Global Poverty & Inequality Dynamics Research Network

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GPID Country Note 4

POVERTY AND INEQUALITY IN SOUTH AFRICA

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SUMMARY

This Country Note gives an overview over trends in poverty, inequality, and structural change in South Africa. Overall, the data points to falling monetary poverty rates since the mid-1990s while inequality in has increased over the post-apartheid period. Productivity growth has not been particularly impressive for some time but there is also a lack of rapid employment growth. The Country Note argues that at this point the central challenge for South Africa in forging a more inclusive growth strategy may be a political one.

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About the GPID research network:

The ESRC Global Poverty and Inequality Dynamics (GPID) research network is an international network of academics, civil society organisations, and policymakers. It was launched in 2017 and is funded by the ESRC's Global Challenges Research Fund.

The objective of the ESRC GPID Research Network is to build a new research programme that focuses on the relationship between structural change and inclusive growth.

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THE DEVELOPER'S DILEMMA

The ESRC Global Poverty and Inequality Dynamics (GPID) research network is concerned with what we have called 'the developer's dilemma'.

This dilemma is a trade-off between two objectives that developing countries are pursuing. Specifically:

1. Economic development via structural transformation and productivity growth based on the intra- and inter-sectoral reallocation of economic activity.
2. Inclusive growth which is typically defined as broad-based economic growth benefiting the poorer in society in particular.

Structural transformation, the former has been thought to push up inequality. Whereas the latter, inclusive growth implies a need for steady or even falling inequality to spread the benefits of growth widely. The 'developer's dilemma' is thus a distribution tension at the heart of economic development.

1. Trends in Poverty and Inequality

There has been extensive analysis of poverty and inequality trends in South Africa since the dawn of democracy in 1994, a period that coincided with the introduction of regular nationally representative household surveys in the country. However, until recently, no official poverty line existed in South Africa, with the result that the local poverty literature is characterised by "a bewildering array of poverty lines" (Leibbrandt et al., 2010). This has had implications for the degree to which there has been consensus on the exact level of poverty, although there is general agreement in terms of the overall trends.

Overall, the data points to falling money-metric poverty rates since the mid-1990s. During the initial part of the period—1995 to 2000—there is conflicting evidence on poverty trends: Bhorat et al. (2015) argue that the evidence suggests an increase in poverty to around 2000 or 2001, while Leibbrandt et al. (2010) argue that it, at best, suggests that poverty may have declined marginally. From 2000 onwards, however, research points to gradually falling poverty rates over time, irrespective of the dataset used (Bhorat et al., 2015; Leibbrandt et al., 2010).

Declining rates of poverty are also observed in studies of non-money metric (or asset) poverty. Evidence provided by, for example, Bhorat et al. (2009), Finn et al. (2013) and Bhorat et al. (2015) show substantial declines in asset and multidimensional poverty over the post-apartheid period. One of the key factors underlying this improvement is the roll-out of services or public assets—electricity, water, sanitation, housing—beyond former white, formal urban areas (Bhorat et al., 2014). At the same time, though, there were substantial improvements in terms of private assets, such as ownership of vehicles and appliances, which also contributed to falling asset poverty (Bhorat et al., 2015).

While poverty trends may not always have been clear, what is certain is that inequality in South Africa has increased over the post-apartheid period. As a result, South Africa is one of the most—if not the most—unequal countries for which we have data. The World Bank's most recent estimates put South Africa's Gini coefficient at 63.4, up from 59.3 in 1993; this places it first out of 113 countries with estimates from 2010 onwards (World Bank, 2017). In their analysis of post-apartheid inequality trends, Leibbrandt et al. (2010) find that the Gini coefficient for per capita income rose from 0.66 in 1993 to 0.70 in 2008, an increase of about six percent. Decompositions of inequality find that wage inequality is the dominant driver of inequality, accounting for 85 percent of the overall Gini coefficient in 2008, for example (Leibbrandt et al., 2010).

A key factor underlying the high levels of poverty and inequality in South Africa is the lack of productive employment opportunities. Indeed, given the close relationship between them, policy discussions frequently make reference to the 'triple challenge' of unemployment, poverty and inequality. Certainly, the consensus seems to be that no real progress can be made in terms of inequality and no further sustainable progress can be made in terms of poverty without addressing the jobs challenge. While employment has grown substantially over the past two decades, it has not managed to keep pace with the growing working age population and labour force and, as a result, unemployment rates have generally been rising. The official unemployment rate is currently 24.5 percent, but rises to 33.8 percent once the non-searching unemployed are included (Statistics South Africa, 2017).

Since 1994, the economy has expanded at an average annual rate of 2.9 percent, peaking between five and six percent in 2005-2007 (South African Reserve Bank, 2017). Much of this growth, though, has occurred in ways that are not particularly supportive of reduced poverty and inequality: growth has tended to occur in more capital-intensive sectors; growth has tended to occur in skills-intensive sectors; and growth has tended to be accompanied by the introduction of labour-saving technologies.

2. Structural Change and Poverty and Inequality

The South African economy has undergone significant change since it emerged from international isolation in the early 1990s. As a proportion of gross value added, the primary sector contracted by almost half between 1993 and 2016 (from 19.4 percent to 10.4 percent) and the secondary sector contracted by one-tenth (21.9 percent to 19.9 percent). In contrast, services expanded strongly from 60.8 percent of GVA in 1993 to 69.9 percent in 2016 (South African Reserve Bank, 2017). These shifts have come about as industries that have traditionally employed lower skilled workers have struggled: GVA in mining contracted by 0.3 percent per annum, while that in agriculture and manufacturing grew by just 1.5 percent and 2.3 percent per annum. These industries have also tended to perform poorly in terms of employment, each seeing its share of total employment falling. Four industries consistently rank highest in terms of both output and employment performance: construction, trade, transport, and finance. These four industries were the only ones to record above average output growth between 1993 and 2016, and each (except for transport) saw above average rates of employment growth.

At the same time, employment growth has favoured higher skilled workers for a variety of reasons. First, technological change in South Africa has long been biased towards higher skills (Bhorat and Hodge, 1999; Bhorat et al., 2013), with the result that the country suffers from both labour shortages in skilled occupations and mass unemployment amongst the lower-skilled. Second, in the context of strong unions and generally combative labour relations, firms continue to see benefits in mechanising production, simultaneously displacing low-skilled workers and raising demand for higher-skilled workers.

The consensus therefore is that structural change in the South African economy contributes to the stubbornly high degree of inequality by depressing both job creation and wages at the lower end of the skills distribution and ramping up labour demand at the upper end. Since the education system remains unable to generate decent quality school leavers in significant quantities, the pool of poorly educated and inexperienced potential workers grows with little prospect of them finding employment.

3. Productivity and Economic Complexity

In general, productivity growth in South Africa has not been particularly impressive for some time. Real total factor productivity growth between 1993 and 2012 is estimated at 0.09 percent per annum (Feenstra et al., 2015). While this is marginally ahead of Brazil (0.08 percent per annum), it is a fraction of the 1.38 percent growth rate observed in South Korea over the same period. Other estimates put productivity growth at 1.4 percent per annum between 1993 and 2013 (National Treasury and UNU-Wider, 2016), although it is not clear how they define productivity. Both sources, however, agree on the fact that productivity growth has been low, and has declined over the period with productivity being, at best, stagnant since the 2008 recession.

At a sectoral level, productivity growth between 1993 and 2013 was highest in transport, agriculture, and construction, although in none of these sectors did productivity growth exceed two percent per annum (National Treasury and UNU-Wider, 2016). In contrast, mining, utilities and CSP services all saw declining productivity over the period. All manufacturing sub-sectors saw rising productivity. Linking changes in employment and productivity, National Treasury and UNU-Wider (2016) note the following: (1) no sector was characterised by high productivity and high employment growth, and (2) manufacturing sub-sectors are generally characterised by rising productivity and falling employment.

South Africa's economic complexity index (ECI) of -0.004 places it in 55th position out of 124 countries in 2014 (The Atlas of Economic Complexity, 2017). The ECI has fallen since 1995 from 0.227, although the decline only really occurred from 2003 when the ECI peaked at 0.252. In terms of rankings, the country dropped from 45th in 1995, but has actually risen five places since 2011. South Africa's performance is not unlike that of Brazil, although Brazil saw a much steeper decline from its peak of 0.706 in 1997 to -0.002 in 2014. In contrast, Malaysia's ECI rose from 0.229 in 1995—almost identical to South Africa's at the time—to 0.872 in 2014.

The continued weakness of the South African manufacturing sector constrains the extent to which economic complexity can be increased. Further, the lack of any sector within the South African economy experiencing rapid employment growth combined with productivity growth is of concern.

4. Policies for Inclusive Transformation and Growth

Since 1994, the government has pursued a variety of policy programmes that have aimed to include previously marginalised sections of the population. Thus, for example, the Reconstruction and Development Programme (RDP) implemented soon after the African National Congress (ANC) came into power focussed on extending services to previously unserviced areas. The RDP and associated initiatives were very successful in this regard, driving access to electricity, water, sanitation and housing higher during the latter half of the 1990s, particularly in urban areas. However, the RDP was not focussed on linking marginalised sections of the population into the growth process in the way that one would normally understand inclusive growth; rather, the process of inclusion was facilitated by growth and the additional tax revenues it generated.

Macroeconomic policy at the time was governed by the Growth, Employment and Redistribution (GEAR) plan, although many would argue that employment and redistribution took a back seat to growth. GEAR's primary focus (and outcome) was to restore macroeconomic stability and, in this sense, it was very successful. The government was able to generate increased tax revenue while lowering tax rates, allowing it to increase social spending while reducing government debt. In fact, GEAR was so successful by these measures that, by the early 2000s, government was generating a budget surplus, much to the consternation of those who were advocating more concerted efforts at improving living conditions amongst the poor.

The first plan that really tried to explicitly link economic growth with inclusion was the Accelerated and Shared Growth Initiative for South Africa (ASGISA), which aimed to reduce poverty and unemployment rates by half between 2004 and 2014, while requiring a minimum GDP growth rate of 5 percent per annum over the period. Fundamentally, the plan identified six binding constraints to growth: volatility and level of the currency; the cost, efficiency and capacity of the national logistics system; shortages of suitably skilled labour, compounded by the impact of apartheid spatial patterns on the cost of labour; barriers to entry, limits to competition and limited new investment opportunities; the regulatory environment and the burden on small and medium enterprises; and deficiencies in state organisation, capacity and leadership (Republic of South Africa, 2006). ASGISA was certainly successful in focussing attention on the six binding constraints, with the Joint Initiative for Priority Skills Acquisition (Jipsa) particularly prominent, but was derailed by the global financial crisis and the severe employment contraction—South Africa lost over one million jobs over a 15-month period—that occurred in the aftermath of the local recession in early 2009.

The National Development Plan, launched in 2011, is the current overarching plan for socioeconomic development in South Africa to 2030, and is built around the concept of inclusive growth and the motivations behind the earlier RDP. It too is predicated on achieving accelerated rates of economic growth and job creation in order to achieve its various objectives, chief amongst which are reductions in poverty and inequality. In both respects, the economy has disappointed and the plan's goals are seeming increasingly out of reach. The NDP has, though, won widespread support in South Africa, including from business and labour, as well as opposition parties, but government has been frequently criticised for what is viewed as a lack of commitment to or implementation of the plan. At least one reason for this is political, with the NDP not having a strong champion within government with the authority to drive the plan's recommendations across government ministries.

A final policy that has potential to make significant contributions to inclusive economic growth is that of black economic empowerment (BEE) or its successor broad-based black economic empowerment (BBBEE). The objectives of these policies have been to increase the participation of black individuals (i.e. Africans, Coloureds, Asians) within the formal economy, and to build wealth for these groups through facilitating the transfer of ownership or shareholdings of large listed corporations to these groups. However, as may be surmised by the tweak to the policy's name, the various programmes have tended to massively benefit a small group of individuals rather than the majority as had been hoped.

Importantly, while there is recognition that employment is central to the achievement of a more inclusive growth path, government has arguably been unable to create an environment conducive to largescale job creation. This is particularly true of the primary and secondary sectors. Support for capital-intensive industries and mega-projects remains; significant improvements in the education system have not been forthcoming; spatial policies have not been particularly successful in creating more integrated and cohesive towns and cities, while efforts to spread economic activity out to smaller towns and rural areas have arguably constrained agglomeration benefits and, therefore, competitiveness; and progress on land reform has been slow and, where it has occurred, largely unsuccessful in creating a new class of smallholder farmers.

5. The Political Economy of Inclusiveness

Unless there is a fundamental shift in the nature of the country's growth path, South Africa is potentially headed for turbulent times. More than two decades after the achievement of political liberation, there is a widely-held view that 'economic liberation' is not a reality for the majority of South Africans. The current growth path simply reinforces the existing patterns of power and wealth, serving to reproduce inequality across generations. Thus, recent research finds that a child of poor parents has a 90 percent chance of being poor as an adult (Finn et al. 2017). At the same time, while the need for accelerated job creation is recognised by all, government is strongly averse to pursuing a model that would see job protections and wages sacrificed on the altar of employment, even on a small scale in special economic zones, for example. The current approach has, therefore, perpetuated the insider-outsider problem.

It is therefore unsurprising that a more populist approach has now gained some political traction: the relatively rapid rise of the Economic Freedom Fighters (EFF), led by a former ANC Youth League chairperson, is a good example, although it remains to be seen whether they, like previous parties spawned from the ANC, will remain relevant after competing in a second national election. Another example is perhaps the shift within the ruling party to embrace the idea of "radical economic transformation", although there is some confusion even within the ANC as to what this really means and how it differs from the familiar idea of inclusive growth, while some view it as a cynical attempt to shore up support.

At the same time, the power of the main trade union federation, Cosatu, has been diminished over the past decade as membership rates fall. Thus, its affiliate in the mining sector, NUM, has been successfully challenged by a newly-formed rival, while the expulsion of one of its largest affiliates, NUMSA, the metal workers union, has resulted in the formation of a new federation and, potentially, a new workers' party. This has left Cosatu dominated by large public sector (and higher skilled) unions. Furthermore, national political events have led to significant tensions within the tripartite alliance on issues of corruption and so-called ‘state capture’—where government is seen as promoting and protecting the interests of a select few rather than the majority—with the ANC on one side and Cosatu and the Communist Party on the other.

Perhaps the central challenge for South Africa in forging a more inclusive growth strategy at this point is political. The sacking of the well-respected finance minister in March 2017 during a cabinet reshuffle and the ensuing political turmoil immediately triggered ratings downgrades to sub-investment grade from two ratings agencies, thereby narrowing the fiscal space for spending supportive of inclusive growth, spending that was already under pressure from the demands of a bloated civil service and challenges on the revenue collection side. Aside from this, the eight years since the recession have been characterised by a proliferation of government ministries with sometimes overlapping mandates and by a lack of strong policy coherence, while non-performing cabinet ministers have rarely been punished. Thus, while the NDP has been in existence for most of the period, there has been no sustained coordinated effort to systematically interrogate and, where appropriate, implement its recommendations.

There have, though, been some encouraging signs of cooperation between government, labour and business, as South Africa tried, and managed, to stave off a ratings downgrade during 2016. Given South Africa’s particular history, such agreement amongst the three social partners has been relatively rare and has shown that it is possible to achieve. However, this more cooperative stance has not survived the events of March 2017 and a continual flow of revelations of details of corruption and state capture.

Politically, the country seems to be approaching some form of change in government, although it is not clear exactly how or when this will happen: the President is under increasing pressure from across the political spectrum, including parts of his own party; there is an elective conference for the ANC at the end of 2017, which will elect a new party president; and new national elections are due in 2019, with the ANC’s support potentially falling below 50 percent for the first time as their support base is eroded by opposition parties such as the EFF and the Democratic Alliance, which has found increasing support in urban areas, and general apathy. From the perspective of implementing a more inclusive growth strategy, this does not bode well as attention will be focussed elsewhere. On the positive side, there is an argument to be made that the lack of political competition has contributed to the current state of affairs.

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