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Sense in Sociability? Social Exclusion and Persistent Poverty In South Africa

by **Michelle Adato**, **Michael Carter** carter@aae.wisc.edu, *and* **Julian May**

A legacy of exclusion

To overcome Apartheid's legacy of economic inequity, South Africa's first democratic government set a national economic policy that adopted the liberal stance of the "Washington Consensus." By putting in place the Growth, Employment and Redistribution program (GEAR) in 1996, which emphasized fiscal discipline and incentives for private investment, the government was betting that time would become an ally of the poor and allow them to become full participants in an expanding free market economy.

Time, however, proved to be a feeble ally for the South African poor. Throughout the 1990s, GEAR generated little growth, while both income inequality and poverty increased. Do these disturbing trends reflect the operation of an economy that traps large numbers of people in persistent poverty? If so, what went wrong with the liberal strategy, and why have South Africa's poor been unable to take advantage economically of their new-found freedom?

The liberal economic theory that underlies GEAR assumes that even the poorest families will be able to accumulate productive assets and capacities, and achieve higher returns to their resources. Critical to this theory is the assumption that unobstructed access to financial services will facilitate accumulation and economic advancement by poor families. Yet, in a polarized society like South Africa, markets and social mechanisms are unlikely to provide equitable access to financial services. Social capital in particular might be especially ineffective given apartheid's legacy of social exclusion.

Our research explores the deeper structural patterns underlying post-apartheid poverty dynamics. Using a novel approach, we find quantitative evidence that the South African economy is characterized by a long-term poverty trap. Qualitatively, we find ample evidence of active social capital and networks; yet, for the very poorest people these networks do not facilitate accumulation and economic advancement. At best, they prevent destitution while doing little to promote lasting movement out of poverty. While there may be some economic sense in sociability, the social capital of the poor is insufficient. More ambitious government efforts to remake markets are going to be necessary if time is to become an economic ally of the poor and oversee the elimination of poverty.

Limited short-term mobility

Households in the KwaZulu-Natal Income Dynamics Study (KIDS) were interviewed in 1993 and again in 1998. KwaZulu-Natal is not the poorest province in South Africa, but it arguably has the highest incident of deprivation in terms of access to services and perceived wellbeing. The research goal was to distinguish between households that can expect to escape poverty over time from those that cannot. Using previous analysis of KIDS' data, we could identify households that experienced structural mobility and those that had purely stochastic mobility. Structural upward mobility occurred when a household moved ahead between the study years because of a new accumulation of assets that should lead to

a standard of living above the poverty line. Stochastic upward mobility occurred when a household that was poor in 1993 because of bad luck managed, by 1998, to return to the nonpoor standard of living they would be expected to have based on their asset holdings.

The previous research estimates that as many as 37% of all KIDS households were structurally poor in 1998, while only 10% of households had moved out of poverty between 1993 and 1998. Of those upwardly mobile households, most (58%) moved ahead in a purely stochastic sense. This limited structural mobility, along with the high levels of structural poverty, are not encouraging signs about households' ability to escape poverty over time. Do they in fact reflect the existence of a poverty trap?

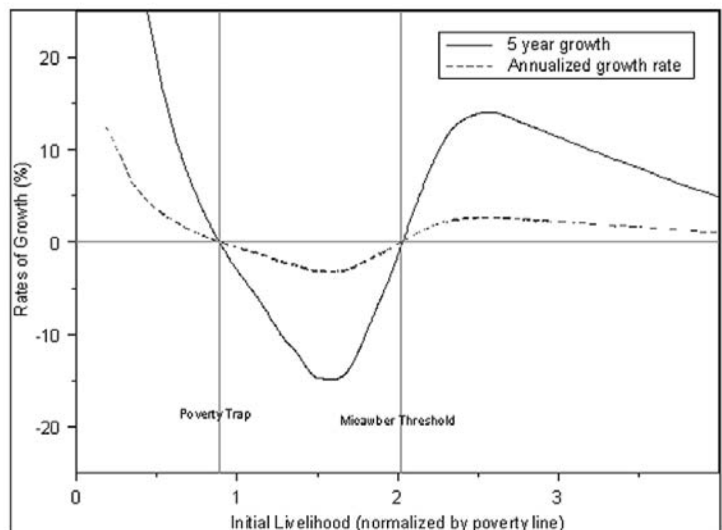
Asset thresholds, poverty traps

When poor households can borrow against future earnings to capitalize investment projects, and enjoy insurance that permits them to ride out economic downturns without sacrificing past gains, then income distribution will tend to be characterized by a convergent process in which the poor catch up economically with the rest of their society. In this case, time would indeed be an ally. However, poverty traps can emerge when the poor lack access, through either social or market mechanisms, to the capital needed to assemble and sustain the assets required for a higher-income livelihood. This leads to a bifurcated asset trajectory. Households that begin with assets above a certain critical asset threshold (the "Micawber" threshold) will tend to get ahead over time and approach a higher asset equilibrium. Households below this threshold will fall behind and approach an even lower asset holding, or poverty trap.

To test for the existence of poverty traps, we constructed asset indices for 1993 and 1998 using the following assets: human capital, natural capital, productive capital, and unearned or transfer income. Social capital was not included. The asset index is expressed in poverty line units (PLUs), such that one PLU equates to a poverty level of material wellbeing. By deriving a set of weights that reliably predict the impact of an asset bundle on expected livelihood, we calculated an estimated "livelihood index" for each household.

Estimates reveal the existence of a Micawber threshold at an asset level that predicts a level of wellbeing that is about twice the poverty line, or 2 PLUs. A household that began just above the threshold (2.5 PLUs) would have a predicted annual growth in assets of about 2.5%, or over 15 years would experience a 15% increase in expected wellbeing—meaning that its level of wellbeing would rise to almost 2.9 PLUs. A household that began below the threshold (1.5 PLUs) would find its position deteriorating over time and would be expected to have assets that predict a living standard of only 1.25 times the poverty line after five years. (See figure.)

Given the low standard of living and high levels of unemployment suffered by households in our sample, it is surprising that less well-off households, which have every incentive to accumulate surplus resources, do not exhibit significant asset accumulation. Their failure to do so seems to confirm the lack of access to capital and risk management services. While there may be other constraints at work, this pattern is consistent with a polarized society in which neither market nor social mechanisms broker opportunities for upward mobility for the least well-off households.



The estimated asset dynamics also imply that temporary shocks can have permanents effects. For example, if a household that initially enjoyed an asset index above the Micawber threshold experiences a shock that pushes its assets below that threshold, then this household will likely suffer a long-term drop in assets. Fully 60% of the KIDS' households who exhibited downward mobility between 1993 and 1998 experienced shocks that reduced their assets. Also, households experiencing income losses may be forced to liquidate assets to meet immediate consumption needs. If drawing down assets pushes the household below the Micawber threshold, the temporary shock will likely have permanent consequences on the household's welfare.

If the economic theory of poverty traps is correct, then the ability of the poor to access capital and insurance markets becomes a key determinant of longer-term

poverty dynamics. If such markets do not exist, if they carry disproportionate costs for poor people, or if they systematically exclude them, then the poor's ability to permanently escape poverty will be constrained. Yet, even in an atmosphere of formal exclusion, a variety of informal, relational or socially-mediated mechanisms might act as a substitute for incomplete markets and provide access to financial services, thus allowing people to escape poverty traps. Therefore, we employed an in-depth qualitative analysis to explore the role of social capital in poverty dynamics and mobility.

The social evidence

Interviews of a subset of 50 KIDS' households provided data between 1993 and 1998 on the role of assets and shocks in poverty dynamics. By also tracing household events from 1998 through 2001, we confirmed cases of structural and stochastic mobility. Using the assets framework adopted by the quantitative analysis, we examined household events and their impact on assets, including social assets.

Structurally poor. Twenty-one households (42%) either remained poor in both periods, fell structurally downward and remained there, or experienced only stochastic mobility. In these households, there is a dependence on informal or casual jobs, with a pension grant often being the only reliable income. Households often lose their one stable income stream, with shocks also being common, as well as events such as the death of a wage earner or pensioner, a major job loss, or a small business that fails. Organizational memberships that could prevent deeper crisis are unaffordable. For households that stochastically improve, a one-time influx of cash may allow them to feel that they are improving their lives, but there are no structural changes in earning potential.

Structurally upward. Only two households (4%) started out structurally poor or poor and falling in the first period but managed to move structurally upward in the second period, a striking absence of upward mobility. In one case, small businesses were started and grew in the second period, appearing stable and relatively lucrative, which led to investment in productive assets. In the other, investment in human capital paid off, with two teaching jobs acquired in the second period. Social assets do not appear to be substantially changed with upward movement; however, these households do not report the sort of family conflict that plagued many downwardly mobile households.

Structurally downward. Six households (12%) were nonpoor in the first period, with only stochastic movement in the first period, but then moving structurally downward in the second period, suggesting relative stability for those who secured a basic level of assets prior to 1993. These households start with stable work, which was either lost or became casual and intermittent. Investment did not provide stability in the long run; a household starts a business but it fails, or there occurs a large financial shock. In some cases, social exclusion means a lack of status, power and resources to use the legal system to exercise rights to financial assets. Family members can help prevent destitution, but they are not in a position to help the household out of poverty either temporarily or sustainably because they too lack resources.

Nonpoor. Twenty-one (42%) households were nonpoor in the first period, and their position appears to be stable. In these households, there is more than one formal job and/or pension. Casual, domestic and informal jobs existed *in addition* to formal work. Multiple small businesses operate simultaneously. The households are better able to weather shocks. The resources of this group enabled them to put social assets to better use, where people within their networks provide information about jobs or send remittances. Fundamentally, access to stable work and pensions prevents poverty, social networks fortify wellbeing through increased opportunities, and participation in organizations provides additional support.

Overall, stable income sources, such as formal employment or grants, had particular significance in a household's status and mobility. In a context of high and rising unemployment, formal employment is more than a matter of possessing a stock of human or financial capital; it also involves opportunities for obtaining such employment, which may involve social networks. Similarly, South Africa's Old Age Pension grant, by providing access to a stable and secure income stream, can help leverage further financial and social resources. The stability of the income source enhances the initial economic asset and enables it to make a structural difference.

The role of social capital in explaining poverty dynamics has several dimensions, and the research revealed many ways in which social assets are used across households. Social capital does not seem to assist the poorer groups beyond serving as a survival mechanism to avoid destitution, but it does appear to benefit those who are already structurally nonpoor and upwardly mobile. For example, the majority of both structurally poor and nonpoor households identified assistance in looking for work as a key social asset; however, it is likely that the assistance provided by a working person is more fruitful than that of an unemployed person. The poor do not have

Authors

Michelle Adato
International Food Policy Research Institute

Michael Carter
University of Wisconsin, USA

Julian May
University of KwaZulu-Natal, South Africa

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Comments encouraged:
Department of Agricultural and Applied Economics, University of Wisconsin, Madison, WI 53706 USA
basis-me@facstaff.wisc.edu
tel: +608-262-5538
fax: +608-262-4376
http://www.basis.wisc.edu

the resources to provide much assistance to each other, and they are not connected with others who do. In fact, poverty causes conflicts over resources and other strains among family and neighbors, further diminishing potential sources of support. Our results provide strong empirical confirmation of earlier research that argues that social capital becomes more narrowly constructed and increasingly ineffective as a mechanism of capital access for the poor in South Africa, which has a legacy of inequality and social exclusion.

Sociability not sufficient

It is evident that social connections have not provided pathways out of poverty in South Africa. The main factors that explain mobility or stasis are access to or loss of stable employment or state pensions, combined with the occurrence of expensive shocks, particularly where these events occur simultaneously or in succession. In this sense, human capital, in the form of healthy labor power combined with education and skills, is a mostly necessary condition for escaping or staying out of poverty, but it is not sufficient, in that work must be stable, accessible and available, which it rarely is in South Africa.

Unlike in other countries in Asia, Africa, and Latin America, the poor and unemployed in South Africa appear unable to muster the skill, capital, and market access needed to generate small enterprises and self-employment. Informal and self-employment accounts for only 15% of activity in South Africa, whereas it accounts for upwards of 60% of employment in these other regions. Thus, in addition to the possession or dispossession of assets, the concepts of availability, access and reliability are key. Social protection programs in the form of reliable pensions or other state grants are another crucial variable.

Our analysis confirms the existence of structural poverty in which the accumulation and successful use of assets are constrained. For the structurally poor, social capital and networks seem to at best help stabilize livelihood at low levels and do little to promote upward mobility. In most instances, households that are structurally poor do not have effective social networks and appear to have little prospect of building this type of capital. Meanwhile, stable and secure income sources are more important factors in explaining why some people are structurally nonpoor.

Social capital cannot serve in place of broadly available economic opportunities, and the publicly-provided social safety nets that exist in South Africa cannot be replaced or even supplemented by a social provision of safety nets. Publicly-provided safety nets must be maintained, if not strengthened and broadened, while state policy must become more aggressive in assuring that households have access to a minimum bundle of assets and the markets needed to effectively build on those assets over time. Particular attention must be directed toward mechanisms that improve the stability of forms of employment outside of formal wage employment. While there may be sense in sociability, our results suggest that, for the structurally poor, sociability is not sufficient for upward mobility.

Further reading

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