level. In the USA, the policy instrument called the Earned Income Tax Credit (EITC) reduces or eliminates taxes paid by low-paid workers and can function as well as a wage subsidy (profit subsidy?).³⁵ Similar tax credit instruments in the UK, targeting "low-paid workers, families with children and pensioners", called Working Tax Credits (WTC) have emerged. Despite their administrative complexity, these instruments have had a significant impact on poverty (Alcock, 2006, p.217). A precondition for the successful working of a system of this nature is the existence of some means of ensuring that part, or all, of the tax credit/subsidy reaches its intended recipients. This condition is not met when a large proportion of workers have atypical employment, or work in the informal economy.³⁶

³⁴ An excellent discussion of the travails (but likely persistence) of national insurance in the UK may be found in Hills (2003).

³⁵ Hotz et al. (2006, pp.41ff) conclude that not only does the EITC reduce poverty by transferring large amounts of money to the employed poor, it also increases employment among welfare recipients.

³⁶ Ensuring that workers receive the tax credit or portion of subsidy is no simple matter when effective controls are absent. Minimum wage legislation alone, even on a national basis, will not do the trick if it is not enforceable. Historically, one of the early experiments in England with wage subsidies, the

In any event, apparently encouraged by the success of workfare in the USA in driving 'welfare mothers' into employment, i.e. in reducing the welfare dependency about which conservatives are so concerned (Handler, 2000), the World Bank, in its 2000–2001 *World Development Report* (subtitled *Attacking Poverty*), advocated workfare programmes to address the problem of cyclical unemployment in developing countries (World Bank, 2001, p.155).

Clearly, the workfare/welfare-to-work initiative, coupled with tax credits, represents a major shift in social protection policy (the latter, as Standing (2002, p.170) points out, uses fiscal policy as an integral part of social protection). The shift is not necessarily in the direction of the broader conception of the package intended by Devereux and Sabates-Wheeler (2004) or García and Gruat (2003). The Bank's casual transportation of a concept applicable to advanced economics (like the USA) is, however, inappropriate. The conditions spelled out above for the successful operation of 'workfare' are not generally met in developing countries. Sloppy use of the term as a synonym for public work programmes to soak up short-term unemployment (for that is what is intended) serves merely to confuse.³⁷

How much the Bank's endorsement of public work programmes in preference to social insurance (World Bank, 2001, p.167) has strengthened the hand of conservatives, is an open question. Policymakers in South Africa, for example, misinterpreting the Bank's quite careful emphasis on the essentially transitory benefits of public work programmes, have made the EPWP the centrepiece, at least in the rhetoric, if not in reality, of attempts to address the problem of poverty associated with unemployment.³⁸

Speenhamland plan (1795–1834), in terms of which workers were compensated for rises in bread prices so that family consumption did not fall below a specified minimum, revealed weaknesses in the approach which continue to apply today in situations where there is no effective control of employer behaviour. As De Schweinitz (1972 [1943]) argued:

[the] minimum became in effect a maximum; for what inducement, particularly in a time of surplus labor, was there for an employer to pay even the minimum when he knew that the local authorities would make up out of public funds whatever difference was left between the wages he was paying and the established scale? (p.240)

³⁷ An ambiguity that sometimes creeps into the use of the concept of public work programmes as instruments of welfare sees them associated with transfers. Devereux and Sabates-Wheeler, for example, write that: "[public] works projects ... aim both at transferring short-term food or cash and building useful long-term infrastructure" (2004, p.11). If transfers are defined strictly as unrequited payments, then the wages paid for participating in public work programmes are not transfers. They do not differ in substance from the wages paid to any other worker. Since those employed on public work programmes are willing takers of what is usually a very low wage (in many instances, well below subsistence level), such programmes constitute examples of the state stepping in to correct a market failure. There is either no demand for the labour of those participating, or the wage on offer is so low that it does not cover the cost of taking up the employment offer.

³⁸ No sensible person would suggest that any significant part of South Africa's problem of mass structural unemployment and the poverty associated with it could be dealt with by the EPWP. To deal with this mass unemployment by way of state-provided temporary employment would require something along the lines of the guarantee of employment (for some part of the year) that is (supposed to be) offered in the Indian state of Maharashtra. The South African government lacks the capacity to administer such a system on the required scale (McCord, 2004).

Another sign that policies to deal with poverty and unemployment in South Africa imitate those applied in the more conservative advanced capitalist countries like the UK and USA (although as caricature rather than as realistic measures), is visible in the surfacing, from time to time, of the idea of a wage subsidy. In the 2001 budget, for example, government set aside R600 million as a 'wage incentive'. The *Budget Review* observed that the Treasury and the South African Revenue Service (SARS) set themselves the task of:

... investigating economically and administratively efficient tax measures that will:

- Encourage job creation by reducing the cost of hiring new workers and of offering learnerships.
- Encourage the formalisation of employment that is currently in the informal sector.

This will have positive effects on other government programmes – for example, the UIF – and ensure their benefits are more widely available. (National Treasury, 2001, p.77)

More recently, Pollin et al. (2006), in a study that has come in for a great deal of criticism, propose a "hybrid employment subsidy program". Because of the difficulties of managing wage subsidies, these authors suggest instead that credit for firms in certain sectors that increase employment be subsidised. Whatever the merits of such a scheme may be, it is clear that it is limited to the formal economy.

Talk of credit subsidies may seem to have taken us a long way from the topic of the social wage and its location within the broad concept of social protection. If we pause for a moment to reflect on this, however, it is clear that such tax expenditures must be incorporated into the social wage package. They are as much a part of the social wage as the tax expenditures in the form of the relief offered to the relatively prosperous on their medical aid premiums and pension fund contributions. The successful coupling of social relief (via tax credits and wage subsidies) to gainful labour market activity represents a major new departure in social protection. Any analytical tool developed

Some projects in these fields have shown great promise. Invariably where this is true, though, substantial investment in the building of social capital, often over many years, is required. Replication, on the scale required to address the problem at a national level, apart from being costly, is going to be extremely difficult.

There are probably valuable lessons to be learned from the failure of public work programmes in the battle against mass poverty elsewhere. In the aftermath of the 1997 crisis in Indonesia, for example, an employment creation (public work) programme that targeted 15 per cent of the population managed to benefit 1.7 per cent of the population who were poor, and a little under 4 per cent who were not. This yielded an implementation ratio of 37.4 per cent (5.6/15.0), and a coverage ratio of 11.08 per cent (the implementation ratio divided by the targeting expenditure ratio (1.7/5.6)) (Sumarto et al., 2002, p.21). Repairs to roads and irrigation systems accounted for most of the work. Significant participation by the non-poor is explained by the relatively high wage (pp.16–17). Given the huge numbers of people working long hours for a pittance in South Africa, a similar outcome may be expected in this country, especially if the task of allocating jobs is handed over to the private sector. Recognising the error of their ways, the largest cuts (in proportional terms) the Indonesian government made to the budgetary allocations as the crisis abated were those in the employment creation programme (p.26).

to understand the social wage must be capable of coping with it, even though the scope for its application in countries like South Africa is limited.

So much for the 'broadening' of the notion of social protection experienced in two advanced capitalist economies, not quite the outcome, as was noted above, envisaged or intended by Devereux and Sabates-Wheeler (2004) or García and Gruat (2003). Laudable though the elevation of the poor from welfare recipient to gainfully employed citizen above the poverty line undoubtedly is, it seems to fall a little short of the aspirations implicit in the broadening of social protection they envisage, namely, the promotion (and transformation) of individual and social potentials and opportunities. To analyse this aspect of the social wage as part of social protection, it is going to be necessary to do far more than carry out the mere measurement of income effects (that is the limited ambition of the present paper). As Rankin (1997, p.1) has observed, the concept of the social wage is "not easily pinned down". Let us cease trying to do so, and turn instead to a world view that attempts to include income from all sources, and that offers, as well, some scope for including non-cash benefits (if only a satisfactory way of valuing them could be found).

6. Social income: The Standing approach

From the discussion above, it will have become clear that I am not persuaded that the standard approaches to the measurement of the social wage contribute much to our understanding of people's welfare levels and the way in which these are affected by social spending. As has been shown above, the only attempts to estimate the 'value' of the social wage in South Africa are so weak as to be of little use.³⁹ That being the case, my interest in the social wage has been diverted, as noted above, into the much less ambitious (but still complex) task of trying to gauge the extent to which social spending raises (or lowers) disposable income. If these income effects can be measured, we would at least be in a position to say something sensible about income poverty.

To do so, the *social income* framework developed by Standing (1999, 2002), offering as it does a coherent basis for thinking about income, will be explored and elaborated below. Turning away from the problematic notion of a social wage to the concept of social income (in a form developed by Guy Standing, formerly of the ILO) is more than mere semantics. One of the advantages of the concept of social income, as Standing presents it, is that with a little modification, it can accommodate much of what has been suggested above are the components of the definitions of the social wage (if the bankable component can be valued).

Several reasons may be advanced in defence of an attempt to explore and, where necessary, extend Standing's work, his strictures about the difficulties of giving empirical content to the conceptual apparatus he proposes notwithstanding. One of them, canvassed at some length in Appendix 1 below, relates to the continuing

³⁹ My hesitant circling around the question (Meth, 2005, 2006c) constitutes little more than a preliminary skirmish with the data.

importance of measuring income poverty, and hence to the need for an adequate concept of income for doing so. This is related, in turn, to the distinction conventionally made between a 'wage' and 'income'. A wage is earned income (i.e. the wage is paid in exchange for work done or services rendered). 'Income', by contrast, is a much broader concept. The source of the command over resources which income confers may either be a wage (or any of the other forms of return to economic activity or ownership of the means of production), or it may take the form of a transfer (an unrequited payment). Transfers come in different forms: inter-household; intra-household. Probably the most important of the latter are the transfers that occur as a result of the taxing and spending activities of the state. These activities can lower the cost of reproduction of households at whatever is deemed to be the socially acceptable minimum (the poverty line or lines). It is imperative, therefore, that income measures take account of this.

6.1. The dimensions of social income

We begin by presenting the concept of *social income* (SI) as originally formulated by Standing. As a conceptual device, social income is interesting not only for the aggregate measure that it generates, but also because of the light that it sheds on the components of social income, and the way in which these change over time. After looking at the way in which the concept is used to draw a picture of social income worldwide, a similar exercise for South Africa is attempted (very roughly). Having done that, a number of elaborations of the concept are offered. Amongst other things, these are intended to allow the concept of social income to accommodate the 'broadening' of the notion of social protection discussed above, such as tax credits, wage subsidies, and income earned from public work programmes. Other extensions are intended to make the concept able to deal with the 'bankable' components of the social wage, with other components of earned income, and with the fact that estimates of income poverty, if they are not to be made on the unsatisfactory basis of per capita poverty lines, have to be capable of dealing with household composition.

Like so many concepts in the social and other sciences, this one has been under construction for some time. In their 1996 work, Standing et al., still using the term social wage, offer the rudiments of an analysis similar to that presented below. The difficulties of pinning concepts down loomed large even then – having grappled with 'minimum incomes', they note, on p.212, that "[the] notion of the social wage is even harder to conceptualise, let alone measure" (Standing et al., 1996). By 2002, Standing had shifted to the concept of social income, which he defines thus:

Social income may be defined as the flow of resources acquired by an individual, reflecting the underlying social relations of production and distribution and the networks of social support. (2002, p.15)

For Standing, the primary use of the concept is as a measure of 'decommodification'. This piece of jargon,⁴⁰ commonly used by the left, refers to the political aspiration of

⁴⁰ The *Oxford English Dictionary* defines jargon as: words or expressions used by a particular profession or group that are difficult for others to understand. Little wonder that its use often arouses antagonism.

social democrats (and democratic socialists) for a “welfare state capitalism [in which] there was to be a gradual shift of total income towards state benefits, occupational welfare and publicly provided social services” (Standing, 2002, p.14). Movement towards this goal is thus to be regarded as ‘progressive’ (provided democratic control over benefits, welfare and social services is possible), while ‘monetisation’ is regarded as conservative. Clearly, for libertarians the opposite would be true. The measure itself, a barometer of social change, is neutral – it is the ideology of the user that determines whether the barometer is rising or falling. The process described above, in terms of which tax credits and employment or wage subsidies have become one of the central pillars in social protection policy in the USA and the UK, is one of monetisation of social protection policy. The view one takes of the desirability of this development will, as noted above, be at least partly informed by one’s ideology. Whatever the perspective of the commentator, the stress that Standing lays on the word social (it occurs twice in the definition) should serve to remind us that behind each of the components of social income is a particular political economy. This extends from the household, where relations of power between individuals partly determine intra-household distributions of consumption, right up to the macro-economy, where collective power does likewise. This must be borne in mind as we dig into a dry and formal argument, relieved only by an account, midway, of the struggle for social protection in what some refer to as the golden age of welfare capitalism. This is the argument:

For any *employed individual*, Standing defines *social income*, *SI*, which we will label *SI(E)*, as follows:

$$SI(E) = [W + EB + PB] + [SB + CB] \dots\dots\dots (1)$$

where:

W = the money wage

EB = the amount of benefits provided by the enterprise in which the person is working

PB = private income benefits, gained through investment, including private social protection

SB = the value of state benefits provided, in terms of insurance and other transfers, including subsidies paid directly or through firms

CB = the value of benefits or support provided by the family, kin, or the local community

The terms of the expression have been arranged in a slightly different order from that offered by Standing. This has been done to locate market-related benefits in one group, and non-market (community, family and state) benefits in another. In expression (1) and on every other occasion below where it is appropriate, market and non-market benefits are grouped together and enclosed within square brackets. Presenting the information in this way makes it easier to illustrate one of the points that Standing tries to make, namely, that changes in the relative magnitudes of these

sources of income act as a barometer that measures changing socio-economic conditions.

Standing suggests that the components W , EB , SB and CB of $SI(E)$ may be disaggregated thus:

$$W = W_b + W_f \dots\dots\dots (2)$$

where:

W_b = base or fixed wage

W_f = flexible part of wage (bonuses, etc.)

$$EB = (NWB + IB) \dots\dots\dots (3)$$

where:

NWB = non-wage benefits provided by firms to their workers

IB = contingency, insurance type benefits provided by firms to their workers⁴¹

$$SB = (C + IS + D) \dots\dots\dots (4)$$

where:

C = universal state benefits (citizenship rights)

IS = insurance-based income transfers from the state in case of contingency needs

D = discretionary, means-tested transfers from the state

$$CB = (FT + LT) \dots\dots\dots (5)$$

where:

FT = family transfers

LT = local community transfers, including any income from charity

Written out in full, therefore:

$$SI(E) = [(W_b + W_f) + (NWB + IB) + PB] + [(C + IS + D) + (FT + LT)] \dots\dots\dots (6)$$

⁴¹ An example would be maternity or illness benefits. These may be provided by either the state, the employer, or some combination of the two, drawing upon premiums paid variously by any or all of the parties, including workers.

Writing out the accounting identities for the social income of those not currently employed (the unemployed and the not economically active) demands that care be exercised to avoid double counting. If details of the distribution of the social income of employed members of households among those not employed were known, or could be ascertained, it would be possible to write precise expressions for the income of all household members. A moment's reflection makes it clear that some difficult (impossible?) calculations are involved, e.g. the value to the individual of family transfers, or of local community transfers, where these accrue to the household in which the individual concerned is located. The problem of how to deal with shared income sources, although conceptually tractable, is almost impossible to address empirically. Since the requisite information is not available (indeed, the question of intra-household distributions, at which we glance further below, is an exceedingly vexed one), for purposes of examining the welfare of individual household members it is necessary to assume that all household income is pooled and shared equally, unsatisfactory though this approach is. It is also necessary to ensure that income from sources other than the employed within the household (and without, like migrant remittances) is kept separate from that which accrues directly to the non-employed. With this in mind, let us look first at the unemployed.

To extend the concept to all of the (officially?)⁴² economically active, we may make use of the expression that Standing (2002, p.127) offers for the social income of the unemployed. Let us call this $SI(U)$ – it consists of the following:

$$SI(U) = [SP + (S + PI)] + [(UI + UA + D) + (FT + LT)] \dots\dots\dots (7)$$

where:

SP = severance pay

S = savings

PI = private insurance

and:

UI = unemployment insurance

UA = unemployment assistance (means-tested)⁴³

D = discretionary benefits

and, as before:

⁴² In South Africa (and elsewhere) the 'discouraged' (the non-searching unemployed) are not classified as economically active.

⁴³ Most of the unemployed in South Africa are not eligible for severance pay, unemployment insurance or unemployment assistance (i.e. for them, SP , UI and $UA = 0$).

FT = family transfers

LT = local community transfers, including any income from charity

Bearing in mind the discussion above about the distribution of income within households, we should set FT to zero if it is the contribution of the unemployed to total household income that is under consideration. If, by contrast, it is only the welfare of the unemployed individual that it is being examined, then the unsatisfactory assumption that FT is an equal share of pooled household income must be deployed.⁴⁴

Once again, in expression (7), the terms have been re-arranged to group all market-related income into one category, and all non-market income into another.

It is necessary to point out that the magnitude S is not savings at all, but rather dissaving. To draw attention to this, expression (7) will be written as:

$$SI(U) = [SP + (DS + PI)] + [(UI + UA + D) + (FT + LT)] \dots\dots\dots (7a)$$

where:

DS = dissaving (expenditure of previous saving, incurring of debt)

Standing observes that the "identities for SI are abstractions", and hence, "hard to translate into empirical form". Even so, he hypothesises that:

...certain patterns prevail in different parts of the world, that there are trends in the relative distributions of the components, and that both the distribution within the total and the trends in the distribution of the components within countries are related to globalization. (1999, p.89)

The burden of the argument in the present paper is that the household surveys conducted in many countries may contain enough empirical data to allow numbers to be attached to the various categories of social income. The difficulty then becomes one of judging the extent to which the components of social income lean towards the market (commodification of social income) or away from it (decommodification). This is obviously not a matter to be resolved by static analysis; the numbers become most interesting when cast in the comparative setting to which Standing refers above.

Let us take a brief look at his perception of the shape of the pattern in Western Europe during the period he calls the "era of statutory regulation". Having done that, we perform a similar, equally speculative, exercise for South Africa.

⁴⁴ Where appropriate, the terms $SI(E)$ and $SI(U)$ should be subscripted to make it clear that it is the social income of the i th individual that is under consideration. To avoid cluttering the text, this has not been done.

6.1.1. Social incomes in the 'Golden Age' or era of statutory regulation

Once upon a time, after World War II, in what is now looked upon by some as the Golden Age of capitalism (on which, more below), the ordinary (now increasingly extra-ordinary) male-headed nuclear family in the USA and parts of Europe enjoyed a standard of living that was almost inconceivably better than that of pre-war times. Esping-Andersen writes that in Europe:

[the] average post-war male breadwinner enjoyed good job prospects and rising wages. This, in turn, secured adequate welfare for most families, and it allowed even working-class households the luxury [sic] of full-time housewifery. In brief, welfare capitalism gave rise to both income security and ample caring capacity within what we now regard as the traditional family. Add to this, considerable marital security and it is quite understandable that social policy could assume that children, and, more generally, families were not the most urgent issue on the political agenda. (2002, p.26)

Social security for many of those not fortunate enough to enjoy secure employment could keep at bay the worst rigours of the poverty that so devastated lives in earlier times. Standing (1999) dismisses the appellation of 'Golden Age' (roughly the years from 1945 to the mid-1970s), preferring instead to describe it as the "era of statutory regulation". It was, as he points out, based on "an inequitable and unsustainable international division of labour", marked (or marred) by tensions:

...in which employers typically made concessions to workers, and in which distributional conflict was extended to other forms of conflict in Asia, Africa and Latin America. (1999, p.55)

The period saw "major labour market achievements" in the form of a "steady extension of rights and security" (p.55, emphasis in original). It was a time of:

something close to stability, in which industrial structure was expected to change slowly and predictably, which provided the basis for the extension of security ... The era was one in which the social wage rose by more than money incomes, in that institutionalised rights had monetary value and in that the state provided a growing array of social transfers financed from contributions and taxation, with direct tax expected to bear the brunt of the cost. (p.56, emphasis in original)

Table 1.1 in Standing (2002) (renumbered Table 3 here) offers the following pattern of distribution of the components of social income for broadly defined regions of the world, during the period he calls the "era of statutory regulation".

Table 3 – Guesstimated structures of social income, by international region

	<i>W</i> (Wage)	<i>EB</i> (Enterprise benefits)	<i>PB</i> (Private benefits)	<i>SB</i> (State benefits)	<i>CB</i> (Community benefits)
Africa	Medium	Low	Low	Low	High
Western Europe	Medium	Medium	Medium	High	Low
Eastern Europe	Low	High	Low	Low	Low
North America	Medium	Medium	High	Low	Low
Latin America	Medium	Medium	Low	Low	Medium
South Asia	Low	Medium	Low	Low	Medium
South East Asia	Low	Medium	Low	Low	High

Source: Standing, 2002, p.15.

Note: Column headings have been re-arranged to align them with expression (1). Benefits in the first three columns are market-related, and in the last two, non-market.

Results in the table refer not to absolute benefit levels, but rather to the share of any component of social income for the average (median) person relative to world standards. Thus, by these standards, for example, in Western Europe:

...the share of total social income accounted for by the money wage was about average for the world, whereas the share coming from state benefits was high by world standards and the share from informal transfers from the local community was low.
(2002, pp.15–16)

Turmoil and prolonged crisis in the major capitalist economies after 1975 culminated in the victory of neo-liberal forces in the USA and the UK. Growing labour market insecurity and a sustained attack on the institutions of the 'welfare' state, whose consequences not even staunchly social democratic states like the Scandinavian countries and the Netherlands were able entirely to avoid, characterised the time up to the closing years of the 20th century.

The emergence of 'Third Way' governments, especially that in Blair's Britain, takes some of the edge of viciousness off conservative (actually, radical free-market) policy, but does not alter its substance greatly. Even so, it is probably still true that by comparison with the rest of the world, the state benefits component of social income is relatively high.

6.1.2. Social incomes in South Africa in the apartheid era

Importation of concepts developed to understand conditions in one setting, into another, apparently completely different set of circumstances, is sometimes not a good idea. In the present case, however, there are close parallels between relations within South Africa between the dominant whites and the subordinate black population, on the one hand, and those between the most advanced economies of the OECD and what used to be called the Third World (the inequitable and unsustainable international division of labour referred to by Standing). It would not be caricaturing reality too much to argue that South Africa's white population, primary beneficiaries of economic growth which vouchsafed them almost full employment for decades,

enjoyed a close approximation to European levels of social security. The black (African) population, with little social protection, served as a reserve army of labour, whose ranks swelled almost without cease after the Soweto uprising in 1976. Sandwiched awkwardly between them, the fortunes of the so-called 'coloured' (mixed-race) people and the group variously called 'Indians' or 'Asians' fluctuated as the apartheid regime sought by a variety of means to incorporate them in ways that did not damage white supremacy.⁴⁵

So, with a little imagination, an exercise similar to that conducted by Standing may be repeated for South Africa. This is attempted in Table 4. The tentative nature of the enterprise should be borne in mind – all that is sought is a rough match with the stylised facts of South Africa's history.

Table 4 – Guesstimated structures of social income, South Africa, 1960–1980

	<i>W</i> (Wage)	<i>EB</i> (Enterprise benefits)	<i>PB</i> (Private benefits)	<i>SB</i> (State benefits)	<i>CB</i> (Community benefits)
Africans (Blacks)	Medium	Low	Low	Medium	Medium
Whites	High	Medium	Medium	Medium	Low

One is tempted to separate the African population, as the National Party tried so hard to do, into urban and rural dwellers. Such a split, however, would deny the extensiveness of the migrant labour system in operation at the time,⁴⁶ and the strength of the connections between many settled urban residents (with their precious Section 10 'rights' to be in 'white' areas). In absolute terms, wage levels were very low. By world standards though, they probably made up a medium share of social income. Bearing in mind that community benefits (*CB*) consists of family transfers (*FT*) and local community transfers (*LT*), the same probably applies to *CB*. State benefits are listed as medium, because in 1944 a means-tested non-contributory pension was introduced in South Africa, making the country, as Jeremy Seekings has pointed out, "exceptional" (2002, p.14).⁴⁷ Rights to other benefits, like unemployment insurance, were also extended to the African population by the Smuts government, but were

⁴⁵ In short, the microcosm that is South Africa may be viewed as embodying the broader symbiotic (parasitic?) First World/Third World dualism currently dubbed the North/South divide (South Africa is truly a world in one country, as apartheid-period public relations wallahs used to boast, although possibly not quite in the way they intended).

⁴⁶ Seekings (2002, p.15) discusses the widespread destruction of self-sufficiency in the reserve areas, concluding that:

[it] was the acknowledgement of rural poverty that pushed the [Union] government towards the extension of welfare to cover the African population [from the early 1940s onwards].

⁴⁷ For a long time after it was first introduced, the benefit was skewed along racial lines. The ratio of payouts was 4:2:1 for whites, coloureds/Indians and Africans respectively. See Leibbrandt et al. (2005, p.6). Removal of racial disparities ('harmonisation', as the National Party dubbed it) was complete by September 1993.

progressively eroded after the National Party came to power in 1948 (Meth & Piper, 1984). For the white population, it was a time of full employment – even the least employable among them could turn to the employer of last resort, the South African Railways and Harbours service, and hope to find a job that would pay enough to keep body and soul together. The white population was largely urbanised, the ‘poor white’ problem a receding memory. This, combined with full employment, probably ensured that community benefits were relatively low. Contributory pensions⁴⁸ and membership of medical aid schemes became a condition of employment for many workers in this period, so enterprise benefits were probably ‘medium’ as well. The social protection system was fairly comprehensive, lacking only a social grant system for the unemployed. That deficiency was made good by the aforementioned near-full employment and the existence of an employer of last resort. For many of the more prosperous, private benefits against most contingencies except unemployment would have become increasingly important.

Apart from a brief honeymoon period from about 1946 to 1953, social protection against unemployment among most black people was almost non-existent. This did not change until relatively recently (from about 1977 onwards), and then only for those fortunate enough to be in formal employment in those sectors where contribution to the Unemployment Insurance Fund (UIF) was mandatory. State protection against income loss due to unemployment still only covers a minority of the unemployed. With unemployment rising steadily from about the mid-1970s onwards, the absence of social protection against this contingency has assumed greater and greater significance.

On that unhappy note, and before any thought is given to the application of the concept of social income to survey data that could give an indication of the way aggregate social income and its components are changing, let us turn to the task of broadening the concept of social income to enable it to address some of the concerns articulated above. Four areas have been singled out for attention:

- First is that of how to incorporate those elements of the social wage that are amenable to valuation, into the measure of social income.
- Second is the wage component $W = (W_b + W_u)$ in expression (2).
- Third is the question of how tax credits should be treated.
- Fourth is that of how to extend Standing’s concept, which applies only to the economically active (the employed and the unemployed), to all members of households, and hence, to the population as a whole.

⁴⁸ Extended slowly to other population groups from the 1970s onwards, they were to become the focus of struggles in the 1980s by resurgent, mainly African, trades unions making up FOSATU, the Federation of South African Trade Unions, the forerunner of the Congress of South African Trade Unions (COSATU).

6.2. Incorporating the social wage into the Standing schema

Formal incorporation of those elements of the social wage which are amenable to valuation requires some reworking of the elements of social income as described above. According to expression (4), 'the value of state benefits provided, in terms of insurance and other transfers, including subsidies paid directly or through firms', *SB*, is as follows:

$$SB = (C + IS + D) \dots\dots\dots (4)$$

where:

C = universal state benefits (citizenship rights)

IS = insurance-based income transfers from the state in case of contingency needs

D = discretionary, means-tested transfers from the state

As a first approximation, it would not do serious injury to the spirit of Standing's inquiry to tuck education (if we could value it) under the umbrella of 'universal state benefits – citizenship rights' (component *C*). At least theoretically, nobody can be excluded from the state school system. A similar argument could be applied to another 'bankable' component of the social wage that is difficult to value, the set of subsidies on transport used by poor people in South Africa. Payment of the unsubsidised portion of any fare on subsidised transport automatically entitles the traveller to the subsidy (i.e., no means test applies). Health is a little more tricky,⁴⁹ but once again, no indigent (theoretically) should be turned away from the state health system, at least not where basic medical care is required. One aspect of the health system that should be treated as universal is the free health care for women and children under the age of six years introduced as part of a Presidential Lead Project by the first democratic government. The free, basic 'lifeline' supplies of water and electricity are universal benefits. Of the other benefits listed in Table 1 (the HSRC social wage components), sanitation and solid waste removal, for people who are too poor to pay municipal rates, could possibly be included, along with housing, under 'discretionary, means-tested transfers from the state' (*D*).

Making these allocations explicit, for the universal benefits we may write:

$$C = (Sc + Tr + H6 + PSN) + (El + Wa)/N \dots\dots\dots (8)$$

where:

Sc = universal free education for the poor up to Grade 10

⁴⁹ As Forman, Pillay and Sait (2004, p.16) remind us: "The Soobramoney judgement [over the right to access to dialysis] indicated that the right to access health care is not an entitlement to claim any health care at state expense, particularly given limited state resources and high levels of poverty."

Tr = transport subsidies

$H6$ = free health care for women and under-sixes

PSN = primary school nutrition

and:

E' = basic supply of electricity (50 kWh per month per household)

Wa = lifeline supply of water (6 kilolitres per month per household)

and:

N = the total number of individuals in the household

The components of the social wage in (8) have been divided into two groups, because some benefits may be consumed by identifiable individuals while others are consumed by everyone in the household. The first group of services in (8), at least in principle, is of the former type, while the second group (electricity and water) accrues to the household as a whole – individual consumption levels are impossible to ascertain. In the absence of any satisfactory way of dealing with this problem, we must assume (as before) that the latter group of benefits is shared equally among all household members, hence the division of these two benefits by N , the total number of people in the household.

Similar considerations apply to discretionary benefits – these are services supplied to the household, rather than to individuals within it. For the value of these benefits accruing to any individual in the household we may write:

$$D = (Sa + Wr + Ho)/N \dots\dots\dots (9)$$

where:

Sa = sanitation

Wr = solid waste removal

Ho = housing

and, as before:

N = the total number of individuals in the household

Some components of the social wage are notoriously difficult to value, others less so. In the face of the difficulties of valuation the quibbles above about where to locate particular items of income pale into insignificance.

Before proceeding, there is one more awkward issue to consider, namely that of the impact of social spending on assets. This affects future rather than current consumption, so will not affect the formulation above. Insofar, however, as the

benefit incidence method used by the Presidency to estimate the impact of social spending relies for its deceptively large impact on inequality on assigning the vast sums spent on assets directly to the poor (the HSRC estimate of the value of the social wage does the same), any attempt to deal critically with the social wage must address the question of social expenditure on assets. Two items of expenditure, the largest in the national budget, namely, health care and education, both create assets with a stream of potential future benefits. Human capital theory provides some insight into the future value of the benefits of education. The future value of health care spending is less easy to value (how does one measure improved potential quality of life?), but good health is nevertheless an asset. So much is clear when one considers that ill-health can and does prevent many people from engaging in any economic (and many other forms of) activity at all. Since, however, the benefits accruing to any individual within the current period are the fruit of previous expenditure, if one is going to estimate the bankability of expenditure on these two items one must do so with reference to past expenditure. Exactly how one should set about doing this is not clear. The matter is not trivial – there are huge sums of money involved. This issue is pursued in Appendix 4 at the end of the paper.

6.2.1. Estimating the value of the social wage

Elsewhere, I have attempted to tackle the problem of valuing the components of what the state refers to as the social wage using the concept of 'bankability' (Meth, 2005, pp.45–47). The relevant passages from the discussion that introduces the concept (and its converse, non-bankability) are reproduced here. The argument went as follows:

To assess the extent to which the social wage alleviates income poverty, it is useful to imagine that it consists of 'bankable' and 'non-bankable' components. A first round effect of the former is that it sets household income free to be spent purchasing more goods and services. These could either be goods and services, enough of which could not be purchased prior to the receipt of the social wage, or they could be items not previously consumed at all. One of the estimates of the value of a bankable component of the social wage is the value of the reduction in the amount previously spent on a particular good or service, arising from the provision by government of the good or service in question. Such provision may be at no cost to the consumer (for example, school fees for the children of indigent parents are waived), or it may be at a subsidised price.

Non-bankable components of the social wage, by contrast, reduce (or at least, should reduce) asset, services or time poverty. They improve household welfare but do not directly increase household command over other commodities and services. So, while reductions in asset, services and time poverty lead to welfare improvements,⁵⁰ unless

⁵⁰ A reduction in time poverty implies an increase in the time that can be devoted to leisure activities, to other household or caring activities. Improved infrastructure, e.g., 'formal' housing that eliminated the labour required to gather traditional building materials, and to build traditional dwellings, and whose durability and weather resistance reduced maintenance, would be an example. Bankable components of the social wage can also have a significant effect on time poverty. Free electricity could reduce both household expenditure on lighting (e.g. candles or paraffin lanterns), and the time required to gather wood as fuel for cooking. The first would be bankable, the second, if the wood were gathered free of

the time, services and assets can be converted into income, they cannot put food in people's mouths, nor clothes on their backs. It is thus not legitimate to add the value of the non-bankable components of the social wage (however derived) to income (or command over commodities and services), to obtain a measure of income inequality. In other words, no simple relationship exists between changes in the social wage and changes in poverty levels.

The task before us is that of sorting the elements of the social wage into the categories of 'bankable' or 'non-bankable', and then valuing the former. Some forms of social spending are easy to assign to one or the other category—not all, however, are easy to classify. Social grants have a direct impact on poverty by placing income in the hands of the poor—social grants are bankable, literally and figuratively. If intra-household distributional questions are ignored, the impact of social grants is readily established. State provision of free or subsidised goods and services presents a number of problems (and opportunities). To some extent, prior to government pumping up the social wage, the poor will have spent whatever meagre amounts they could spare purchasing or self-providing most of the goods and services (or substitutes for them) [listed in Table 1 above]. If the state steps in to provide some or all of them, potential consumption levels for the individual or household concerned rise by the amount of expenditure that no longer has to be made (is displaced) by the social wage. An obvious example in the South African case would be electricity—it is therefore categorised as a bankable component of the social wage.

In terms of the reasoning above, if a household did not previously consume a particular good or service, its provision by the state would not alter income poverty. By concentrating, however, only on income freed for alternative expenditure when government provides goods and services, the possible impact of that provision on the poverty line is overlooked. There will be certain goods and services, the consumption of which, at some socially determined minimum, is held to be desirable, and which the poor, for want of income, either do not consume at all, or do not consume at the socially desirable level. The question then is whether an increase in the social wage, in the form, say, of publicly provided free health care, would effectively reduce the amount of income required to consume the socially desirable minimum consumption package. If it did, then for a given income, the poverty gap (the distance between that income and the income required to purchase the socially desirable minimum consumption package, i.e., the poverty line) will have decreased. In other words, if there is an allowance for a particular service, say, health care, in the basket of essentials that goes to make up the consumption of those on the borderline of poverty, then the provision of services of equivalent value by the state, eliminates the need for income to use for purchasing the service. In short, the value of the poverty line should fall.⁵¹

charge, would be non-bankable. The picture becomes more complex if the component of the social wage in question made more time available for gainful economic activity.

⁵¹ This is the point at which my attempt at understanding the impact of the provision of the social wage begins to run parallel with that of Glennerster (2006), spelled out in the section of the paper above headed 'Weaknesses of the ONS approach: Inconsistency'.

Assignment to the category of bankable or non-bankable, the first stage in the assessment of the impact on poverty of state provision of goods and services (social wage), can be attempted by conducting one or both of a pair of tests on the national expenditure data.

Test 1. *The first step is to see whether or not the social wage reduces private expenditure on the component of the social wage in question. If it does, the component is bankable. Failure of expenditure on the component to fall does not automatically indicate non-bankability – the household in question might choose to consume more of the good in question (e.g., electricity or water). To test for this possibility, data on consumption levels are required. Unfortunately, these are not available. In the absence of the required information, assumptions have to be made.⁵²*

Test 2 *This more problematic test is applied in those conditions where people had not previously consumed the good or service in question (or had consumed only small amounts of it). The test seeks to examine the value of the services provided by the state relative to the value of services held to be the minimum that is socially acceptable (i.e., before someone is described as falling below the poverty line)? If the value of services provided is equal to or greater than the value specified in the poverty line consumption basket, then the value of the poverty line may be reduced by the former value. If the value of services provided is lower than that stipulated for the consumption basket, the poverty line may be lowered by this smaller amount, because some, but not all, of the minimum consumption needs have been met.⁵³*

The passage outlining the nature of the concept of bankability was concluded, not without trepidation, as follows: "With these somewhat flimsy tools in hand, let us set off in search of the social wage in South Africa".

We are not yet ready to engage in that search – a little more conceptual digging, prompted jointly by the ONS concept of 'final income', Glennerster's (2006) critique of the ONS approach (both of which have been examined above), and the notion of 'socially acceptable minimum' will be useful, if only to sink the conceit that the notion of 'final income' adds much to our understanding of poverty.

⁵² Although existing household surveys do not provide the information necessary to address this question, there is no reason why they should not do so in future. All that is necessary is that the questionnaire (of the GHS) be modified to interrogate the social wage questions more precisely. In particular, questions about whether the income effect of social wage provision has made greater consumption of the social (merit?) good in question possible, needs to be addressed.

⁵³ If the state provided a service (either heavily subsidised, or at no cost) to consumers that they had not previously been able to consume, and the provision of this service caused welfare (utility) levels to rise among those receiving it, the provision of this service would have income and substitution effects (with consequent implications for other consumption) at whose magnitude it is difficult even to hazard a guess. All that can be done is to express the hope that the effects of such provision, where it occurs, are not too extensive.

Assume that instead of reducing poverty lines in the manner suggested in Test 2 above, a composite poverty line were constructed such that it consisted of the set of necessities which could be costed out with relative ease, and another set which could not. Let us look at this concretely, using the UK figures, assuming that instead of the relative measure currently used, the UK poverty line had been obtained using a 'consensual' approach as outlined, for example, in Noble et al. (2007).⁵⁴

Consensual poverty measures have, as a basis, the prescription that the basket of goods and services they identify is perceived by some significant majority of the people as being necessary to permit an acceptable standard of living (i.e., they are socially perceived necessities). All or parts of the basket may be declared to be a right, an entitlement access to which can be guaranteed by law. A strong form of this legal protection would be the embodiment of entitlements to minimum levels of provision of certain goods and services within the bill of rights of a constitution.⁵⁵ For the purposes of the present exercise, entitlement to universal and free primary and secondary education in the UK is legally guaranteed (there, as elsewhere, school attendance is compulsory up to a certain age). Health care is also a legally enshrined right. National Insurance Contributions (NIC) in the UK are not earmarked, so that the small proportion of the NIC that finds its way into the National Health Service (NHS) is probably not perceived as a 'cost'. In which case, apart from charges for prescriptions, spectacles and the like, health care for most people may be treated as though it were free and universal.

Assume that the value of that portion of socially necessary consumption that can be costed out is £217 per week for a full adult equivalent,⁵⁶ and that all other household members cost some fraction of this to maintain at the poverty line. If we assume that the education and health care services provided free of charge are at the socially necessary level, then, with the information provided in the ONS publication by Jones (2007) and in the Households Below Average Income (HBAI) results supplied by the DWP, a composite poverty line for a household of any composition could be constructed. Now, in order to determine the income required to allow for consumption, among those eligible, of the full minimum package of entitlements held to be socially necessary, to the value of the basic set of entitlements covered by the poverty line of £217 per week or the appropriate part thereof (income which is spent purchasing those necessities) must be added the cost of providing education and

⁵⁴ The argument that follows is not affected by the fact that the UK poverty line, a relative measure, set at 60 per cent of median income, rises over time, as income does. Poverty in the UK is estimated using both this relative line and an earlier version of it frozen in time to give an absolute line. In the case of the most recent figures, the BHC headcount ratio for the most recent year using the 60 per cent median was 18 per cent, as opposed to 11 per cent using the 1998/99 income thresholds (DWP, 2007a, Table 2.1). There is scope for upward movement of the value of consensual poverty lines as well, as the value of the socially necessary basket (ascertained by periodic surveys) changes over time.

⁵⁵ For a discussion of this question as it applies to the constitutional rights of children in South Africa, see Streak and Wehner 2004, pp.62ff.

⁵⁶ This is 60 per cent of median equivalised income for the population in 2005/06 (DWP, 2007a, Table 1, p.4). It is used simply for illustrative purposes.

health care services at the socially necessary levels. (Those thinking ahead can see the ship heading straight for a reef, one which is not even very well hidden.)

The problem is more acute in the case of health care than in education. In the latter, secondary school education up to a certain level is standard. Constructing the poverty line for any household would thus entail calculating the relevant amount of education required in each household. The first jagged spikes of the reef have a banner draped over them which reads "How do we know when a particular household is deprived of its rightful share?" Unlike education, health care is usually required only when someone is unwell. Although there are certain broad regularities (some age, some class, some sex-specific), individuals differ enormously in the demands they make on the health care system. This time, the banner on the reef says: "It is impossible to estimate what the demand for health care services in any household will be."

Glennerster's approach, as we have seen above, was to argue for a re-examination of the equivalising scales. In the case of a school-going child, for example, using the McClements equivalence ratio at the appropriate levels would cause the initial extent of inequality (and poverty) to be under-stated. This would occur because when equivalising original income, no account would be taken of the fact that in the absence of universal, free, state-provided education, parents (or carers or guardians) would have to pay for such quantities of education as they deemed necessary or desirable. This would have the effect of raising the equivalence ratios above those used by the ONS⁵⁷, or what amounts to the same thing, raising poverty lines. The problem is that we do not know what quantities of education would have been demanded, nor what price would have had to be paid for it. Similar considerations apply to housing and to other elements of the social wage.

In short, we are back to the problem of measuring the demand for goods and services provided free or at subsidised cost, a data-hungry problem which is not going to be solved in an advanced country like the UK, where the quality of both education and health care, although likely to vary, may be regarded as adequate. Without knowing whether or not the educational and health care services do actually satisfy the socially perceived need for them, furnishing estimates which say that this or that percentile of the population had supplied to them education and health services to the value of £*x* is interesting, but is a long way from providing a measure of their 'standard of living'. Estimates which show that the (per capita) value of services received by the poor exceed those received by the well-off cannot demonstrate that the services meet social needs. If the consequences of low socio-economic status are generally higher morbidity rates, and an inability to profit from the standard educational package, then actual expenditure levels may be insufficient to meet their needs.

Where there are gross inequalities in service provision levels, as there were in apartheid South Africa, per capita expenditure levels on these services at different

⁵⁷ The McClements scale assigns a married (or cohabiting) head of a household a value of 1.00; everyone else is some fraction of this. Head of a single household is 0.61; children vary from 0.38 (aged 16-18 years) to 0.09 (under 2 years) (Banks & Johnson, 1993; Jones, 2007, pp.44-45). The scale is reproduced in Table 5 of this paper.

levels of the income distribution can provide a rough guide of the extent of inequality. By implication, reductions in expenditure differentials would point to decreasing inequality. The true extent of this improvement cannot, however, be determined using the notional value of income derived from in-kind benefits; it is too crude an instrument, by far (for all of the reasons given above), to be pressed into such a duty.⁵⁸

The provision of health care and education services has 'bankable' effects potentially capable of being disclosed by surveys. The provision of 'free' education where none was provided before can cause current disposable household income to fall because, for example, uniforms have to be purchased and transport paid for. Similarly, although the provision of free medical services where none were available before may cause well-being, conceived of in quality-of-life terms, to rise, expenses incurred in gaining access to the service could cause welfare, as measured by the command that income gives over consumption, to fall. Valuation of the bankable components of the social wage is necessary if the extent of income poverty is to be determined; for the rest, the measurement of the impact of social spending requires far more sophisticated instruments. Discovering what those instruments may be is no simple matter.

6.3. Broadening the earnings concept

Statistics South Africa's major household surveys (the LFS and GHS) collect data on employment in a manner that makes it possible to say whether a worker is employed in the formal economy, the informal economy or on a public work programme. Whatever one thinks of the quality of the earnings data, and there are obvious and serious problems of under-reporting (Meth, 2006b; Van der Berg et al., 2005, 2007), it is possible to track incomes from these different sources. Although, as many have pointed out, the distinction between the formal and informal economics is far from watertight, the one blurring at numerous points into the other, the differences in the conditions between the two are so substantial that there would appear to be some merit in expanding the term *W* to take account of this.

In the section of the paper dealing with the social wage in the evolving social protection system, it was argued that increasing insistence by governments on the balancing of rights with responsibilities, coupled with a long-standing conservative prejudice against social grants, has resulted in growing support for public work programmes, at least in middle-income countries like South Africa. Describing the wage paid for participating in public work programmes as a 'transfer', it was noted, was incorrect – a transfer is an unrequited payment, whereas the money (or sometimes food) handed over to a participant in such programmes is a wage, earned by the sweat of their brow. The fact that the work done has had to be created by government is evidence only of market failure, not that a 'transfer' has taken place.

⁵⁸ Sample size of the survey from which the ONS results are drawn is only 7 000 households (Jones, 2007, p.4). This is too small to provide the detailed information necessary to assess the adequacy of in-kind benefits. The GHSs in South Africa, with their samples of 30 000 households, stand a better chance of doing so, but revision of the survey design is required.

Beyond certain limits, the ANC-dominated government in South Africa is firmly opposed to the extension of social protection in the form of social grants to the able-bodied unemployed, preferring instead to contemplate 'massification' of the EPWP.⁵⁹ Although at present the numbers employed by the EPWP at any point in time are relatively small, this may change in future if (a) unemployment does not fall significantly, and (b) government maintains its resolve not to extend the social grant system. If this does happen, then there would seem to be merit in distinguishing the earnings of those employed by the EPWP from those working in either the formal or the informal economies – the continued payment from public funds of wages to overcome market failure is, after all, an important phenomenon.

The components of $SI(E)$ for someone in one, as opposed to the other, part of the economy, may be expected to differ considerably.⁶⁰ If it were thought desirable to distinguish earnings by source, the wage could originate from three sources: it could be earned in the formal or informal economy, or in public work programmes (or possibly, in some combinations of the three). The division of formal economy earnings into basic and flexible components is useful and should be maintained. Thus, we may write:

$$W = W_1, W_2 \text{ and/or } W_3 \dots\dots\dots (10)$$

where:

W_1 = earnings in the formal economy

W_2 = earnings in the informal economy

W_3 = earnings in public work programs

and, as before:

$$W_1 = W_b + W_f$$

where:

W_b = basic component of earnings

W_f = flexible component of earnings

A more difficult question arises with respect to the treatment of tax credits and wage (employment) subsidies. In expression (1), Standing allows for "subsidies paid directly

⁵⁹ Incidentally, a neologism as dreadful as 'massification' is capable of being coined only by someone with no respect for language.

⁶⁰ An example of the way in which these may be expected to differ appears above in the reference in the Introduction to Table 6.6 in Seekings and Natrass (2006, p.213), which gives the income sources for households across the income distribution.

or through firms" in the component SB (the value of state benefits provided). When he disaggregates this, however, the three components he identifies are:

C = universal state benefits (citizenship rights)

IS = insurance-based income transfers from the state in case of contingency needs

D = discretionary, means-tested transfers from the state

Subsidies paid to firms (which are supposed to lower the cost to employers of creating jobs) would be very difficult to track. Individuals in households benefiting from such policy measures would be unlikely to be aware of the extent of such subsidies, or even, indeed, whether such subsidies were made. Tax credits, by contrast, should be relatively easy to track. If a fourth component, in the form of tax credits received, were added to the three items listed above, it would not be difficult to amend the surveys to collect information on their extent. Talk of tax credits raises the awkward question of how taxes (in general) should be treated in an analysis of social income. In particular, it draws attention to the fact that one of the central issues in the debate over the social wage is the question of people's welfare before and after benefits have been distributed, and before and after the taxes that finance them have been paid.⁶¹ Let us take a look, therefore, at ways in which tax may be incorporated into the concept of social income.

6.4. Taxes and social incomes

The motivation for measuring social income is complex. Part of it results from a desire to measure human welfare and the ways in which it is changing (either in aggregate or in its component parts). Allied to an interest in the way in which the different contributions to social income change must be an interest in the sources of those contributions.⁶² In short, it is not income *per se* that is of interest, but command over goods and services. Command, as used here, has two connotations. The first refers to the conventional act of exchange. The second hints at the extent to which individual income recipients exercise any control over the sources of social income to which they have access. To illustrate, a shift away from a social protection system based on social insurance (with all its limitations), which creates entitlements, to a means-tested system of social grants arguably reduces personal autonomy (and hence welfare).

⁶¹ The benefit incidence calculations made by the Presidency (referred to above), which draw such fatuous conclusions about South Africa's Gini coefficients, are an excellent example of how not to deal with the problem.

⁶² Talk of a transfer in the USA of welfare obligations from the state to faith-based organisations, for example, was a political phenomenon of major significance.

Interesting as this aspect of social income is, we will not pursue it here.⁶³ We restrict ourselves instead to the first of the two meanings, namely, the access that social income provides to goods and services. A focus on this aspect of command draws to our attention the fact that income may be measured either in gross or in net terms. One of the largest deductions from gross income is tax.⁶⁴ Expressions (1) and (6), rather conspicuously, contain no reference to taxes.⁶⁵ To remedy this, it is necessary to consider the way (or ways) in which taxes are to be treated when attempts are made to value social income. Tax systems are generally redistributive. The redistribution, however, can go either from rich to poor or the other way, or from both to the middle class, or vice versa – some taxes are progressive, others are not. The impact of taxes on the different components of social income will vary, often quite substantially, as the tax system undergoes change.⁶⁶ Measuring social income before and after taxes lays bare the extent of redistribution within the economy, and provides as well an indication of the extent of income poverty after redistribution has taken place.

Attempting to measure social income taking into account the tax system is not an exercise for the faint-hearted – it entails nothing less than a full-scale inquiry into fiscal (tax and benefit) incidence. That, as any student of public finance (public sector economics) knows, is not only arduous, it is also fraught with difficulty because of the sensitivity of the results to changes in the many assumptions that have to be made. As Fullerton and Metcalf (2002) observe:

...few of the standard assumptions about tax incidence have been tested and confirmed [with the notable exception of payroll tax]. Most others have never been reliably tested (the personal income tax, corporate income tax, and local property tax). The standard assumption about the corporate income tax that the burden falls 100% on capital remains the standard assumption even though it is commonly believed to be false (because of international capital mobility and endogenous saving). The standard assumption about sales and excise taxes is that the burden is shifted 100% to consumers, and this assumption has been tested several times. Some of these studies

⁶³ For insight into the question of how difficult it is to measure autonomy, see Goodin et al, 1999, Ch. 12. They point out that welfare rights, understood as non-discretionary entitlements, constitute an important basis for independence (p.220).

⁶⁴ It is not, however, the only one; many households in desperate poverty rely on transfers from other poor households (the component FT = family transfers in expression (6) should capture this). It may be argued that this is equivalent to a marginal tax rate of 100 per cent on the incomes of the less-poor household.

⁶⁵ While Standing does not deal directly with this question, he does discuss at some length the shifting of the burden of taxation (in the form of consumption and payroll taxes) onto the less well-off (2002, pp.29–30).

⁶⁶ The increasingly important role of indirect taxes in South Africa, heralded by the introduction of the General Sales Tax (at 4 per cent) in 1978, and its subsequent replacement by Value Added Tax (VAT) (currently at a rate of 14 per cent), represented a profound shift in the burden of taxation. Unless people can restrict their spending to the few zero-rated (mainly food) items, there is little that can be done to avoid VAT.

cannot reject 100% shifting to consumers, while others find significantly less than 100% shifting, and still others find significantly more than 100% shifting.

Many general equilibrium simulation studies "calculate" the incidence of each tax based on carefully-articulated theories, and many data-intensive studies use these results to "assume" the incidence of each tax. But competing theories are rarely tested, and so econometric estimation remains fertile ground for new research. (2002, p.29)

It might be possible to ignore questions of incidence and to accommodate the burden of taxes in the Standing *SI* schema by reporting all earnings estimates net of taxes, as estimated using an instrument like the quinquennial IESs conducted by Statistics South Africa. This, however, would still leave us with awkwardnesses like the aforementioned tax expenditures that benefit the relatively well-off (such as the rebates on medical aid premiums and pension contributions). It may be useful at this point to recall Standing's comment (reported above) that the "two identities for *SI* are abstractions", and hence, "hard to translate into empirical form". In that spirit, let us include a term *T* in expression (1) into which taxes (positive or negative) can be inserted, acknowledging as we do so that it may be well-nigh impossible to obtain the information necessary to estimate its value. Now we have, at least notionally, a more complete picture of social income. Accordingly, social income after taxes $SI(E_{AT})$ may now be defined as⁶⁷

$$SI(E_{AT}) = [W + EB + PB] + [SB + CB] - T \dots\dots\dots (11)$$

where, as before:

EB = the amount of benefits provided by the enterprise in which the person is working

PB = private income benefits, gained through investment, including private social protection

CB = the value of benefits or support provided by the family, kin, or the local community

and:

W = *W*₁, *W*₂ and/or *W*₃, as defined above

SB = the value of state benefits provided, in terms of insurance and other transfers, including subsidies paid directly or through firms, plus the bankable components of the social wage which have been tucked into the terms *C* and *D* (respectively universal and discretionary benefits) in expression (4), $SB = (C + IS + D)$ ⁶⁸

⁶⁷ For convenience, expression (11) has not been expanded, as is done in expression (6) above, to show all the components included under the summary headings in expression (1).

⁶⁸ The terms *C* and *D* are expanded to disclose their social wage components in expressions (8) and (9) respectively.

T = taxes paid or tax credits received

Expanding (11) to reveal all of its components (except the bankable bits of the social wage), we may write:

$$SI(EAT) = [(W_b + W_f) + W_2 + W_3) + (NWB + IB) + PB] \\ + [(C + IS + D) + (FT + LT)] - T \dots\dots\dots (11a)$$

Although the unemployed do not pay tax on earnings, they will almost certainly have tax deducted from other sources of income. Apart from VAT or sales tax on purchases they make, some of the items in expression (7a) (the social income of the unemployed) are likely to attract tax. Severance pay (SP), unemployment insurance benefits (UI) and means-tested unemployment assistance (UA) are all possible bases for tax. To allow for the deduction of all taxes T from the income of the unemployed, expression (7a) will need to be rewritten. It is also necessary to add in those elements of the social wage which accrue to the unemployed. These, as we saw above, were tucked into the social wage of the employed under the heading SB . The same approach may be adopted for the unemployed.⁶⁹

$$SI(U) = [SP + (UI + UA + D) + (DS + PI)] + [(C + IS + D) + (FT + LT)] - T \dots (12)$$

At least notionally, we now have devices that potentially are capable of measuring the welfare of the employed and the unemployed, in income terms. The question of whether or not they can be operationalised remains open. The answer to this depends, to some degree, on the kinds of questions one seeks to address using the devices. If the goal is that of estimating the impact of the social wage on poor people, then adopting a pragmatic approach to the question of tax incidence (in principle, not unlike that suggested for the valuation of some of the components of the social wage), may prevent the enterprise from becoming hopelessly bogged down in the quagmire of difficulties outlined above. Although it would be unfortunate to sacrifice rigour in the attempt to measure and understand poverty and income inequality, if the primary concern is to attempt to establish the impact on poverty levels of changes in the social income, the compromises necessary to ensure progress are possibly worthwhile making. Pragmatism in the case of those on low incomes, or those dependent solely on social grants or migrant remittances, would consist in treating them as though the only taxes they paid were the value-added tax (VAT) on the non-zero rated items they consume, and the excise taxes on some 'bads' like alcohol and tobacco. Such an approach will, of course, not do once we move beyond the poor, few of whom, for example, would pay income tax. Without much greater precision about the incidence of income, payroll and company taxes, it is difficult to address the question of the inequality of the distribution of income.

⁶⁹ The set of benefits SB also contain IS (insurance-based income transfers from the state in case of contingency needs). Although it seems unlikely that the unemployed would receive any income under this head, it has been included to avoid the need to redefine SB .

So much for the question of taxation. Let us suspend consideration of these matters, and reflect on the ways in which the approach spelled out above needs to be broadened to take account of household members who, for a variety of reasons, are not economically active.

6.5. Taking the not economically active into account

It is perhaps worth reminding ourselves, at this point, that the reason for adopting and adapting the Standing framework is to enable us to improve on the measurement of income poverty. Unless one is going to use simple (misleading?) per capita poverty lines which take account neither of different consumption levels among household members nor of household economies of scale, one cannot estimate poverty levels without taking into account household composition. That makes the case for extending the analysis to all members of the household not merely good, but incontrovertible. The Standing identities reproduced (and modified) above apply, as noted, only to individuals who are economically active. We need to be able to take into account the nature of all individuals in the households that are home to the workers and unemployed, the make-up of whose total social incomes have been considered above.

For clarity's sake, let us start, a bit primitively, with some definitions about economic status. To be classed as potentially economically active it is necessary to comply with an (arbitrary) definition in terms of which both males and females must be at least 15 years old. The women must be no older than 59 years of age, while the men must not be older than 64 years. Needless to say, these conditions are flouted at both ends of the scale – child labour is distressingly common, while pensioners often carry on working beyond the nominal retirement ages specified in this international standard. In addition to meeting these qualifications, in order to be classed as economically active people must be either employed or unemployed. Neither status is uncomplicated, especially in developing countries, but we need not concern ourselves with the niceties. The only subtlety of which note needs to be taken is the difference, already referred to above, between the officially unemployed and discouraged workseekers (the searching and non-searching unemployed). Apart from the fact that 'searching' is not always easy to detect, the extent to which people engage in search is at least partly a function of labour market conditions – the merest whiff of a possibility of a job can draw thousands out of a discouraged state and into active search. From this it may be seen that the characteristics of some of the economically active and non-active do not differ greatly. This implies that expression (7a) should apply equally to the groups referred to in South Africa as the officially unemployed, and the discouraged.⁷⁰

⁷⁰ Even if we were not interested in all household members, because transitions from employed to unemployed to not-in-the-labour force (not economically active) and vice versa occur with some frequency, especially towards the bottom end of the labour market where opportunities for formal employment are rare, there would be a good case to be made for including the not economically active (at any given point in time) in the social income calculus.

The age limits bracketing the potentially economically active define two groups of not economically active, children less than 15 years of age and those beyond the nominal retirement ages given above for men and women. There are, however, many other reasons for being 'not economically active' – a non-exhaustive list would include school-going children older than 15 years, students in tertiary or other places of learning, 'housewives' and 'homemakers' (the latter term being a concession to the need for equality between the sexes in male-dominated societies), illness, or, if the individual concerned is wealthy enough, simple inactivity.

Being classed as not economically active does not necessarily mean that one receives no income – without exception, pensioners require income in order to exist, income which almost all receive, in one form or another. Those below working age in South Africa, and in several other countries as well, represent major sources of household income. This is either in the form of the (regrettable) returns to the labour of children, or, less unfortunately, to the social grants they attract into the households in which they live. It was estimated that by April 2007, the number of child support grants paid in South Africa would be almost eight million (National Treasury, 2007, p.105). For this if for no other reason, they would need to be incorporated into the social income equation. By extension, other grant recipients, many of whom, like the disabled or foster-care givers, are likely to be not economically active, also merit inclusion. For the income of the not economically active we could thus write:

$$SI(N_{AT}) = [EB + PB] + [SB + CB] - T \dots\dots\dots (13)$$

where, as before:

PB = private income benefits, gained through investment, including private social protection

CB = the value of benefits or support provided by the family, kin, or the local community⁷¹

and:

SB = the value of state benefits provided, in terms of insurance and other transfers, plus the bankable components of the social wage as identified in expression (8), *C*, universal benefits, and expression (9), *D*, discretionary benefits⁷²

T = taxes paid

⁷¹ *CB*, it may be recalled, consists of *FT* (family transfers) and *LT* (local community transfers, including any income from charity). To consider the social income of any non-employed individual member of a household, their share of the wage earned by the employed within the household (*W*) would be captured in the term *FT*. Clearly, as noted above, to avoid double counting, when total social income of the household is estimated, only the expression for *SI(E)* should contain *W*.

⁷² Since the not economically active are unlikely to qualify for any 'insurance-based income transfers from the state in case of contingency needs', the term *IS* may safely be omitted from the expression *SB* = (*C* + *IS* + *D*). Alternatively, it may be left in place, and set equal to zero.

If the individual concerned, although presently not economically active, had been employed in the past, it is possible that they might still be in receipt of enterprise benefits. In that case, the term *EB* would need to be rewritten so that:

EB = the amount of benefits provided by enterprises in which the individual worked in the past

Expanding expression (13) we may write:

$$SI(N_{AT}) = [EB + PB] + [(C + IS + D) + (FT + LT)] - T \dots\dots\dots (13a)$$

Summing the social incomes of the employed, the unemployed, and the not economically active (keeping in mind, the danger of double-counting), we obtain total social income in any household:

$$SI(T) = ? SI(E_{AT}) + ? SI(U_{AT}) + ? SI(N_{AT}) \dots\dots\dots (14)$$

In the introduction to the present paper, it was noted that its concerns were with (a) changes in the sources of economic well-being, especially among the poor, and (b) the effect that social spending has on income poverty. Although they are mere accounting identities, the tools developed in this section of the paper provide us with some of the wherewithal with which to begin addressing these questions.

6.6. Now we have a concept of social income – what next?

Although the paper is concerned with the effect that social spending has on income poverty, it was noted in the introduction that the focus is not on income poverty measurement *per se*. We could go further and say that it is the intention of the paper to work through some of the difficulties of developing a measure of social income, but not to delve here into the complexities of poverty measurement, once a measure of income is to hand. While such a stance may be justifiable in terms of the self-imposed limits of the study, passing the subject by without even referring to some of the major problems of what to do with estimates of social income, if sensible poverty frontiers have not been established, would seem like dereliction of duty. In any case, the cat has been let out of the bag by the approaches, suggested above, to the problems of valuation of in-kind benefits, namely, tinkering with poverty lines or equivalisation scales. Accordingly, we make a small concession to the poverty measurement debate by referring briefly to a few aspects of the problem that call out loudly for further attention.

The first of these is the notion of socially necessary consumption, and the second, the awkward question of how to ‘convert’ people of differing sexes and ages into a numeraire (adult equivalents) for purposes of estimating poverty rigorously, a problem already encountered above. Separate from, but closely related to, the latter is the problem of intra-household distributions of income.

6.6.1. How much consumption is socially necessary if one is not to be poor?

There cannot be many economists who labour under the illusion that measuring the incomes received by households is easy – the method suggested above for incorporating the bankable elements of social spending into the calculus makes a difficult job more difficult still. If, however, the game of gauging the impact of social spending on people's well-being with some precision is held to be worth the candle (and the possibility that it is not must be considered), then something resembling the approach presented above is probably necessary. That is one side of the story; a further set of difficulties is introduced when attempts are made to discover whether or not the income flowing into any household is sufficient to maintain its inhabitants above whatever level of consumption is deemed to constitute the poverty threshold. How to determine where this threshold lies is a subject that has been discussed for centuries – the literature on the topic is huge.⁷³

It is not the intention to enter here into the debate on the complex business (or the merits) of setting a line (or lines) below which people are considered to be poor. Rather, we limit ourselves to a brief comment on two processes currently under way, of a very different nature one from the other, both aimed at determining poverty thresholds.⁷⁴ The first is a government initiative, one of whose motivations seems to be the creation of some order in the business of setting poverty lines for administrative purposes. An unpublished government survey of poverty criteria set by various jurisdictions and state institutions having confirmed the existence of a confusing multiplicity of thresholds, the National Treasury has taken the lead in the process. The extent to which the line (or lines) decided upon will be imposed on government institutions is not known. Statements to the effect that the announcement of the line (or lines) was imminent, have been made on several occasions in the past. It has been long in the making. An unpublished paper by Babita et al. (2003), using a food poverty approach, proposed a set of lines which have lain fallow in official circles for several years. They have, however, been used by researchers outside government, one of whom was a member of the team responsible for constructing the lines (Hoogeveen & Özler, 2004). Without seeing what government proposes, it is difficult to comment on the suitability of the instrument.

The other initiative is the work done by the Centre for the Analysis of South African Social Policy at the University of Oxford (CASASP), much of it for the national Department of Social Development. Advocating a consensual approach to

⁷³ Among the many early accounts of poverty that continue to excite pity, even to this day, is Marx's Inaugural Address of the International Workingmen's Association (The First International) drafted in 1864. Its reference to the "28,000 grains of carbon and 1,330 grains of nitrogen [that] were the weekly allowance that would keep an average adult ... just over the level of starvation diseases" and the huge numbers of workers consuming below this level, offers a glimpse of the use of a 'scientifically determined' food poverty line in operation. (Downloaded 6 February 2008 from www.marxists.org/archive/marx/works/1864/10/27.htm)

⁷⁴ Some consultation by Treasury with the broader society, under the auspices of the Studies in Poverty and Inequality Institute and the National Economic Development and Labour Council (NEDLAC), has taken place.

conceptualising, defining and measuring poverty (Noble et al., 2004), the research group spelled out their methodological approach – a three-stage process whose first step was the conducting of about fifty focus group meetings aimed at eliciting “...the views of ordinary people about what they consider to be essential for an acceptable standard of living in South Africa today”. Insights from this qualitative phase inform the design of a national survey; the second stage in process. This nationally representative survey “...will be used to generate a list of ‘Socially Perceived Necessities’ ... that will provide a basis for the design of a set of indicators.” Finally, in the third stage:

The data generated by the nationally representative sample survey will be analysed to provide a detailed, multidimensional picture of poverty and social exclusion in South Africa. (Noble et al., 2005, pp.1–2)

Between them, the module of 56 questions tacked onto the 2005 South African Social Attitudes Survey (SASAS) and the data from the focus groups have generated a mountain of data. From this, a stream of publications (see the Indicators of Poverty and Social Exclusion (IPSE) page on the CASASP website) has begun to emerge. One of them, Wright et al. (2007), provides a succinct overview of the project and a discussion of some of the major methodological problems it faces,⁷⁵ as well as an initial report on what are considered to be socially perceived necessities by various proportions of the population.

When it comes to the question of whether or not a poverty line capable of being applied to the social income estimates might be derived using a process like that described above,⁷⁶ enthusiasm for the IPSE project, though undiminished, must be tempered by the extreme nature of the obstacles that have to be overcome. Socially perceived necessities are not some neat parcel of goods and services whose price can readily be established – top of the list in the SASAS survey results, for example, was “Someone to look after you when you are ill”, specified by 91 per cent of respondents (Wright et al., 2007, p.9). What the socially perceived necessities list does is to specify a framework for a multi-dimensional measure. If it is to be of use in helping to extract poverty estimates out of social income estimates, then it is going to be because an appropriate subset of items, to all of which a price can be attached, will have been found. The difficulties of doing so should not be under-estimated.

⁷⁵ Such as deciding upon the level at which public agreement may be said to exist on the question of what are necessities, a choice the authors describe as “unavoidably arbitrary” (Wright et al., 2007, p.7).

⁷⁶ In the general class of measures developed by Foster, Greer and Thorbecke (1984), of the form: $P_a = (1/n) \sum_i ((z - y_i)/z)^a$, in which the relevant variables are the sum of the people in a population n , with incomes y_i below some poverty line z , and where setting $a = 0$ generates the headcount ratio $a = 1$, the poverty gap ratio and so on, y_i would be measured by social income SI_i , and the poverty line we are searching for by z .

6.6.2. Adult equivalence scales once more

The question of estimating adult equivalence scales has surfaced in two apparently separate, but related ways in the study. In the first place, the trawl through the literature on benefit incidence threw up a reference to the McClements system used by the ONS in the UK for measuring the severity of poverty (Jones, 2007). This was followed by the discovery of the Glennerster (2006) paper, with its critique of the ONS's inconsistency in the application of the equivalisation scales to various measures of income.

My reaction to the McClements scale was one of surprise at the very low cost ratios for children, and the second or third (or more) adults in a household. One would expect the costs of maintaining a child under the age of two years to be but a fraction of those of keeping the head of household; as can be seen in Table 5, that fraction is estimated at a little less than one-tenth. The paper from which the figures in Table 5 are copied (Jones, 2007) insists that the scales are plausible and "...well within the range of equivalence scales developed at different times in a number of countries..." (p.45).⁷⁷

A little scratching around in the South African literature suggests that if for no other reason than the low values of the cost ratio proposed by McClements for children, the question of what appropriate equivalence scales might be is worth re-opening. In South Africa, in some of the more prominent poverty studies in which the trouble has been taken to estimate adult equivalents, an equivalence scale of the form $E = (A + aK)^p$ has been used, where E = the number of adult equivalents, A = the number of adults, a = the child cost ratio, K = the number of children, and p the household economies of scale factor (Woolard & Leibbrandt, 2001, p.51). Let us call this the Potgieter approach, in recognition of the pioneering (albeit racially insensitive) work done by him.⁷⁸

Table 5 – The McClements Equivalence Scale (UK)

Type of household member	Equivalence value
Married head of household, (that is, a married or cohabiting couple)	1.00
1st additional adult	0.42
2nd (or more) additional adult (per adult)	0.36
Single head of household (adult)	0.61
1st additional adult	0.46
2nd additional adult	0.42
3rd (or more) additional adult (per adult)	0.36

⁷⁷ In their huge study on non-cash benefits in seven OECD countries, Smeeding et al (1993, p.240) use 1.0 for the first adult in a household, 0.4 for the next adult, and 0.3 for each child.

⁷⁸ In my earlier work on the social wage (Meth, 2005), I made extensive use of the Household Subsistence Level (HSL) estimates that his institute used to publish. See Potgieter, 1995–2003.

<i>Children aged:</i>	
16-18	0.36
13-15	0.27
11-12	0.25
8-10	0.23
5-7	0.21
2-4	0.18
Under 2	0.09

Source: Jones 2007, p.44

Values for α and β of 0.5 and 0.9, respectively, enjoy some popularity in poverty studies in South Africa. To test the sensitivity of their poverty and inequality estimates to variation in the assumed values of these coefficients, Woolard and Leibbrandt employed a wide selection of values for α and β (α values from 0.5 to 1.0, and β values from 0.6 to 0.9). They report that with a reference scale whose values for α and β are 0.5 and 0.9 respectively, the percentage of households identified as poor does not fall much below 94 per cent ($\alpha = 1.0$, and $\beta = 0.9$) (Woolard & Leibbrandt, 2001, p.51). In other words, in the range within which they worked, poverty estimates were relatively insensitive to changes in the values assumed for the parameters α and β .

Prompted by the somewhat surprising equivalence values in Table 5 (presumably the McClements approach eliminates the need to use a household economics of scale factor), a comparison of the estimated numbers of adult equivalents in households of varying sizes is offered in Table 6. The upper two panels are constructed using the Potgieter approach, while the bottom two are compiled using the McClements approach. In the first panel, the values of α and β are 0.5 and 0.9 respectively, while in the second, they are 0.8 and 0.9 (i.e., the costs of raising children are assumed to be much higher). In the third panel, the McClements coefficients are applied in households containing young children, while in the fourth panel, the children are much older. In the case of the first two panels, the adults both count as a single unit, with a reduction in the cost of running a household containing more than one adult achieved by the use of the household economics of scale factor. In the third and fourth panels, by contrast, a household containing only one adult and one or more children has an equivalent of only 0.61 assigned to that adult. The result is that single-headed households containing an adult and a child count as less than the equivalent of a single adult in a household of the 'married' or 'cohabiting' type.⁷⁹

⁷⁹ I may, of course, simply have misunderstood the scale. Giving the adult in a single-head household a value of 1.0 does not, however, affect the argument.

Table 6 – Impact of changing equivalence scales on implied per capita incomes

1. Potgieter approach: $\alpha = 0.5$ and $\beta = 0.9$				
No. of children	No. of adults		No. of adults	
	1	2	1	2
1	1.44	2.28		438
2	1.87	2.69		372
3	2.28	3.09	438	324
4	2.69	3.48	372	287

2. Potgieter approach: $\alpha = 0.8$ and $\beta = 0.9$				
No. of children	No. of adults		No. of adults	
	1	2	1	2
1	1.70	2.53		396
2	2.36	3.17	423	316
3	3.01	3.79	332	264
4	3.64	4.41	275	227

3. McClements approach: two school-going children (max.)				
No. & age of children	No. of adults		No. of adults	
	1	2	1	2
1. 8–10 years	0.84	1.65	1190	606
2. 5–7 years	1.05	1.86	952	538
3. 2–4 years	1.23	2.04	813	490
4. less than 2	1.32	2.13	758	469

4. McClements approach: four school-going children (max.)				
No. & age of children	No. of adults		No. of adults	
	1	2	1	2
1. 16–18 years	0.97	1.78	1031	562
2. 13–15 years	1.24	2.05	806	488
3. 11–12 years	1.49	2.30	671	
4. 8–10 years	1.72	2.53	581	

The first pair of columns under the heading 'No. of Adults' contains the numbers of adult equivalents for a household of any given composition. So, in the first panel, a household containing two adults and three children contains the equivalent of 3.09 adults. The second pair of columns takes these figures and estimates per capita incomes for these adult equivalents, assuming that household income equals an arbitrary R1 000 per month. If one assumed, equally arbitrarily, that the poverty line was set at R450 per capita per month, then the only households in the first panel in which (potential) consumption does not fall below the poverty levels are those consisting of a single adult and child, or a single adult and two children.

In the second panel, only households containing a single adult and child are not in poverty. In panels 3 and 4, by contrast, the only households below the poverty level

are those containing two adults and three or four children.⁸⁰ Obviously, this result comes about because the cost ratio for children is low, compared with the a value of about 0.5 used in South Africa. Since about half of all children in South Africa are under the age of 10 years, and a further quarter or so are aged between 10 and 14 years, the use of the McClements equivalence scales looks as though it would have a significant impact on estimates of the severity of poverty.

There is, however, another side to the story. If one stands back from the apparent over-estimation of poverty levels in South Africa, implied by the use of the Potgieter rather than the McClements scale, and recalls what Glennerster (2006) had to say about the equivalisation process of original (pre-tax and -transfer) incomes in the UK, then a conclusion of a very different sort follows. It may be recalled that he suggested that in households with school-going children, taking universal free education into account in the estimation of the equivalised value of original income could have the effect of raising the child cost ratio to something near unity. In other words, rather than the McClements figures being appropriate, something closer to the Potgieter figures in panel 3 of the table ($\alpha = 0.8$ and $\beta = 0.9$) may be necessary. In the case of a household containing one adult and four school-going children, the number of adult equivalents more than doubles (1.72 to 3.64), while in the two-adult, four-schoolchild household, it goes from 2.53 to 4.41. Clearly, if the argument on the value of original incomes after compensation for composition offered above is accepted, then there is something seriously wrong with the estimates of inequality of original income.⁸¹

Similar conclusions might follow for South Africa – the Woolard and Leibbrandt figures cited above suggest that their estimates with $\alpha = 0.5$ and $\beta = 0.9$ could underestimate poverty by at least five or six percentage points.⁸² As far as this topic is concerned, we have now reached the end of the road – without further research, there is little more that can be said. To acknowledge as much is not to succumb to despair; rather, it is to make a strong plea for this matter to be given the attention it so obviously deserves.

6.6.3. Intra-household distributions

Finally, on the third question, that of intra-household distributions, not much appears to have been done in South Africa. That resources and command over resources are distributed unequally within households has long been known. Systematic discrimination against girl children, for example, ranging in degree from benevolent neglect to the outright malevolent is widespread in many societies. Economic analysis of such practices dates back many years – Sen was writing about it a quarter of a

⁸⁰ Even if the adult in the single-head household has an equivalence value of 1.0, none of the single adult households would be consuming (potentially) at a level below the poverty line.

⁸¹ The ONS estimates inequality (the Gini coefficient) at each income stage except the last, i.e., that containing 'notional income'.

⁸² Neither of the Van der Berg et al. papers cited above (2005, 2007) makes any reference to equivalence scales? both use per capita poverty lines (principally, R250 per capita per month in 2000 prices). Since my work (Meth, 2006a, 2006b, 2008a) is essentially a critique of theirs, I have used the same poverty line.

century ago (Sen 1984). With rising interest on the part of governments to address categorical deprivation (e.g. poverty among children or the elderly), a seminal paper by Haddad and Kanbur (1991) brought together the literatures on household inequalities and targeting (the design of transfer mechanisms to alleviate poverty). Some of the questions they posed are still unanswered today,⁸³ and look like remaining so. A good place to start digging into the literature, if one is interested in pursuing the topic, is with the piece by Behrman (1997). Unfortunately, none of this brings us any closer to an understanding of what happens in South African households. We know, for example, that there is significant dilution (intra-household sharing) of both state old age pensions and child support grants;⁸⁴ without them, many poor people in South Africa would simply starve. Knowing this does not, however, provide much of a guide when it comes to tackling the question of inequalities in intra-household distributions. We also suspect that even if different individuals in households are treated differently, this, as Haddad and Kanbur (1991, pp.2-3) point out, may not always be irrational; sustaining a sole worker in a household may demand unequal caloric distribution if the household is to survive at all. Even if the problems of settling on appropriate values for equivalisation scales could be solved, it seems unlikely that any easy way will be found to discover whether or not each individual in the household had received their fair share of total consumption. Although the signs point unmistakably in the direction of a need for a multi-dimensional approach to the problem,⁸⁵ there could still be space for the weak-sounding but true 'more research is required' (into the income aspects of the problem) recommendation to be wheeled out. As with the topic of estimating adult equivalents, it is not obvious that the end of the road has been reached - mixed qualitative and quantitative work could have a lot more to teach us.

The concept of social income has been pushed about as far as is reasonable. So, too, has the discussion of what further steps need to be taken to improve the quality of income poverty estimates in South Africa. Now is an appropriate time to cease work on these topics. If the arguments in favour of adopting Standing's concept of social income in place of that of the social wage are accepted, the deficiencies of the former notwithstanding, then a number of tasks remain to be carried out. Among these are the needs:

- 1) to test the idea that the framework proposed by Standing constitutes a conceptually rigorous guide to the determination of welfare levels, as measured by income in nominal terms;

⁸³ The continuing relevance of one of them, "How far wrong can one go in targeting by simply assuming that intrahousehold inequality does not exist, when, in fact, it does?" (Haddad & Kanbur, 1991, p.10), in South Africa today should be obvious.

⁸⁴ When government refers, as it frequently does, to the need to reduce dependency on social grants, it is the problem of benefit dilution among working-age persons that it has in mind.

⁸⁵ In Appendix 1 to this paper, 'The continuing usefulness of income poverty measurement', reference is made to four sets of poverty indicators, proposed by Ravallion, that 'could be defended'. One indicator in the set for intra-household inequality is child nutritional status. Others include infant mortality, school enrolment and measures of gender disparity (Ravallion, 1996, pp.1332-1333).

- 2) to examine the extent to which the indicators necessary for measuring people's well-being or welfare, conceived of in terms of social income, are already available among the household surveys conducted by Statistics South Africa; and, as a corollary,
- 3) to disclose gaps in the ability of the major socio-economic household surveys conducted by Statistics South Africa to measure social income.

7. Testing the social income concept against standard income measures

At the outset, it was stated that one of the reasons for delving into the concept of social income, as Standing has defined it, was to "...test the idea that the framework [he proposes] constitutes a conceptually rigorous guide to the determination of welfare levels, as measured by income." Two criteria by which this may be judged spring to mind. The first is to see how it performs against standard definitions of income used by economists. The second is to gauge the extent to which differences between the (many) concepts of the social wage presented in the discussion above, on the one hand, and the Standing concept of social income, on the other, can be reconciled.

Economic and juridical (statutory) definitions of income differ, for reasons that we will explore below, the former being more comprehensive than the latter. The Haig-Simons definition, for example, "...traditionally used by [p]ublic finance economists" defines income as "the money value of the net increase to an individual's power to consume during a period" (Rosen, 1995, p.360). In addition to the standard components of income one would expect to find in the economist's armoury ("salaries and wages, profits, rents, royalties, dividends and interest"), one also finds what Rosen (1995, p.361) terms "certain unconventional items". These include:

- *Employer contribution to pensions and other retirement plans*
- *Employer contributions for employee's insurance*
- *Transfer payments*
- *Capital gains (realised and unrealised)*
- *Income in kind (including imputed income from owner-occupied dwelling).*
(Rosen, 1995, pp.361-362)

Inspection of expression (2) above suggests that with two exceptions, it is capable of accommodating any of the items in the standard Haig-Simons list. In fact, by virtue of the inclusion of family transfers (*FT*) and local community transfers, including any income from charity (*LT*), it goes beyond the Haig-Simons definition (or, to be more precise, beyond Rosen's operationalisation of it). The first of the exceptions is the value of imputed income from owner-occupied dwellings. Estimating the value of income from this source is standard practice. As the United Nations handbook on national accounts observes:

The ratio of owner-occupied to rented dwellings can vary significantly between countries and even over short periods of time within a single country, so that both international and intertemporal comparisons of the production and consumption of housing services could be distorted if no imputation were made for the value of own-account housing services. The imputed value of the income generated by such production is taxed in some countries. (United Nations 1993, para. 6.29)

If Standing's category "private income benefits, gained through investment, including private social protection" (*PB*) is interpreted loosely, it may be possible to tuck imputed income into it, treating the income as the fruits of investment in housing. This is not a particularly satisfying solution to the problem of how to treat the imputed income from housing made available to poor people in South Africa, either through the housing subsidy (grant) or through the transfer of almost 500 000 houses built during the apartheid era to those occupying them (PCAS, 2003, p.25). It would probably be better to add in another variable to take account of this component of income.

There is, however, a complication. Valuation of the income stream from owner-occupied housing poses interesting conceptual problems during periods when the value (price) of housing rises rapidly, as has been the case in South Africa in recent years. For many homeowners, the price increase represents a pure capital gain, in which case it fits quite comfortably into Standing's category *PB*. Poor people who own houses, however acquired, also stand to gain in such times. If property price increases are sufficiently large, these changes could have visible distributional implications, despite the absence of formal property markets in many areas.⁸⁶ As was noted above, however, despite enthusiastic efforts, only a small minority of the poor have gained access to housing through the state. On balance, it seems reasonable not to try to squeeze imputed income from house ownership into the Standing framework. Rather, it can be accommodated with the other elements of the social wage, for which, as we shall see below, purpose-built categories have also to be constructed.

The other exception which finds its way into Rosen's list is the income value of work done in the household (1995, p.363). Usually performed by women, "housecleaning, cooking, child care, and so forth" are, as Rosen should not need to remind us, "clearly valuable". His observation that they are also hard to value, resonating as it will with anyone who has ever engaged in the debate over housework, means essentially that there is no practical way of incorporating this important component of income into

⁸⁶ Prior to the 1980s, it does not look as though much work was done on contribution of imputed incomes to total income, and hence to income inequality (Lerman & Lerman, 1986). These authors' findings for the USA suggested that changes in inequality from this source were not greatly significant, despite the increase in the value of the contribution of imputed income to GNP from 6.3 per cent in 1970 to 7.9 per cent in 1980 (1986, p.323). Estimates of imputed incomes used to be published in the summary versions of the national accounts. *South African Statistics 1995* (1997, p.21.9) gives the value of 'imputed financial services' at R14.5 billion out of a total GDP of R383 billion. Prior to 1950, the category was headed 'Fixed property and ownership of dwellings' (p.21.8). In more recent editions of the collection (e.g., *Statistics South Africa 2001*), no estimates appear.

the calculus, even if it be conceived of as a family transfer (*FT*). Doing so will clearly not circumvent the valuation problem.

Summing up, it may be seen that the Standing framework can account for most of what one would expect to find in the standard Haig-Simons definition of income. Missing from the schema are the components of the social wage identified above, housing, education, health and personal social services. Because of valuation problems of housing, education, and health, the largest items in the social expenditure budget, it is not possible to broaden the Standing definition to accommodate these 'missing' elements. Except where these elements of the social wage cause measurable changes in income levels (in which case it is not merely appropriate, but essential to take them into account), they cannot indeed be incorporated into the schema as it stands. The benefit incidence approach to the apportionment of government spending is inadequate; the challenge to find an alternative is one that will have to be taken up by others. It is time now to devote a little attention to the task of gauging the extent to which empirical flesh can be stuck onto the skeleton that has been created.

8. Toward the analysis of social income in South Africa

If the additions proposed above are made, social income, here conceived of as a comprehensive measure of people's command over resources, would, it is suggested, constitute a superior measure of well-being to any other single index currently in use. To claim this is not to entertain the conceit that the measure covers more than one aspect of well-being – manifestly, it does not. If, however, the argument is accepted that income poverty (and inequality) lose none of their importance merely because they are only one dimension of poverty (and inequality), then the expanded Standing concept of social income offers a more inclusive definition of income than those currently used in poverty studies. More than that, if suitable survey instruments were available to measure the magnitude of its components it would be possible to track, over time, important aspects of the nature of people's dependence (or inter-dependence)⁸⁷ on each other for economic well-being. Even if the resulting instrument is not one of the highest precision, it should still be able to tell us interesting stories.

From a working knowledge of the scope of major official household surveys, and an inspection of expressions (11a), (12) and (13a), it is clear that a substantial amount of the information required to measure social income is collected. Given that, it is

⁸⁷ Dependence and inter-dependence are used here in the sense that we all depend on each other in varying degrees for our existence. So advanced now is the division of labour in advanced economies that it is almost inconceivable for the vast majority of the population to be 'self-sufficient' in any meaningful sense. Even in developing countries, there can be no more than a handful of self-sufficient individual subsistence producers. The term is not intended to be understood as describing (in a pejorative manner) the conditions of people who rely on state grants for their existence. See Meth (2004) for a critical analysis of the use of the concept by conservatives as a means of limiting the growth of social protection systems.

possible to make rough estimates of its value. My early attempts at doing so, one of them written early in 2005 and published in November 2006 (Meth, 2006c), are beset by a number of problems, some disclosed by more recent work that I have done in the area of poverty estimates (Meth, 2006a, 2006b). As will be seen below, the gaps in the surveys are large enough to urge patience.

Estimating the value of social income is a daunting task, and certainly not one to be tackled in an exploratory exercise such as that conducted within these pages. It is possible, however, by overstating the difficulties of translating the components of social income into empirical form, to overlook some reasonably well-documented characteristics of, and changes in, the distributions of these components in South Africa. Part of the aim of the present paper is to draw attention to such sources of information.

8.1. Can existing surveys be used to measure social income?

Ideally, information on the components of social income should be gathered regularly, say every three years or so, by IESs. At present in South Africa, these surveys, conducted at roughly five-year intervals, have as their primary *raison d'être* the gathering of information for the estimation of the Consumer Price Index (CPI) – they are not intended to be used as poverty measuring instruments. The most recent IES, that for the year 2005/06, saw a change from the recall method of collecting information used in the 1995 and 2000 IESs to the diary method. Results from the 2005/06 IES, reportedly plagued by a number of problems, have only recently become available.⁸⁸ It is not clear that the 2005/06 IES will be capable of being used in the same manner as the 1995 and 2000 IESs have been. Poverty estimates made using those surveys have, however, been called into question, albeit for different reasons (Van der Berg et al., 2005, 2007). Two other major Statistics South Africa surveys, the annual GHS and the LFS (currently conducted twice-yearly and soon to be quarterly) collect a lot of the data required to measure social income. A long-awaited and sorely-needed poverty survey will finally be conducted by Statistics South Africa in 2008. In the design stage at the time the present paper was being knocked into final draft form (April 2008), the survey should, by rights, be able to cope with the social income concept. In the absence of an assurance that a poverty survey will be conducted on a regular basis, we turn to a survey, the LFS, which, with a little modification, may be able to do the job.

To determine how well the existing LFSs can answer questions about social income, it is necessary to sift through them with a fine-toothed comb. The expressions developed above from Standing's formulation of the concept of social income provide a framework for approaching the task in a systematic manner. The question of intra-household distributions of income cannot be solved other than by assuming that income is equally distributed within households. Unsatisfactory though this

⁸⁸ Income-in-kind items such as 'free' electricity, water and sanitation, items of considerable value to the poor, are excluded from consumption expenditure as measured by the 2005/06 IES (Statistics South Africa, 2008a, p.28a).

undoubtedly is, there is at present no alternative. Using this approach, we now derive from total household social income $SI(T)$ the value of the social income of any individual in the household (taking appropriate steps to correct for benefits that accrue to the household as a whole rather than to individuals within it):

$$SI_i = [? SI(E_{AT}) + ? SI(U_{AT}) + ? SI(N_{AT})] / N \dots\dots\dots (15)$$

Social income for each category of person in the household, it may be recalled, consists of the following components:

The employed:

$$SI(E_{AT}) = [(W_b + W_i) + W_2 + W_3] + (NWB + IB) + PB] \\ + [(C + IS + D) + (FT + LT)] - T \dots\dots\dots (11a)$$

The unemployed:

$$SI(U) = [SP + (UI + UA + D) + (DS + PI)] + [(C + IS + D) + (FT + LT)] - T \dots\dots (12)$$

The not economically active:

$$SI(N_{AT}) = [EB + PB] + [(C + IS + D) + (FT + LT)] - T \dots\dots\dots (13a)$$

Information on many of these income components is collected in the LFSs. As far as $SI(E_{AT})$ is concerned, apart from the questions in the LFS on the income, in the form of salary or wage, of the employed (formal or informal), there are questions that provide some information on:

W_j = flexible part of wage (bonuses, etc.)

NWB = non-wage benefits provided by firms to their workers

IB = contingency, insurance-type benefits provided by firms to their workers

IS = insurance-based income transfers from the state in case of contingency needs

Under the last-named are a clutch of benefits which, while not strictly 'insurance-based income transfers from the state' (IS), have something of their character. Among these are the benefits paid by the UIF. Mandatory for certain classes of worker, UIF benefits are funded primarily by contributions from both employers and employees. Contingencies covered are unemployment, maternity, sickness and survivor's benefits, with the bulk of claims being for unemployment benefits. Other benefits of this type include benefits payable in terms of the Compensation for Occupation Injuries and Diseases Act (COIDA) and the Occupational Diseases in Mines and Works Act (ODMWA). Some information is collected on UIF, but there is nothing in either the LFS or the GHS on the latter two benefit types.

Although one cannot gauge their magnitude for any particular individual (i.e., they accrue to the household), information is also collected in the surveys on:

FT = family transfers

LT = local community transfers, including any income from charity

A substantial proportion of the value of family transfers takes the form of migrant remittances. As noted above, the migrant module was re-introduced into the September 2003 LFS. It was repeated in the September 2004 LFS. This provides a rich lode of information, some of which will be considered below.

In South Africa, three types of benefit fall into the category of universal state benefits or citizenship rights (*C*). They are:

- the free, basic 'lifeline' water supply of six kilolitres per month;
- the free, basic 'lifeline' electricity supply of 50 units (kWh); and
- the free health care for women and children under the age of six years introduced as part of a Presidential Lead Project by the first democratic government.

No other benefits of this (universal) type exist in the country. The first two accrue to the household as a whole, the third to individuals within it.

There are numerous 'discretionary, means-tested transfers from the state' (*D*). Although the LFSs collect some information on these transfers, which we consider below, the GHS is far more comprehensive in its coverage of them.⁸⁹ Prominent among the transfers are the major social grants, all of them means tested. They are as follows:

- the state old age pension
- the child support grant
- the disability grant
- the care dependency grant⁹⁰
- the foster care grant.

In addition, there are discretionary benefits (*D*), for which fewer people qualify, such as the grant-in-aid and social relief. The latter is a temporary payment to families in distress, and the former a benefit made available to people not in institutional care who require full-time attendance because of incapacity. Information on both (Yes/No questions) is sought.

⁸⁹ It is possible to gauge from the GHS the numbers of individuals receiving grants. Simple alterations to the LFS would allow it to collect the same information. The numbers reported in the GHSs do not, however, match those in the administrative data base (SocPen).

⁹⁰ This is a grant for disabled children under the age of 18 years.

To the list of discretionary benefits could be added some of the components of what is described above as part of the social wage. The most significant of these is the housing subsidy (a household benefit), a means-tested grant whose purpose it is to permit the poor to obtain adequate shelter. Both the LFS and the GHS ask for information on housing subsidies. A comparison of the results of both with administrative records suggests that the question performs very poorly. The reasons for this are not obvious.

Neither the LFS nor the GHS collect any information on 'private income benefits, gained through investment, including private social protection' (*PB*). This is a matter of some importance when the concern is with social incomes at the upper (wealthy) end of the income distribution. It is also non-trivial towards the middle of the distribution, where private pensions or annuity payments from South Africa's large pensions 'industry' are an important source of income for the retired, who, because of their assets and incomes, are not eligible for the state old age pension.

So much for the components of social income of the employed. Some information is collected on the benefits that accrue only to the unemployed, mainly those who have been employed in the formal sector and have contributed to the UIF.

There is nothing in the LFSs on severance pay (*SP*). Retrenchment pay (clearly, a form of severance pay) for many of those in 'formal' employment is now mandatory. The numbers involved at any given moment are likely to be very small. The question on unemployment insurance (*UI*) is of the simple Yes/No type. In South Africa, there is at present no means-tested unemployment assistance (*UA*). Discretionary benefits (*D*) have been dealt with above. Some information on savings (*S*), once again of the Yes/No type, is available - there is, however, nothing on dissavings. On private insurance (*PI*) there is nothing in the LFS. Limited (Yes/No type) information is collected on local community transfers (*LT*). Migrant remittances (also dealt with above) are an important form of family transfers (*FT*). The LFS has both Yes/No-type and quantitative estimates of *FT*.

There are no terms in expression (13a), the social income of the not economically active, that are not present either in expression (11a), the employed, or expression (12), the social income of the unemployed. We need therefore dig no further. Let us now tabulate the information discussed above and spend some time looking at gaps.

8.2. Filling gaps in the LFS

As far as the question of obtaining information from national household surveys for the measurement of social income is concerned, it is necessary that a balance be struck between, on the one hand, the requirement that no significant aspects of the social income 'package' be neglected, and on the other, the requirement that questions are not asked for which no sensible answers will be forthcoming. Respondent burden, as ever, is always a consideration.

In Tables 7 and 8, coverage of the components of social income in the LFS is indicated by a tick in the appropriate box. The information is presented at three income levels (whose boundaries have not been defined). Table 7 covers the

components of social income of the employed listed in expression (6) (expanded where necessary to incorporate 'missing' dimensions of social income). Table 8 does the same for the components of the social income of the unemployed given in expression (7a), many of which are already present in expression (6). One feature of the tables worth noting is the omission of ticks from cells where judgements suggests that they are not required. It is not necessary, for example, to bother about state old age pensions or child support grants for those in the high-income column. The means test should ensure that they do not receive these benefits – positive values in these cells are as likely to originate in problems in the survey as they are in benefit fraud.

Standing's notion of social income is used as a means of conducting a preliminary examination of both the extent and adequacy of the information gathered on the components of social income by the LFS, as it stood in September 2004. Unfortunately, since then, a re-engineering process has stripped the LFS of much of what made it an interesting tool for the analysis of labour market dynamics. The disappearance, after September 2004, of the household section of the questionnaire, and with it the questions (however poorly asked) on social grants and household expenditure, robbed the instrument of its ability (a) to analyse the comparative labour market activities of grant-receiving and non-grant-receiving households, and (b) to allow for ease of imputation of income to implausible zero-income households. Equally important is the disappearance of the migrant module (present in the September 2004 LFS) from the surveys. Although declining in importance, migrant remittances still contribute significantly to the welfare of many desperately poor households. These retrogressions should be remedied as soon as possible.⁹¹

Extensive discussion of the results is not necessary. One point that needs to be made, however, is that to identify 'missing' components is not necessarily to make a criticism of the LFS. It may well be the case that the omission is entirely sensible – there may be many reasons why the magnitude in question does not lend itself readily to measurement in the survey. The point of the device is that it facilitates an audit of not just the LFS, but also of the other household surveys from which the necessary information may be obtained.

If at all possible, it is preferable for all of the information to come from the same survey instrument. When all of the relevant boxes cannot be ticked, it may be possible to use information from another survey, but generally speaking such activities need quite sophisticated tools – and even after these have been deployed, success is not guaranteed.⁹² Were it not for this, not to mention the fact that the 2004 GHS yielded

⁹¹ Statistics South Africa has decided, on what I have argued to be very flimsy grounds (Meth, 2008b), to conduct the LFS on a quarterly basis. At least one of these four surveys could be comprehensive enough to enable it to answer the social income questions.

⁹² In my estimates of poverty levels in 2004 (Meth, 2006b), because of the poor quality of the social grant data in the LFS, I devised a method for supplementing them with data from the GHS. Rough and ready would not be too uncharitable a way to describe it. Others I know of have tried more elaborate methods of compensating for deficiencies. In one case, an attempt to write an algorithm that would allow migrant remittance data from the LFS to be pasted into the GHS failed, and not for want of trying. Imputation techniques of great complexity often yield indifferent results.

quite different distributions of households and persons from those in the September 2004 LFS, especially in the lower expenditure categories (yet another problem that must be solved), the survey could have contributed to the filling-in of some of the unticked boxes.

As important as deciding what should be collected are the decisions that have to be taken on what should not be collected. To give an extreme example, it should be obvious to everyone that asking questions about AIDS, as is done in the GHS, is not sensible. It may well be that there are elements of social income about which it is pointless to ask questions. Intra-household transfers suggest themselves as one such. Information in areas like that may have to be sought, as suggested above, by other survey instruments, tailor-made for the job.

Table 7 - Components of social income covered in the LFS

			Low-income	Medium-income	High-income	
W Money wage	W_b Base wage		✓	✓	✓	
	W_f Flexible wage	Bonus, overtime				
CB Family or community benefits	FT Family transfers	Intra-household remittances	✓	✓		
	LT Community transfers	Charity	✓	✓		
EB Enterprise benefits	NWB Non-wage benefits	'Fringe' benefits				
	IB Insurance	Medical aid				
		Pensions				
SB State benefits	C Universal benefits	Schooling				
		Health				
		Transport subsidies				
	IS Social insurance	UIF: Unemployment		✓	✓	
		UIF: Sickness				
		UIF: Maternity				
		UIF: Survivors				
		COIDA				
	D Discretionary benefits	SOAP		✓		
		CSG		✓		
DB			✓			
CDG			✓			

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		DG	✓
		FC	✓
		GIA	✓
		SR	✓
		Housing subsidy	✓
		Free water	
		Free electricity	
PB Private benefits	PB	Investment income	
		Pension/annuity	

Table 8 – Coverage in the LFS of social income among the unemployed

		Low-income	Medium-income	High-income
SP Severance pay				
UI Unemployment insurance	As above			
UA Means-tested assistance	None			
D Discretionary benefits	As above			
S Savings		✓	✓	✓
PI Private insurance				
FT Family transfers	Remittances	✓	✓	
LT Community transfers	Charity	✓	✓	

8.3. Is the game worth the candle?

Concluding the study without at least posing the question of whether or not the end-result would justify the effort needed to capture the desired information, would not be appropriate. Several of the areas of ignorance to which attention has been drawn (the equivalising debate, intra-household distributions) are problem areas with which social science has grappled, and not very well, for decades. Unavailability of a suitable survey instrument for precision measurement of incomes, although a formidable problem, is probably less of an obstacle, however, than these two. Apart from the promise of the forthcoming poverty survey, the IES should not be ruled out as a potential source of income data. One of the reasons for focusing, in the discussion above, on the LFS was a concern that the 2005/06 IES would prove to be a less than satisfactory vehicle

for doing the job. The lack of a connection to a detailed household survey, as in the past – in 2000, to the LFS, and in 1995, to the OHS – also militated against the IES. A first glance at the IES results leaves us with mixed feelings – concern has been expressed, not least by Statistics South Africa, about the relatively low proportions of total expenditure devoted to food in poor households, and the high proportion devoted to transport.⁹³ By comparison with the 2000 IES, however, the 2005/06 survey was reportedly much more successful at measuring total household income. Using the disputed method of comparing total survey income with the (roughly) corresponding income estimates in the national accounts, Statistics South Africa shows that the 2005/06 IES ‘found’ 86.4 per cent of national accounts income, whereas the 2000 IES could find only 64.8 per cent of the corresponding magnitude (Statistics South Africa, 2008a, p.7).

It appears, therefore, that we now have at our disposal an instrument that may go some way towards addressing one of the major objections lodged by Van der Berg et al. (2005, 2007) against official statistics like the IES as sources of data for measuring income poverty, namely, that the surveys under-report income to such an extent as to render them virtually unusable. If it is acknowledged that capturing almost 90 per cent of income as estimated in the national accounts is grounds for turning with some confidence to the IES results for 2005/06, then we have available to us a portrait of poverty and inequality whose shocking depth will not be much reduced by the inclusion of the few bankable components of the social wage.⁹⁴

Mean and median per capita income and expenditure estimates from the 2005/06 IES are given in Table 9. Among the results in this table, many are of great interest. One is the proximity of means to medians right up to household decile eight, both of expenditure and of income.⁹⁵ Another is the proximity of income to expenditure in deciles 2, 3 and 4. In the very bottom decile, expenditure exceeds income by a sizable amount. It is not our purpose to inquire here as to why there are differences between the two measures – explanations will no doubt emerge in the fullness of time. Suffice it to say that the IES results are interesting enough to encourage the belief that careful survey work can provide usable information.

⁹³ See the Opinion/Analysis article by the Statistician-General, “Survey gives the scoop on how the poor spend”, in *Business Report* (online edition) 5 March 2008.

⁹⁴ As noted above, income-in-kind items such as ‘free’ electricity, water and sanitation, items of consumption of not inconsiderable value to the poor, are excluded from expenditure estimates.

⁹⁵ Income is ‘gross’, i.e., it includes social grants, and expenditure includes taxes.

Table 9 – Per capita income and expenditure: South Africa, 2005/06

Household decile ^a	Mean household size (persons)	Income R/month		Expenditure R/month	
		Mean	Median	Mean	Median
Bottom	2.8	128	134	172	178
Decile 2	3.3	242	248	250	251
Decile 3	3.8	292	292	293	294
Decile 4	4.4	334	332	321	321
Decile 5	4.7	407	405	377	374
Decile 6	4.9	519	515	464	463
Decile 7	4.6	790	782	670	666
Decile 8	4.4	1 317	1 298	1 086	1 071
Decile 9	3.8	2 826	2 743	2 361	2 299
Top	3.6	9 390	6 719	7 414	5 804
Total	3.8	1 636	577	1 352	523

Source: Statistics South Africa, 2008b, p.32.

Note: ^a The income and expenditure estimates have been obtained by dividing the household incomes given in the table from which the figures are extracted by the mean number of persons per household in each decile.

These household deciles are not 10 per cent of the total number of households, but rather the households that contain 10 per cent of the population with per capita incomes of various magnitudes. Statistics South Africa argues (persuasively) that grouping households thus (e.g. a four-person household with a R10 000 income is grouped with a two-person household with a R5 000 income rather than with other R10 000 households) is sensible. See footnote 8, p.33 of Statistics South Africa, 2008b.

Hopes for the future rest on the proposed poverty survey. In the meanwhile, the academic community will start to delve into the IES to see what it has to say about poverty and inequality. In 2005/06 prices, the Van der Berg et al. poverty line of R250 per capita per month would be about R325–330. That suggests that those in households all the way up to decile 3 will fall below the modest poverty line they used. So, too, will some substantial number of those in decile 4. Inequality is still stubbornly high – the IES suggests that decile 10 mean income was 94 times higher than that in decile 1. The top 10 per cent of the population received 51 per cent of all income, while the bottom 10 per cent received 0.2 per cent. About 660 000 households in the bottom decile reported no income from work or from social grants (Statistics South Africa, 2008b, p.33).

Presumably, the proposed poverty survey will rely on the recall method, so that the results it generates could differ substantially from those yielded by the IES (obtained, it may be recalled, using the diary method). If, however, triangulation via augmented GHSs and LFSs were to be attempted, a zone within which the poor lie, even when the social wage is taken into account, could probably be identified and narrowed down to meaningful limits. In short, it probably is worthwhile trying to develop as complete a measure of social income as is possible.

9. Conclusion

In an era of mass unemployment, the fragility of social incomes down at the bottom of South Africa's income distribution is vividly illustrated by survey after survey (by, for example, disclosing large numbers of workerless households), the much-vaunted provision of the social wage notwithstanding. If social indicators exist that could convince policymakers of the necessity to act before they were forced to do so by social upheaval, then no effort should be spared in the efforts to search for and perfect these instruments.

Economy in the description of the conditions or welfare of people in an economy has led to the creation of numerous indicators, some of them a single number, like the Gini coefficient or the Human Development Index. In essence, the present paper could be regarded as a preliminary step towards finding the most economical way of representing one aspect of welfare (income poverty) in a society containing a multitude of very poor people, and one that, moreover, is fractured by deep inequality. The study proposes the abandonment of the hope that any simple measure of the 'value' of the social wage will be found – such measures of the social wage that do emerge will inevitably be multi-dimensional, and hence, not susceptible to easy interpretation. Unequal movements in the components of multi-dimensional measures, in magnitude and possibly direction as well, will ensure that this is so.

In place of the social wage, the study suggests the use of an elaborated version of the concept of social income developed originally by Standing (1999, 2002). While acknowledging the multi-dimensional nature of poverty and deprivation, the study argues that measurement of one important aspect of it, income poverty, taking full account of the impact on disposable income of social spending, is possible. Estimates of income poverty making use of a measure of income augmented in this way will clearly be less susceptible to the charge of neglecting all that government does over and above the provision of (non-contributory) social grants to alleviate poverty, than estimates of income that do not.

Over and above its use as a means of ensuring that as much of total social income as can possibly be measured enters the income poverty calculation, the study proposes as well that the augmented Standing measure be used in something like the manner he intended, namely, as a means for tracking the process of commodification (or possibly decommodification,⁹⁶ in less market fundamentalist societies). The study goes a little further than Standing, however, in proposing that the accounting identities it describes, suitably filled with empirical data, would permit analysis of more than merely impressionistic quality. To this end, market and non-market benefits are rigorously separated throughout. Tracking changes in the relative proportions of

⁹⁶ The reader's indulgence for the use of these awful pieces of jargon is craved. As is sometimes the case, finding suitable synonyms is not easy. The reader's distaste is matched by my discomfort at being obliged to choose between abuses of the language of this sort, and the awkward circumlocutions required to replace them.

social income from these sources, both within and between regions, and over time, could yield an indicator of social change of considerable value.

As a preliminary step, the study proposes the use of the LFS, with some of the questions stripped out of it by the re-engineering process it has recently undergone restored to their former glory, as an instrument with which to measure social income. The examination of the LFS conducted above is, however, far from being exhaustive. One of the tasks before us is to examine the household surveys in greater detail, checking coverage and also reliability of the numbers generated. When that has been done, recommendations on a desirable way of proceeding can be offered. 'Correcting' the LFS, as suggested above, is one possible solution. It is also possible that the GHS, suitably modified, could be pressed into service. It may be that in future, IESs can be designed to serve the dual purpose of providing information for the CPI, as well as meeting the needs of poverty researchers. Another possibility is that the poverty survey, currently in the design phase, becomes a regular feature. In short, despite appearances, the household survey scene in South Africa is fluid. There are encouragingly critical engagements with Statistics South Africa on detailed questions (micro-issues) in the surveys. Macro-issues, however, have not enjoyed the same critical attention among researchers, the task having been left to the various specialists within Statistics South Africa (and the eminent consultants who have been brought in to assist). It is time for researchers (especially those looking at poverty and inequality) to make their voices more clearly heard on the big-picture questions.

A brief skirmish with the unavoidable problem of estimating poverty levels once income levels have been established has exposed a number of areas where fresh research is urgently required. High on the list of priorities is work that looks afresh at the question of equivalence scales. The paucity of knowledge, and the poor understanding of the implications of errors in the equivalence scales currently used, both at home in South Africa and further afield, act as significant obstacles to the solving of the problem of how to value in-kind benefits sensibly.

Reflection on the process of policy formation suggests that if it is to be evidence-based, the forms in which welfare results are presented to policymakers and the constituencies they represent (however indirectly) matter greatly. It should go without saying that whatever indicator of welfare is adopted, the surveys used to gather the necessary information about it must be both comprehensive (they must cover all, or nearly all, aspects or components of the measure), as well as accurate (statistically reliable). As far as the concept of social income is concerned, the present paper has paid some attention to the question of comprehensiveness. On the question of the reliability of those estimates it has had less to say (under-reporting of expenditure and income, the possible weighting problems in the spatial data, and the inadequacy of social grant data in the LFS spring to mind as obvious areas that need attention). There is still much work to be done.

Appendix 1: The continuing need to measure income poverty

In the past, estimates of income poverty have tended to dominate the field, primarily because income (or expenditure) data were all (or nearly all) that was available to researchers. With the flood of information on other aspects of well-being (welfare?) that has become available over the past couple of decades, as country after country has conducted large household surveys, a concentration on income only has become increasingly indefensible. To counter the possibly misleading impressions which the predominance of estimates of income poverty, especially of the simple headcount variety, has created, it has become *de rigueur* for anyone commenting on the matter to insist on the multi-dimensionality of poverty. If this prevents people from slipping into the belief that it is only income poverty that needs to be countered, then the caution is useful. There is, however, a risk of throwing out the baby with the bathwater: the fact that income poverty is only part of the story does not mean that it is not important – to lack the wherewithal to purchase the necessities of life is to be poor. Although measures of income poverty can only tell part of the story, and that part possibly not very reliably, they are indispensable.⁹⁷ Accordingly, this appendix offers a few words in defence of the development of yet another tool for measuring income poverty. It refers, in passing, to the extreme difficulties of constructing multi-dimensional measures of poverty that are simple and comprehensible.

A classic paper by Ravallion (1996) on issues in measuring and modelling poverty argues that in reply to the question of which indicators should be used as “Ingredients for a Credible Approach to Poverty Measurement”, four sets can be defended. They are:

- i. *A sensible **poverty measure** based on the distribution of real expenditure per single adult, covering all market goods and services (including those obtained from non-market sources).*
- ii. *Indicators of access to **non-market goods** for which meaningful prices cannot be assigned, such as access to non-market education and health services.*
- iii. *Indicators of **distribution within households**; measures of gender disparities and child nutritional status.*

⁹⁷ Responding to a host of criticisms of the income poverty line whose introduction in the USA in the 1960s was the outcome of research work she did, Mollie Orshansky had the following to say:

All of these criticisms have merit, but let us start from bottom to top. If money alone will not solve poverty, without it nothing else will work either! It is still a necessary if not a sufficient condition. It should also be remembered that in a money economy, housing, food and medical care are not substitutes for the things for which people must have cash. (Orshansky, 1969, p.39)

- iv. Indicators of certain **personal characteristics** which entail unusual constraints on the ability to escape poverty, such as physical handicaps or impairments due to past chronic undernutrition. (1996, pp.1332-1333, emphasis in original)

Augmenting Standing's concept of social income to form the basis of a 'sensible poverty measure' clearly leaves us some distance away from the real expenditure proposed in (i) above, providing us, as it does, with only a measure of potential consumption. On the other three sets of indicators, we can have little or nothing to say. Worth noting, however, is Ravallion's emphatic dismissal of the possibility in (ii) that "meaningful prices may be assigned to access to non-market education and health services". Equally worth noting is his statement, immediately following the list above, to the effect that "[not] all of these need be relevant in every context." There will be some circumstances in which it will be useful to measure poverty using expenditure (or income if we cannot measure that), and some where it will not. The wise course of action is to discover when it is appropriate to do so, and when it is not.

There is broad agreement that both income and non-income measures are essential. As Ravallion (1996, p.1331) has pointed out:

...it can be agreed that even the best 'income' and 'non-income' measures found in practice are incomplete on their own...

Poverty measures to inform a wide variety of policy choices are required, but the task of devising satisfactory measures that combine indicators of both types (income and non-income) is formidably difficult. Explaining the continued popularity of the readily comprehensible but possibly misleading measure, the poverty headcount,⁹⁶ Ravallion notes:

Its simplicity is clearly the main reason; for something of such wide public interest as a poverty measure, the seemingly esoteric rationales and formulae of other measures can be difficult to digest. (1996, p.1329)

Venturing beyond the relatively calm waters of income as conventionally defined leads to severe problems, as attempts to produce a 'correct money metric of welfare' have demonstrated. Here is Ravallion (1996) once more:

Considerable research has gone into the problem of identifying 'money metric utility' from demand behavior, including setting equivalence scales which give the differences in income needed to compensate families with different demographic compositions. There is a deep problem in identifying the relevant parameters of the (theoretically) correct welfare metric from conventional demand data. In applied work there is a tendency to note these identification problems but pass them by, and adopt a more narrow welfare

⁹⁶ Bourguignon & Chakravarty (2003, p.25) refer to Sen's (1976) dismissal of the headcount ratio and the poverty gap ("two crude poverty measures"). The Foster-Greer and Thorbecke (1984) decomposable measures have gone some way towards answering Sen's criticisms of income poverty measures.

metric (even though typically broader than 'net cash inflow' for example). This can be a poor substitute for the correct money metric of welfare. (1996, pp.1331-1332).

Essentially what is proposed in the present study is a measure of income that goes some way beyond 'net cash inflow'. That it falls short of a theoretically correct welfare metric' does not prevent its being useful in certain applications.

Multi-dimensional poverty measures have not yet reached the point where they can supplant income poverty measures. Despite recent advances, the obstacles facing the would-be constructor of multi-dimensional poverty measures are still formidable. This may be illustrated by reference to a recent attempt by Bourguignon and Chakravarty (2003) to do so. They apply the method they develop to rural Brazil in the years 1981 and 1987, measuring poverty in two dimensions, income and education. The one-dimensional measures of poverty move in opposite directions. Income poverty as measured by both the headcount ratio and the poverty gap ratio rises, while education poverty falls. In the multi-dimensional index, regardless of the relative weights of income and education, the headcount ratio falls. Giving each an equal weighting sees the poverty gap ratio fall slightly, while giving income greater weight sees the poverty gap ratio rise (Bourguignon & Chakravarty, 2003, Table 1, p.44). Since weighting cannot be performed without at least some degree of arbitrariness, it is not entirely clear what one should make of the results.

Critical of work that tries to deal with multi-dimensionality of poverty by assuming that:

...the various attributes of an individual may be aggregated into a single cardinal index of 'well-being' and that poverty may be defined in terms of that index...

which they liken to:

...considering multidimensional poverty as single dimensional income poverty, with some appropriate generalisation of the concept of 'income'...

they nonetheless point out fairly early on in their paper that:

*[the] fundamental point in all what [sic] follows is that a multidimensional approach to poverty defines poverty as a shortfall from a threshold on each dimension of an individual's well being. In other words, **the issue of the multidimensionality of poverty arises because individuals, social observers or policy makers want to define a poverty limit on each individual attribute: income, health, education, etc. ... All the arguments presented in [the] paper are based on this idea.** (Bourguignon & Chakravarty, 2003, pp.27-28, emphasis in original)⁹⁹*

⁹⁹ There is a footnote at the end of this passage which reads: "Note that poverty limits in all dimensions are defined independently of the quantity of other attributes an individual may enjoy." (p.48)

What this seems to suggest is that even if a multi-dimensional index shows declining poverty overall, rising poverty in any one of the attributes (dimensions) would still be cause for concern.¹⁰⁰ This reading receives support from the statement in the paper's abstract to the effect that

...an alternative way to take into account the multi-dimensionality of poverty is to specify a poverty line for each dimension of poverty and to consider that a person is poor if he/she falls below at least one of these various lines. (p.25)

A recent paper by Alkire and Foster (2007), which despite its availability on the Internet is marked 'not for citation or quotation', revisits the topic, proposing yet another way to set about solving the problem of constructing 'credible' multi-dimensional poverty measures. Not wishing to violate the authors' wishes, we steer clear of any discussion of their proposed methodology. One idea and one idea only (which they present on p.3 of their paper) will be taken from them, namely the proposition, common enough in the literature, that an approach which identifies as poor, in the multi-dimensional sense, anyone who is deprived in a single dimension, runs the risk of over-stating poverty. By contrast, an approach which requires deprivation in all dimensions before someone may be said to be poor, will tend to under-state the severity of the problem.¹⁰¹

It is not clear that the Bourguignon and Chakravarty approach discussed above avoids the first of these pitfalls – a much more careful reading of their piece than I have given it is necessary before a view can be taken on that head. The question can be sidestepped quite readily by an appeal along the following lines: in a fully monetised economy (a capitalist economy in which production is for exchange in the market) anyone who lacks the wherewithal (income) to purchase those services and commodities held to be socially necessary, and whose needs are not met by government or some other agency, is poor by definition. While there is no denying the multi-dimensional nature of poverty, there is also no denying the claim that an inability to consume caused by lack of income cannot reasonably be called anything other than poverty.

Final word in this matter may be drawn from the work of Amartya Sen, whose (1976) dismissal of the headcount ratio and the poverty gap ("two crude poverty measures") was referred to above. In *Development as Freedom* (1999), Sen points to the inescapable relatedness of income to capabilities "...since income is such an important means to capabilities" (p.90). A little further on, he cautions, however:

¹⁰⁰ The most comprehensive multi-dimensional indices in South Africa are those published in Noble et al (2006a). Indices for the (six) separate domains that together make up the index of multiple deprivation are not published, but may be obtained from the authors on request. The figures are for the year 2001 (based on the population census of that year). Details of the method by which the Indexes of Multiple Deprivation (IMDs) were constructed are given in Noble et al. (2006b).

¹⁰¹ In set theoretic terms, the first approach treats all those in the union of the sets containing individuals deprived in different dimensions as poor, while the second accepts as poor only those in the intersection of the different sets.

While [the] connections between income poverty and capability poverty are worth emphasizing, it is also important not to lose sight of the basic fact that the reduction of income poverty alone cannot be the ultimate motivation of antipoverty policy. (pp.91-92)

In general, the reduction of income poverty is a means, not an end, that everybody does (or should) recognise. There are, however, circumstances in which the distribution of cash grants to the destitute is the best way to tackle the problem, at least in the short- to medium-term. Some of those circumstances obtain in South Africa today. The state has a formidable capacity to collect taxes (and compliance is high). It also has a formidable capacity to distribute social grants,¹⁰² with remarkably little fraud, or benefit capture by the elite. What the state does not have in sufficient quantity, and will not be able to create for a long time, is the capacity to act developmentally (a declared ambition of the ANC in conference). A purist approach (i.e. one that is hyper-critical of conflation of ends and means) risks depriving the poor of a source of relief from destitution (cash) that could readily be dispensed.

¹⁰² Similarly impressive capacity is displayed in the distribution of social insurance benefits through the UIF.

Appendix 2: The components of social income

Social income of the employed

$$SI(E) = [W + EB + PB] + [SB + CB] \dots\dots\dots (1)$$

where:

W = the money wage

CB = the value of benefits or support provided by the family, kin, or the local community

EB = the amount of benefits provided by the enterprise in which the person is working

SB = the value of state benefits provided, in terms of insurance and other transfers, including subsidies paid directly or through firms

PB = private income benefits, gained through investment, including private social protection

The first four components of $SI(E)$ are broken down into the following sub-components:

$$W = W_b + W_f \dots\dots\dots (2)$$

where:

W_b = base or fixed wage

W_f = flexible part of wage (bonuses, etc.)

$$EB = (NWB + IB) \dots\dots\dots (3)$$

where:

NWB = non-wage benefits provided by firms to their workers

IB = contingency, insurance type benefits provided by firms to their workers¹⁰³

$$SB = (C + IS + D) \dots\dots\dots (4)$$

¹⁰³ An example would be maternity or illness benefits. These may be provided either by the state, the employer, or some combination of the two, drawing upon premiums paid variously by any or all of the parties, including workers.

where:

C = universal state benefits (citizenship rights)

IS = insurance-based income transfers from the state in case of contingency needs

D = discretionary, means-tested transfers from the state

$$CB = (FT + LT) \dots\dots\dots (5)$$

where:

FT = family transfers

LT = local community transfers, including any income from charity

Written out in full, therefore:

$$SI(E) = [(W_b + W_f) + (NWB + IB) + PB] + [(C + IS + D) + (FT + LT)] \dots\dots\dots(6)$$

Social income of the unemployed

$$SI(U) = [SP + (DS + PI)] + [(UI + UA + D) + (FT + LT)] \dots\dots\dots(7a)$$

where:

SP = severance pay

UI = unemployment insurance

UA = unemployment assistance (means-tested)

D = discretionary benefits

DS = dissaving (expenditure of previous savings; incurring of debt)

PI = private insurance

and, as before:

FT = family transfers

LT = local community transfers, including any income from charity

Social wage (social spending) benefits

These are tucked into the terms C and D in expression (4) above:

$$SB = (C + IS + D)$$

$$C = (Sc + Tr + H6 + PSN) + (El + Wa) / N \dots\dots\dots(8)$$

where:

S_e = universal free education for the poor up to Grade 10

T_r = transport subsidies

H_6 = free health care for women and under-sixes

PSN = primary school nutrition

and:

E_l = basic supply of electricity (50 kWh per month per household)

W_a = lifeline supply of water (6 kilolitres per month per household)

and:

N = the total number of individuals in the household

$$D = (S_e + W_r + H_6) / N \dots\dots\dots(9)$$

where:

S_e = sanitation

W_r = solid waste removal

H_6 = housing

and, as before:

N = the total number of individuals in the household

Expanding the wage concept

$$W = W_1, W_2 \text{ and/or } W_3 \dots\dots\dots(10)$$

where:

W_1 = earnings in the formal economy

W_2 = earnings in the informal economy

W_3 = earnings in public work programmes

and, as before:

$$W_1 = W_b + W_t$$

where:

W_b = basic component of earnings

W_f = flexible component of earnings

Social income of the employed, after tax - summary:

$$SI(E_{AT}) = [W + EB + PB] + [SB + CB] - T \dots\dots\dots (11)$$

Social income of the employed, after tax - expanded:

$$SI(E_{AT}) = [(W_b + W_f) + W_2 + W_3] + (NWB + IB) + PB \\ + [(C + IS + D) + (FT + LT)] - T \dots\dots\dots (11a)$$

Social income of the unemployed, after tax - expanded:

$$SI(U) = [SP + (UI + UA + D) + (DS + PI)] + [(C + IS + D) + (FT + LT)] - T \dots (12)$$

Social income of the not economically active, after tax - summary:

$$SI(N_{AT}) = [EB + PB] + [SB + CB] - T \dots\dots\dots (13)$$

Social income of the not economically active, after tax - expanded:

$$SI(N_{AT}) = [EB + PB] + [(C + IS + D) + (FT + LT)] - T \dots\dots\dots (13a)$$

Total household social income:

$$SI(T) = ? SI(E_{AT}) + ? SI(U_{AT}) + ? SI(N_{AT}) \dots\dots\dots(14)$$

Individual social income:

$$SI_i = [? SI(E_{AT}) + ? SI(U_{AT}) + ? SI(N_{AT})] / N \dots\dots\dots(15)$$

Appendix 3: Social income in the UK, 2005–2006

Table 10 – Effects of taxes & benefits on ALL households, UK 2005/06

	Quintile groups of ALL households					All h/holds	Ratio top/bottom h/holds
	Bottom	2nd	3rd	4th	Top		
<i>Income, taxes and benefits per household (£ per year)</i>							
Original income	4 230	10 760	21 630	35 790	68 700	28 220	16.2
plus cash benefits	6 500	6 830	4 830	2 910	1 710	4 560	0.3
Gross income	10 740	17 590	26 460	38 700	70 420	32 780	6.6
less direct taxes and employees' NIC	1 020	2 300	4 760	8 220	17 400	6 740	17.1
Disposable income	9 720	15 290	21 700	30 470	53 020	26 040	5.5
less indirect taxes	2 890	3 360	4 390	5 580	7 600	4 760	2.6
Post-tax income	6 830	11 930	17 310	24 900	45 420	21 280	6.7
plus benefits in kind	6 660	6 140	5 570	4 960	3 900	5 450	0.6
Final income	13 490	18 080	22 870	29 860	49 320	26 720	3.7
<i>Number of individuals per household</i>							
Children	0.7	0.6	0.5	0.5	0.4	0.5	
Adults	1.7	1.7	1.9	2.0	1.9	1.8	
Men	0.8	0.8	0.9	1.0	1.0	0.9	
Women	0.9	1.0	1.0	1.0	0.9	1.0	
People	2.3	2.3	2.4	2.5	2.3	2.4	
People in full-time education	0.7	0.5	0.5	0.5	0.4	0.5	
Economically active people	0.5	0.8	1.2	1.6	1.7	1.2	
Retired people	0.6	0.7	0.5	0.3	0.2	0.4	
<i>Household type (percentages)</i>							
Non-retired							
1 adult	14	10	15	15	19	15	
2 adults	11	12	18	29	38	21	
1 adult with children	13	7	5	2	1	6	
2 adults with children	15	17	21	23	20	19	
3 or more adults	8	10	15	16	12	12	
Retired	39	44	27	15	9	27	
All household types	100	100	100	100	100	100	
Retired + 1 adult with children and 2 adults with children (%)	67	68	53	40	30	52	

Source: Jones, 2007, Table 4, p.9

**Table 11 – Effects of taxes & benefits on NON-RETIRED households,
UK 2005/06**

	Quintile groups of NON-RETIRED households					All non-retired h/holds	Ratio top/bottom quintile
	Bottom	2nd	3rd	4th	Top		
<i>Income, taxes and benefits per household (£ per year)</i>							
Original income	6 700	19 450	31 070	43 040	77 260	35 510	11.5
plus cash benefits	6 140	4 500	2 500	1 490	1 170	3 160	0.2
Gross income	12 840	23 950	33 570	44 530	78 430	38 660	6.1
less direct taxes and employees' NIC	1 290	4 050	6 950	10 120	19 880	8 460	15.4
Disposable income	11 550	19 900	26 620	34 410	58 550	30 200	5.1
less indirect taxes	3 400	4 420	5 380	5 970	8 030	5 440	2.4
Post-tax income	8 150	15 480	21 240	28 430	50 520	24 760	6.2
plus benefits in kind	7 470	6 410	5 370	4 600	3 760	5 520	0.5
Final income	15 620	21 890	26 610	33 030	54 280	30 280	3.5
<i>Number of individuals per household</i>							
Children	1.1	0.9	0.7	0.5	0.4	0.7	
Adults	1.8	2.0	2.0	2.1	1.9	2.0	
Men	0.8	0.9	1.0	1.1	1.0	1.0	
Women	1.0	1.0	1.0	1.0	0.9	1.0	
People	2.9	2.8	2.7	2.6	2.3	2.7	
People in full-time education	1.1	0.9	0.7	0.5	0.4	0.7	
Economically active people	0.9	1.5	1.8	1.9	1.8	1.6	
Retired people	0.1	0.1	0.1	0.1	0.0	0.1	

Source: Jones, 2007, Table 6, p.13

Table 12 – Cash benefits for NON-RETIRED households, UK 2005/06

	Quintile groups of NON-RETIRED households					All non-retired h/holds
	Bottom	2nd	3rd	4th	Top	
<i>Contributory (Average per household, £, per year)</i>						
Retirement pension	230	630	580	400	400	450
Incapacity benefit	660	520	180	90	40	300
Jobseeker's allowance	60	30	10	0	0	20
Other	40	50	140	80	140	90
Total contributory	1 000	1 230	900	580	580	860
<i>Non-contributory</i>						
Income support	1 280	520	140	100	10	410
Tax credits	950	620	260	50	10	380
Child benefit	760	650	500	380	300	520
Housing benefit	1 290	580	170	40	20	420
Jobseeker's allowance	210	50	10	0	0	50
Sickness/disablement related	440	650	360	260	90	360
Other	220	200	150	90	160	160
Total non-contributory	5 140	3 260	1 590	910	590	2 300
Total cash benefits	6 140	4 500	2 500	1 490	1 170	3 160
Cash benefits as a percentage of gross income	48	19	7	3	1	8

Source: Jones, 2007, Table 7, p.14

Table 13 – Benefits in kind for NON-RETIRED households, UK 2005/06

	Quintile groups of NON-RETIRED households					All non-retired h/holds
	Bottom	2nd	3rd	4th	Top	
<i>Average per household (£, per year)</i>						
Education	4 370	3 340	2 410	1 960	1 210	2 660
National health service	2 840	2 930	2 860	2 530	2 410	2 710
Housing subsidy	60	20	20	0	0	20
Travel subsidies	80	80	80	100	150	100
School meals and welfare milk	120	40	10	10	0	30
All benefits in kind	7 470	6 410	5 370	4 600	3 760	5 520
Benefits in kind as a percentage of post-tax income	92	41	25	16	7	22

Source: Jones, 2007, Table 10, p.15

Table 10 shows that for households in the bottom quintile 'Original income' is £4 230 per annum. Cash benefits pump this up to £10 740. Taxes, direct and indirect, reduce it to £6 830. Benefits in kind are almost as large, totalling £6 660 per annum – when added, they yield a final income of £13 490.

Because the value of the state pension in Britain is low by comparison with national mean earnings,¹⁰⁴ the presence of a large proportion (39 per cent of the total) of pensioner households in the bottom quintile pulls 'original income' down (original income in the top quintile is 16 times as great). Removing the pensioners (Table 11) raises original income to £6 700; cash benefits drop slightly, to £6 140, to yield a gross income of £12 480. Taxes reduce this to £8 150, and benefits in kind of £7 470 drive it up to £15 620. Indirect taxes are fiercely regressive – 26 per cent of income in the bottom quintile and only 10 per cent of income in the top quintile; proportions are almost reversed (10 and 25 respectively) for direct taxes, making that part of the tax system mildly progressive.

So much for the aggregates – as always, the devil is in the detail. Cash benefits for non-retired households are divided into two categories, those originating from contributory schemes, for which a NIC is made, and those from non-contributory schemes. Two-thirds of the contributory benefit of £1 000 for people in the bottom quintile was in the form of the Jobseekers Allowance.¹⁰⁵ Of the £5 140 worth of non-contributory benefits, £1 280 came as income support, and £1 290 in the form of housing benefits, with tax credits being worth £950. These three benefits account for more than two-thirds of non-contributory benefits in the bottom quintile. Cash benefits account for 48 per cent of gross income (Table 12).

Of the £7 470 worth of in-kind benefits accruing to households in the bottom quintile, education accounted for £4 370, and health £2 840. Together, these two benefits make up 97 per cent of the total value of in-kind benefits (Table 13). The value of the education benefit to a household falls off rapidly as the income scale is ascended (it is £1 210 in the top quintile) – the wealthy can afford to send their children to fee-paying schools. Expenditure on health is thus only slightly pro-poor. If, however, educational expenditure per household is converted to a per school-going person equivalent, the value in the bottom quintile is £3 973 per annum, while that in the top quintile is £3 025, a far less significant difference. Expenditure on health falls to £2 410 per household in the top quintile, while household size falls from 2.9 in the bottom quintile to 2.3 at the top, implying that per capita expenditures do not differ much.

¹⁰⁴ About 17 per cent of full-time adult earnings in 2002, according to Hills, 2003, p.8.

¹⁰⁵ Among the poor is where some significant number of the unemployed are to be found. As Burgess et al. point out, however, "While we know that being unemployed is an important predictor of poverty status, much less is known about how poverty is related to *aggregate* unemployment" (2001, p.1). We need, therefore, to guard against making observations about the connections between the two.

Appendix 4: Education and the social wage

A distinction was made earlier between social spending (government expenditure on such standard items as health, education, welfare and housing) and social income (the income freed for additional consumption by individuals as a result of government expenditure on such items). There can be no question of excluding education from a benefit incidence study of social spending. For proof of this, one need look no further than Demery (2000) – he devotes page after page to explaining how such a study should be undertaken, using education as one example, and citing several studies along the way.¹⁰⁶ It is clear as well, however, that education cannot be excluded from an examination of social income as it has been defined above.¹⁰⁷ There are two aspects to consider. The first of these is concerned with what might be called the direct costs to the household of education. Even if education is 'free', households will incur costs in taking advantage of the service. These take two forms. One is a set of transactions costs. Typical of these are transport costs and the opportunity costs of the time required to gain access to the free or subsidised service. According to Demery, other household spending, such as that on books, uniforms, or extra tuition, adds to the benefit obtained from the free or subsidised service (2000, p.25). Social spending can reduce the amounts spent by households on some of these items, and hence may form part of social income.

The other way in which education enters social income is through one or both of its transfer functions. Demery points out that:

...in-kind transfers [of which education is one] improve the current well-being of the beneficiaries, and also enhance their longer-run income-earning potential. They therefore involve current and capital transfers to the recipients, and can be called the transfer effects (or the 'benefit incidence') of spending. (2000, p.2)

His concern is with these transfer effects, whose 'value' he assesses using the benefit incidence method. That method makes no pretence at attempting to estimate the 'value' to the individual of the transfer. Distinguishing between the different aspects of social spending – the direct cost, and the current and capital transfer aspects – is particularly useful when one attempts to hazard a guess at the value of education as a component of social income.

¹⁰⁶ The studies that he examines consider health, education, water and sanitation, and other infrastructure. Most attention is devoted to the first two (they stretch from page 10 to page 41 of the paper), primarily because of the difficulties of obtaining information on the other three (water supply and sanitation merits six pages, and other infrastructure, just half of page 47).

¹⁰⁷ It could be argued that it is not appropriate to treat it as part of social income because education produces (hopefully) a stream of earnings in the future, rather than being part of present consumption. Such a claim may be dismissed because it ignores the fact that state expenditure on education supplements or displaces expenditure by households.

Like housing, information on expenditure on education is collected by the IESs. A comparison of the figures for Africans in the lowest expenditure category in 1995 and 2000 suggests that expenditure in real terms rose over the period. The difference for the group as a whole was not large, but that for urban Africans was fairly substantial (from R41 to R77 per annum in 2002 prices). These figures could hide a great deal – they could, for example, be disguising a real reduction in schooling costs that has made possible the pursuit of higher education in any of the multitude of colleges (some of dubious repute) that have sprung up in recent times. Clearly, this is a topic requiring further research. Until that research can show that improvements to school funding at the bottom end of the income distribution have reduced costs incurred by the poor, it is argued that social spending on education should not be treated as bankable.

Once one moves away from a simple account of possible changes in direct costs in the form of school fees, transport, feeding and uniforms, resulting from changes in social spending (subsidisation) patterns, the murky area of the valuation of education in its role as human capital is entered. It is common cause that under the appropriate conditions, education creates an asset (human capital) on which a return (the stream of income it generates) is earned for the bearer. If expenditure by households on education is treated as investment expenditure made with the hope of earning a return in the future, then the displacement (whole or partial) of this expenditure by state subsidy is what the capital transfer referred to above comprises.¹⁰⁸ Either way of viewing these household expenditures leads to the conclusion that state subsidisation of them should increase social income. It is important to note that the contribution to social income is not the full value of the subsidy (the cost of production of education), but rather the amount by which the state subsidy reduces expenditure that households previously made on education.

The other effect (or at least, the intended effect) of the capital transfer is to reduce asset poverty. Since this study is concerned only with income poverty, there is no pressing need to enter onto the problematic terrain of the imputation of a value to an asset that may only be 'partially completed', and which is only likely to yield a stream of benefits at some point in the future.¹⁰⁹ So much uncritical comment is made about the value of education, however, that the matter does warrant a small digression. The problem gains added interest in South Africa because for many people, the asset that they have acquired may not give rise to a return (earnings) in the foreseeable future. Most school-leavers (particularly among the people with whom the study is concerned here) appear to be joining the ranks of the unemployed, not to say unemployable.¹¹⁰

¹⁰⁸ It is not clear that in a context of high unemployment, the supplementary costs of 'human capital investment' can ever be recouped.

¹⁰⁹ There is some discussion in Demery (2000) on how to treat capital expenditures in benefit incidence studies (p.32), but given his avowed intention to steer clear of the demand side of the story, he is silent on the question of education as a capital good.

¹¹⁰ This term has been used by politicians and senior government officials to describe some significant proportion of the unemployed. In May 2002, the most senior official in the Department of Trade and Industry asserted that some substantial proportion (unspecified) of South Africa's unemployed fell into this awful category. The claim appeared in a newspaper report under the heading "Most jobless people

This being so, the value of education as an investment good, at least in the short to medium term, could well be negative.¹¹¹

Extreme difficulties face anyone attempting to solve the problem of the value of education. As Barr (1998, p.322) points out, "...measuring costs ... presents no insuperable problems." When it comes to the measurement of benefits, however, he observes that "intractable problems" arise. Education (as consumption good) is valuable in its own right, so it has to have a value assigned to it. What this should be is anybody's guess. Estimating the value of education as an investment is difficult, even when there is full employment. Under conditions of mass unemployment, the difficulties become, if that were possible, even more intractable. With increasing unemployment, the research cited above supports the conclusion that investment benefits of education in the medium term for many people are zero, or at least very low (the policy implications of this are too awful to contemplate).¹¹² It is likely that for many poor South Africans, desperate to give their children a chance in life, the cost of education (parents have to pay school fees and buy school uniforms) could exceed the benefits (i.e. the return on the investment is negative). This outcome cannot be taken to mean that the poor people investing in their children's education are 'stupid' (a possible misinterpretation of the argument above, pointed to by a reviewer of the present paper). What it points to instead is a willingness to make huge sacrifices simply to gain a place in the queue for jobs. If, as has been suggested, those most

'are unemployable'" (*Business Day*, 8 May 2002). The first few paragraphs of the article read as follows: "SA's unemployment problem was largely due to the mismatch between the demand and supply of skilled labour in the economy, said trade and industry [sic] director-general Alistair Ruiters yesterday ... He said most of the unemployed were *unemployable* because they lacked the skills required by the economy as it restructured and became more capital intensive."

An article headed "'Massive' public works plan to deal blow to poverty and lift economy to new level" in the *Cape Times*, 17 October 2003, p.4, marking the release of the *Towards a Ten Year Review* synthesis report, sees government spokesman Joel Netshitenzhe referring to the 'two economies' hypothesis currently in vogue. "The first economy", the article says, "was advanced, was based on skilled labour and was internationally competitive. The second was marginalized and populated by those who were unemployed and *unemployable* in the formal sector." These statements are drawn directly from the *Report* (See PCAS, 2003, p.94, emphases added).

¹¹¹ A recent paper on the relationship between education and poverty reduction (and growth) concludes that the relationship between the two is positive, but that it operates with a very long lag? 20 years in the study on Africa by Appiah and McMahon (2002, p.39). If one needs reminding of the other benefits of education, these authors offer a list (on p.27) as long as one's arm of its highly desirable effects. A somewhat less sanguine set of results is reported by Kelly (1997, p.73), who failed to find any significant relationship of education with growth (health and defence were similarly lacklustre). This echoes the findings reported in Easterly (2002).

¹¹² The approach adopted by Keswell and Poswell (2002) is a technique for dealing with deviations from the conventional human capital theory caused by the presence of economically active non-earners (large numbers of them) in a random sample of the population. It might be rewarding to develop a more comprehensive theory of the value of investment in human capital under conditions of mass unemployment, one that explicitly takes into account the probabilities of an individual obtaining employment. With such a tool to hand, it could become easier to explore the policy implications of the awful dilemma posed by the possibility of zero, or even negative returns to investment in education. Such a theory should be capable of taking account of the possibility (likelihood?) of the depreciation of human capital during lengthy periods of unemployment.

likely to find paid employment will have passed Grade 12, and have in addition some post-matric qualification (Bancrjee et al., 2006, p.26), and will not face excessive job-search costs (p.47), the first step any parent hoping to propel their children out of poverty is likely to undertake is a (defensive) investment in education. That it may not be rewarded is possibly a measure of the imperfections of South Africa's labour markets.

The faithful, those far gone in the sin of conventional economics, would normally treat the problem of valuing education as one of estimating returns to investment in human capital, using tried, but not always trusted, techniques.¹¹³ Much of the work on the earnings-education relationship excludes non-earners from regression analyses, yielding results that are not truly representative for the sampled population. Keswell and Poswell (2002), critical of such usage, developed a technique (see their Appendix E) that does not fall into this trap. Their results, particularly those drawn from the September 2000 LFS, show returns falling steadily up to the 10-year mark. They rise rapidly after 12 years of education have been acquired. Keswell and Poswell report that:

...including the unemployed in the analysis serves to lower returns at the levels of education for which the highest proportion of the unemployed are found. The major fraction of surplus labour in South Africa is found among those who have relatively low levels of education, thus contributing to the strong form of convexity observed...
(2002, p.20)

Rather obviously, the presence of the unemployed among the sample pulls down the rate return for the whole sample. To do so, the rate of return to investment in education must be lower than that for the employed. A question that cannot at present be answered is, by how much?

¹¹³ Keswell and Poswell (2002) are critical of the conventional literature that, over decades, produced results suggesting declining rates of return to increasing levels of education. This has, as policy implication, the prescription that "...spending priorities in poor countries should focus on primary education..." (pp.7-8). The received wisdom is being overturned (having also been disavowed by those who promoted it most assiduously) in recent times by research which discovers a convex relationship between earnings and education. In such a world, returns to investment in education fall from the low level they attain with primary schooling before beginning to rise with high levels of education, particularly of tertiary education.

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