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2016

http://hdl.handle.net/10539/21554

Mosime, Dineo Ronald (2016) Income inequality and household consumption expenditure in South Africa: 2000-2014, University of the Witwatersrand,<http://wiredspace.wits.ac.za /handle/10539/21554>

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INCOME INEQUALITY AND HOUSEHOLD CONSUMPTION EXPENDITURE IN SOUTH AFRICA: 2000-2014

Abstract

This paper investigates the nature of relationship between income inequality and consumption expenditure by households. The link between the distribution of income and household spending was determined by exploring the relationship between income inequality and household saving. The econometric estimates show that the propensity of the bottom earners to consume is higher than that of the high income earners. The conclusions from this paper are that; the bottom earners used credit to smooth their consumption expenditure, income inequality has not boosted saving of the top earners and wealth inequality has a minimal effect (although positive) on aggregate consumption Some of these finding are consistent with the theoretical view on income and wealth inequality (Kaldor, 1957) and Aghion et al. (1999). The absence of coping mechanism (such as access to credit and employment), suggests high inequality might result in a decline in the household demand, since the bottom and low earners has high marginal propensities to consume compared with that of the top earners. The existence of imperfect capital markets suggests distributive policies and economic growth are important channels for reducing income and wealth disparities in South Africa.