World Development 110 (2018) 88–103

Contents lists available at ScienceDirect

World Development

journal homepage: www.elsevier.com/locate/worlddev

A poverty dynamics approach to social stratification: The South African case

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ARTICLE INFO

Article history:
Accepted 15 May 2018

Keywords:
South Africa
Social stratification
Middle class
Poverty dynamics
Vulnerability to poverty

ABSTRACT

The wave of upbeat stories on the developing world's emerging middle class has reinvigorated a debate on how social class in general and the middle class in particular ought to be defined and measured. In the economics literature, most scholars agree that 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. In consequence, there is an increasing tendency to define the middle class based on a lack of vulnerability to poverty. In this paper, we strengthen and expand on these existing approaches in three ways: First, we incorporate the differentiation between the middle class and a (non-poor) vulnerable group into a broader social-stratification schema that additionally differentiates between transient and chronic poverty. Second, in estimating the risk of poverty, we employ a multivariate regression model that explicitly allows for possible feedback effects from past poverty experiences and accounts for the potential endogeneity of initial conditions, unobserved heterogeneity, and non-random panel attrition – four factors insufficiently addressed in existing studies. Third, we highlight the value of paying attention to these conceptual and modelling issues by showing that class divisions based on monetary thresholds inadequately capture a household's chances of upward and downward mobility. We then apply our conceptual framework to the South African case. We find that only one in four South Africans can be considered stably middle class or elite. Access to stable labor market income is a key determinant of achieving economic stability. A lack of jobs as well as the prevalence of precarious forms of work drive high levels of vulnerability, which in turn constrains the development of an emergent middle class – not only in South Africa but potentially also in other parts of the developing world that face similar labor market challenges.

1. Introduction

What defines the middle class? While countless interpretations appear to exist, most definitions of what constitutes the middle class relate in some way to the degree of economic security and self-sufficiency that people experience. Correspondingly, it is their confidence in their economic stability which many people name first when asked what makes them self-identify as middle class (see Phadi & Ceruti, 2011). They also cite the opportunities they are given to move ahead in life, which some people never get, and the financial cushion that allows them to take risks and cope with adverse shocks.

In spite of this notion, more than a few studies in the economics literature locate the middle class just above the poverty line (for an extensive review of different approaches, see Zizzamia, Schotte, Leibbrandt, & Ranchhod, 2016). These studies, however, fail to acknowledge that being able to afford a certain basket of goods at a given point in time provides an insufficient indication of whether the same will be true in the near future, and that some of those who are currently non-poor may face a non-negligible risk of falling into poverty. Moreover, most of these studies are blind to the fact that not all households below the poverty line are alike. Poverty tends to be self-perpetuating, but while some households may have always been poor, others may have suffered some negative financial shock that either temporarily or permanently pushed them into poverty (see, inter alia, Dercon, 2006; Glewwe & Gibson, 2005; Klasen & Povel, 2013). Taking on this dynamic perspective, we aim in this study to incorporate the unequal distribution of

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https://doi.org/10.1016/j.worlddev.2018.05.024
0305-750X/

poverty risks into a coherent framework of social stratification that accounts for both current living standards and mobility patterns.

Accordingly, we link the demarcation of social strata to an in-depth analysis of poverty transitions. In doing so, we aim to bridge the gap between the poverty dynamics literature and the middle class literature in economics, which – in our understanding – should not be treated in isolation. Our contribution is therefore both conceptual and empirical: The *conceptual contribution* consists of the proposal of a multilayered schema of social stratification with particular relevance for contexts marked by high inequality paired with high socioeconomic risks, as in many low- and middle-income countries. While the idea of defining the middle class using a vulnerability criterion is not novel (see López-Calva & Ortiz-Juarez, 2014), we aim to strengthen and broaden the scope of existing approaches in the economics literature in three ways: *First*, our approach provides a thorough link between the poverty dynamics and the middle class literatures. To our knowledge, this paper is the first to incorporate the differentiation between the middle class and a non-poor but vulnerable group into a social-stratification schema that additionally differentiates between transient and chronic poverty. *Second*, we argue that the simple modeling framework used by existing studies to derive a vulnerability index that identifies the middle class lacks robustness, as it ignores several important findings from the poverty dynamics literature. Following Cappellari and Jenkins (2002, 2004, 2008), we employ a multivariate regression model that explicitly allows for possible feedback effects from past poverty experiences and accounts for the potential endogeneity of initial conditions, unobserved heterogeneity, and non-random panel attrition – four factors insufficiently addressed in existing studies when estimating poverty risks. *Third*, we show that traditional social stratification variables (such as education and occupation) and demographic characteristics (such as race, gender, and household composition) are important predictors of poverty risks, which cannot be fully captured by current income or consumption levels alone. Therefore, we refrain from the definition of absolute monetary thresholds to identify class layers and instead base our analysis directly on estimated risk cut-offs.

The *empirical contribution* consists of the application of the proposed conceptual framework to the South African case. The multivariate model of poverty transitions is fitted to four waves of panel data from the National Income Dynamics Study (NIDS) covering the period from 2008 to 2014/15. Four key findings emerge from this analysis: First, only one in four South Africans can be considered stably middle class or elite. This share is considerably smaller than the range of 30 to 55 percent that other studies suggest (Burger, McAravey, & Van der Berg, 2017; Burger, Steenekamp, van der Berg, & Zoch, 2015; Visagie & Posel, 2013). Second, poverty in South Africa exhibits substantial genuine state dependence. That is, the experience of poverty itself, independent of other household characteristics and resources, leads to a higher risk of future poverty. Third, a higher level of education on the part of the household head and access to stable labor market income are key determinants for achieving economic stability in South Africa, while casual and precarious forms of work do little to reduce poverty risks. Fourth, there are two strata – the temporarily poor and the vulnerable – which are characterized by comparatively high volatility and frequent movements into and out of poverty. These two relatively similar groups are clearly distinguishable from both the chronic poor and the stable middle class and elite – not only in terms of their household characteristics, but also likely in terms of their policy needs.

The remainder of this paper is structured as follows: In Section 2 we develop our schema of social stratification in relation to the existing literature. The empirical application of the conceptual framework to the South African case is provided in Section 3. On this basis, Section 4 profiles the five social classes identified for the South African case in terms of their relative size, growth, racial composition and other demographic characteristics, geographic location, labor market resources, and mobility patterns. Section 5 summarizes and concludes.

2. A Multilayered schema of social stratification

In this section, we propose a social-stratification schema that aims to capture the existence of structured inequalities both in present living standards and in the distribution of opportunities to sustain a living above the subsistence level in the medium term. The proposed schema is anchored in the definition of an absolute poverty threshold designed to represent the cost of satisfying basic consumption needs. As such, it is tailored to low- and middle-income countries rather than high-income countries, where relative-poverty concepts dominate. Its relevance is highest in contexts marked by systematized and enduring (or even rising) socioeconomic inequality – including an unequal distribution of risks and access to coping mechanisms as well as of opportunities for upward mobility. It can be applied to economies experiencing fast growth spurts that are not sustained, with the consequence that those rising out of poverty may remain vulnerable to falling back, as well as to countries experiencing slow growth that occurs in a context marked by significant churning around the poverty line.

2.1. Conceptual foundations

In the economic literature, class analyses commonly draw on a monetary indicator to approximate a person's social status. Most commonly used are absolute thresholds that (often arbitrarily) locate the middle class within a particular income or expenditure range, which eases comparisons across countries. It is clear that the way in which these thresholds are set can have qualitatively different implications, and in particular the lower cut-off point separating the poor from the middle class has been heatedly debated in the literature (for a detailed discussion, see Giesbert et al. 2016, Zizzamia et al. 2016).

Some of the dominant definitions suggest that the middle class starts just where poverty ends (for example, see Ravallion, 2010). By contrast, recent studies increasingly advocate the introduction of an intermediate group that separates those who can satisfy their most basic needs but remain on the verge of falling into poverty from a more economically stable middle class (Ncube, Lufumpa, & Kayizzi-Mugerwa, 2011). Among the latter, López-Calva and Ortiz-Juarez (2014) propose an approach to defining the middle class that is anchored in the notion of economic security. They argue that middle-class households should face a maximum risk of 10 percent of falling into poverty, which they define as the maximum acceptable degree of vulnerability for being considered middle class. For a set of Latin American countries, the authors associate this vulnerability threshold with a minimum income requirement of USD 10 per capita per day. Replicating the approach, Zizzamia et al. (2016) identify a similar vulnerability threshold of USD 13 for the specific case of South Africa.[1]

This paper takes the conceptually appealing approach of defining the middle class based on a vulnerability criterion as a starting point. In our view, in the low- and middle-income country context, any discussion on the middle class cannot be detached from a discussion of poverty dynamics. In line with the arguments brought forward by López-Calva and Ortiz-Juarez (2014) and others, we

[1] The income range of the middle class identified by Zizzamia et al. (2016) overlaps with another recent attempt at defining the middle class in South Africa based on occupation-based affluence criteria (compare Visagie & Posel, 2013).