PRACTICAL MEASURES OF INEQUALITY

PSEF

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provincial treasury
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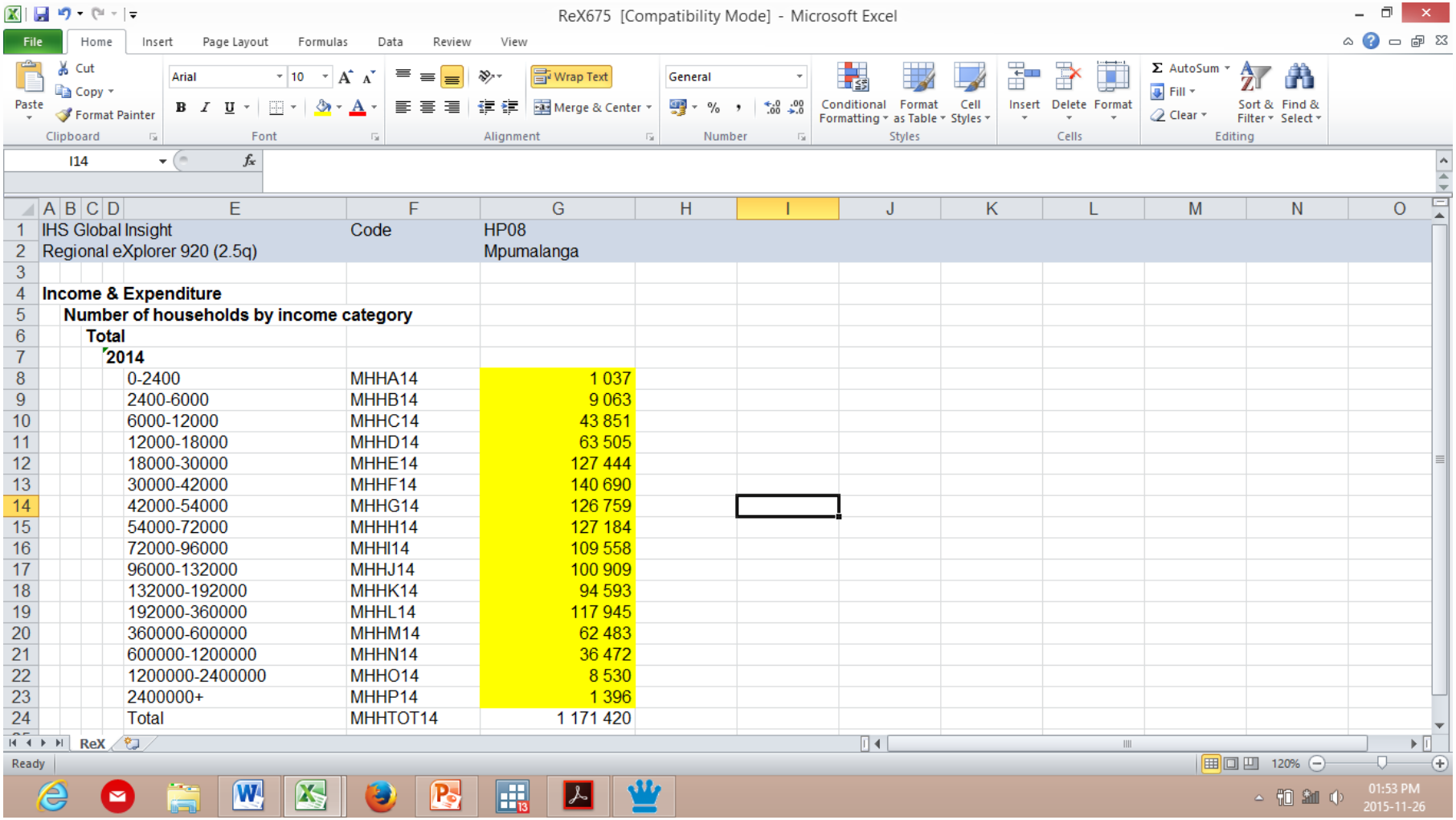
- The National Development Plan is a plan for the country to eliminate poverty and reduce inequality by 2030…. ~ *NDP 2030, p1*
- The Plan in Brief ~ *NDP 2030, p34*
  - By 2030
    - Reduce inequality – The Gini coefficient should fall from 0.69 to 0.60
  - Enabling milestones
    - Increase the share of national income of the bottom 40% from 6% to 10% (lower bound poverty line)

Income share of bottom 40%



	A	E	F	G
1	IHS Global Insight		Code	HP08
2	Regional eXplorer 920 (2.5q)			Mpumalanga
3				
4	**Income & Expenditure**			
5	**Number of households by income category**			
6	**Total**			
7	**2014**			
8		0-2400	MHHA14	1 037
9		2400-6000	MHHB14	9 063
10		6000-12000	MHHC14	43 851
11		12000-18000	MHHD14	63 505
12		18000-30000	MHHE14	127 444
13		30000-42000	MHHF14	140 690
14		42000-54000	MHHG14	126 759
15		54000-72000	MHHH14	127 184
16		72000-96000	MHHI14	109 558
17		96000-132000	MHHJ14	100 909
18		132000-192000	MHHK14	94 593
19		192000-360000	MHHL14	117 945
20		360000-600000	MHHM14	62 483
21		600000-1200000	MHHN14	36 472
22		1200000-2400000	MHHO14	8 530
23		2400000+	MHHP14	1 396
24		Total	MHHTOT14	1 171 420

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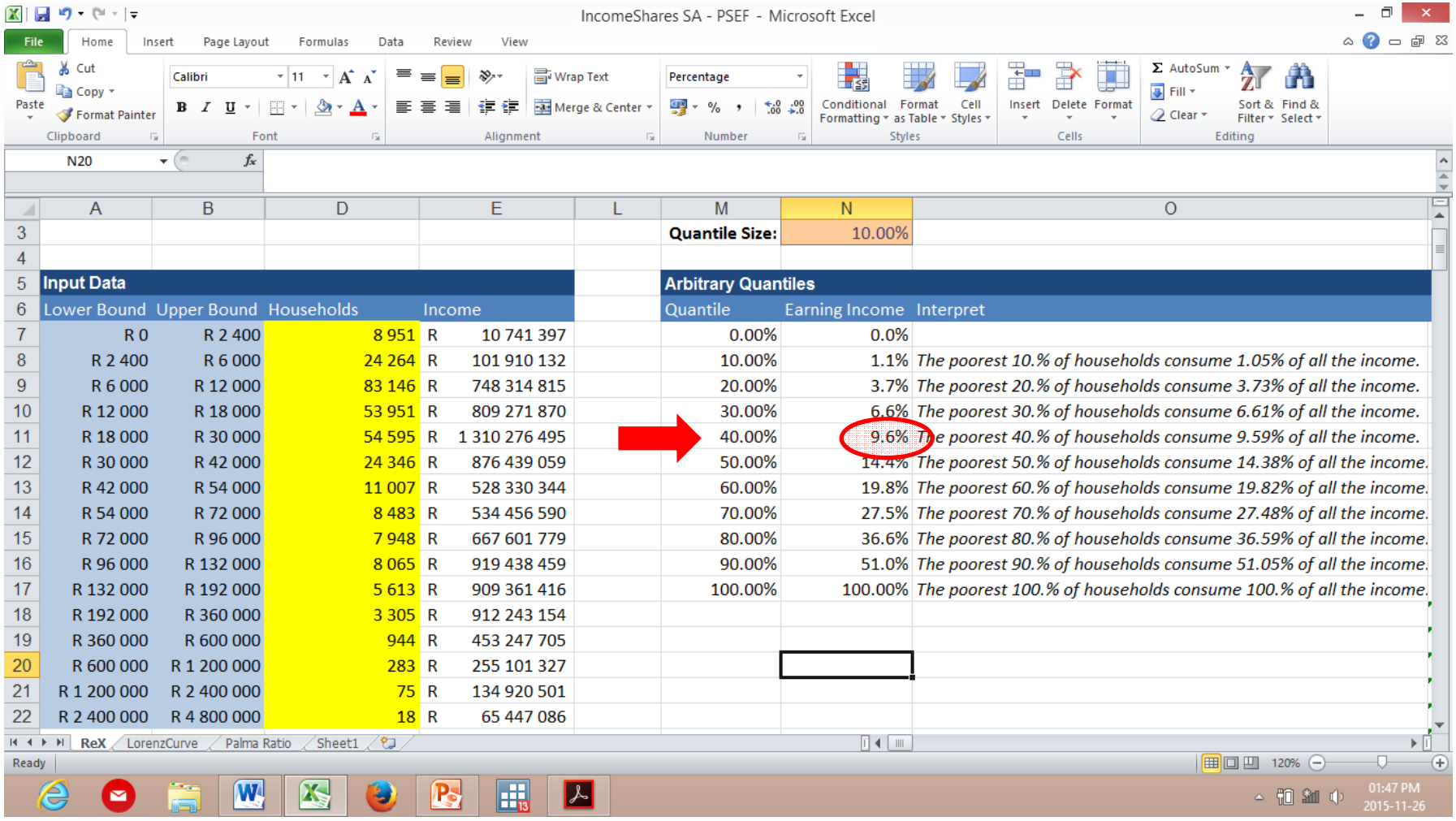
Income share of bottom 40%



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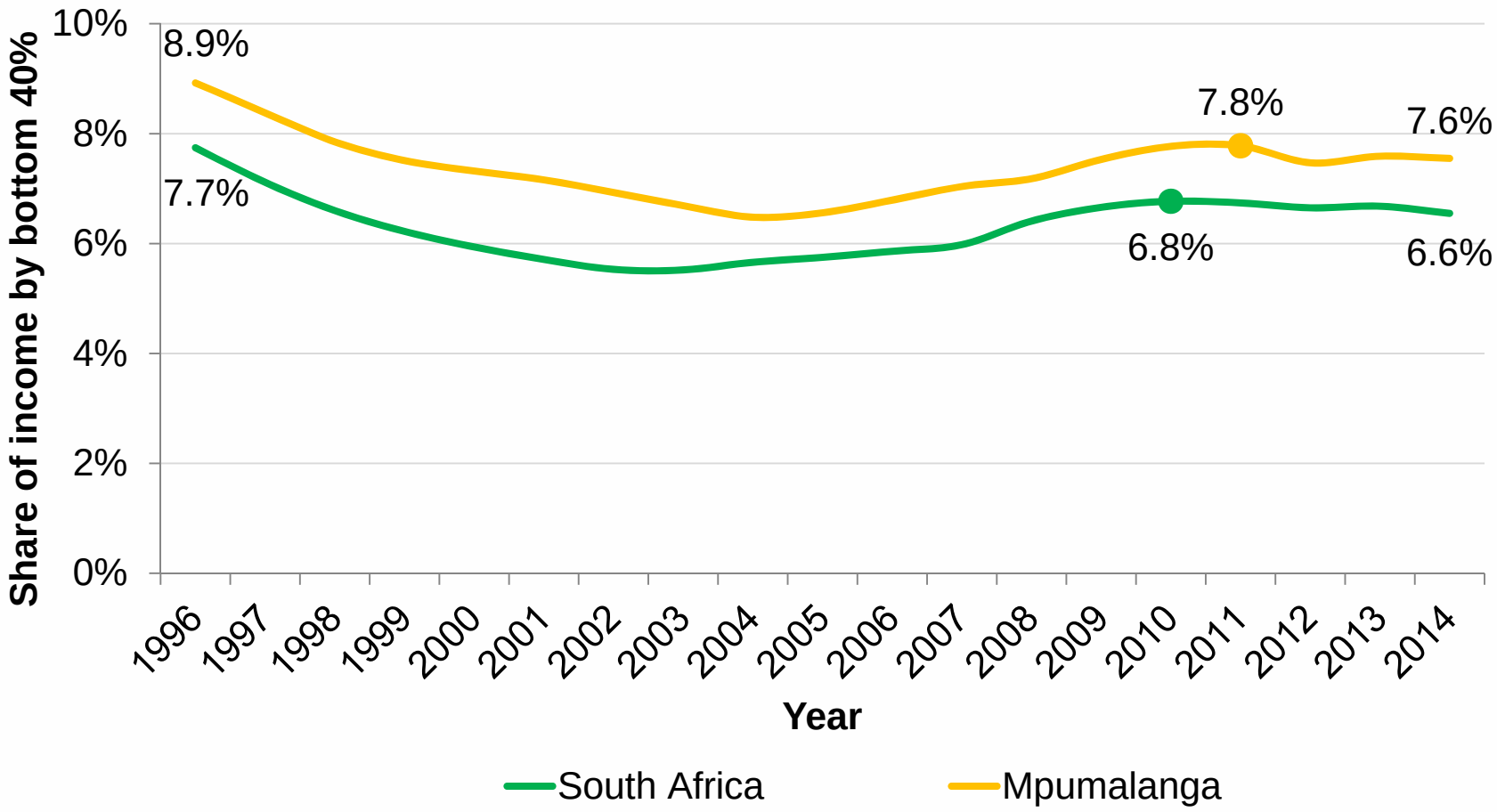

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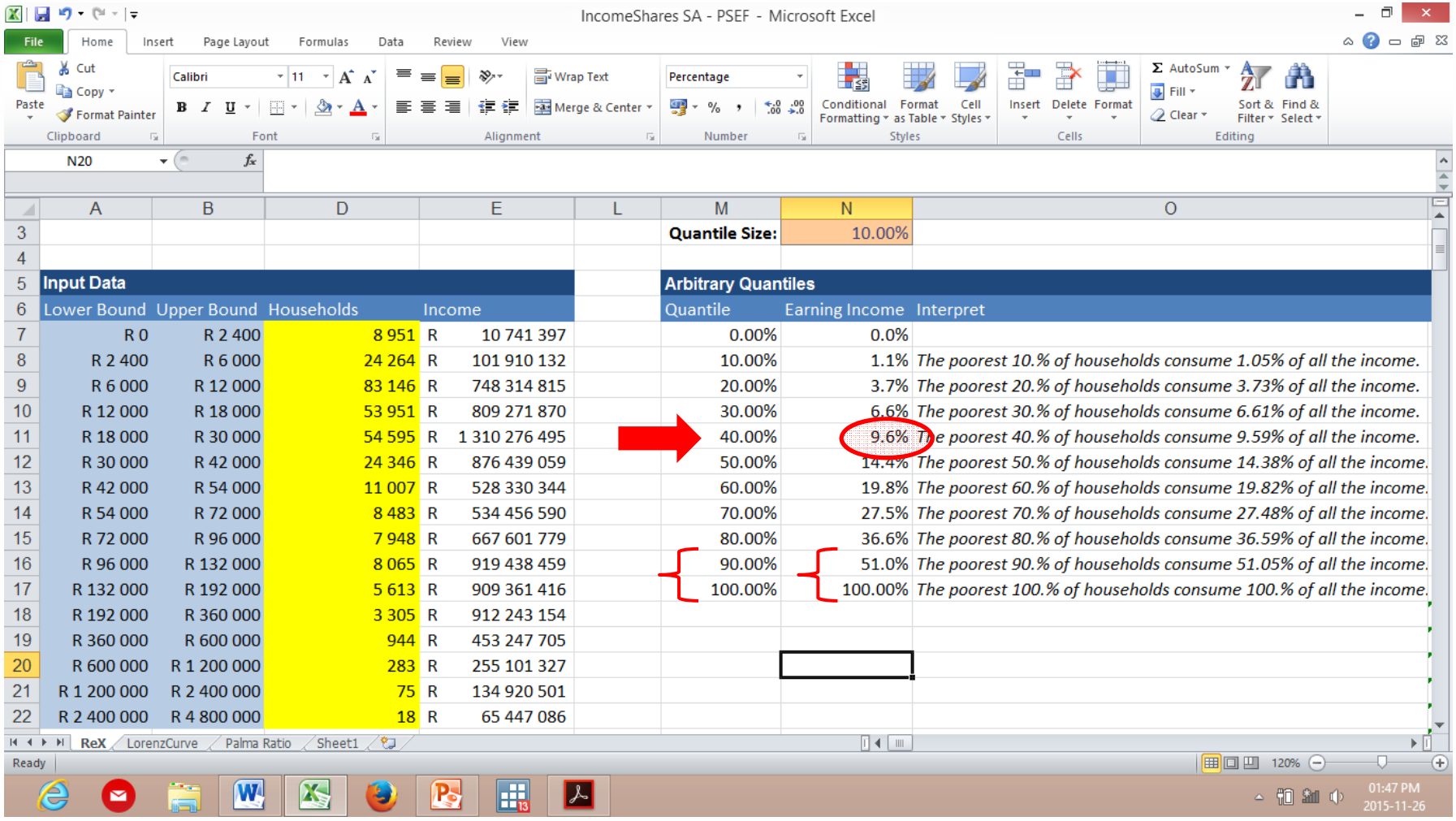
Income share of bottom 40%

- Mpumalanga has 3 local municipal areas where bottom 40% exceeds 10% NDP target already = ★ , however,
  - These 3 are rural areas with high poverty & unemployment rates
  - Contributes 7% to Mpumalanga GDP
- The 4 local municipal areas with the lowest bottom 40% share = , however,
  - Low poverty & unemployment rates
  - Contributes 70% to Mpumalanga GDP

Palma ratio

- Gabriel Palma observed that changes in income inequality are almost exclusively due to changes in the share of the richest 10% and poorest 40%
- Express income of the rich as multiples of that of the poor e.g. For every R1 that the bottom 40% earned, the top 10% earned R8
- Internationally, a Palma ratio of more than 3 would place a region in the most unequal quartile & less than 1.5 in the least unequal quartile.
- Using World Bank indicators of 2010, Cobham and Sumner (2013) calculated a Palma ratio of 7.05 for SA

Palma ratio



IncomeShares SA - PSEF - Microsoft Excel

	A	B	D	E	L	M	N	O
3						**Quantile Size:**	10.00%	
4								
5	**Input Data**					**Arbitrary Quantiles**		
6	Lower Bound	Upper Bound	Households	Income		Quantile	Earning Income	Interpret
7	R 0	R 2 400	8 951	R 10 741 397		0.00%	0.0%	
8	R 2 400	R 6 000	24 264	R 101 910 132		10.00%	1.1%	*The poorest 10.% of households consume 1.05% of all the income.*
9	R 6 000	R 12 000	83 146	R 748 314 815		20.00%	3.7%	*The poorest 20.% of households consume 3.73% of all the income.*
10	R 12 000	R 18 000	53 951	R 809 271 870		30.00%	6.6%	*The poorest 30.% of households consume 6.61% of all the income.*
11	R 18 000	R 30 000	54 595	R 1 310 276 495		40.00%	9.6%	*The poorest 40.% of households consume 9.59% of all the income.*
12	R 30 000	R 42 000	24 346	R 876 439 059		50.00%	14.4%	*The poorest 50.% of households consume 14.38% of all the income.*
13	R 42 000	R 54 000	11 007	R 528 330 344		60.00%	19.8%	*The poorest 60.% of households consume 19.82% of all the income.*
14	R 54 000	R 72 000	8 483	R 534 456 590		70.00%	27.5%	*The poorest 70.% of households consume 27.48% of all the income.*
15	R 72 000	R 96 000	7 948	R 667 601 779		80.00%	36.6%	*The poorest 80.% of households consume 36.59% of all the income.*
16	R 96 000	R 132 000	8 065	R 919 438 459		90.00%	51.0%	*The poorest 90.% of households consume 51.05% of all the income.*
17	R 132 000	R 192 000	5 613	R 909 361 416		100.00%	100.00%	*The poorest 100.% of households consume 100.% of all the income.*
18	R 192 000	R 360 000	3 305	R 912 243 154				
19	R 360 000	R 600 000	944	R 453 247 705				
20	R 600 000	R 1 200 000	283	R 255 101 327				
21	R 1 200 000	R 2 400 000	75	R 134 920 501				
22	R 2 400 000	R 4 800 000	18	R 65 447 086				

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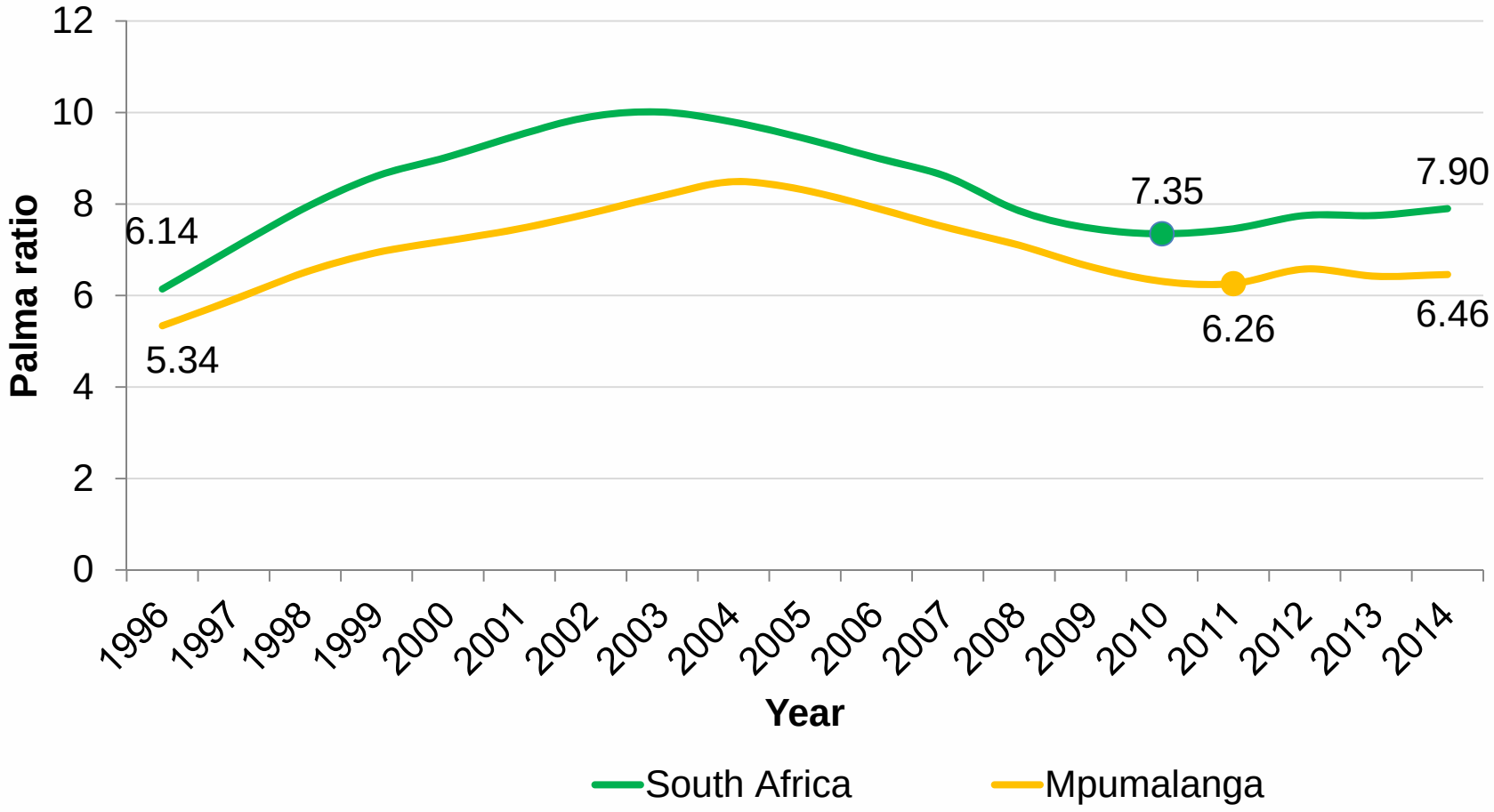
Palma ratio



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Palma ratio

- Same 3★ local municipal areas have the lowest/best Palma ratio in Mpumalanga
  - 9% of all jobs in Mpumalanga & 6% of all new jobs since 2011
  - Bottom 3rd in terms of household services
  - Palma ratio above 3
- 3 of the 4 have again worst Palma ratio, however,
  - 56% of all jobs in Mpumalanga & 62% of all new jobs since 2011
  - Top 3rd in terms of household services

Conclusion & recommendation

- Not all are & not all ★ are ★
- Fiscal redistribution through social grant system has had some success in reducing income inequality.
  - However, fiscal and state capacity sets limits to such redistribution as grant spending already constitutes a high proportion of GDP & social grants need to compete with other public spending.
- Considerable improvements in education & skills are necessary to remove/reduce the premium for skilled labour most effectively.