



Outline

1. Introduction
2. Poverty and inequality in South Africa
3. The magnitude and targeting of social spending
4. The tenuous links between spending and outcomes
5. Concluding remarks

Introduction

- Two central goals of government:
 - ▣ poverty alleviation
 - ▣ addressing inequality of distribution of income
- Use expenditure incidence analysis to gauge efficiency of fiscal resource usage and government's commitment to its central goals

Poverty and inequality in South Africa

- Structural shifts in the economy – declining demand for low-skilled labour
- Unemployment 22% strict definition and 42% broad definition (Labour Force Survey, 2007)
- Few options for alternative employment
- Employment favours the educated
- Result is declining inter-racial inequality, but rising intra-racial inequality

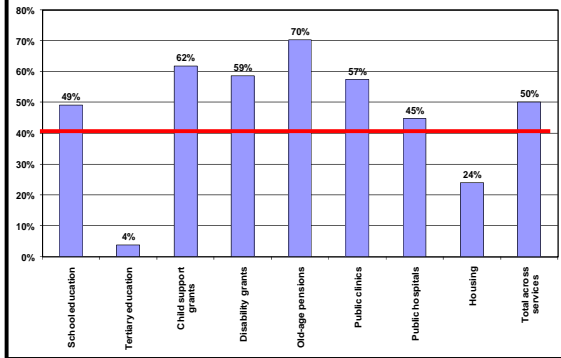
Post-1994 social expenditure

- Popular pressure to increase social spending
- Deficit reduction after 1994 allowed for more social spending while still satisfying investors
- Social spending increased from R86 billion in real terms to R134 billion between 2000 and 2006
- In per capita terms from R1987 to R2822, with an accompanying resource shift in favour of the poor.

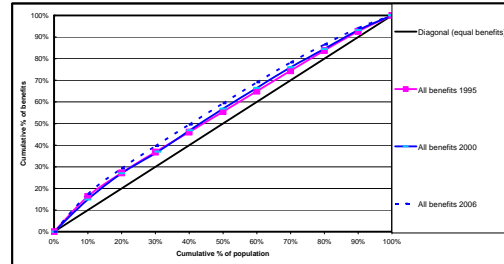
Social spending=social outcomes?

- Social grant system well-targeted.
- Poverty reduced substantially since 2000
- Capacity to efficiently utilise increased public expenditure limited.
- Underlying market distribution of income is highly unequal.

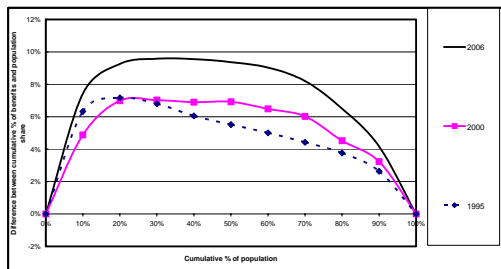
Share of spending on the poorest 40 % of the population by social spending category, 2006



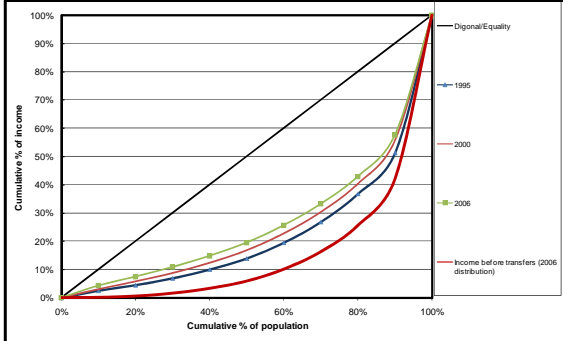
Targeting of social spending 1995 - 2006



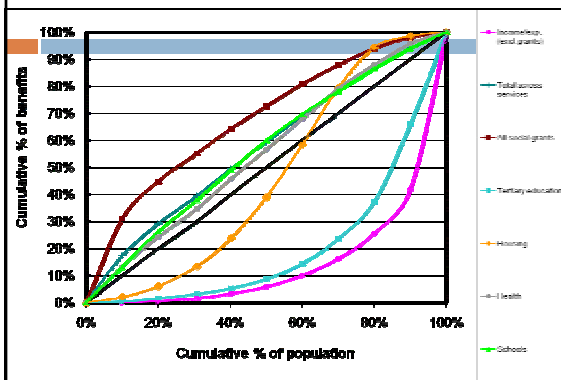
Targeting of social spending 1995 - 2006 (distance above diagonal)



Changing effect of fiscal processes on distribution, assuming unchanged pre-transfer income distribution



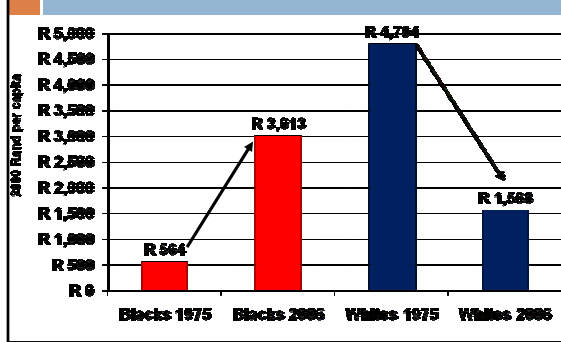
Concentration curves: All social services



Redistributive effects of public spending: Concentration ratios of public spending 2000 and 2006

	2000	2006
School education	-0.121	-0.128
Tertiary education	0.499	0.579
All social grants	-0.371	-0.357
• Child support grants	-0.247	-0.318
• Disability grants	-0.291	-0.288
• Old-age pensions	-0.412	-0.436
Health	-0.087	-0.110
• Public clinics	-0.163	-0.245
• Public hospitals	-0.071	-0.071
Housing	0.160	0.070
Total across services	-0.106	-0.146

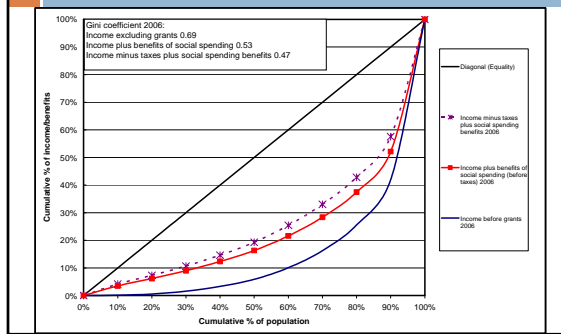
Historical change in social spending levels



Useful to consider three welfare measures:

- Income before grants (Bromberger's "primary income")
 - Income plus social spending
 - Income plus social spending minus personal taxes (Bromberger's "secondary income")
- "Secondary income" is the power of disposal over private and public goods and services through market and fiscal processes
- but consumer sovereignty differs for alternative forms of secondary income

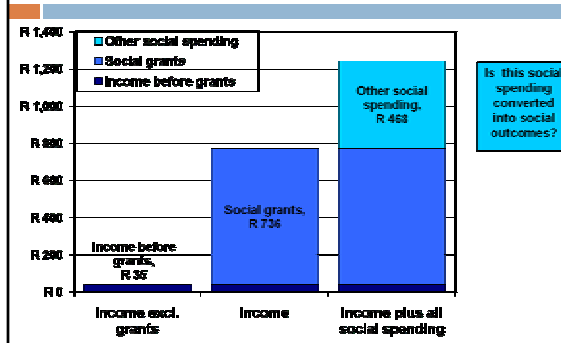
Lorenz curves for three welfare measures, 2006



Concentration ratios and Gini coefficients, 1995, 2000 and 2006

	1995	2000	2006
Total social spending	-0.095	-0.112	-0.152
Total income/expenditure (excluding grants)	0.666	0.707	0.690
(Direct) taxes paid	0.755	0.829	0.829
Income plus benefits	0.578	0.576	0.523
Income minus taxes plus benefits	0.528	0.527	0.467
Effect of fiscal process on "Gini"	-0.138	-0.180	-0.223

Per capita gains of poorest 40%, 2000-2006 (per capita gain = 38%)



Tenuous links between social spending and social outcomes

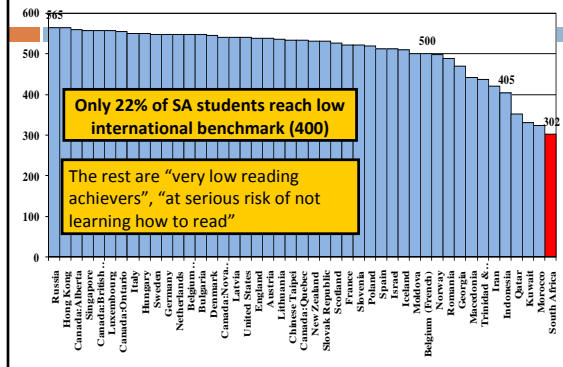
Health:

- High dissatisfaction with poor quality of public health services (88% "very satisfied" with private hospitals, 60% with public hospitals)

Education:

- Spend 6% of GDP on education, substantial resource shifts to 'black' schools
- Performance still weak:
 - SA ranks last and scores two standard deviations below the international mean in both 2003 TIMMS (Maths & Science) and 2006 PIRLS (Reading)
- Link between education spending and outcomes weakened by:
 - Resource shifts initially dominated by salary disparity corrections
 - Large variations in teacher quality
 - Weak accountability structures
 - Poor management in targeted schools

Literacy score in PIRLS 2006



Conclusion

- Poverty alleviated substantially
- Effectiveness of government spending hampered, thus it does not necessarily produce intended social outcomes:
 - Social service delivery hampered by inefficiencies
 - Social grants not always well converted into intended social outcomes (e.g. child outcomes) (intra-household inequalities, perverse incentives)
- Limits to how much government can redistribute if market fails to do so (due to skills gap)