

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

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Abstract

Given how the South African government conceptualises poverty, the paper argues that it is in the 'intersection' between access to income, services and assets that the issue of overall poverty trends and the magnitude of the 'second economy' since 1994 should be examined. This paper reflects on various pertinent issues in relation to South Africa's poverty dynamics and it attempts to 'measure', after clarification of relevant concepts, the 'second economy' challenge in South Africa. Using some tentative definition, the total number of people in the 'second economy' is about 9.5 million, of which 31 percent is women. In terms of age profile, it would seem that it is relatively older people that are found in the 'second economy'. Broadly, people in the 'second economy' are relatively widely distributed across South Africa, with the Eastern Cape Province having most of 'second economy' individuals.

In brief, the paper firstly summarises old and new theoretical and technical issues on measuring poverty, secondly analyses poverty from different perspectives and highlights various research findings on poverty trends in South Africa and thirdly clarifies the notion of 'second economy' and attempts to 'measure' it. The analysis, as tentative as it is at this stage, demonstrates why there is an ongoing debate in South Africa about poverty and 'second economy'. Clearly, the extent and the magnitude of the challenge that South Africa, like many developing countries, is grappling with are vast. As a way forward, a more rigorous analysis of poverty and 'second economy', drawing from the methodology used in the paper, could be pursued further. This would hopefully assist the dialogue about poverty and 'second economy' in South Africa. More importantly, policy and programmatic responses to poverty and 'second economy' could benefit from a systemic enquiry on relevant dynamics.

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1. Introduction

Within the South African government, it is generally repeatedly argued that the central programme of government aimed at bettering the lives of all South Africans focuses on poverty alleviation through programmes that address income, human capital and asset poverty. Consequently, it is in this 'intersection' between access to income, services and assets that the issue of overall poverty trends and the magnitude of the 'second economy' since 1994 could be examined.

This paper reflects on various pertinent issues in relation to South Africa's poverty dynamics and it attempts to measure, after clarification of relevant concepts, the 'second economy' challenge in South Africa. It does not deal with the equally important challenge of inequality, which is a big study in its own right. After a brief theoretical exposition on measuring poverty, section three analyses poverty from different perspectives and highlights various research findings on poverty trends in South Africa. The fourth section clarifies the notion of 'second economy', followed by the last part of this paper which presents an attempt to measure the extent of the 'second economy' in the South African society. I conclude with remarks to pave the way forward on the relevant issues that this paper deals with.

2. Measuring Poverty: A Theoretical Model

There are three most common (money-metric) measures of poverty: headcount (P_0), poverty gap (P_1) and squared poverty gap (P_2). There are many convincing reasons, both conceptual and practical, for examining poverty through these measures. One of the reasons is that such measures, taken together, are comprehensive enough, as each one of them makes it possible to be more specific on the nature, scope and magnitude of poverty being dealt with and thus allows targeted policy and programmatic responses.

The headcount index (hereinafter termed P_0 , generally simply denoted by HC) measures the proportion of the population whose consumption (or other measures of standard of living) is less than the poverty line. Formally, that can be expressed as:

$$HC = \frac{1}{N} \sum_{i=1}^q 1 = \frac{N_q}{N} \quad (1)$$

where N = total population; z = poverty line; y_i = consumption or expenditure of household i and $y_1, \dots, y_q < z < y_{q+1} \dots y_n$ and N_q = number of the poor in the population.

It is clear from reading equation one that the headcount index is relatively easy to construct and to understand. However, it ignores differences in well-being between different poor households. That is, it assumes all poor people are in the same situation. It does not cover the depth of poverty of the poor. By implication, P_0 does not change whether individuals below the poverty line become poorer or 'richer', as long as they remain below the line.

The poverty gap index (P_1 , denoted as PGI) is the average, over all people, of the gaps between poor peoples' living standards and the poverty line. It indicates the average extent to which individuals fall below the poverty line (if they do). In simple mathematical terms, P_1 measures the poverty gap as a percentage of the poverty line, as shown in equation (2):

$$PGI = \frac{1}{N} \sum_{i=1}^q \left(\frac{z - y_i}{z} \right) \quad (2)$$

P_1 can be interpreted as a measure of how much (income) would have to be transferred to the poor to bring their expenditure up to the poverty line. Unlike P_0 , P_1 does not imply that there is a discontinuity at the poverty line. However, both P_0 and P_1 cannot capture differences in the severity of poverty amongst the poor. P_0 and P_1 do not consider possible inequalities among the poor.

The third and the last common poverty measure is the squared poverty gap index (P_2 , simply denoted as *SPGI*). It is a weighted sum of poverty gaps (as a proportion of the poverty line), where the weights are the proportionate poverty gaps themselves, as indicated in equation (3):

$$SPGI = \frac{1}{N} \sum_{i=1}^q \left(\frac{z - y_i}{z} \right)^2 \tag{3}$$

As equation (3) demonstrates, P_2 takes inequalities among the poor into account. For instance, a (cash) transfer from a poor person to an even poorer person would reduce the index and a transfer from a very poor person to a less poor person would increase the index. However, it has been argued that P_2 is very difficult to read and interpret. As such, policy making for addressing P_2 can be cumbersome. As a result, in policy terms, it is advisable that the three poverty measures presented above are dealt with in totality. Each one of the poverty measures described above has merits and demerits. They are, however, very useful in simplifying the poverty problem being addressed at a particular point in time.

As such, the three measures of poverty are better calculated and responded to in total, with the clear aim of either alleviating or eradicating poverty. In literature, the poverty measures presented above are known as the Foster-Greer-Thorbecke (FGT) family of poverty measures.

FGT measures of poverty can be expressed as¹:

$$FGTPI = \frac{1}{N} \sum_{i=1}^q \left(\frac{z - y_i}{z} \right)^\alpha \tag{4}$$

These measures can, always, be defined for $\alpha \geq 0$. Where α is a measure of the sensitivity of the index to poverty. As equation (4) shows, if $\alpha=0$ is used it implies the headcount index; if we use $\alpha =1$ we have the poverty gap index and if we use $\alpha =2$ we have the squared poverty gap index. So, by varying the value of parameter α , FGT measures take into account the prevalence, intensity and most importantly reflect the degree of inequality among the poor. However, it is important to note that all the poverty measures presented above rely on z , without z one cannot calculate these poverty measures. As a result, many researchers and scholars researching poverty in South Africa have assumed or rather predetermined their own poverty lines (because South Africa does not yet have a formal poverty line²).

1 Drawn from Lipton, M. & Van der Gaag, J. (1993), *Including the Poor*, World bank/IFPRI

2 At least at a point of sending off this paper, there was not yet a Cabinet approved poverty line.

It may be worth highlighting that there have been many variations of the FGT family of poverty measures, especially those aimed at capturing the extent of inequality. Also, some scholars have come up with other measures that are equally gaining prominence in poverty dynamics literature. For instance, Kanbur and Mukherjee (2007) recently developed and estimated an index (that is, *Index of Poverty Reduction Failure*) that captures the extent of poverty relative to the resources available in a particular society to eradicate poverty. Also, there is (Amartya) *Sen Poverty Index* which captures dynamics in well-being of those below the poverty line. In addition, efforts to measure the multi-dimensionality of poverty continue (See for instance Kakwani, N. & Sibling, J. (Eds.) 2008).

3. Analysing Poverty: Different Perspectives

To start with, there is an evident theoretical and operational nexus between the conceptualisation of poverty, the definition of poverty and the measurement of poverty, particularly indicators or measures used to estimate poverty in any society. In essence, therefore, critical to conceptualisation and definition of poverty are values, principles and aspirations that inform the developmental goals of the kind of society that is envisioned.

In most countries, the definitions of poverty are largely based on money-metric measures as reflected in adopted poverty lines, as alluded to in Section Two. Income (or consumption – more often) is usually used as a valid proxy for well-being and quality of life. However, many have argued that poverty is a complex and a multi-dimensional socio-economic phenomenon.³ The much debated Human Development Index (HDI) and the Capability Poverty Measure (CPM) are examples of approaches to poverty definition that capture and emphasise the multidimensional nature of poverty (Magasela, 2005).

In South Africa, there are increasingly more studies that analyse poverty and its nature and magnitude from the perspective that poverty is multidimensional. For instance, Statistics South Africa report (Stats SA, 2000), *Measuring Poverty in South Africa*, conceptualised poverty as:

‘The denial of opportunities and choices most basic to human development to lead a long, healthy, creative life and to enjoy a decent standard of living, freedom, dignity, self-esteem and respect from others’.

This definition draws inspiration from Amartya Sen’s (1999) ‘Development as freedom’. Gumede (2007) reproduced the description of human capabilities that Sen referred to as a set of valued things that it is feasible for a person to do – from dependable access to adequate nourishment, to having the possibility of being a respected participant in community life.

The Universal Declaration on Human Rights, the International Covenant on Economic, Social and Cultural Rights, the Copenhagen Declaration on Social Development and the Millennium Declaration are some of the examples of treaties that influence the human capability approach to poverty reduction and/or eradication. For instance, the Universal Declaration of Human Rights has broadened the scope of social security to also deal with concerns of nations and governments in the developing world wishing to marry social security with poverty reduction.

3 Ranging from Amartya Sen, Martin Ravallion, Ravi Kanbur, Nanak Kakwani, etcetera, many scholars of development have cautioned against the exclusive use of money-metric measures in estimating poverty. For most recent arguments, see for instance Amartya Sen’s (2006) essay in Grusky and Kanbur (2006).

Recent developments in literature suggest that poverty analysis is a forever ‘improving’ enterprise. For instance, Barrett’s (2005) edited book contains chapters that examine the role of and dynamics in communities that impact on poverty levels in those respective communities. Similarly, Bowles et al (2006) edited book on poverty traps provide some new insights on measuring poverty traps. Lastly, the recent edited book by de Janvry and Kanbur (2006) contains essays, in honour of Erik Thorbecke, that deal with poverty measurement issues such as poverty lines and poverty indices. There are also various recent country⁴, regional and continental focuses. For instance, the 2006, volume 42 (2), *Journal of Development Studies* has a special focus on poverty dynamics in Africa. Also, there have been significant efforts aimed at combining qualitative and quantitative approaches in measuring poverty. See, for instance, the 2007 special issue of *World Development* volume 35(2).

3.1 Concepts and Definitions

On the understanding and definition of poverty, a critical issue is the interrelatedness and interconnectedness of concepts, definitions, explanations and policies (Townsend, 2000). As Ravallion (1992) observes, (poverty) measurement and policy issues are often inseparable. Bradshaw (2000) makes a related, however debatable, point that in poverty research the measure determines the result. It is clear, therefore, that the definitions and measurements of poverty ought to inform programmes and policies aimed at poverty reduction and/or eradication, as Magasela (2005) argues.

3.1.1 Approaches in Defining Poverty

In poverty analysis literature, two contrasting approaches to the meaning and understanding of poverty can be discerned, namely narrow definitions and broad definitions. Narrow definitions of poverty are seen as minimalistic and are based on subsistence. For instance, the World Bank’s definition of poverty as ‘the inability to attain a minimal standard of living’ measured in terms of basic consumption needs or income required to satisfy those needs is indicative of the narrow poverty definition approach.

On the other hand, broad definitions of poverty are seen as ideal. They emphasise social inclusion, involvement and participation specific to a given society at a specific time. In this approach the standard of living and quality of life of an individual, household or family is assessed in the context of and in relation to socio-economic and resources profile of society. Townsend (1979) captures this relative approach, in the way poverty is measured and analysed. Townsend contends that individuals, families and groups in the population can be

4 In South Africa in particular, many scholars/researchers (including Julian May, Ingrid Woolard, Haroon Bhorat, Murray Liebbrandt, Andries du Toit, Charles Meth, Servaas van der Berg, etcetera) have published many papers on poverty in South Africa. See references in this paper, for instance.

said to be in poverty when they lack the resources to obtain certain types of diet, participate in certain activities and have the living conditions and amenities which are customary, or at least widely encouraged or approved, in the societies to which they belong.

In economic literature in particular, there are also so-called absolute and relative definitions of poverty. Absolute definitions of poverty refer to poverty measures that do not depend on the average level of poverty in any country in a given time. Whilst relative measures of poverty categorise the poor into discernable groupings for purposes of comparisons, say the poorest 20 percent of the population.

Lastly, research on poverty dynamics adapts approaches that can be broadly classified into various categories: budget standards, income measures, deprivation indices, consensual and democratic definitions of poverty, human development indices, indicators of multiple deprivation and 'international poverty definitions' (such as US\$ 1 a day) mainly used for international comparison (Magasela, 2005).

3.1.2 Poverty Definitions

It is incontrovertible that defining poverty has to begin with understanding and describing the poor. One of common ways of doing this is drawing a line, determining poverty as briefly demonstrated in Section Two. Notwithstanding their inherent limitations, poverty lines are important in many respects, including their role in monitoring whether people are getting ahead or falling behind and also for targeting. There are well known schools of thoughts on how the poor are defined and understood. For example, many countries use the World Bank's definition of the poor which identifies the poor as people who live on less than \$1 per day. This may sound as oversimplifying. In essence, the figures are weighted in purchasing parity terms. For instance, Barrett et al (2006: 168) estimate, using World Bank's 2005 data, that there is a 'population-weighted poverty gap of 42 percent for sub-Saharan Africa relative to the \$2 per day per capita international poverty line'.

With regards to South Africa, there is not yet an official singular definition of the poor. Instead, there are various departmental definitions of the poor. The opening sentence in the introduction of this paper has been used by many as motivation rather than an admission of a shortcoming on defining and measuring poverty in South Africa. That is to say that government is addressing all aspects of deprivation, through a multitude of interventions including economic policy related interventions. It has been raised that government departments use different poverty definitions.⁵ For instance, the formula used to determine intergovernmental fiscal allocations classifies households earning less than R800 per month as poor whereas service delivery departments use various thresholds for targeting the poor or the indigent.

5 Refer to *Towards a poverty strategy for South Africa: a discussion document on the framework*, unpublished paper of the Presidency's Policy Unit.

3.1.3 Poverty Lines

The most commonly used approach to setting poverty lines is the ‘cost of basic needs’ approach. The other one is the ‘food-energy intake’ method. The ‘cost of basic needs’ approach is anchored on the nutritional requirements for good health. As appealing as it appears, it should be noted that the ‘cost of basic needs’ approach used to determine poverty lines differs from one country to the other as the food items consumed by the poor differ across the globe. Ravallion and Lokshin (2006) examine a number of technical issues pertaining to poverty lines and their consistencies and/or lack thereof. They define a poverty line as ‘the money needed to achieve the minimum level of well-being that is required to not be deemed poor’. In a nutshell, Ravallion and Lokshin (2006: 32) prefer the ‘cost of basic needs’ approach, with its caveats, because poverty lines obtained through it have a potential to be ‘utility-consistent’ among other things.

3.2. Overview of Analyses of Poverty in South Africa

This overview section focuses on the 1990s onwards. There are peculiar difficulties pertaining to comparative data in South Africa, deriving in the main from the fact that, prior to 1994 a number of regions in the country – largely the poorest areas – were classified as ‘independent homelands’ and therefore excluded from the country’s main dataset.⁶ This has, as expected, led to the unsettled debate on whether poverty has increased or not in South Africa since 1994 in particular. Researchers and analysts are hamstrung by the data and methodological inadequacies, although various attempts are made to get as accurate a picture of the transformation of the South African society as it is possible.

For instance, the recent assessment of the social environment and challenges facing South Africa, undertaken by government, yielded a myriad of useful information on developments since 1994. This assessment is known as the Macro-Social Report (MSR), elaborates on various issues highlighted in the *Ten Year Review*⁷ and the scenario planning processes, both undertaken at the end of the first decade of freedom in South Africa. The MSR, published as *A Nation in the Making* discussion document, broadly suggests that South Africa is a society in dynamic change, both materially and spiritually. It also suggests that there is an improving sense of an overarching identity and that there are increasing levels of social cohesion, in terms of unity, coherence, functionality and pride among South Africans. In terms of material conditions of South Africans, the MSR concludes that although the quality of life of the majority of South African citizens has improved there are still major challenges that need to be addressed.

6 For instance, the 1995 Income & Expenditure Survey (IES) was not based on clearly demarcated and adequately mapped enumeration areas, whereas the 2000 IES was based on improved demarcation and listing of households, based on Census 1996.

7 The *Ten Year Review* was published in 2003. At a point of finalisation of this paper, the *Fifteen Year Review* was being undertaken.

3.2.1 Early 1990s

The *Poverty and Inequality in South Africa* report (May 1998) was one of earlier contributions to the understanding of poverty in post-apartheid South African society. It has been argued that, compared to other post-1994 studies of poverty, May (1998) examined the poverty issue in a comprehensive manner. Prior to that, there was a report titled *Key Indicators of Poverty in South Africa* (1995). The *Key Indicators of Poverty in South Africa* study estimated the extent of poverty in South Africa in the early 1990s (see for example Table 1).

Table 1: Comparison of selected poverty lines for South Africa (in 1993)⁸

Types of poverty lines	Rand Amount/Month Cut-off	% of population below the poverty line
1. Population cut -offs at the: 40 th percentile of households ranked by adult equivalence 20 th percentile of households ranked by adult equivalence	301,1 177,6	52,8 28,8
2. Minimum per capita caloric intake (at 2 000 Kcal per day)	143,2	39,3
3. Minimum per capita adult -equivalent caloric intake (at 2 500 Kcal per day)	185,5	42,3
4. Minimum and supplemental living levels per capita set by the Bureau of Market Research, University of South Africa Supplemental Living Level (SLL) Minimum Living Level (MLL)	220,1 164,2	56,7 44,7
5. Per adult equivalent Household Subsistence Level (HSL) set by the Institute for Planning Research, University of Port Elizabeth	251,1	36,2

⁸ Refer to the Report of the Reconstruction and Development Ministry, *Key Indicators of Poverty in South Africa* (October, 1995).

There are other reports and documents on poverty in South Africa which have been central in directing policies in government. Everett (2003) contends that the most common feature of these reports and documents is the inconsistency in the choice of poverty definition and measurement reflecting the 'many meanings of poverty within government'.⁹

Among the earlier reports, a relatively more comprehensive approach to understanding poverty in South Africa has been presented in Statistics South Africa's *Measuring Poverty in South Africa* (2000) as reflected in introductory remarks of section three.

It has been reported that, before the Statistics South Africa report, the Taylor Commission's report of Committee of Inquiry into a Comprehensive System of Social Security for South Africa (2002) approached poverty dynamics in South Africa from a legal and constitutional perspective, using the constitutional framework as the basis for understanding poverty and state intervention through social protection measures. Emphasis on socio-economic rights is clearly articulated and their importance when making policies is persuasive.

3.2.2 The late 1990s and the Recent Past

There has been a growing body of research on poverty in South Africa showing levels of poverty and trends over time and more recently examining poverty dynamics in specific localities.¹⁰ For example, Whiteford and Posel (1995), Woolard and Leibbrandt (1999), Budlender (1999), May et al (1999), Roberts (2000), Borhat et al (2001), Meth and Dias (2004), Roberts (2005), Hooegeven and Özler (2005), Van der Berg et al (2005 and 2007), Borhat et al (2006 and 2008) and others. Table 2 shows some of the recent measures of poverty used by these researchers.¹¹

9 For example, in 1995 the President's office assembled a commission to investigate labour market policy in South Africa. The result was the report titled *Restructuring the South African Labour Market* which also based its understanding of poverty and estimation of poverty levels on *Key Indicators of Poverty*. The Report of the Lund Committee on Child and Family Support (August 1996), based its understanding, definition and levels of poverty in South Africa on the Minimum Living Level (MLL). The *White Paper on Population Policy* (August 1997) mentions the eradication of poverty as one of the guiding principles of population policy and uses the Minimum Living Levels in defining and measuring poverty. Lastly, the *National Spatial Development Perspective* (PCAS, 2003) document also uses MLL measures when analysing poverty in South Africa.

10 Most of the studies that examine poverty dynamics focus or use the KwaZulu-Natal Income Dynamics Study. See for instance, Carter et al (2001), Adato et al (2006) and May et al (2007).

11 Refer to *Towards a poverty strategy for South Africa: a discussion document on the framework*, unpublished paper of the Presidency's Policy Unit. Also, processes are still underway for determining an official poverty-line for South Africa.

Table 2: Recent Measures of Poverty in South Africa

Type of poverty measure	Threshold in 2000 Rands	% of individuals below the poverty line (2000 IES)
Poverty line set at per capita expenditure of the 40th percentile of <i>households</i>	R346 per capita	54.9%
Stats SA (as reported by Hoogeveen and Özler) - lower bound	R322 per capita	52.6%
Stats SA (as reported by Hoogeveen and Özler) - upper bound	R593 per capita	70.4%
Dollar a day - International poverty line of US\$370 (1985 prices) per capita per annum	R81 per capita	8.1%
Two dollars a day - International poverty line of US\$370 (1985 prices) per capita per annum	R162 per capita	27.0%
Poverty line implied by the Old Age Pension means test for married persons, assuming a household of 5 persons and no non-elderly income earners	R454 per capita	63.4%
Indigence line of R800 per household per month (in 2006 prices)	R573 per household	11.7%
Indigence line of R2400 per household per month (in 2006 prices)	R1720 per household	55.1%

As reported in *South Africa's Millennium Development Goals Country Report* (2006), in terms of money-metric measures, according to Statistics South Africa, using national estimates of poverty in South Africa in 2000, 11 percent of people were living on less than US\$1 a day and 34 percent were living on less than US\$ 2 a day.

Although still contested¹², in the recent past there have been many studies that show that poverty is declining in South Africa. For instance Borat et al (2006) in analysing welfare shifts in the post-apartheid period, they show that access to formal housing grew by 42 percent and 34 percent for deciles 1 and 2 between 1993 and 2004, and 21 percent and 16 percent for deciles 3 and 4. Access to piped water increased by 187 percent in decile 1 over this period, while the growth was 31 percent in the 4th decile. Access to electricity for lighting for the poorest households – those in decile 1 – grew by an extraordinary 578 percent. It seems obvious from their study that the delivery of basic services has been strongly pro-poor. Borat et al also show that while in 1993 40 percent of all South African households were asset- (and service-) poor, by 2004 this figure had been almost halved to 22 percent.

Another recent study showing decline in poverty in South Africa was undertaken by Van der Berg et al (2005). They find that poverty stabilised since the political transition and decreased since 2000. They utilise a poverty line set at R250 household income per month or R3 000 per year in 2000 Rands. They conclude that, whilst the proportion of people living in poverty

12 The work (and publications) of Charles Meth and Van der Berg et al in particular have presented different estimates, with Meth and Dias (2004) showing an increase in the number of poor people specifically between 1999 and 2002. Meth (2006) seems to agree (with Van der Berg et al's estimates) that it is likely that poverty headcount declined between 2000/2 and 2004.

increased during 1993-2000, in more recent years the proportion of poor people appears to have declined substantially – 18.5 million in 2000 to 15.4 million in 2004. Over the same period, the number of non-poor rose from 26.2 million in 2000 to 31 million in 2004.

Van der Berg et al also show that per capita real incomes of individuals comprising the poorest two population quintiles rose by more than 30 percent during 2000-2004. In relation to this, they conclude that for all poverty lines ranging from R2 000 to R4 000 per capita income per annum, poverty decreased since about 2002 after a modest rise at the end of the previous decade. They argue that the impact of the recent expansion of social grants on the poor is likely to have been major, considering that real social assistance transfers from government increased by some R22 billion during 2003-5 (in 2000 Rands), an amount well in excess of R1 000 per poor person.

Lately Bhorat et al (2008), using poverty lines of R174 per person per month and of R322 per person per month, in 2000 prices conclude that during 1995-2005 both absolute and relative poverty have reduced. They also show that both poverty lines and the poverty gap index declined. In particular, at R322 per person per month, money-metric poverty declined from 53 percent in 1995 to 48 percent in 2005. At R174 per person per month, poverty declined from approximately 31 percent to 23 percent. Linked to this are improvements in job creation and social transfers to the most vulnerable. For instance, van der Berg et al (2007: 11) using the Labour Force Survey show that 'approximately 1,7 million jobs were created between 1995 and 2002 and 1,2 million between 2002 and 2006'. In relation to social transfers, the government records (refer to the *Mid-Term Review*, 2007) suggest that almost 12,5 million South Africans receive cash transfers, this excludes the social wage in terms of free basic water and electricity, subsidised housing and so on.

3.2.3 Social Mobility

There are many indubitable indications that there has been encouraging income mobility among many Black South Africans, especially those gaining in the recent net job creation. Prominent mobility theorists such as Treiman, Lipset and Zetterberg, Erikson and Goldthorpe, Hout and others have come up with various models of social mobility, across different countries, classes, occupations and gender categories dating back from the 1930s.¹³

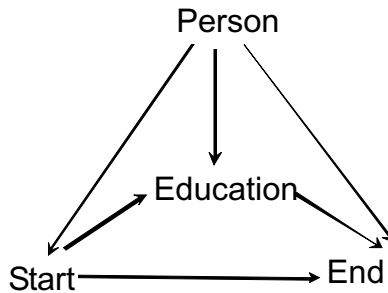
Recently various countries, such as Australia, United States, France, Sweden, England and Brazil, have been studied in detail. Among the key factors is education as the main discriminator on whether someone moves up or not on the social ladder. Figure 1 is an attempt to illustrate¹⁴ the role of education in influencing one's likelihood to make it or not. Scholars of

13 Refer to Morgan et al (eds) 2006 for a recent comprehensive collection of studies on mobility (and inequality).

14 Drawn from the work of Michael Hout.

social mobility agree that education is more critical than luck and other factors that shape one's mobility.

Figure 1



In South Africa, many studies (refer to *A Nation in the Making Discussion Document*, 2006) seem to suggest that it is mostly those with education who move up relatively quicker. Gumede (2006) also found similar in relation to small manufacturing enterprises in South Africa. For instance, it was found that small manufacturing enterprises managed/owned by entrepreneurs with post-matric qualifications lived longer than those managed/owned by entrepreneurs with no matric and that education of the owner/manager was one of critical determinants of export propensities and intensities of small manufacturing enterprises in South Africa.

Surveys of the South African Advertising Research Foundation show that between 2000 and 2006 a large number of Black people have moved to the higher echelons of the middle strata. As argued in the government's Medium Term Review (2007), this move could be ascribed to government's interventions to increase access to income through enhanced employment creation, encouraging spirit of entrepreneurship among Black people and through interventions related to Broad Based Black Economic Empowerment and Small and Medium Enterprise Development programmes. Thousands of Blacks are gradually moving out of the poorer end of the scale of Living Standards Measures (LSMs) which ranks the poorest at one and the richest at ten. For instance:

- In 2001 there were 2 435 000 Blacks in LSM 6. The figure grew to 2 933 000 in 2004 and it increased further to 3 406 000 in 2006.
- LSM 7 grew from 661 000 in the year 2001 to 846 000 in 2004. In 2006 there was a relatively significant increase to 1 281 000.
- Although a downward movement was recorded in LSM 8 between 2001 and 2004 as the numbers were 372 000 and 370 000 respectively, momentum was recorded in 2005 as the figure went up to 592 000. In 2006, a further increase was registered at 653 000.

- Another relatively significant improvement was recorded in LSM 9 as numbers grew from 144 000 in 2001 to 244 000 in 2004. In 2005, the number of Black people in LSM 9 was 394 000.

Lastly, May et al (2007) in the analysis of poverty traps in KwaZulu-Natal, attribute the inability of most households to overcome poverty to initial education levels. May et al (2007: 21) argue that 'education suggests itself as an important route out of poverty for many...'

4. Clarifying the Notion of the 'Second Economy'¹⁵

The metaphor of 'two economies' is seen as a short hand for socio-economic dualism: a dominant 'first economy' that is at the cutting edge, globally integrated. Alongside this economy is another that is marginalised, exists at the edges, consists of large numbers of the unemployed and the 'unemployable', and does not benefit from progress in the first economy. It is important to clarify that the 'two economies' do not occupy distinct geographic spaces, but are interrelated and interconnected in many ways, and that they are found in both urban and rural areas. Neither can the communities occupying these conceptual spaces be categorised in terms of race or class. Within the first economy are to be found about two-thirds of the population, as employers, workers, professionals and other sectors, both black and white. It can also be argued that many working poor do find themselves in various times of their daily lives straddling the two economies' divide.

As argued elsewhere, the development of the 'second economy' has to be carried almost exclusively by the democratic state. The level of underdevelopment of this economy and the small size of its market makes it an unattractive target for the industrial economy. In a sense, the existence of the 'second economy' is a reflection of both the legacy of apartheid colonialism and market failures which render the first economy incapable, on its own volition, from contributing to the elimination of the two economies' divide.

The 'second economy' is characterised by underdevelopment, contributes little to gross domestic product and has weak social capital. It is also characterised by poor skills, incorporates the poorest of the rural and urban poor, is structurally disconnected from both the 'first and global economies', and is incapable of self-generated growth. Clearly, interventions in the 'second economy' require direct and active state action and leadership – the market cannot provide the desired solutions. Because the transformation of the conditions of those in the 'second economy' will not happen in one fell swoop, various interventions such as comprehensive social protection interventions are required. The primary and strategic objective of interventions in the 'second economy' is to build one economy in which the overwhelming majority of South Africans take part, and from which they are able to benefit. Steadily, the interventions should obviate the reproduction of this duality and eliminate the conditions which give rise to it. It is envisaged that 'second economy' interventions would:

- a) Ensure mobility from the 'second economy' to the first economy, by constructing a firm 'staircase' or 'bridge' to allow for such mobility
- b) create conditions for sustainable livelihoods within the realm of the 'second economy', and in the process develop robust links which eliminate duality

15 This subsection draws from the Presidency's policy unit's unpublished discussion document on *Clarifying the 'second economy' Concept: A brief synopsis*

c) eradicate conditions of extreme poverty.

In conclusion, it has been argued that everything government does, in line with its *Reconstruction and Development Programme's* (RDP¹⁶) mandate, is meant to at least have the effect of eliminating the two economies divide: from macro-economic policies, micro-economic interventions, provision of social services, to allocation of social assistance support and improving safety and security in communities. However, various discussions within government resolved that the focus on meeting the growth and development challenges of the 'second economy' is essentially an economic one, rather than one aimed at addressing these challenges through social security measures such as social pensions. While these social development programmes will continue, *Accelerated and Shared Growth Initiative for South Africa*¹⁷ (AsgiSA) deals with issues of economic opportunities and sustainable livelihoods. As such, the reason for identifying specific economic interventions in the 'second economy' is to isolate the catalytic focused programmes that will as speedily as possible eliminate the duality, while at the same time – in the normal course of intensifying other programmes – attending to the broad socio-economic challenge of poverty.

There have been ongoing debates, as shown in Frye (2007) and du Toit et al (2007) about the usefulness or lack thereof of the characterisation presented above. Du Toit et al have taken the issue further and analysed the 'second economy dynamics' in local contexts. This paper is merely, at this stage, an attempt to measure the extent of the 'second economy' at an aggregate level, using a rough untested measure. It does not, for instance, go into details which studies done in Eastern Europe, Soviet Union and Africa have covered. Clearly, the notion of a 'second economy' seems to mean different things to different people or contexts [see, for instance, Sampson (1987) and Bagachwa et al (1995)].

16 Refer to the White Paper on Reconstruction and Development (1994) for more details

17 The *Accelerated and Shared Growth Initiative for South Africa* in a programme for expediting the growth of the economy sustainably and also ensuring that economic growth is widely shared. For details, refer to: The Presidency 2005. *Accelerated and Shared Growth Initiative for South Africa (ASGISA). A Summary* [online]. Available at www.info.gov.za/asgisa

5. An Attempt to Measure the Second Economy

In the absence of a final generally accepted definition of the 'second economy', this section is based on the following debatable definition: 'persons aged 15 years and above whose level of completed education is primary (Grade 7/Standard 5) or below'. The September 2006 Labour Force Survey (LFS) of Statistics South Africa is used in an attempt to quantify the 'second economy'. All tables presented in this section are based on calculations from the LFS of September 2006. The LFS is a twice-yearly household survey, specifically designed to measure the labour market. It also provides insight into a variety of issues related to the labour market, including the level and pattern of unemployment and the industrial and occupational structure of the economy. It is argued that the design of its questionnaire and definitions used conform to the requirements set by international bodies such as the International Labour Organisation (ILO). Appendix One depicts some technical issues on the LFS.

The size of the 'second economy', given this definition, might be understated to the extent that there are persons with higher educational levels that may have several of the attributes associated with persons in the 'second economy'. On the other hand, there might be persons included in the 'second economy' (on the basis of low educational achievement) that have many of the attributes associated with the first economy. It is safe to assume that the size of that group is small. To start with, Tables 3 to 5 give an illustration of those in the 'second economy' (2nd economy) versus those in the first economy (1st economy) in South Africa, by gender, age profile and province. In terms of definitions, the expanded definition is chosen in defining the unemployed in the 'second economy'.¹⁸

18 The unemployed group therefore comprises those who have taken steps to look for work and are available to work as well as those who have not taken active steps to look for work but could work.

Table 3: Gender of Persons in the 'Second Economy' Compared with the First Economy, Excluding the 'Unspecified'

Numbers, in millions	Male	Female	Total
2nd economy			
No schooling	992	1 667	2 659
Primary & less	3 388	3 488	6 877
Total 2nd economy	4 380	5 154	9 536
1 st economy	11 063	11 626	22 692
Total economy, 15yrs plus	15 443	16 781	32 227
Percent			
2 nd economy	28,4	30,7	29,6
1 st economy	71,6	69,3	70,4
Total economy, 15yrs plus	100,0	100,0	100,0

Source: Calculations from the LFS, September 2006

Table 4: Age Profile of Persons in the 'Second Economy' Compared with the First Economy

Numbers, in millions	15-24yr	25-34yr	35-44yr	45-54yr	55-64yr	65-74yr	75yr+	Total
2nd economy								
No schooling	90	198	346	512	600	562	351	2 659
Primary & less	1 664	1 060	1 230	1 300	956	473	194	6 877
Total 2nd economy	1 754	1 258	1 576	1 812	1 556	1 035	545	9 536
1 st economy	7 836	6 860	3 706	2 230	1 178	620	261	22 692
Total economy 15yrs plus	9 590	8 118	5 282	4 042	2 734	1 656	806	32 227
Percent								
2 nd economy	18,3	15,5	29,8	44,8	56,9	62,5	67,6	29,6
1 st economy	81,7	84,5	70,2	55,2	43,1	37,5	32,4	70,4
Total economy	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0

Source: Calculations from the LFS, September 2006

Table 5: Provincial Distribution¹⁹ of Persons in the ‘Second Economy’ Compared with the First Economy

Numbers, in millions	WC	EC	NC	FS	KZN	NW	GP	MP	LP	RSA
2nd economy										
No schooling	92	430	74	154	601	243	236	322	506	2 659
Primary & less	580	1 373	196	453	1 449	569	988	516	753	6 877
Total 2nd economy	672	1 803	269	607	2 050	812	1 224	838	1 260	9 536
1 st economy	2 741	2 552	486	1 454	4 514	1 522	5 859	1 488	2 074	22 692
Total economy 15yrs plus	3 413	4 355	756	2 062	6 564	2 334	7 084	2 326	3 333	32 227
Percent										
2 nd economy	19,7	41,4	35,6	29,5	31,2	34,8	17,3	36,0	37,8	29,6
1 st economy	80,3	58,6	64,4	70,5	68,8	65,2	82,7	64,0	62,2	70,4
Total	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0

Source: Calculations from the LFS, September 2006

Some observations can be made from Tables 1 to 5. For instance, the total number of people in the ‘second economy’ (using the definition given above) is about 9.5 million, of which 31 percent is women. In terms of age profile, it would seem that it is relatively older people that are found in the ‘second economy’. Broadly, people in the ‘second economy’ are relatively widely distributed across South Africa, with the Eastern Cape Province having most of ‘second economy’ individuals.

The next set of tables presents labour market status indicators of those in the ‘second economy’ compared with those in the first economy.

19 WC is Western Cape, EC is Eastern Cape, NC is Northern Cape, FS is Free State, KZN is KwaZulu-Natal, NW is North West, GP is Gauteng, MP is Mpumalanga, LP is Limpopo and RSA is the Republic of South Africa.

Table 6: Labour Market Status of Persons in the 'Second Economy' Compared with the First Economy

Numbers, in millions	NEA¹	Employed	Unemployed	Total
2nd economy				
No schooling	1 764	734	160	2 659
Primary & less	3 675	2 422	780	6 877
Total 2nd economy	5 439	3 156	940	9 536
1 st economy	9 334	9 901	3 457	22 692
Total economy, 15yrs plus	14 773	13 057	4 397	32 227
Percent				
2 nd economy	36,8	24,2	21,4	29,6
1 st economy	63,2	75,8	78,6	70,4
Total	100,0	100,0	100,0	100,0

Source: Calculations from the LFS, September 2006

On labour force status and reasons for not working, of approximately 9,5 million people in the 'second economy' 3,1 million were employed. Of those who were employed, more than 70 percent were found to be in jobs that were elementary in nature. About half of the individuals in the 'second economy' were in the informal sector, including domestic work.

Calculations suggest that above 60 percent of the employed individuals in the 'second economy' earned a thousand rand or less. Using the expanded definition of the unemployed, the size of those who are available for work in the 'second economy' is about 1,8 million. This group seems to be concentrated in the ages of between 15 and 44. Data further shows that it would seem that almost all the people who were available for work (about 97 percent) had not been trained in skills that could make it easier for them to get work. More than half of them (approximately 57 percent) had never worked before. These are individuals in the 'second economy' who are defined as 'unemployable' by virtue of having primary or less education, no training in any skill that would enable them to work and by not having any working experience.

Although it is difficult to pin down the notion of 'second economy' in a robust way, this subsection has attempted to define and measure the extent of the 'second economy' using a tentative definition of the 'second economy', given data and methodological limitations. Suffice it to say that the 'second economy' challenge is significant and warrants clear, well targeted interventions.

6. Concluding Remarks

The question of the extent, of both poverty and ‘second economy’ challenges, remains unresolved. Different researchers give different estimates, although the trend seems to be showing a decline in poverty in South Africa which appears to have began around year 2000 or so. Calculations based on Statistics South Africa data, using the proposed poverty line of about R400 per person per month, imply that about half of our population was living in poverty in year 2000. In addition, the recent estimates using various cross-sectional datasets of Statistics South Africa are: that about four million of people who are actively looking for work are unemployed and about four million are economically inactive. So, the analytical projects of government underway, such as the National Income Dynamics Study and the Living Conditions Survey, should assist in arriving at the most accurate estimates of poverty and its dynamics in South Africa. The other related initiatives by the research community, such as the Studies in Poverty and Inequality Institute’s and the Programme for Land and Agrarian Studies’ projects, would also contribute to the endeavour to measuring poverty and ‘second economy’ in South Africa for purposes of better policy making particularly as requisite strategies, such as those in the realm of poverty eradication and ‘second economy’ interventions, are being finalised.

This paper has attempted to present some broad description of poverty measures and trends as well as ‘second economy’ phenomenon in South Africa, both conceptually and in practical terms. The analysis, as tentative as it is at this stage, demonstrates why there is an ongoing debate in South Africa about poverty and the ‘second economy’. Clearly, the extent and the magnitude of the challenge that South Africa, like many developing countries, is grappling with are significant. As a way forward, a more rigorous analysis of poverty and the ‘second economy’, drawing from the methodology particularly depicted in Sections Two and Five of this paper, could be pursued further. This would hopefully assist the dialogue about poverty and ‘second economy’ in South Africa. More importantly, policy and programmatic responses to poverty and ‘second economy’ could benefit from a systemic enquiry on relevant dynamics.

Appendix 1: Technical notes on the Labour Force Survey

Response Details

Response rates at the national level have been 85 percent or higher for most rounds of the LFS. Table (i) below shows response rates in each province for the September 2006 LFS. Nationally, while 94,9 percent of the expected 33 031 household interviews were successfully completed, provincial response rates differed - ranging from 99,0 percent in KwaZulu-Natal to 86,1 percent in Gauteng.

Table A: Response Rates by Households, Labour Force Survey September 2006

	Response	Non-Response	Out of scope	Total	Response rate
Western Cape	3 198	440	588	4 226	87,9
Eastern Cape	3 607	100	496	4 203	97,3
Northern Cape	1 868	30	311	2 209	98,4
Free State	2 241	69	291	2 601	97,0
KwaZulu Natal	6 883	70	441	7 394	99,0
North West	2 470	86	248	2 804	96,6
Gauteng	3 261	528	340	4 129	86,1
Mpumalanga	2 099	119	273	2 491	94,6
Limpopo	2 739	80	155	2 974	97,2
RSA	28 366	1 522	3 143	33 031	94,9

Data Limitations

Revisions to the LFS data based on the new population estimates involved benchmarking at the national level in terms of age, gender and population group while at the provincial level, benchmarking was by population group only. As a result, caution should be exercised when interpreting the results of the LFS at levels of disaggregation below the national picture.

Official and Expanded Unemployment Rates

The official definition used is that: the *unemployed* are those people within the *economically active population* who: (a) did not work during the seven days prior to the interview, (b) want to work and are available to start work within two weeks of the interview and (c) have taken active steps to look for work or to start some form of self-employment in the four weeks prior to the interview. The *expanded definition of unemployment* excludes criterion (c). The expanded definition therefore includes persons who said they were unemployed but had not taken active steps to find work or start a business in the four weeks prior to the interview.

Sample Design

Enumeration Areas (EAs) that had a household count of less than twenty-five were omitted from the census frame that was used to draw the sample of Primary Sampling Units (PSUs) for the Master Sample. Other omissions from the frame included all institution EAs except workers' hostels, convents and monasteries. EAs in the census database that were found to have less than sixty dwelling units during listing were pooled.

The Master Sample is a multi-stage stratified sample. The overall sample size of PSUs was 3 000. The explicit strata were the 53 district councils. The 3 000 PSUs were allocated to these strata using the power allocation method. The PSUs were then sampled using probability proportional to size principles.

Rotating Panel Methodology

A rotating panel methodology is applied for the labour force survey in order to obtain a better picture of movements into and out of the labour market over time. The rotating panel methodology involves visiting the same dwelling units on a number of occasions (in this instance, five at most). After the panel is established, a proportion of the dwelling units is replaced each round (in this instance, 20%). New dwelling units are included in the sample to replace those that are taken out. The advantage of this type of design is that it provides the basis for monitoring changes in the work situation of members of the same households over time, while retaining the larger picture of the overall employment situation in the country. It also allows for both longitudinal and cross-sectional analysis.

Coverage

The target population is all households, as well as residents in workers' hostels and convents/monasteries. The survey does not cover institutions such as old age homes, hospitals, prisons and military barracks.

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