Changing Income Inequality and Structural Transformation: The case of Botswana 1921-2010

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Introduction

- Average income inequality in Sub Saharan Africa peaked in the 1980s and has since slowly declined (Sala-i-Martin and Pinovsky 2010).
- How should we understand this trend, considering current strong economic growth and limited structural change?
- Underlying questions:
- what is the trend in long-term change in income inequality?
- what is the historical origin of income inequality in Africa?

We have addressed these questions in a case study for Botswana.

Our research shows that income inequality in Botswana originated in the 1940s and was already high in the mid-1970s.

Income inequality peaked when Botswana's economy switched from cattle to diamond dependency.

This contrasts with previous work which has traditionally associated inequality in Botswana with the diamond economy (see e.g. Good 2008).

Aim

Tracking inequality (Ginis) and processes of change between occupations, social classes and economic sectors during the colonial and post-colonial eras.

Methods

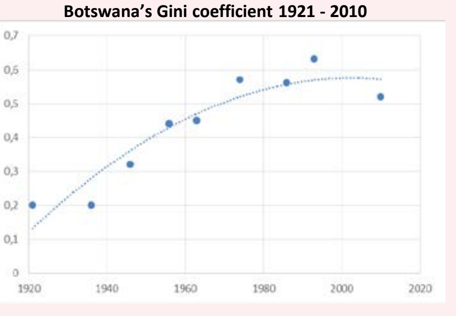
We constructed social tables following the tradition of Petty (1682) and Bigsten (1986).

Data

Wages, (formal) employment, prices, trade statistics, living expenses.

Sources

Colonial archives and anthropological studies.



Results

- Using social tables we calculate Ginis for the colonial period.

  We combine them with post-independence figures available at the World Bank.

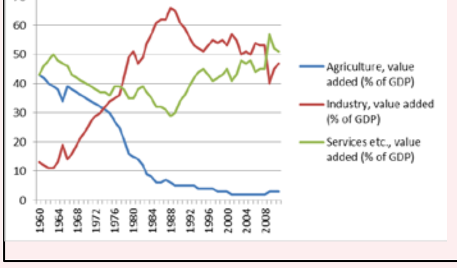
  This gives us a 'super Kuznets curve' (van Zanden, 1995) with inequality indices covering 90 years.
- Using social tables we track the public/private divide and the skill premium over time, indicating the relative performance of various sectors.

Discussion

The last 90 years have seen a long-term rise and decline in income inequality in Botswana. The beef export sector, established and developed during the colonial era and lasting roughly a decade into independence, made it possible for large scale cattle holders to turn their cattle wealth into incomes.

Large scale cattle holders together with government officials in the public sector, saw their incomes surging ahead of medium and small cattle holders, the cattle less and those employed in the private sector.

Income inequality was high already in the mid-1970s at the time of the shift between the cattle and the diamond economies.



How does this long-term changes in inequality fit with the classical story of the relationship between inequality and modernization?

Kuznets' (1955) predicted that inequality should be raising with the start of industrialization, only to decline once industry is actually dominating the economy. Others have instead argued that increasing inequality occurs already during the pre-modern economy, well before industrialization (van Zanden, 1995).

Considering that the content of industrial growth in Botswana can be questioned and that an economic structural transformation has not taken place, we must conclude that Modern Economic

Growth as envisioned by the generation of original development economists such as Kuznets and Lewis has not taken place. Instead Botswana is a country still characterized by pre-modern growth. What is then a possible alternative explanation to rise and decline in long-term income inequality?

For Botswana we suggest that

1. the closing of the land frontier has lead to increase in inequality and also that colonial policies have played an important role (Austin 2008; Bowden et al. 2008).
2. natural resource abundance correlates

   with high levels of inequality (Bourguignon and Morrisson 1990).

Further, we hypothesize that transfers of labour between agriculture and services and the rapid growth of the urban population (World Bank 2014) together provide the basis for human capital formation that is driving current decreasing inequality. Through the mechanisms envisioned in the endogenous growth theory these processes could serve the same function of decreasing income inequalities as industrialization did in the classic Kuznets model.

On the lookout for more research.

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