

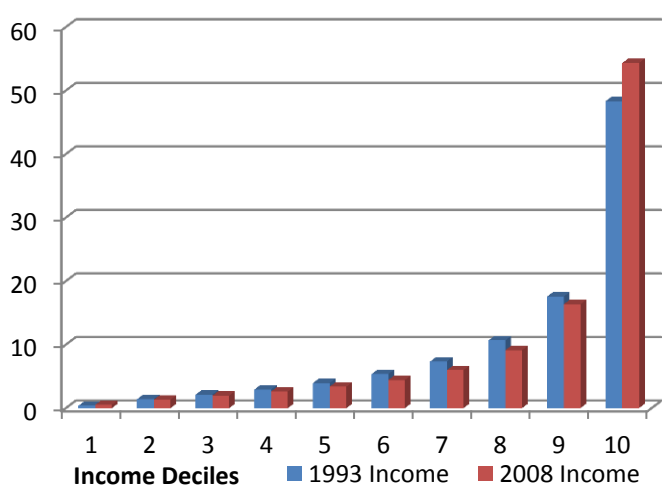
# THE MIDDLE CLASS AND INEQUALITY IN SOUTH AFRICA

Arden Finn, Murray Leibbrandt and Ingrid Woolard

The high level of inequality in South Africa has added fuel to the debate surrounding the extent to which an African middle class has emerged in South Africa in the past 20 years. This paper analyses changes in income inequality and the composition of the middle class over a 15 year period using data from the 1993 PSLSD and NIDS Waves 1 and 2. The high level of inequality in South Africa makes defining the middle class difficult. In this study we use income decile groups four to seven to define the middle class, groups eight and nine to define the upper class and decile ten describes the top income group.

Average income across race groups rose between 1993 and 2008, with the government providing increasing support to the poor through its social grant system. In 2008, individuals in the lowest income decile received around 64% of their income from grants, up from only 7% in 1993. On the other hand, the majority of the top decile's income comes from labour market earnings. Despite government support and rising average income, deep racial disparities still exist and income inequality has increased over the post-Apartheid period, both within and between racial groups.

**Figure 1: Shares of Total Income by Decile, 1993 and 2008**



Source: 1993 PSLSD data and 2008 NIDS data. Own calculations.

Figure 1 gives the share of total income accruing to each decile group in 1993 and 2008. It is apparent that the income of the top decile increased over the period, with the wealthiest 10% of the population receiving 54% of total income in 2008. Even within the top decile, the wealthiest 5% of individuals have increased their share from 33% to 40% of total income. All other deciles received declining shares of total income over this period. In particular, the share of the middle class decreased from 32% in 1993 to 27% in 2008.

Decomposing the middle and upper classes by race, geographical type and education highlights both the structure and the sources of movement in and out of the classes. Although the middle class differs significantly from the rest of the population, these differences are fairly consistent over the period. Africans accounted for the majority of the middle class in 1993 (89%) while whites accounted for less than 1%. This share had decreased slightly by 2008 but was still greater than the proportion of Africans making up the population as a whole. The urban-rural divide in the middle class was fairly consistent over the period, ranging between 57-58%. Individuals with little or no education are overrepresented in the middle class, although their share of the total middle class population had dropped by more than 7 percentage points by 2008. Conversely, individuals with a matric or tertiary education are far less likely to be found in the middle class but increased their population share significantly in 2008. Male-female shares in the middle class closely reflect those of the total population, as expected.

Turning to the top decile, the African share remains less than half the population share, but increased from 14% to 31% between 1993 and 2008. The white share dropped from just over three quarters to just over half of the top decile, while the shares for coloured and Asian/Indian

**Table 1: Composition of the Middle Class, Upper Class and Top Decile, 1993 and 2008**

	Middle 1993	Middle 2008	Upper 1993	Upper 2008	Top 1993	Top 2008
<b>Race</b>						
African	89.68	86.37	43.86	53.58	13.87	30.79
Coloured	8.36	9.85	12.61	13.01	4.05	7.13
Asian/Indian	1.09	1.74	5.95	5.91	4.95	8.13
White	0.87	2.04	37.58	27.50	77.13	53.95
Total	100	100	100	100	100	100
<b>Geo-type</b>						
Urban	58.17	56.74	78.76	86.37	90.14	94.31
Rural	41.83	43.26	21.24	13.63	9.86	5.69
Total	100	100	100	100	100	100
<b>Education</b>						
No Education	26.60	19.23	13.80	9.24	10.15	5.85
Primary	42.00	35.77	25.75	18.97	16.68	12.44
Incomplete Secondary	25.33	31.69	32.61	27.75	24.49	19.63
Matric	5.10	10.83	16.08	23.36	23.43	23.98
Tertiary	0.97	2.48	11.76	20.69	25.25	38.10
Total	100	100	100	100	100	100

Source: 1993 PSLSD data and 2008 NIDS data. Own calculations.

South Africans increased. As one would expect, the vast majority of the top decile come from urban areas, comprising 94% in 2008.

On the whole, it is clear that the middle and upper classes have become more representative of the population as a whole, although the top decile still has some way to go.

Movements between income classes can be evaluated more comprehensively by collapsing income into quintiles and evaluating the relative income mobility between quintiles. This is done using NIDS panel data from 2008 (Wave 1) and 2010 (Wave 2). Table 2 illustrates which quintiles had the lowest mobility, or in other words, which quintiles individuals were most likely to remain in during the period.

The highlighted diagonal gives the percentage of individuals in 2008 which remained in the same quintile between 2008 and 2010. This shows that the richest 20% of the sample, or the fifth quintile, show particularly strong persistence, with 73% of these individuals still in this quintile in 2010. Persistence is significantly weaker in quintiles 2, 3 and 4. Most of the movement between quintiles was restricted to relatively 'small distances', unsurprising given the short time period over which this is evaluated. Overall, the inter-wave correlation of income is 61%.

These data show that South Africa's high aggregate level of income inequality increased between 1993 and 2008. The same is true of inequality within each of South Africa's four major racial groups. From a policy point of view, it is important to flag the fact that intra-race, and in particular intra-African, inequality trends play an increasingly influential role in driving aggregate inequality in South Africa. While the government has provided substantial support to the poor through an expanded system of social grants, it appears that there is still work to be done to stop and hopefully reverse the increasing inequality within each race group and especially within the African group.

**Table 2: Relative Income Mobility: Quintile Transition Matrix**

		Wave 2 Income Quintiles				
		1	2	3	4	5
Wave 1 Income Quintiles	1	46	26	17	8	3
	2	27	33	24	13	3
	3	18	25	31	22	4
	4	7	14	22	40	17
	5	1	3	5	18	73

Note: Own calculations using NIDS wave 1 and wave 2 data. Sample restricted to balanced panel members.

**Contact the authors for further information:**

Arden Finn: [aj.finn@uct.ac.za](mailto:aj.finn@uct.ac.za)

Prof. Murray Leibbrandt: [Murray.Leibbrandt@uct.ac.za](mailto:Murray.Leibbrandt@uct.ac.za)

Assoc. Prof. Ingrid Woolard: [Ingrid.Woolard@uct.ac.za](mailto:Ingrid.Woolard@uct.ac.za)

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