

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

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Introduction

- Rethinking Poverty Dynamics in ‘Polarized’ Societies
- Quantitative Estimate of Dynamic Asset Poverty Threshold
- Extending the Analysis with Qualitative Information
- Is there (Economic) Sense in Sociability? The role of social assets in poverty dynamics
- Concluding thoughts on the ‘Washington Consensus’ in polarized societies

Rethinking Poverty Dynamics in 'Polarized' Societies

- Economic importance of social capital & assets emanates from imperfect markets
- Hence there can be 'cents' in sociability
- But will this work in South Africa:
 - Legacy of sharp socio-economic polarization
 - Will this truncate the effectiveness of social capital—taking the cents out of sociability?
 - Theoretical model says it will ...
 - Evidence to date not encouraging ...
- Tasks here are to:
 - Look more deeply at patterns of mobility for evidence of persistent poverty/poverty traps
 - Specifically probe how social capital works, or fails to work in this context
- First, what do we know so far?

**Table 1: Decomposing Poverty Transitions in South Africa
(% Surveyed Households)**

		1998	
		Poor 43%	Non-Poor 57%
1993	Poor 27%	<p><i>18% Chronically Poor, of which:</i></p> <ul style="list-style-type: none"> • 8% Dual Entitlement Failures*** • Structurally Poor/ \leq 92% 	<p><i>10% Got Ahead, of which:</i></p> <ul style="list-style-type: none"> • 58% Stochastically Mobile* • Structurally Mobile \leq 42%
	Non-Poor 73%	<p><i>25% Fell Behind, of which:</i></p> <ul style="list-style-type: none"> • 15% Stochastically Mobile** • Structurally Poor/ \leq 85%, of which 51% had entitlement losses 	<p><i>48% Never Poor</i></p>

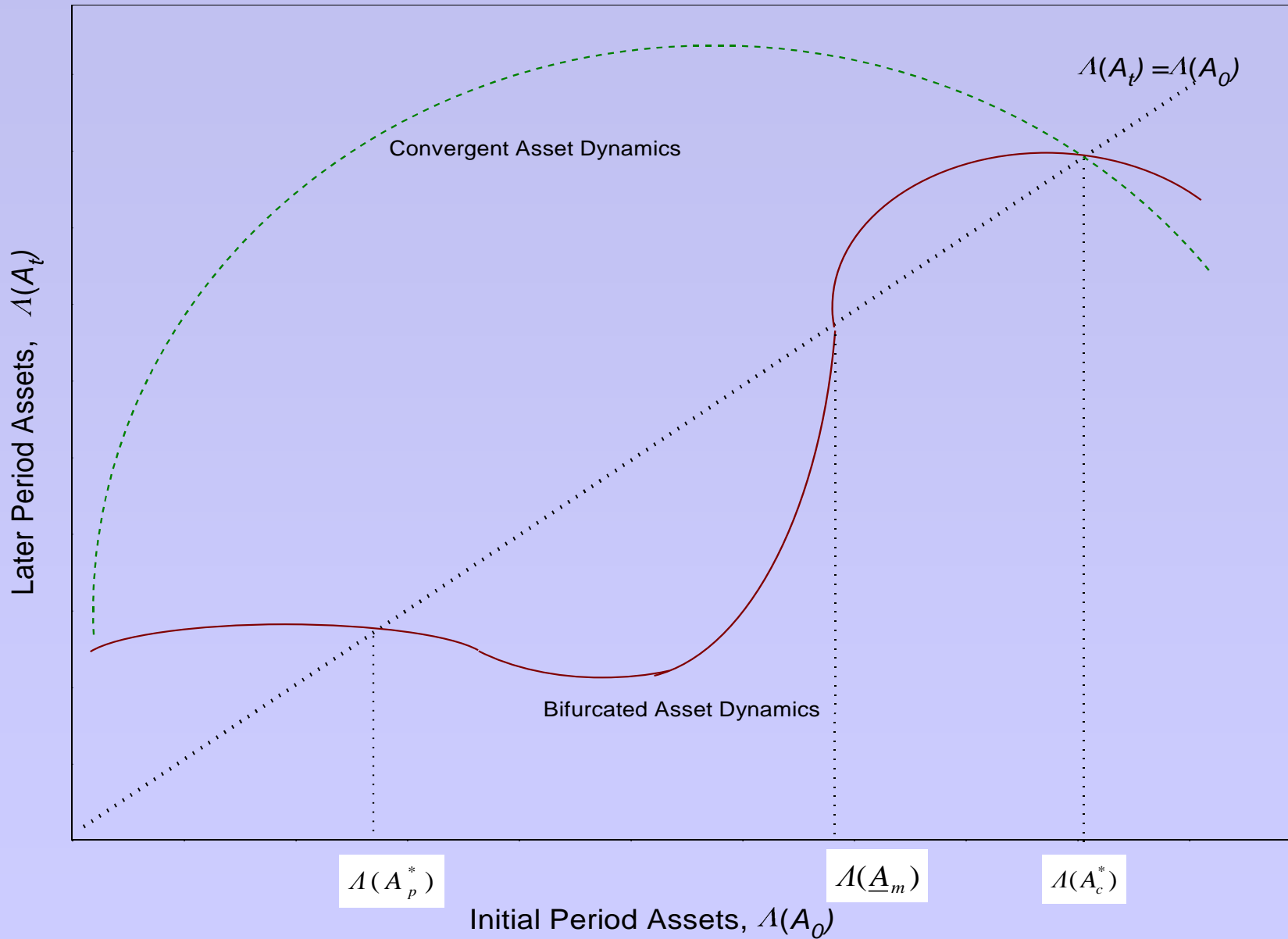
Based on Carter and May (2001)

- Inadequacy of Cross-sectional measures
- Standard dynamic poverty measures to distinguish transitory from persistent poverty
- Using ‘asset poverty line’ to distinguish stochastic from structural transitions
- But what about long-run?
 - Can non-poor sustain their position?
 - How many of structurally poor likely to remain poor over the longer term?

Quantitative Estimate of Dynamic Asset Poverty Threshold

- The economic theory of poverty traps suggests that inadequate access to capital and insurance will continue to render infeasible the hypothesized asset accumulation by poor households
- If correct, this perspective implies a critical minimum asset threshold ('Micawber threshold') below which accumulation not possible
- Implies divergent, not convergent, asset dynamics
- Let's now look diagrammatically at what these two competing perspectives might predict

Hypothetical Asset Dynamics



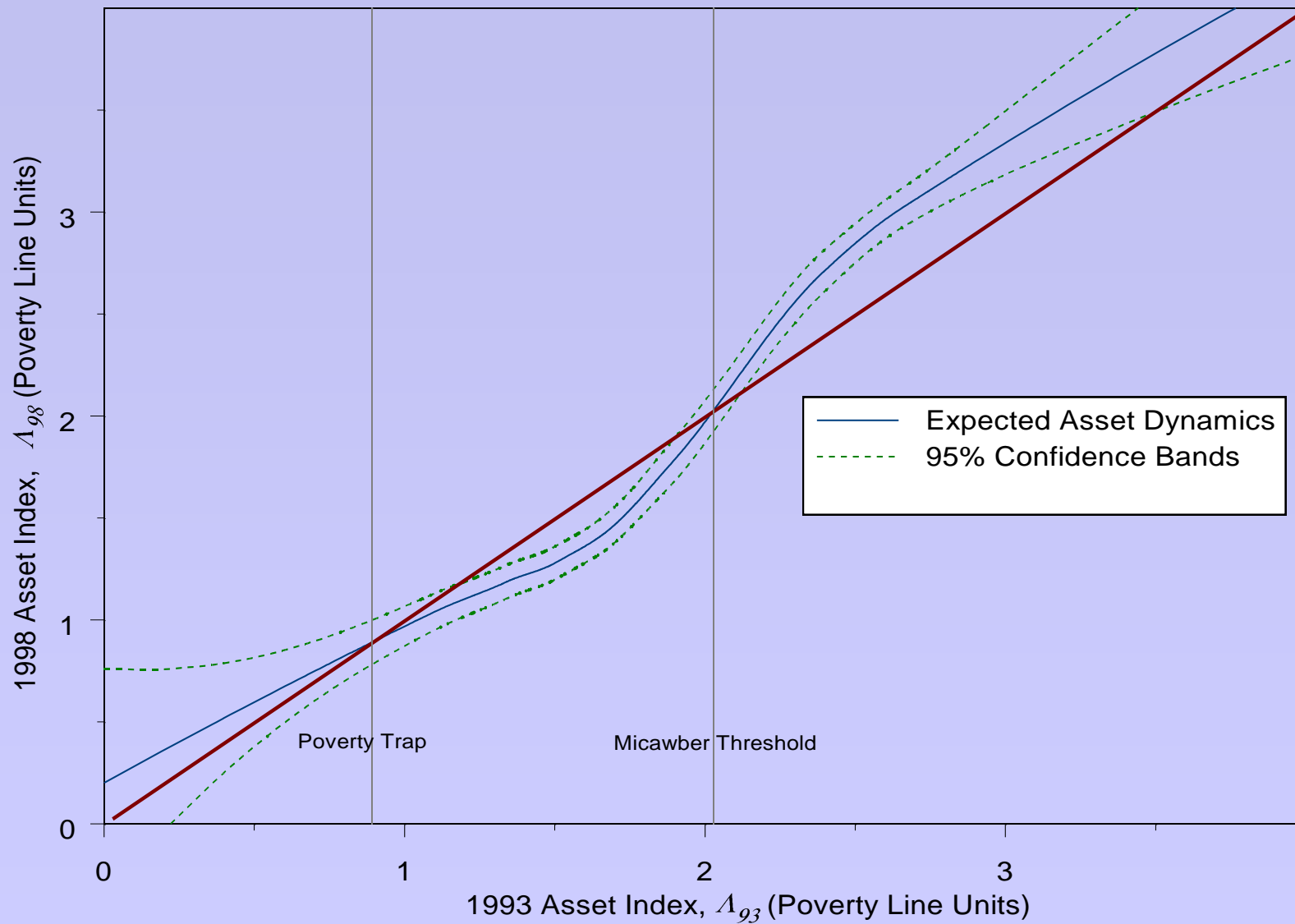
South African Asset Dynamics, 1993-98

- So looking backwards at South African experience, what can we learn about Poverty traps? Do we see convergent or divergent dynamics?
- Use KIDS data
- General quadratic specification of asset index, $A_t(A_t)$, such that asset weights ('prices') depend on asset mix
- Dependent variable (& hence index) measured in "poverty line units" (PLUs), meaning that the index tells us what fraction of the poverty line a household's bundle of assets would be expected to generate

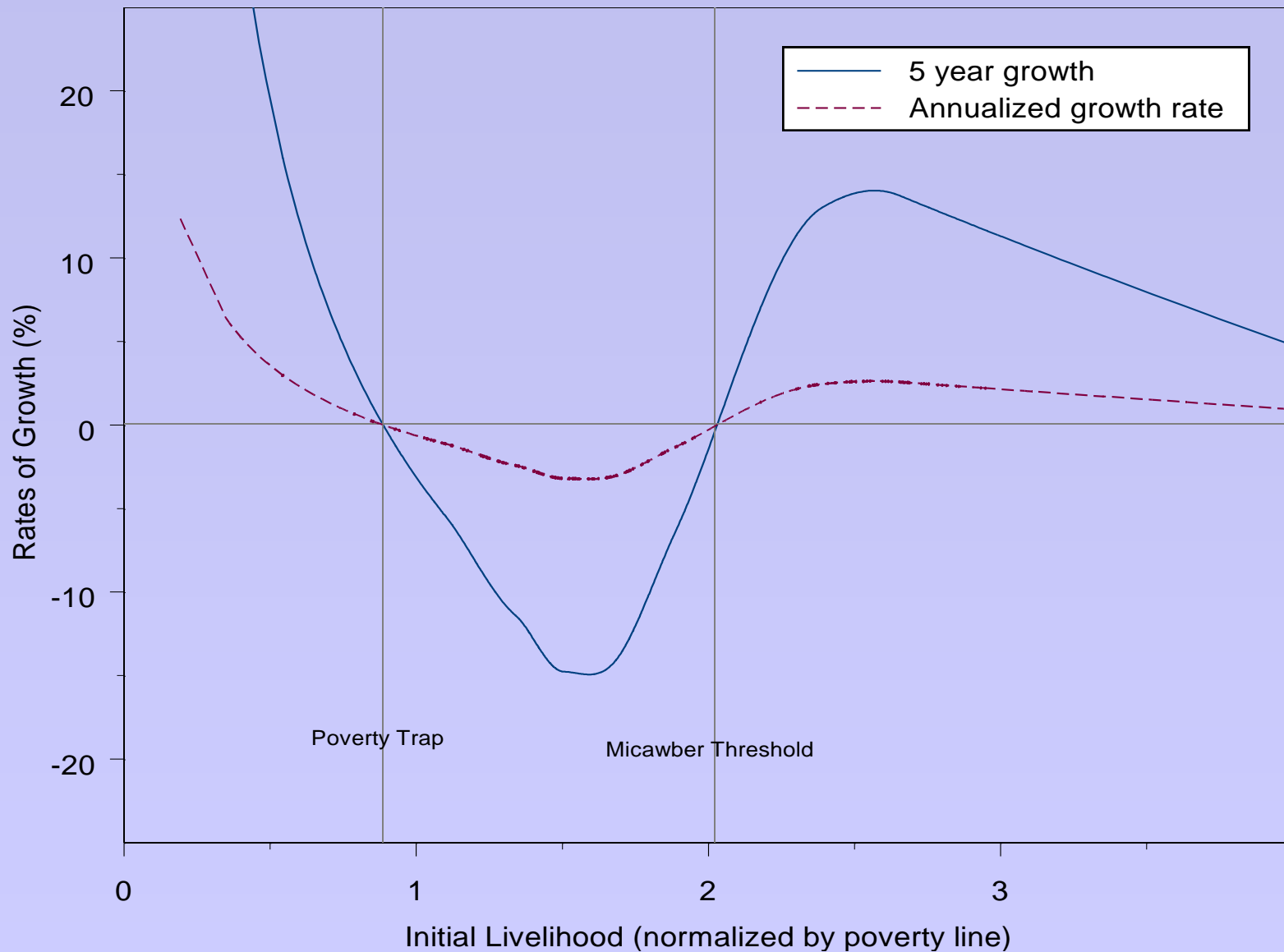
South African Asset Dynamics, 1993-98

- Using asset index, do non-parametric estimation of asset relationship
- Key findings:
 - Divergent dynamics
 - Repelling 'Micawber Threshold' at ~ 2 PLUs
 - Poverty trap equilibrium at 0.9 PLUs

Estimated South African Asset Dynamics



Estimated South African Asset Dynamics



Extending the Analysis with Qualitative Information

The econometric analysis defines three dynamic regions distinguished in terms of their longer term predictions about livelihood dynamics:

1. *Caught in the Poverty Trap Equilibrium* $\leftrightarrow \Lambda_{98} < 0.9 PLUs$
2. *Downwardly Mobile toward the Poverty Trap* $\leftrightarrow 0.9 PLUs < \Lambda_{98} < 2.1 PLUs$
3. *Converging to the Non-poor Equilibrium* $\leftrightarrow 2.1 PLUs < \Lambda_{98}$

Extending the Analysis with Qualitative Information

- Let's see if more recent events bear out these predictions
- In-depth event mapping exercise with 50 KIDS households in 2001
- Gives opportunity to:
 - Extend time frame of analysis
 - Look more deeply into role of social assets and capital

TABLE 3: Qualitative Analysis of Post-1998 Mobility

Absolute Numbers of Observations
(Percent of Column in Parentheses)

		Predicted Mobility Class		
		Poverty Trap Equilibrium (<i>n</i> =13)	Downwardly Mobile toward Poverty Trap (<i>n</i> =18)	Converging to Non-poor Equilibrium (<i>n</i> =14)
1998-2001 Mobility (<i>Qualitative Analysis</i>)	Chronic Structural Poverty	6 (46%)	5 (27%)	1 (7%)
	Structurally Downward	3 (23%)	5 (27%)	2 (14%)
	Stochastically Downward	2 (15%)	--	1 (7%)
	Stochastically Upward	--	3 (17%)	1 (7%)
	Structurally Upward	--	--	1 (7%)
	Stable Non-poor	2 (15%)	5 (27%)	8 (57%)

Is there (Economic) Sense in Sociability?

- Key observations from table are consistent with estimated Micawber Threshold of 2 PLUs:
 - Little upward mobility from positions of structural poverty
 - Downward mobility by some of the non-poor
- A few anomalous cases of upward mobility from below are visible—
 - Cases where accumulation and advance were achieved
 - Reminder that poverty traps can be broken by capital access, and that more generally a population may be distinguished by multiple long-term positions based on socially- or market-mediated access to finance.
- Finally, scarce evidence of social capital that pays off in terms of economic advance:
 - Social capital costly
 - Few linkages available from locally based group—no bridges
 - Some evidence that helps stabilize at low levels

‘Washington Consensus’ in polarized societies

- In summary, analysis indicates that:
 - Social capital not playing its “cents-able” role
 - Despite the opportunities and new openings provided by political & economic liberalization, economy not working for South Africa’s less well-off citizens
- Observations match the call by John Williamson (who coined the Washington Consensus term) for governments to do more to assure that its citizens have the market access the minimum assets necessary to use time and markets to their advantage
- Implications for the design of ‘cargo nets’ and safety nets

