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Planning, Monitoring and Evaluation
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POLICY BRIEF SERIES

Inequality Research Project



Vulnerability and the middle class in South Africa

THE MEANING OF BEING MIDDLE CLASS AND WHY IT MATTERS

What makes you middle class? Is it your income, occupation, or education? Your family background or maybe the house and neighbourhood you live in? These factors all matter, because they affect your feeling of economic security and self-sufficiency. Being middle class entails being free from poverty, which means being able to afford the basic things in life – not only today, but also tomorrow. Confidence about the ability to afford essential items, now and in the future, are what matters when individuals are asked to self-identify as middle class.¹ It is about the power they possess to decide how to spend their money, and the stability needed to engage in mid- and long-term planning. Class also relates to the nature of opportunities available to move ahead in life, which some people are never granted. The ability to cope with negative events without being permanently harmed is perhaps most critical to appreciate.

¹ See Phadi and Ceruti (2011) for a sociological study interviewing 2559 residents of Soweto. While interpretations of what constituted 'basic goods or needs' differed considerably, the notion of economic security was pervasive among the heterogeneous group which self-identified as middle class.

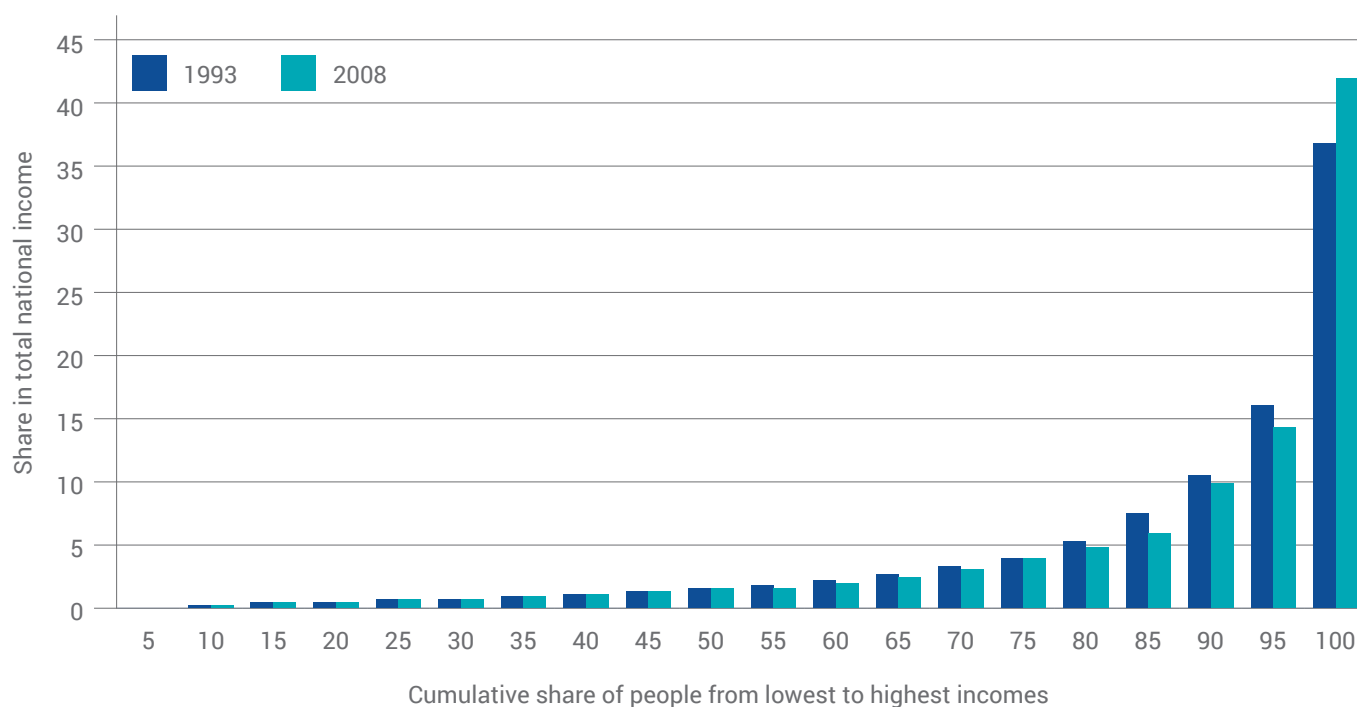
This understanding of the middle class as an ‘empowered’ and economically secure part of society is inherent in many of the expectations commonly placed into this class’s role in politics and economic development. Many values are ascribed to the middle class, which include a commitment to saving and investment, a belief in meritocracy, entrepreneurial spirit, and the importance attached to education (Cárdenas et al. 2011). Once a certain standard of living is attained, middle-class voters are said to become less restricted to meeting basic needs, like food, water, shelter, or clothing, and more willing to consider a range of ‘post-materialist’ values (so-called ‘higher order’ goods) such as self-expression, civil liberties, gender rights, the condemnation of corruption, and environmental concerns, for example. Sharply lower levels of economic scarcity and physiological insecurity are indispensable prerequisites – albeit no guarantees – for the middle class to keep up with this role.

DEFINING THE ‘MIDDLE CLASS’ IN AN UNEQUAL AND POVERTY STRICKEN SOCIETY

In the face of the ambitious hopes placed on the middle class, it is little wonder that upbeat stories about a rapidly growing new middle class in Africa (AfDB 2011) have been excitedly embraced by the business community, policymakers and the media (Giesbert and Schotte 2016). However, it turns out that much of this enthusiasm depends crucially on how the middle class is identified, and easily fades once more rigorous criteria are applied. It’s popularity aside, the middle-class concept has no universally accepted definition. Multiple rival approaches coexist – some of which include an important share of the population that could be classified as poor by national standards. In fact, depending on the chosen approach, the middle class is claimed to make up between 16 and 60 percent of the South African population.²

Yet, some definitions should be considered more suitable in the South African context than others. Exceedingly high inequality and a concentration of wealth among top income earners is apparent and coexists alongside persistent pockets of chronic poverty. Although South Africa has seen an important fall in poverty over the post-apartheid period, the high income growth experienced by the poorest in society loses much of its shine once we take into account that those at the very bottom of society started with virtually no income. South Africa’s pro-poor growth story was not accompanied by a fall, but a rise, in inequality. Those who gained the most were the richest 5% of the population, who in 2008 earned 42% of total national income, compared to 37% in 1993, as can be seen from Figure 1. Looking at the middle of the distribution, it is clear that those literally in the middle 50-60% of the population are in a precarious situation, where each group (ventile) earning less than 2.5% of the national pie. The poorest 80% of society earn barely more than a fourth (28%) of total national income.

Figure 1: Top earners appropriate an increasingly larger share of national income, 1993 to 2008



Source: Own calculations using PSLSD 1993 and NIDS Waves 1 to 4.

Note: Census raised weights (PSLSD) and post-stratified weights (NIDS) have been used to calculate growth incidences.

² See Zizzamia et al. (2016) for a review of competing approaches.

The existence of such an unequal income distribution is the reason why in South Africa, as in many other emerging and developing countries, it makes little sense to locate the middle class in the literal middle of the income distribution – for example, between the 40th and the 70th percentile, as some authors have suggested (Levy et al. 2014, Finn et al. 2013). This literal middle class will likely still be poor in terms of their actual standard of living and “is unlikely to be the middle class as either historically defined or understood” (Bhalla 2007, p. 94).

This implies that efforts to define the middle class need to explicitly reference the level of income necessary to meet basic needs; a cost-of-basic-needs poverty line that reflects the minimum expenditure required to cover essential consumption in the country-specific context. It is also important to explicitly account for the volatility that people face in terms of being capable to meet their basic needs. Consider that of the 11 million South Africans who were non-poor in 2008, about one in four had fallen into poverty by 2014. In other words, individuals who are almost poor, and just escape being labelled as extremely poor, should not be considered to represent the stable middle class. Middle class status relies on having the means to sustain a decent standard of living and avoid returning to abject poverty due to a shock. But which factors are relevant to determining who remains vulnerable to poverty and who enters the more stable middle class?³

RESILIENCE FROM POVERTY AS A SIGN OF MIDDLE-CLASS ‘EMPOWERMENT’

Given the preceding discussion, we argue in favour of defining the South African middle class in a way that meaningfully captures the notion of ‘empowerment’⁴. To be considered empowered, households need to be able to meet their basic needs at present, and be sufficiently secure against falling into poverty in the near future. That is, they must be non-poor and must face an acceptably low degree of vulnerability to poverty. We also care about the chances that someone who suffers an income shock can escape poverty again.

So, what factors determine who falls into poverty and who stably makes it out? Is it pure luck? Part of it may be, but the characteristics of a household – such as its geographic location, the education and occupation of the main bread winner, or the number of children – certainly also play a role. We determine which factors matter and to what extent (discussed below) using a model of poverty transitions (Cappellari and Jenkins 2002) that is fitted to panel data from the National Income Dynamics Study (NIDS). Based on our model estimates, for each person we can predict the chances of being poor in the future, conditional on the household characteristics and the observed poverty status at present.

On this basis, we stratify the South African society into a class schema (see Figure 2). We start from a standard definition of society with three classes: the poor, the middle class, and the elite. We understand the poor as those who are presently in an economically precarious situation, which does not allow them to satisfy their basic needs i.e. they fall below the poverty line. Similarly, we understand the elite as those in society who enjoy a standard of living well above the national average.⁵ The predicted poverty transition probabilities allow us to add further nuance to the class structure. Among the poor, we distinguish those with below average chances of exiting poverty and thus a comparatively high risk of poverty persistence – the chronically poor – from those with above average chances of making it out of poverty – the transient poor. Analogously, among the middle class, we distinguish those who face an above average risk of slipping into poverty – the vulnerable – from the more secure ‘actual’ middle class, who have a below average risk of entering poverty.

³ In this paper we use the 2015 StatsSA Cost of Basic Needs Poverty Line. In January 2015 ZAR this line sits at R963 per capita monthly income/ expenditure, or about R40 per person, per day.

⁴ The notion that the middle class is an empowered class has a precedent in the South African literature – Burger et al. (2014) adopt a ‘capability’ approach to defining the middle class assuming that the middle class is ‘empowered’. The ‘vulnerability’ approach we suggest advances on a method developed by Lopez-Calva and Ortiz-Juarez (2014) in the Latin American context.

⁵ The definition of the upper – or elite – threshold, which we arbitrarily set at two standard deviations above the average per capita household expenditure in our data, is not the focus here. The size of the middle class can be expected to be relatively robust to minor variations in this threshold, given that it lies in the upper tail of the distribution.

Figure 2: Schema of social stratification (based on current living standards and mobility patterns)

General class structure according to absolute expenditure thresholds	Derivation of probability thresholds that allow for a finer subdivision of classes according to predicted poverty exit and entry rates	Class structures
Poor	Below	Chronic poor
	Average probability of exiting poverty	
	Above	Transitory
Poverty threshold		
Middle class	Below	Vulnerable
	Average probability of falling into poverty	
	Above	Middle class
Elite threshold		
Elite		Elite

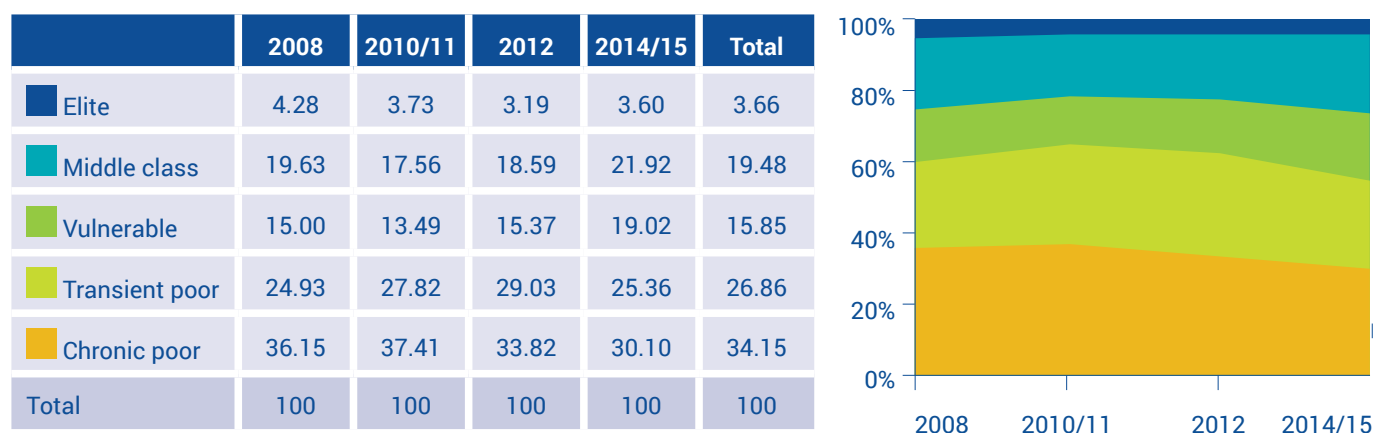
Source: Authors' representation.

Note: Solid lines denote absolute expenditure thresholds. Dashed lines denote probability thresholds.

A PROFILE OF SOUTH AFRICA'S SOCIAL CLASSES

So, what do these five social classes– the chronic poor, the transient poor, the vulnerable, the middle class, and the elite – look like? How big are they respectively? How have they grown? What is their racial composition? What roles do they play in the labour market?

Figure 3 and Table 1: South Africa's social structure, 2008 to 2014/15



Source: Authors' calculations using NIDS waves 1 to 4 (with post-stratified weights).

Using this approach, the South African middle class is small – averaging around 20% of the total population between 2008 and 2014. This is significantly smaller than previous estimates, which range from 23.5% (Visagie and Posel, 2013) to 55% (Burger et al., 2015) in 2014. This reveals that other estimates have included among the middle class large numbers of the poor and/or the vulnerable.⁶ The middle class in South Africa is not only small, it seems that it is not much bigger than it was in 1993 – growing its share of the total population by only two percentage points in the last 23 years.⁷

⁶ Interested readers are referred to the original paper for a more rigorous comparison between the vulnerability approach and other approaches (Zizzamia et al., 2016).

⁷ See Zizzamia et al. (2016).

Table 2: Average class characteristics, 2008 to 2014/15

	Chronic poor	Transient poor	Vulnerable	Middle class	Elite	Total
Characteristics of the head of household (HoH)						
HoH age	51	46	43	45	48	47
HoH is female	74%	57%	59%	30%	28%	57%
HoH years of education	5	8	9	12	14	8
HoH race group						
African	97%	86%	89%	46%	18%	80%
Coloured	3%	12%	10%	13%	7%	9%
Asian/Indian	0%	1%	1%	8%	10%	2%
White	0%	1%	0%	33%	65%	9%
HoH employment						
Inactive	59%	39%	31%	19%	20%	40%
Unemployed (discouraged)	4%	2%	3%	1%	0%	3%
Unemployed (strict)	12%	13%	12%	4%	1%	10%
Managers, professionals and technicians	0%	3%	5%	29%	43%	9%
Clerical, service and sales occupations	1%	8%	9%	16%	7%	7%
Craft and trade workers, supervisors	2%	3%	3%	9%	5%	4%
Plant and machine operators	1%	5%	6%	7%	2%	4%
Elementary occupations	8%	13%	14%	4%	1%	9%
Other	13%	15%	18%	13%	20%	15%
Characteristics of the household (HH)						
No. of workers in HH	0.84	1.17	1.16	1.43	1.25	1.11
Geographic location						
Traditional	65%	27%	26%	4%	3%	34%
Urban	30%	69%	68%	92%	95%	61%
Farms	5%	4%	5%	4%	2%	5%
Per capita expenditure (mean)	343	536	2,057	3,956	19,218	2,013
Per capita expenditure (median)	300	530	1,585	3,235	15,347	664

Source: Authors' calculations using NIDS waves 1 to 4 pooled sample (with post-stratified weights).

Note: All monetary values are expressed in January 2015 Rands.

In Table 2 we report several key household characteristics for the five different social classes. The close similarities between the ‘transient poor’ and the ‘vulnerable’ on every characteristic except expenditure is especially striking. This finding highlights the structural affinity between the ‘vulnerable’ non-poor and the ‘transient poor’. The only substantive difference between these groups is mean and median per capita expenditure – confirming that the ‘vulnerable’ group is often only one income shock away from falling into the ‘transient poor’ class. The ‘middle class’, on the other hand, is clearly distinct from the ‘vulnerable’ class in terms of the reported household characteristics – suggesting some of the structural correlates of this class’s economic stability.

We are not saying that all of the middle class are now well-off; it is worth being explicit about the standard of living that the average middle class individual can attain. Consider the mean per capita expenditure per month of R3,956 reported in Table 2, particularly in the light of what inequality implies in terms of the distortion of prices that occurs and high levels of consumer indebtedness. The Fees Must Fall protest movement is one example of how the cost of living in South Africa is being experienced. Even members of the elite group identified above would qualify as “missing middle – households earning less than R600 000 per annum.”

Educational attainment and employment offer substantial protection from falling into poverty. Employment shocks diminish security and welfare. Nonetheless, race is still the greatest predictor of one’s vulnerability and income volatility.

Now consider the extent of upward and downward class mobility. Table 3 gives us an insight into these dynamics. It shows that the class positions of the poor and the elite are fairly stable, with extremely few experiencing poverty transitions. The middle class is also very secure, with less than 10% falling into poverty. The vulnerable are, unsurprisingly, much more mobile, with almost half falling into poverty between 2008 and 2014/15.

Table 3: Poverty entry and exit, 2008 to 2014/15

		Pooled	2008-2010	2010-2012	2012-2014
Share (%) by class that exited poverty	Chronic poor	9.20	6.88	6.91	13.70
	Transient	29.20	21.89	26.80	36.32
Share (%) by class that fell into poverty	Vulnerable	47.99	58.21	51.71	36.38
	Middle class	9.45	11.32	8.46	8.60
	Elite	2.63	3.57	1.98	2.05

Source: Author’s calculations using NIDS panel data pooling consecutive waves and applying panel weights.

Related to the differences in class stability, differentiation in labour market access is clear: the more disadvantaged the class that a household belongs to, the more likely it is that the household head is unemployed or economically inactive. Over 70% of household heads among the chronically poor are not employed, either being economically inactive or unemployed. Among the transient poor and the vulnerable, around 50% are not employed. This figure drops substantially when the middle class and elite are considered, for whom the unemployment rate is very low (between 1 and 5%).

Among those who are employed in the respective classes, household heads of chronically poor households are most likely to be employed in elementary occupations. Similarly, for household heads belonging to transient poor and the vulnerable households, elementary occupations also dominate, followed in significance by service and sales occupations. Unsurprisingly, a very high proportion of household heads in the middle and elite classes are employed as managers, professionals, or technicians.

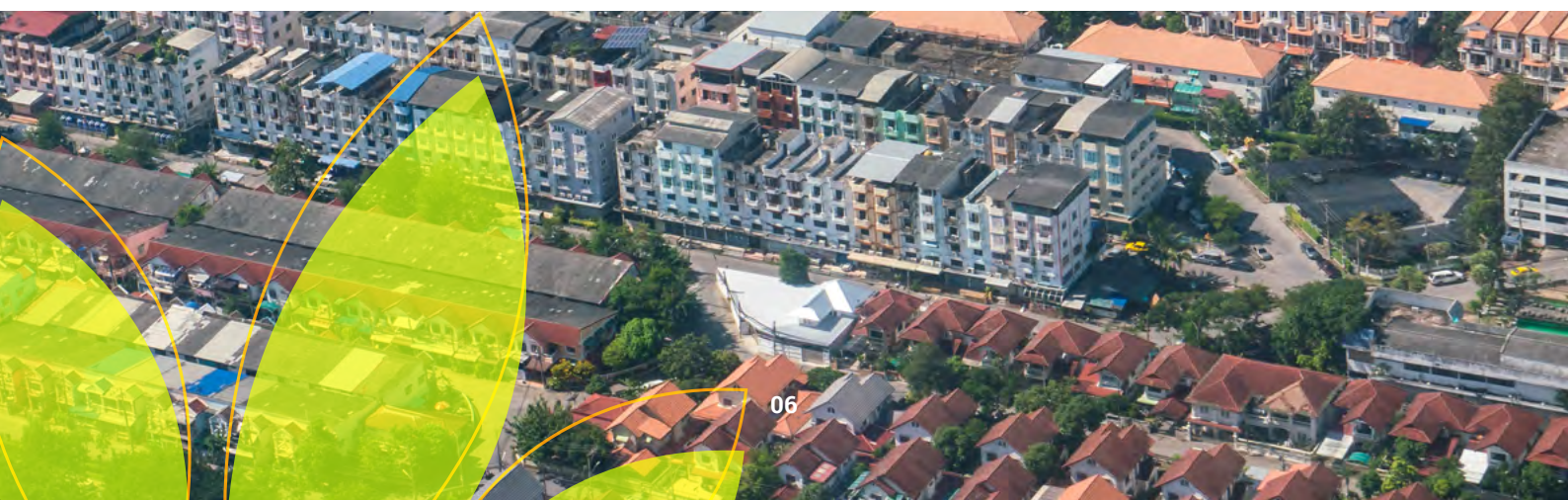
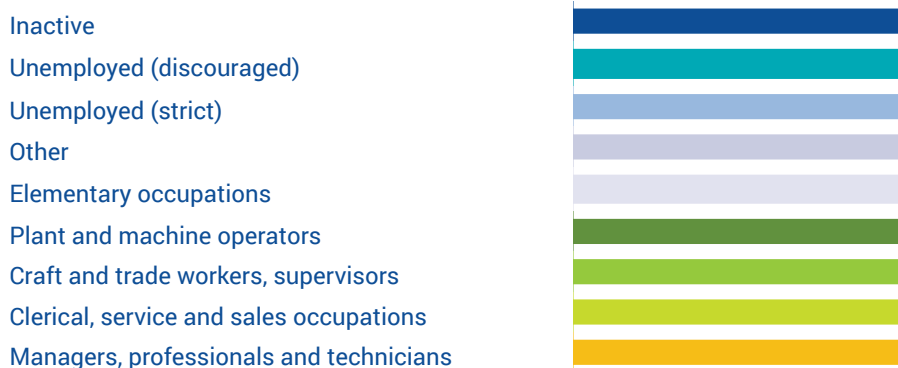
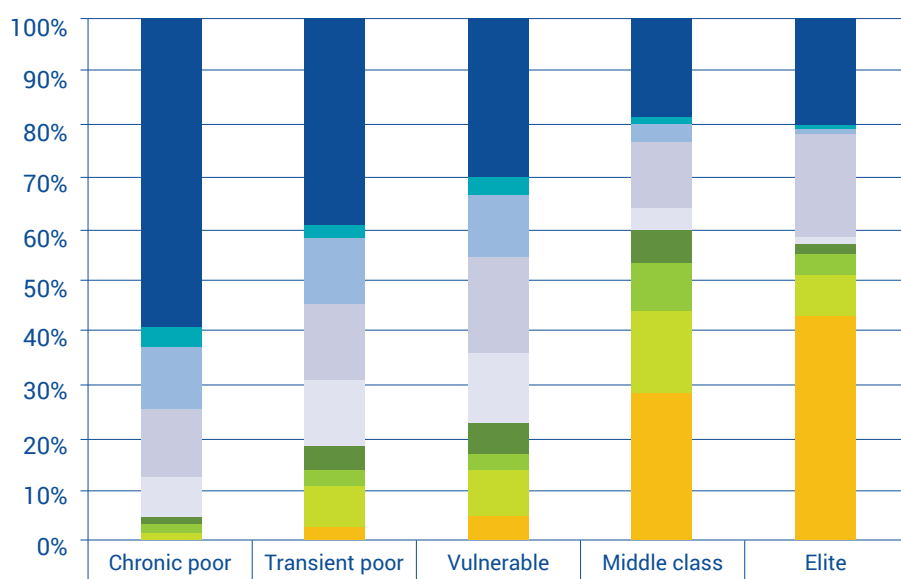


Figure 4: South Africa's five social classes in the labour market, 2008 to 2014/15



Source: Authors' calculations using NIDS waves 1 to 4 (with post-stratified weights).
 Note: Figures represent employment status and occupational category limited to heads of households.

CONCLUSION

This research into the middle class presence in South Africa provides much needed clarification on the debate regarding how to conceive of the middle class in South Africa. One, the middle class in South Africa is fairly small, when one accounts for being able to meet basic needs securely. The finding that less than one in four South Africans is economically secure indicates the precariousness that the overwhelming majority of South Africans experience, as they either remain unable to meet their basic needs or are vulnerable to becoming poor. The failure to grow the size of the middle class has been due to the failure of economic growth and other social processes relevant to social protection to improve access to earnings and facilitate meaningful inclusion.

The implications of these findings are that rather than facilitating a one-time escape from poverty, social processes lead a vast proportion of society to remain poor, with significant numbers of vulnerable South Africans deemed 'non-poor' but likely to return to being unable to meet basic needs. This income volatility is determined by labour market status and the type of work one can access. These outcomes are inextricably linked to race and education as well as the proximity to markets.





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This policy brief is based on the SALDRU Working Paper No. 188, <http://www.opensaldru.uct.ac.za/handle/11090/846>.

Link to full report: <http://psppdknowledgerepository.org/component/jdownloads/download/9-grantee-research/358>

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