Growth and Inequality in Zambia

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Overview of the Presentation

• Growth and inequality
• Some context
• Data
• Findings
  • Income sources
  • Inequality
• Conclusions
Growth and Inequality
Growth and inequality

• Rapid sustainable economic growth that will create jobs, raise incomes and reduce poverty a key policy objective

• Jobs imperative is critical in Sub-Saharan Africa: over the next 40 years, the region will need to create 1.25 million net new jobs per month to cater for growing working-age population (assuming constant LFPR)

• Different patterns of economic growth will have different labour market outcomes in terms of employment and wages, and therefore also in terms of poverty and inequality
Growth and inequality

• Growth affects inequality
  • As countries develop, inequality first rises, then falls (Kuznets)
  • Country-specific factors underlie differences in inequality
  • Pattern of growth influences inequality, not growth per se
  • Little or no impact

• Inequality affects growth
  • Inequality provides incentives to work hard and take risks
  • Inequality limits ability of poor to invest in human capital, income-generating opportunities
  • Inequality may limit rate and duration of economic growth

• Growth and inequality are related also to poverty
Some context
Economy
Inequality

Highest Gini Coefficients Globally

- South Africa (2011): 63.4
- Namibia (2009): 61.0
- Haiti (2012): 60.8
- Botswana (2009): 60.5
- Central African Republic (2008): 56.2
- Comoros (2004): 55.9
- Zambia (2010): 55.6
- Lesotho (2010): 54.2
- Colombia (2014): 53.5
- Paraguay (2014): 51.7

Note: Most recent country estimate since 2000, from World Bank Development Indicators (2017).

Quintile income shares, 2010

- Poorest 20%/10%: 3.8
- Quintile 2: 6.8
- Quintile 3: 10.5
- Quintile 4: 17.9
- Richest 20%/10%: 61.0

Data
Data

• Data

• Choose to **focus on income** instead of expenditure/consumption
  • Not the conventional approach
  • Allows us to look at different income sources within context of inequality

• Need to take care of outliers, particularly because our focus is on inequality
Findings

(I) Income Sources
Agricultural self-employment
Non-agricultural self-employment
Wages
Remittances
Grants/Transfer payments
Capital income
Other

Share of households reporting non-zero income by income source

Percent


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Share of aggregate household income by income source

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<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Agricultural self-employment</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>6</td>
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<tr>
<td>Non-agricultural self-employment</td>
<td>33</td>
<td>33</td>
<td>33</td>
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<td>Wages</td>
<td>51</td>
<td>51</td>
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<tr>
<td>Remittances</td>
<td>3</td>
<td>3</td>
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<tr>
<td>Grants/Transfer payments</td>
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<tr>
<td>Capital income</td>
<td>3</td>
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<td>3</td>
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<td>3</td>
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<tr>
<td>Other</td>
<td>4</td>
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</tr>
</tbody>
</table>

Note: The diagram shows the percentage share of aggregate household income by income source for different years.
Income share of each income source across household deciles, 2015

TOTAL
Agricultural Self-Employment
Non-Agricultural Self-Employment
Wages
Remittances
All Other

Decile 1
Decile 2
Decile 3
Decile 4
Decile 5
Decile 6
Decile 7
Decile 8
Decile 9
Decile 10

Percent
0 10 20 30 40 50 60 70 80 90 100

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Income sources

• Largest proportions of households report access to self-employment income (agricultural 46%, and non-agricultural 48%), followed by wages (27%)

• But, the majority of household income (in total) is from wages (51%), followed by non-agricultural self-employment (33%)

• Importance of income sources correlated with position in distribution
  • Poorest households earn majority of their incomes from agricultural self-employment
  • Middle earn more from non-agricultural self-employment
  • Richest earn majority from wages
Findings (II)

(II) Inequality
Share of total income by household decile, 1996-2015

<table>
<thead>
<tr>
<th>Year</th>
<th>Poorest 60%</th>
<th>Deciles 7-8</th>
<th>Decile 9</th>
<th>Decile 10</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>11</td>
<td>18</td>
<td>20</td>
<td>50</td>
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<tr>
<td>1998</td>
<td>13</td>
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<td>2004</td>
<td>12</td>
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<td>17</td>
<td>53</td>
</tr>
<tr>
<td>2010</td>
<td>11</td>
<td>16</td>
<td>18</td>
<td>56</td>
</tr>
<tr>
<td>2015</td>
<td>9</td>
<td>18</td>
<td>22</td>
<td>51</td>
</tr>
</tbody>
</table>
Inequality over time

- Persistently high Gini coefficients
- Why are these coefficients higher than the ones above and in the previous presentation?
  - Consumption/expenditure vs. income
Which income sources contribute most to inequality?

- Can decompose the Gini coefficient by income source
  - Wage income contributes largest share to inequality (40%-60%)
  - Within wages, a shift from agriculture (12%) in 1996 to financial services (26%) in 2015
  - Non-agricultural self-employment income next largest (24%-38%)
How have incomes changed across the distribution?

• GIC shows change in incomes at various points across distribution
• Between 1996 and 2015
  • Most rapid growth amongst poorest and wealthiest
  • Middle see little to no growth in incomes
• Growth has not been pro-poor in the sense that highest growth rates tend to be for richest
Growth, inequality and poverty

- Decomposing shifts in poverty into a growth component and a redistribution component
- Remember, we are using income here
- Overall, for the 1996-2015 period, growth served to reduce poverty while the changing distribution served to raise poverty

<table>
<thead>
<tr>
<th>Period</th>
<th>Impact of Growth on Poverty</th>
<th>Impact of Changing Distribution on Poverty</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996-2015</td>
<td>Lowers</td>
<td>Raises</td>
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<td>1996-1998</td>
<td>Generally lowers</td>
<td>Lowers</td>
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<tr>
<td>1998-2004</td>
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<td>Generally raises</td>
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</tr>
</tbody>
</table>
Inequality

- Income inequality has remained high
- Wage income contributes most to income inequality, more than its share of income, followed by non-agricultural self-employment
  - Shift in sectoral contributions from primary/secondary to secondary/tertiary
- Growth has not been pro-poor and this is true for the period as a whole and all but one sub-periods
- On average, growth has served to reduce poverty, but the changing income distribution has served to raise poverty (i.e. growth and inequality are working in opposite directions)
Conclusion
Conclusion

1. Evidence suggests that poverty reduction is being slowed by the changing income distribution
   • Policies targeting poverty and inequality should be integrated to make sure that they reinforce each other

2. Creating a policy environment favourable to the creation of wage employment should be a key priority
   • Careful consideration of the growth path
Conclusion (II)

3. Raising incomes in agriculture, particularly for the self-employed, has potential to impact on both inequality and poverty.

4. To address inequality, attention should be paid to inequality amongst wage earners:
   • e.g. Issues around skills shortages at the upper end, access to formal jobs at the lower end.