2022

IARIW-TNBS Conference on “Measuring Income, Wealth and Well-being in Africa”

Paper Prepared for the IARIW-TNBS Conference, Arusha, Tanzania, April 14-15, 2022

Measuring Economic Insecurity in South Africa

Kate Tamarin Rich (University of Stellenbosch, South Africa), Dieter Von Fintel (University of Stellenbosch, South Africa)

A sizeable literature has developed around the measurement and estimation of economic insecurity. However, this literature has focused almost exclusively on developed countries. It is an open question whether the measures proposed for measuring economic insecurity in developed countries are appropriate for a developing country context, particularly one of high and chronic poverty and unemployment such as South Africa. The related but distinct concept of vulnerability to poverty has received far more attention in developing countries. Is vulnerability to poverty the more appropriate concept for the African context, or can the measures of economic insecurity created for the developed country context add to our understanding of economic insecurity in South Africa and in Africa more broadly?

Some work has been done on constructing macro-level indices of economic insecurity for developing countries, including some in Africa. However, no work has yet constructed any of the micro-level indices proposed in the international literature for any African country, nor considered the appropriateness of these indices for developing countries. The usefulness of insecurity measures based on instability in past income streams, as well as the conceptual distinction between poverty and economic insecurity, merits particular consideration in a context where a large proportion of the population is chronically and stably poor.

On the other hand, a large literature has developed related to the risk of falling into or remaining in poverty in developing countries. This vulnerability approach has been used to construct a class schema for South Africa, separating the chronically and transient poor from the stable middle class and those who are middle class but remain vulnerable to poverty. However, the vulnerability approach is concerned only with fluctuations around the poverty line. Economic insecurity may have a negative effect on wellbeing even for those who are not at significant risk of absolute poverty. It is not clear to what extent the vulnerability and economic insecurity approaches correspond. For example, it is possible that the stable middle class experiences more economic insecurity than would be apparent from looking only at their risk of falling into poverty. The overlap between the vulnerability and economic insecurity approaches has not been examined empirically.

The proposed paper addresses these gaps using the South African National Income Dynamics Study (NIDS), a nationally representative panel dataset spanning five waves and nine years. It reviews the micro-level measures of economic insecurity that have been proposed in the international literature, and discusses their applicability to the South African and developing country context. It examines the distribution of economic insecurity in South Africa based on selected measures. In addition to the objective measures of economic insecurity based on the international literature, it constructs unique forward- and backward-looking subjective measures based on the expectations of economic mobility contained in the NIDS data, and compares these to the objective measures. Finally, it investigates the degree of overlap between measures of economic insecurity and a class classification based on vulnerability to poverty. This is the first paper of which we are aware to estimate economic insecurity in an African country using the household-level measures developed in the international literature. It is the first to consider empirically the overlap between the economic insecurity and vulnerability approaches, and its use of subjective measures that are both forward- and backward-looking is also unique. It thus sheds light on the measurement of economic insecurity in an African context, an issue that has thus far received very little attention.