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POVERTY AND INEQUALITY

Facts, trends, and hard choices

Edited proceedings of a Round Table convened
by the Centre for Development and Enterprise

The Centre for Development and Enterprise is one of South Africa's leading development think-tanks, focusing on vital national development issues and their relationship to economic growth and democratic consolidation. Through examining South African realities and international experience, CDE formulates practical policy proposals for addressing major social and economic challenges. It has a special interest in the role of business and markets in development.

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Introduction

SOUTH AFRICA is one of the most unequal societies in the world. In some ways, this is hardly surprising: for most of the past century, national policy discriminated vigorously against the majority of the country's population. Among other iniquities, people were denied access to decent education, the right to own property and accumulate assets, the right to move freely, and the right of equal access to the labour market. Add to this the labour market protections enjoyed by white South Africans, the heavy spending on white education and training and the associated adoption of a capital-intensive economic growth path, and it becomes clear that high levels of inequality were inevitable.

In other ways, however, the level of present-day inequality is a surprise. We have had 15 years of democracy, during which public spending has been more radically reshaped than in any other society bar those that have endured a revolution or a war. As Servaas van der Berg reminded the Round Table, the apartheid state once spent nine times more on each white person as it did on each black person; today, the state spends twice as much per capita on blacks as on whites. Add to this the aggressive programmes of affirmative action, the billions of rands spent on black economic empowerment as well as the sheer weight of voter expectations, and it is remarkable that levels of inequality are probably no better than they were in the early 1990s, and may even have worsened.

What should we make of the stubborn persistence of inequality in South Africa, and what does it mean for public policy?

It is worth thinking about Brazil in this context. For decades, that country shared the dubious honour of being paired with South Africa as being among the world's most unequal societies. In recent years, however, its high levels of economic growth and the rapid rise of millions of people out of poverty have taken the sting out of its reputation for inequality. Inequality still persists, but most analysts tend to downplay its importance, assuming that it will be eliminated in Brazil's continued surge of growth. Does this hold lessons for South Africa? How much of our anxiety about inequality is really an anxiety about the slow pace at which our economy has absorbed the unemployed? Should we be more concerned about the millions of people living in poverty, and the far higher levels of economic growth needed to get them into jobs than with reducing inequality in the short-term?

Thinking about policy options demands clarity about the underlying issues, which can be framed as a series of questions that informed the Round Table:

- Is it fruitful to regard inequality as an over-riding priority or should we focus instead on reducing poverty irrespective of its impact on inequality?
- Are the roots of inequality in South Africa properly understood, and are they amenable to being changed more rapidly?
- Have existing policies helped or hindered the reduction of inequality and/or poverty on the required scale ?

It is remarkable that levels of inequality are probably no better than they were in the early 1990s

To explore these questions, CDE convened a Round Table in March 2010 at which some of South Africa's leading experts spoke about the politics and economics of inequality. We also invited Professor Paul Romer, an internationally renowned, Stanford-based economist specialising in economic growth in developing countries, to explore key issues surrounding inequality, growth and jobs. Representatives of the Japanese and Indian governments also reflected on attempts to reduce inequality in their respective societies.

Throughout, the discussion was marked by the tension between the need to focus on inequality per se as opposed to focusing on mass poverty and unemployment as the best way of improving the quality of people's lives.

Some participants argued that addressing South Africa's high levels of inequality might be a precondition for achieving higher levels of economic growth. Others argued that the country ought to focus on the large number of people living in poverty, and pay less attention to how income is distributed. Some asserted that inequality might lead to political instability and social conflict; others suggested that high levels of unemployment were so corrosive that job-intensive economic growth should be the overriding priority, irrespective of the impact on inequality in the short-term.

Apart from these substantive issues, some participants argued that the language of inequality was inherently loaded, and tended to imply that policies which did not reduce income inequality had to be rejected, whatever their impact on other goals, including poverty alleviation. On the other hand, framing the debate on the basis of whether policies and institutions included or excluded people would mean that more policy options might be available for consideration. Others pointed out that issues of affordability and longer-term sustainability were vital to the discussion.

For various reasons, understanding the causes of, and potential responses to, South Africa's high levels of inequality is conceptually challenging and politically controversial. As one speaker pointed out, attitudes to inequality, and ideas about what should be done about it, often depend on a range of other beliefs, commitments and prejudices. For this reason, debating whether and how inequality should be addressed is often difficult because deeply felt beliefs are 'in play' even if they are not explicitly stated. At the same time, this is an immensely important debate – perhaps the country's most important. Large-scale poverty and inequality are arguably the most serious and most intractable of apartheid's legacies. Getting our response right is vital for our future.

Some participants argued that the language of inequality was inherently loaded

Thinking about inequality

Charles Simkins

St Augustine College of South Africa

ONE OF the difficulties confronting any debate about inequality is that attitudes to its existence are often informed by a range of other political, social and even philosophical concerns. Since Aristotle, for example, some thinkers have expressed a concern that inequality in wealth or income undermines the quality of democratic participation. If you are worried about the quality of democracy, then, this might impact on your attitudes to income inequality.

Others have argued that inequality is not to be thought of as undesirable unless it emanates from some injustice. Rousseau referred to those injustices as ‘artifices’, and suggested that they had their roots in feudalism. He thought that if feudalism were abolished, society would become much more equal.

A similar concern informs libertarians who do not regard inequality per se as a problem. They are interested only in whether there is ‘justice in acquisition’, ‘justice in holding’, and ‘justice in exchange’. For them, as long as all transfers between people are voluntary, then whatever you measure by way of inequality is so much numerology. For people who subscribe to ideas of this kind, what matters is equality of opportunity, not the resulting distribution of income, which would only reflect inequalities in the distribution of natural ability and application.

Classical Marxists, by contrast, regard inequality as a serious problem, but argue that it cannot be resolved under capitalism, and even that capitalism makes the increasing concentration of wealth inevitable. For them, it is not so much a moral question as an historical inevitability.

In contrast to these more extreme positions, mainstream economic and philosophical approaches to social questions see poverty and inequality as important issues that require attention. John Rawls thought that a just society was ordered on two principles: maximum liberty, subject to equal liberty for all; and maximising the position of the least well off. So the Rawlsian tradition, while very different from the libertarian tradition, is concerned with poverty, but much less concerned with inequality as such. A Rawlsian could justify high levels of inequality if it led to the worst off being as well off as they could be.

Understanding Rawls’s views is important because South Africa’s constitution is Rawlsian in character. It contains both first-generation rights (i.e., maximum liberty subject to equal liberty for all) and second-generation rights, such as rights to housing, health, education and others (i.e., the maximisation of the position of the least well off).

This has important implications for the way in which our society thinks and acts in relation to poverty and inequality. It shapes many of our debates, including those about the protection of property rights; the level and pattern of social spending; policies

‘What should we make of the stubborn persistence of inequality in South Africa, and what does it mean for public policy?’

governing education, health and housing; the regulation of the labour market; and the promotion of black economic empowerment.

Each of these debates is informed in different ways by concerns about reducing poverty and inequality. An important feature of these debates is that many contradictory ideas – mainstream technical, libertarian, revisionist liberal, ‘nationalist’, Marxist – swirl around and make for a lot of incoherence in public discourse about poverty and inequality. It suggests that we are a long way from a broad consensus that our laws and institutions are approximately just. The crucial question is: can anything be done to bring greater clarity to the debate in the hope of building a consensus on the way forward?

One difficulty with doing this is the complexity of the relationships between growth and poverty reduction on the one hand, and growth and inequality on the other.

Poverty and inequality are not identical, and reducing one may require very different interventions than reducing the other. Moreover, their respective relationship with economic growth is more complex than many appreciate. In fact, when one examines the growth record of countries in the 20th century, one sees inequality moving up and down with no clear relationship between inequality and growth that holds for long periods of time. The picture is different when one looks at the reduction of poverty. Then the equation changes because growth plays a far more important and consistent role in explaining the reduction of poverty than it does in explaining changes in inequality. The fundamental empirical rule is that as per capita incomes rise, poverty tends to decline.

So economic growth plays different roles in the reduction of poverty and inequality, and dealing with inequality may need interventions that differ from those that generate economic growth. The problem is that some of these interventions may actually affect the rate of economic growth. So one really has to decide which of these two objectives is most important.

PANELISTS

Johann Fedderke

University of Cape Town

IT IS almost taken for granted that we should care about inequality. Some argue that, because inequality is so pervasive, we should care about it in and of itself. But we are a developing country, with many pressing social issues, so why focus on inequality?

When economists think about these issues, they focus on trade-offs: if we do one thing, we will have less time and resources available for others. This means that if inequality – as opposed, say, to alleviating poverty – will be placed at the centre of our policy debate, it’s important to know why.

Let’s make the trade-offs explicit. The Kuznets Hypothesis states that as you go through the process of development, inequality gets worse before it gets better. It implies that greater inequality may be a necessary consequence of economic growth

‘Poverty and inequality are not identical, and reducing one may require very different interventions than reducing the other’

and development. This raises a fundamental trade-off. Should one care more about inequality – the relative welfare of the poor compared to the rich – or try to reduce poverty as rapidly as possible so that the absolute welfare of the poor improves irrespective of how their incomes compare to those of the rich?

Some analysts justify a concern with inequality by arguing that it can have extremely negative social consequences, including the threat of social instability. The social instability literature is quite developed, but by no means unambiguous. Authors such as Acemoglu and Robinson argue that inequality plays a key role in social structure and democratic stability. However, Gaylor and Mohau argue that industrialisation and economic growth result in a greater inclusion of previously disadvantaged people. Paul Collier, who wrote extensively on inequality, now argues that ethnic divisions rather than inequality per se are key drivers of social conflict, and that rapidly increasing incomes is the most powerful way of lowering the chance of conflict.

It seems, then, that the argument that we must deal with inequality or risk social fragmentation is less incontrovertible than is often made out. What about the effect of growth on poverty and inequality? Is there really a trade-off?

Dollar and Kraay have examined what actually happens to poverty and inequality in rapidly growing economies. They have found that, when average incomes rise, the incomes of the poorest fifth of the population rise proportionately. The poor, in other words, benefit from growth in more or less the same proportion as do other members of society. Others have shown that when growth increases by two per centage points, poverty decreases by twice as much, and in some cases a lot more.

These are important points to bear in mind when we look at South Africa's performance in reducing poverty and inequality. In terms of World Bank data, our level of inequality didn't change much through the 1990s and 2000s. By contrast, and depending on which poverty line one uses, our poverty rates became slightly worse. This is despite the fact that we've opted for massive interventions in social welfare and inequality. In China, which has an unambiguous pro-growth policy, and does not worry at all about social welfare (it spends 0.5 per cent of GDP on welfare, while we spend 4 per cent), poverty has dropped dramatically, from 44 per cent of the population living on less than \$1 a day in the 1980s to 12 per cent today.

This raises the most important issue of all. We have spent a lot of public money on poverty and inequality, but it has made no difference at all. Despite this, the government wants to spend even more. Why would we want to do this when we know from international comparative evidence that pro-growth policies have a greater and more significant impact on poverty?

'The argument that we must deal with inequality or risk social fragmentation is less incontrovertible than is often made out'

Paul Romer

Stanford Institute for Economic Policy Research

I THINK that the issue of inequality is one that economists haven't grappled with well, and that it's important to broaden this discussion. I want to say that I'm still groping towards how to have this conversation so treat everything as very provisional.

Gini coefficients are potentially very misleading. If you think about California, for example, you may get one reading of income inequality as measured by the Gini coefficient. However that would change a great deal if you included Mexico, which is closely integrated into the Californian economy. So, just by excluding large fractions of the population you can get to a low Gini coefficient. South Africa is different because it's the one place where the developed world and the developing world are tightly integrated in one unit and where statistics are collected at a national basis.

Part of the reason you have a high Gini coefficient is that you face different kinds of challenges. The question is whether inequality, in general, and the Gini coefficient, in particular, are the right way to think about your challenges.

Frankly, I think they throw you off track. One of the problems with this is that it can lead to policy proposals that seek to guarantee everyone's income – proposals like Milton Friedman's negative income tax. This, then, becomes the way we define social inclusion, when we think about it in terms of disposable income. The trouble is that we now know that these kinds of policies have very negative effects on social norms – that they create dependency and help produce unhealthy social outcomes for individuals, families and communities. These policies might have been good for increasing one's sense of inclusion – people at the bottom have more income to spend. But this approach treats the recipients of transfer payments in a way that is fundamentally different from people who work. In this sense, they are not really included in the same society as those who have jobs.

A critical point that emerges from some of the work of the Commission on Growth and Development, which brought together leading practitioners from government, business and the policy-making arenas, is that the societies that did best were the ones that focussed on expanding employment as fast as possible. They were societies that saw high levels of unemployment as very corrosive to social norms, and also understood that this was true even when unemployment was offset by grants and transfers. The effect of unemployment and transfers on social norms is something that the Gini coefficient is incapable of capturing. In fact, even poverty measures may not be grappling clearly enough with why unemployment and exclusion are bad.

DISCUSSION

SPEAKING FROM the chair, Ann Bernstein said speakers had raised the key issue of how a particular society should choose among contending challenges – more specifically, whether it should prioritise dealing with inequality above economic growth, employment creation and poverty alleviation.

'Gini coefficients
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very misleading; I
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Some participants argued that inequality was important in its own right because it had the potential to create social and political instability. This was particularly true because South African inequality was correlated strongly with race. One remarked: 'In this country, income inequality, or inequality of human capital, is basically a racial issue. ... The fact that the gap has remained so big for so long raises uncomfortable questions about the underlying causes.' Another argued that there were historical lessons to be learnt about the risks of social instability associated with inequality, adding that 'rising inequality had been associated with the rise of fascism.'

On the issue of the trade-off between growth and inequality, one participant said many people tended to think that South Africa should be able to grow like China and India, and that all that had to be done was to identify the obstacles to growth and remove them. If, by contrast, South Africa did not have the same growth potential as those two societies, serious consequences would follow. This is because, while it was clear that economic growth reduced poverty in the long term, 'the slower the economy grows, the longer those problems persist, and the more difficult they are to manage.'

The demographic and spatial distribution of inequality

Servaas van der Berg

University of Stellenbosch

I WILL consider issues around income distribution by examining three factors: the relationship between income, inequality and poverty; trends and levels of inequality; and decomposing inequality by income source.

The level of inequality

Depending on the data you use, our Gini coefficient is anywhere between 0.58 and 0.83. There are many developing countries which are more equal than South Africa, and which have Gini coefficients of about 0.45 to 0.55. Developed countries tend to be even more equal, and have even lower Ginis. So South Africa's Gini coefficient is very high.

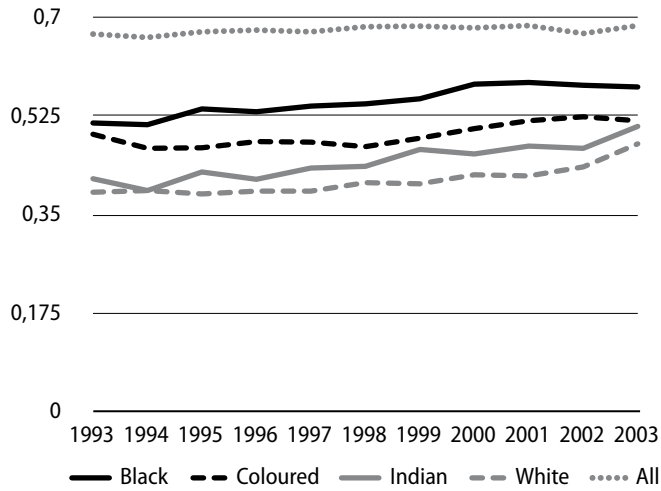
Because of differences in the data, and unreliable data derived from our surveys (see box on measuring inequality, page 17), it is difficult to reach certainty about trends. However, most researchers believe intra-group inequality is rising, and inter-group inequality is falling. The latter has offset the former, so the net effect is a Gini coefficient that has, at best, been more or less stable since 1994, and may actually have risen.

Figure 1 shows the rise in intra-group inequality based on data drawn from the All Media and Products Survey (AMPS), a comprehensive survey administered by the

'We have spent a lot of public money on poverty and inequality, but it has made no difference at all'

South African Advertising Research Foundation. It shows that differences in intra-racial inequality remain significant and that all race groups are now more unequal than they were.

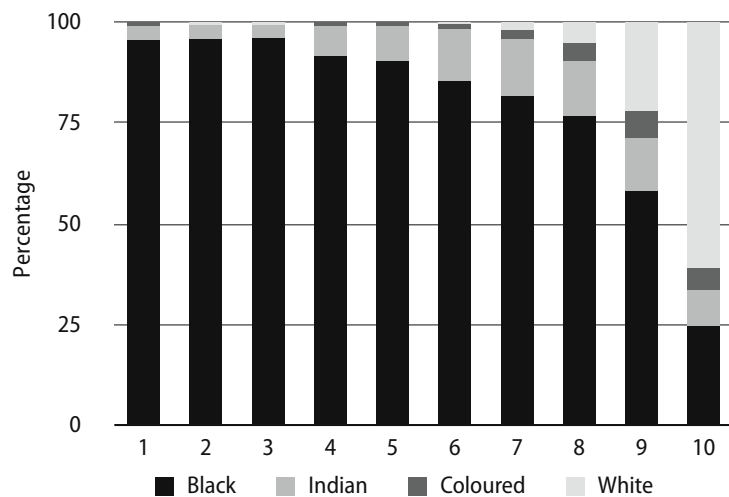
Figure 1: Gini coefficients by population group, 1993–2008



Source: Servaas van der Berg, 2010, using AMPS data

Figure 2 reflects the racial composition of 10 income deciles in 2005.

Figure 2: The racial composition of income deciles, 2005



Source: Servaas van der Berg, 2010

We can see that in 2005, 41 per cent of the top decile was black, confirming that, while race is still a major determinant of affluence, it no longer serves as the sole dividing line between the affluent and the rest of the population. The graph also confirms, how-

‘Differences in intra-racial inequality remain significant and all race groups are now more unequal than they were’

ever, that the poor remain overwhelmingly black. Other data show that the poor are also concentrated in rural areas.

The changing composition of the most affluent groups has resulted from new opportunities for some sections of the black population whose incomes were previously constrained by apartheid-era policies. This has led to rapid upward mobility in this population group, while the removal of the protection provided to some sections of the white population under apartheid has led to downward mobility for some.

Table 1 reflects the growth in the black share of the higher middle class and the working and lower middle classes since 1994, based on per capita earnings of R40 000 a year and R25 000 a year respectively (in 2000 terms). It shows that the black share of the higher middle class tripled over this period, and the black share of the working and lower middle classes more than doubled.

Table 1: Black share of the higher working / lower and higher middle class, 1994-2008

Higher middle class (above R40 000 per capita p.a. in 2000 terms)	1994	2004	2008
Blacks	397 987	1 193 7890	1 873 480
Other (Non-Black)	2 826 092	3 635 405	3 279 717
All	3 224 079	4 829 184	5 153 717
% of whole population	8.1%	10.4%	11.7%
% of Blacks	1.3%	3.3%	5.5%
Black share of higher middle -class	12.3%	24.7%	36.4%
Working and lower middle class (above R25 000 per capita p.a. in 2000 terms)	1994	2004	2008
Blacks	1 137 367	2 553 998	3 999 132
Other (Non-Black)	4 240 358	5 105 222	5 083 655
All	5 377 724	7 659 220	9 082 787
% of whole population	13.5%	16.5%	20.6%
% of Blacks	3.7%	7.0%	11.6%
Black share of lower middle class	21.1%	33.3%	44.0%

Source: Servaas van der Berg, 2010, using AMPS data.

Decomposing inequality by income source

Individuals derive their incomes from various sources. Most comes from remuneration, but some from social transfers and other sources. Some government spending does not contribute directly to incomes, but has an effect on the aggregate distribution of resources by providing free or subsidised goods and services and therefore can play an important role in changing initial distributions.

Different sources of income may be more or less equitably shared. Incomes from private pensions, property rentals, and dividends paid to shareholders, for example, tend

‘Race no longer serves as the sole dividing line between the affluent and the rest of the population’

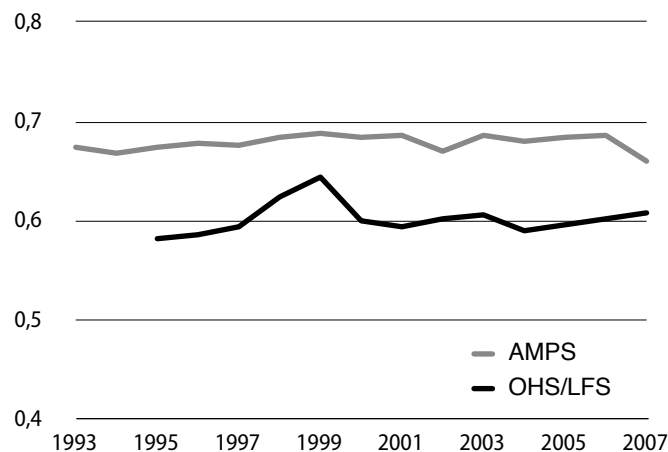
to be more unequally distributed than others, so their effect is to worsen overall levels of inequality.

By contrast, public spending, especially on transfers, is highly redistributive. At the height of apartheid, the state spent about nine times as much on each white person than on each black. This ratio has been reversed to the point where the state now spends about twice as much per capita on blacks than on whites. The main reason for that is that grant spending is strongly directed at the poorer parts of the population. Another reason is that most wealthier people opt out of some public services, such as health, which results in public spending in these sectors being almost entirely directed at the poor.

This shift in spending is one of the most dramatic ever seen outside a revolution, but it happened with very little opposition. But transfers and public spending comprise only a small proportion of all income, and wage inequality remains high. This is evident when comparing the Gini coefficient for all household income in South Africa to the Gini coefficient for wages only, as seen in Figure 3.

‘This shift in spending is one of the most dramatic ever seen outside a revolution’

Figure 3: Gini coefficients for earnings from main job as well as total household income, 1993-2007



Source: Servaas van der Berg, 2010 using data from AMPS, the October Household Survey and the Labour Force Survey.

Wage inequality is quite high, and sets a floor for reducing inequality through the state. In fact, even if we ignored inequalities in access to jobs, and assumed that all households had equal access to employment, social transfers, and other sources of income, wage inequality alone would still leave us with a Gini of 0.605, only a little lower than overall inequality.

What all this shows is that higher levels of employment do not necessarily reduce inequality. Obviously, greater employment plays a major role in reducing poverty, but because of high levels of wage inequality, it only has a minor effect on overall inequality. This is because most inequality is driven by labour market outcomes, especially returns on education. This is a key reason why I would expect South African society to remain

The trade-off between inequality and economic growth

It is widely accepted that economic growth in developing countries plays a vital role in reducing the number of people living in poverty. More ambiguous, however, is the effect of economic growth on reducing income inequality. For some, economic growth offers greater benefits to those who are already relatively well-off, and therefore tends to worsen inequality. Others – pointing to growing evidence that the incomes of the poor tend to rise in rough proportion to increases in per capita income – argue that economic growth has no negative effect on inequality.

One reason for this disagreement is a failure to distinguish between absolute inequality (the rand or dollar value of the difference between the incomes of poor and wealthy households) and relative inequality (the ratio of poor households' income to that of wealthy households').

If, for example, the poorest 10 per cent of households earn an average of R10 000 a year, and rich households earn an average of R100 000, an increase in GDP of 10 per cent that was shared in strict proportion to the existing distribution of income would raise poor households' incomes to R11 000, and those of rich households to R110 000. Here, relative inequality remains unchanged (poor households earn a tenth of the income of rich households), while absolute inequality actually widens from R90 000 to R99 000.

Analysts have identified the stubborn persistence of existing patterns of income across time as one of inequality's defining features: unless the poor benefit much more than the rich do from growth, it is almost impossible to reduce absolute inequality.

This has important implications. If we assume, for example, that the fruits of growth are shared in proportion to existing patterns of income distribution, the less unequal the society, the greater the benefit of growth to the poor. By contrast, the more unequal the society, the larger the share of growth that will be captured by the relatively well-off.

For some, this means that government policy ought to focus on reducing inequality in order to improve the impact of growth on poverty reduction. The problem is that state interventions thought to reduce inequality may also reduce the rate of economic growth. To the extent that this occurs, inequality may be reduced, but at the expense of slowing the pace at which growth raises people out of poverty. This dilemma is at the source of disputes between those who favour prioritising the direct reduction of inequality through state action and those who argue that rapid growth is a more sustainable and efficient mechanism for raising people out of poverty.

CDE 2010

Some analysts believe economic growth largely benefits those who are already relatively well-off

unequal for a long time to come. It also shows why one should avoid placing too much emphasis on inequality as such, and why one should focus on poverty instead.

PANELISTS

Kuben Naidoo

Secretariat to the National Planning Commission

ONE OF South Africa's most prominent features in respect of poverty and inequality is that the former homelands remain the poorest areas in the country. This is because employment rates in those areas are much lower than elsewhere. One consequence is that, if the former homelands are excluded from inequality data, levels of inequality in South Africa are more similar to those in other developing countries. This underlines the persistence of the spatial impact of apartheid.

There are two main explanations for South Africa's high levels of poverty and inequality, both of which are at least partially correct. The first is a structural explanation. It says that since the 1970s mining and agriculture have created fewer jobs, while education for poorer communities has deteriorated. Jobs have been lost in the low-skilled sector, and because of poor education, people from poorer communities – particularly Africans – have not been able to get jobs in the high-skilled sector. As a result, levels of poverty and inequality have risen.

The second explanation is that high levels of poverty and inequality are largely the result of poor economic growth. Between the mid-1980s and 2000, employment grew more slowly than the population. Unemployment increased, as did poverty and inequality.

It's important to disaggregate these two possible explanations, as they lead to different policy solutions. If one adopts the structural perspective, the solution is to improve education and skills development. If one adopts the second perspective, the solution is to increase the rate of economic growth so that jobs grow more rapidly than the labour force. Poverty will gradually decline, but inequality will not necessarily do so.

As important as the growth story is, some of the structural changes in the economy present us with the challenge of improving intergenerational mobility. A major problem is that we do not have large numbers of jobs in the manufacturing sector. In principle at least, this sector has intermediate skills requirements. Because we haven't created those jobs, however, the labour market has bifurcated between high-skilled jobs and low-skilled jobs, with nothing in the middle.

This is a major problem in respect of intergenerational mobility: while the child of a low-skilled worker stands some chance of finding a semi-skilled manufacturing job, it's very hard to see him or her finding a high-skilled banking job. A larger secondary sector would provide poorer families with an incremental, intergenerational path out of poverty. Without such a sector, this becomes far more difficult.

'If the former homelands are excluded, levels of inequality in South Africa are more similar to those in other developing countries'

Dorit Posel*University of KwaZulu-Natal*

PERHAPS NOT surprisingly, the focus on inequality and poverty in South Africa has been framed in racial terms. This is sometimes at the expense of recognising gender differences in access to income. Numerous researchers have found that the gender wage gap has narrowed in the post-apartheid period. In 1997, women earned 69 per cent of what men earned; by 2006 this had increased to 75 per cent. However, significant gender differences remain in access to employment and in the returns on employment:

- Women continue to earn significantly less than men partly because men gain access to different kinds of jobs than women, and have better lifetime earning profiles. This is true even of highly educated women. For example, nurses and teachers – highly feminised jobs requiring tertiary education – still earn far less than directors and engineers, which remain male-dominated occupations.
- Women are far less successful than men in finding employment, so the unemployment rate for women is much higher than for men. In 2006, for example, almost 50 per cent of all female labour force participants were unemployed, compared to 32 per cent of men.
- A growing percentage of women are living in households without men. This may result partly from a large decline in marital rates, particularly among African women. Consequently, a growing percentage of females are living in households that are reliant on the income received or earned by women.
- The majority of social grants recipients are women. In the 2006 General Household Survey, for example, almost 15 per cent of all women aged 15 years and older reported receiving a social grant compared to less than ten per cent of men.

What we know, then, is that more and more women live in households with no male members, and must make do with women's earnings. We also know that women earn less than men. The upshot is that women are more likely to live in poverty than men. In 2006 the poverty rate among females was almost 60 per cent (using a poverty line of R322 in 2000 prices), while the poverty rate among males was 52 per cent. Given high rates of unemployment among women, together with women's greater reliance on social grants, inequality between the genders has probably widened.

DISCUSSION

MUCH OF the discussion centred on Prof Van der Berg's assertion that more jobs would not reduce inequality, at least in the short term. (In a written version of his presentation he noted that a simulation exercise using 2000 data showed that 2.5 million additional jobs would reduce the poverty head count ratio by almost 9 percentage points, but would reduce the Gini coefficient by only about 0.033.)

'A larger secondary sector would provide poorer families with an incremental, intergenerational path out of poverty'

According to Prof van der Berg, the main reason for this was that wages and salaries in South Africa were highly unequal: people with higher qualifications and greater skills earned far more than people with lesser qualifications or lesser skills. Because these attributes are shared unequally, even if more people were employed, they would still receive highly unequal wages.

It was noted that it is very difficult to change either the current structure of returns on varying levels of education or the skills structure of the labour force in the short and medium term. As a consequence, even rapid job creation would not have much of an impact on inequality.

Participants asked whether these surprising results could be ascribed to the way in which wage inequality was being measured. Others suggested that the high premium attached to matric and post-matric education was a product of the current labour market, and could be changed in the future. Another suggested that the high rate of returns on higher education might also be a function of South Africa's failure to attract skilled foreigners. He said that if South Africa started to import skilled and educated people from other countries, this would bring down wages in some key categories, thus helping to reduce inequality.

Prof van der Berg agreed that the weaknesses of the school system and the nature of the migration regime created an artificial scarcity of relatively skilled workers. However, while employers might try to recruit employees with higher qualifications, notably matric, once people have been in jobs for a while their wages should adjust to their levels of productivity. In other words, the low earnings of employees with lesser qualifications might be because their productivity is low.

'Women are more likely to live in poverty than men'

The impact of government policies and programmes

Andrew Donaldson

National Treasury

SOUTH AFRICA must care about inequality, and economists need to do more work on understanding it. For some reason, the desirability and practicality of policies aimed at changing the distribution of income has virtually disappeared from discussions in the discipline. It ought to be restored.

Many analysts are far too comfortable with the income distributions that arise out of the institutions that are in place. We are also far too comfortable with the notion that it is markets that determine remuneration. These things are also driven by conventions, which change very slowly. After the 1929 stock market crash, for example, real remuneration on Wall Street did not reach the same level until the 1980s. Part of the reason

Inequality statistics ‘necessarily suspect’

Several participants highlighted the difficulties surrounding the measurement of inequality, notably the accuracy of South African statistics.

Prof van der Berg drew attention to wide variations in calculations of South Africa’s Gini coefficient caused by erratic income data recorded in standard surveys. For example, the Income and Expenditure Survey (IES) captured 96 per cent of the value of personal income captured in the national accounts in 1995, but only 69 per cent of that value in 2000, and 77 per cent in 2005.

In the case of non-wage income, the IES captured more income from dividends and property than the national account said existed in 1995, but captured only two-thirds of the value in the national accounts in 2000. Therefore, various forms of income were under-captured to various extents, and any figures about inequality were ‘necessarily suspect’.

Rashad Cassim, head of the economics statistics division of StatsSA, acknowledged that South Africa had ‘never produced good data on income from property’. Problems included that:

- Survey respondents tended to underreport earnings;
- It was impossible to get good household balance sheet data;
- There were problems with measuring the size of households, so measuring the distribution of household income might not reflect the distribution of per capita income;
- Conclusions were very sensitive to how ‘income’ was defined – whether gross or net income was used, and whether transfers and grants were included. For example, some data suggested that if the impact of social grants were excluded, South Africa’s Gini coefficient could be as high as 0.8, as opposed to about 0.73 when it was included. If the current progressive taxes were included in the calculations, South Africa’s Gini coefficient would be lower.

One consequence of these problems was that inequality as measured in South Africa was effectively inequality in wages. Another consequence of data weaknesses was that it was simply impossible to know whether changes in measured levels of inequality reflected underlying changes in income distribution or were just noise and measurement error. Ultimately, this meant that leaders and analysts should refrain from asserting that South Africa was the most unequal country in the world, or that inequality was getting worse.

Dorit Posel said while it was difficult to accurately measure inequality, most of the problems with the data would tend to understate the true level of inequality in South Africa. This was particularly true of the absence of reliable measures of property income as well as other forms of income, since these forms of income was typically under-reported by people at the top of the income pyramid. However, some analysts believed people at all income levels tended to be either ignorant of, or ‘economical with the truth’ about, their actual income.

‘Leaders and analysts should refrain from asserting that South Africa is the most unequal country in the world, or that inequality is getting worse’

'South Africans need to think about global dynamics, and how they will work their way into earnings conventions in this country'

is that there was a 'great compression' of earnings in the United States in the mid-20th century that was facilitated by the very considerable changes in the conventions governing earnings.

We need to understand this more. We need a theory of long-run income distribution trends. Economists tend to neglect this area, partly because it is messy statistically. But we are familiar with theories of growth cycles, and short, long and medium-term growth cycles. I think it's time we started looking at the cycles in income distribution, because there is empirical evidence that they follow long-run waves.

Paul Krugman has written about how he used to admire the great mansions of New York State, which had been built in the 1920s as private residences. In the 1950s to 1970s those mansions all became communes, schools, embassies and business offices. In the 1980s and 1990s they became mansions once again. This is his illustration of long waves in income distribution, and how the share of national income accruing to the very rich changes over time.

Over the past 30 years, inequality in earnings and income has widened very substantially worldwide, and South Africa has also been strongly affected by this trend. No one knows what will happen over the next few decades, but I believe there are some very powerful dynamics that will drive a greater equalisation of earnings. By far the most important of these is that real earnings and consumption levels will have to fall very considerably in the United States, but rise in China. This may be the most powerful empirical dynamic during the next 40 or 50 years. If we as South Africans want to think about changing the structure of earnings and income distribution, we need to think about these global dynamics, and how they will work their way into earnings conventions in this country.

Government's efforts to reduce inequality

One of the most important things to recognise about government's ability to change income distribution is that there are difficult trade-offs and tensions between short-run and long-run costs and benefits associated with the policy options we have available. A very simple example of this trade-off can be seen in tax policy.

You may think that if you make the tax structure more progressive over the next year or two, this will help to improve income distribution. However, the long-term consequences will almost certainly be counterproductive, partly because changes to the tax system can distort economic activity. Instead, broadening the tax base is a much better way for government to finance attempts to improve distribution. What happened with the company tax rate is one example. In the past, we had a company tax rate of 50 per cent, but it generated almost no revenue because companies found ways of avoiding declaring profits, or engaged in aggressive tax avoidance activities. The rate is now 28 per cent, with a much broader base, and company tax generates a significant portion of national revenue. We have made great progress in improving the coverage and effectiveness of the tax system and also in improving its fairness and its impact on distribution.

One encounters a different set of tensions between the short and the long run in agriculture and rural development. Redistribution can be achieved very quickly in agriculture through various forms of land reform. However, these can be counterproductive for the performance of the agricultural sector and for output in the long run, because you can achieve more production and competitiveness in agriculture through encouraging large farms and commercial enterprises.

We have to recognise the existence of trade-offs of this kind, and that some of the distributional objectives of public policy can only be met in the longer term.

Having said that, there are strongly redistributive elements in public policy today. Many of these, our social grants in particular, operate outside the labour market. This is because it is far quicker to get money into poor households through the grant system. There are some who would argue that we should have linked this kind of social protection to labour market participation, because if you do that you are far more likely to create dynamics that are self-reinforcing over time. On balance, however, in the circumstances of deep, structural unemployment, and in a context where addressing the shortcomings of the education system is a long-term challenge, we made the right choice in substantially increasing grants that are broadly unconditional. Besides anything else, one of the problems with linking grants to conditions (such as taking children for regular health checks) is that you need a lot of institutional capacity to implement that kind of policy. This is something we do not have in the short term.

So, despite the broad point about there being a trade off between the short- and long-run impact of redistributive policies, we have actually adopted some short-term redistributive policies.

A final point: over the past few decades, the societies that have grown fastest have often begun with a more equal income distribution than societies that have grown more slowly. This is a deeply challenging empirical generality because it says that if we want to think not just about growth in the long run but growth in the very long run, it may be important to do something about income distribution.

Servaas van der Berg

University of Stellenbosch

EARLIER, I made the point that South Africa should perhaps focus on addressing poverty rather than inequality, essentially because inequality is a very difficult problem to resolve. At the same time, I think one should recognise the racial nature of inequality in South Africa. Because of our history, this does require attention.

In practical terms, the government's distributional objectives have partly been about deracialisation at the top end of the income spectrum. Affirmative action, black economic empowerment and the like have been relatively effective in this respect. This sends an important signal that you can be black and rich. Unfortunately, it also sends a

'Societies that have grown fastest have often begun with a more equal income distribution'

signal that you can be black and rich if you are rent-seeking. This is something we should guard against.

We also need to think about what levels of inequality we are comfortable with. We have very high levels of inequality, but do not tolerate them very well. One reason for this is the racial dimension of inequality which is potentially very important. Another is that inequality in South Africa tends to transmit itself from generation to generation. Some people are excluded from the system while others are included, and that pattern tends to persist. This is another reason why investing in education is so important.

In fact, government does contribute to reducing inequality not just in education but across a broader social spectrum. In one calculation, South Africa's Gini coefficient in 2005 was about 0.69. If one adds social spending, it drops to 0.52, and if we then subtract taxes, it drops further to 0.47. So government policies impact significantly on inequality.

The big problem, however, is that the degree of inequality in the efficiency of government spending – on our educational system, for example – is probably as large as the degree of inequality in our incomes. This is because the level of efficiency of spending in education is very high at the top end, and very low at the bottom end. As a result, the poor remain poor, and inequality persists. The efficiency of social spending urgently needs to improve if we want to have an effect on inequality beyond simply deracialising the top end of income distribution.

DISCUSSION

PARTICIPANTS LARGELY focused on the nature of the trade-offs between short-and long-term goals. Some said the issue was simply whether South Africa could afford to implement policies that would impact on poverty and inequality in the short term if those same policies undermined long-term growth.

One participant suggested that one of the key features of South Africa's economic performance was its inadequate savings rate, which he ascribed to the rise in the proportion of income being collected by the state, largely for redistributive purposes. This closed off the possibility of faster economic growth on the back of higher levels of investment. Abandoning the pursuit of short-term growth (even in order to create a platform for long-term growth) was dangerous; the list of countries that first went for social welfare and then for economic growth is 'very short'.

Another argued that policies were needed to break down the insider/outsider labour model inherited from South Africa's past. 'In some ways our negotiated transition has frozen some of the distributional consequences of apartheid in place. In 1994 we had a very concentrated and uncompetitive business sector, a relatively small informal sector, a relatively small entrepreneurial class, and relatively high profit margins. On the other side of the coin you've got the equivalent of a labour aristocracy that keeps wages relatively high, especially at starting salaries, and therefore limits entry into jobs.' The difficulty with tackling these institutional rigidities was that they helped to preserve

'Inequality in South Africa tends to transmit itself from generation to generation, this is another reason why investing in education is so important'

social order and social cohesion. All this meant that one should not see the role of the state as driving a growth or redistributive agenda, but rather to break the insider/outsider model.

In response, another participant suggested that the discussion lacked a realistic sense of what the state was capable of. If South Africa had a more capable state, its policy intentions had a better chance of being implemented. For example, 15 years of educational opportunities had been wasted through very ineffective spending.

Another participant said the whole idea of a significant trade-off between alleviating poverty in the short term and waiting for long-term growth to kick in was misguided. 'The Chinese experience should force us all to rethink this. China was stagnant for centuries, and then did something different and experienced 10 per cent growth a year for several decades.'

In response, Andrew Donaldson said the roots of recent Chinese growth lay in its social capital and institutions built up over centuries, including those used to ensure control over water systems, and that built a country that was the most numerate and linguistically competent in the world. Similarly, the roots of Japan's miraculous growth lay in the Meiji Restoration. Therefore, the institutions one built today might be important for growth in a century's time. One had to do things that contributed to current growth, but also things that would build social capital and institutions that would underpin long-term development.

Investing in human capital

Murray Leibbrandt

University of Cape Town

MY PAPER addresses an old and well-trodden issue in development economics: the link between a country's education system and incomes. The education system produces human capital, and the labour market turns this potential into productivity and incomes: those with more human capital are more productive and earn higher incomes. Inequalities that arise in this process are a core focus of the literature on globalisation, one of the effects of which has been an increase in inequality. This is a consequence of the increased numbers of low-skilled workers who have been integrated into the global supply chain at the same time as the international demand for labour has turned towards workers with higher skills.

Talking about the link between education and the labour market in South Africa is complicated by the fact that there are profound differences in the quality of education received by different people. Equivalent years of education do not reflect equivalent human capital accumulation, productivity or earnings. This affects the core concerns

'The list of countries that first went for social welfare and then for economic growth is very short'

Tackling Inequality In Japan

Ambassador Toshiro Ozawa (presented in his personal capacity)

UNTIL THE 1860s, Japan was a very unequal feudal society with rigid class distinctions. The hierarchy consisted of the Samurai at the top, followed by farmers, artisans and merchants. Farmers in particular were taxed very heavily.

In 1867 the Meiji Restoration put the Emperor and a small group of aristocrats at the top of the system, but the class system was basically abolished, and universal education introduced. This resulted in dramatic changes, including modernisation and industrialisation. Society became much more fluid and dynamic, and there was a tremendous increase in social mobility.

One consequence of economic growth was that inequality actually rose, with the Gini coefficient rising from an estimated 0.4 in 1890 to 0.55 in 1940. Social change and heightened inequality led to political instability, especially the rise of communism and attempted military coups.

After World War Two, occupation by the allied powers led to the democratisation of Japanese society. This included new labour rights, the enfranchisement of women, and the breaking up of business conglomerates. Probably the most important intervention in terms of enhancing equality was land reform, with the land of absentee landlords redistributed to their tenants. This was done with only token compensation, and led to the creation of a class of small-scale land-owning farmers. Since food was scarce, these farmers began to earn a sustainable livelihood. By the mid-1950s the Gini coefficient had improved significantly to about 0.30.

The rate of growth achieved between 1950 and the late 1970s has been described as the 'Japanese miracle', and inequality also declined. However, this was not an explicit government policy goal. Instead, government focused on industrial development and the creation of public infrastructure such as roads, power stations, reticulation systems, and railways.

Trade is an important factor in understanding Japan's experience. At the time, Japan had a comparative advantage in labour-intensive industries, such as textiles and food processing, so growing trade contributed to the realisation of equitable growth. Importantly, Japan had more or less full employment, so growth led to better wages and working conditions. That also drove higher consumption of basic consumer goods by the middle classes, leading to the establishment of new industries such as the electrical appliance and automobile industries. This virtuous cycle lasted until the end of the 1980s.

A universal pension plan was introduced in 1969, and free health care for the aged in 1973. Urbanisation also increased. In order to achieve balanced growth in the national economy, fiscal measures were taken to transfer resources from urban to rural areas.

The decline in inequality was a consequence of a policy of benign neglect. But the government was keen to ensure growth and to create equal opportunities, and in order to ensure that this was actually meaningful, tremendous effort was put into education.

'One consequence of economic growth was that inequality actually rose'

Tackling Inequality In India

Vikram Doraiswami, Indian Consul-General in Johannesburg

AFTER ATTAINING independence, the Indian government concentrated on alleviating poverty and extreme inequality in what was a largely feudal society. Income was unequally distributed, but so was access to land, education and economic opportunity. These inequalities were fundamental features of the Indian social experience. What progress have we made over the past 60 years?

Until 1991, we made a steady effort to create social safety nets. This included initiatives such as integrated rural development programmes, various housing and education programmes, and the reform of agricultural land-holding patterns. However, the government lacked the resources to turn these into truly transformative programmes.

In 1991 we radically revised our economic policies, moving away from state-driven development towards a more open, market-oriented system. As a result, poverty has declined considerably both in rural and urban areas: the proportion of people living in poverty has declined from nearly 36 per cent in 1993 to about 28 per cent today. India remains a very poor, but it is a reasonably equal society, with a Gini coefficient of less than 0.4.

Since the 1990s there has been tension between demands for job-creating growth and demands for increased 'social justice', a phrase that captures ideas such as affirmative action, and the reservation of jobs and seats in certain educational institutions for people who had earlier experienced discrimination based on caste. This tension is a key factor in our politics, and the current government is trying to do both at the same time: it is trying to create jobs, but in a socially empowering manner that also creates social safety nets.

Job reservation has helped significantly to uplift very poor and excluded people. However, we are now trying to fine-tune this policy to ensure that its benefits are not inherited, so that the children of beneficiaries are not entitled to the same preferential treatment.

Despite these safety nets, the past 20 years of market-oriented reform has increased inequality. At the same time, we have raised something like 90 million people out of absolute poverty. Interestingly, inequality has increased mostly between those earning the largest incomes and everyone else. At the same time, the proportion of the population classified as lower middle class or emergent middle class has also grown dramatically. So while income inequality has increased, poverty has also been alleviated.

We have faced challenges in trying to sell this as a politically sustainable process. South Africa may well face a similar challenge because, in the short term, market-oriented policies seem to exacerbate inequality. However, perhaps one could argue that there are good inequalities and bad inequalities. Government should focus on reducing the 'bad' inequalities – barriers to education, jobs, including government jobs, and social practices that keep certain groups, such as women, or disadvantaged communities out of productive employment – rather than on trying to equalise income.

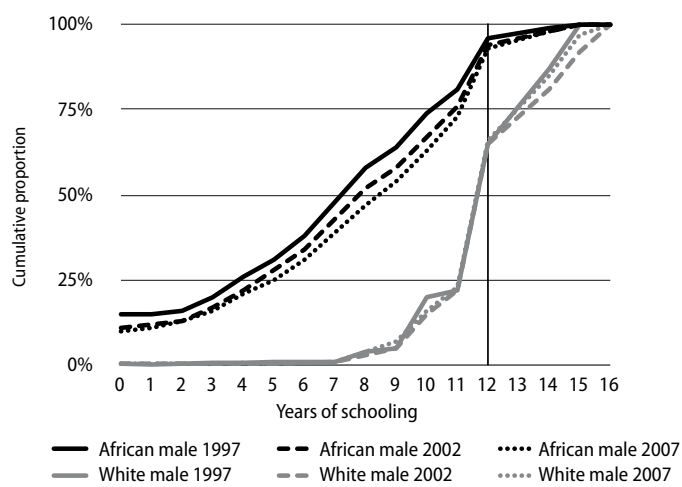
'India raised something like 90 million people out of absolute poverty, so while income inequality has increased, poverty has also been alleviated'

of my presentation, namely how schooling affects individuals' chances of getting a job; and how it affects their income when they do get a job.

The distribution of schooling in South Africa

Post-1994 data shows a remarkable improvement in average years of schooling, but little improvement in the number of people with matric. Figure 4 reflects the distribution of schooling of 25-year-old to 59-year-old men using survey data from 1997, 2002 and 2007.

Figure 4: Cumulative distribution of schooling, men aged 25-59, 1997, 2002, 2007



'Equivalent years of education do not reflect equivalent human capital accumulation, productivity or earnings'

It shows that, in 1997, some 80 per cent of African men between the ages of 25 and 59 had 11 years or less schooling. In 2007, that figure was down to 70 per cent so the proportion with more than 11 years of schooling had risen from 20 per cent to 30 per cent.. However, it also shows that we have been far less successful in raising the proportion of African men who have post-school qualifications: this has been more or less static at about 10 per cent. This compares unfavourably with the 40 per cent of white males who have post-school qualifications. Having said that, there are more black males with grade ten and over today than there were in 1997. So we've done reasonably well at getting more black people into and through 11 years of school, but less well at getting larger numbers through matric and into higher education.

As I will show, this particular improvement in the number of people spending more time in school has not led to improvement in the actual returns on education.

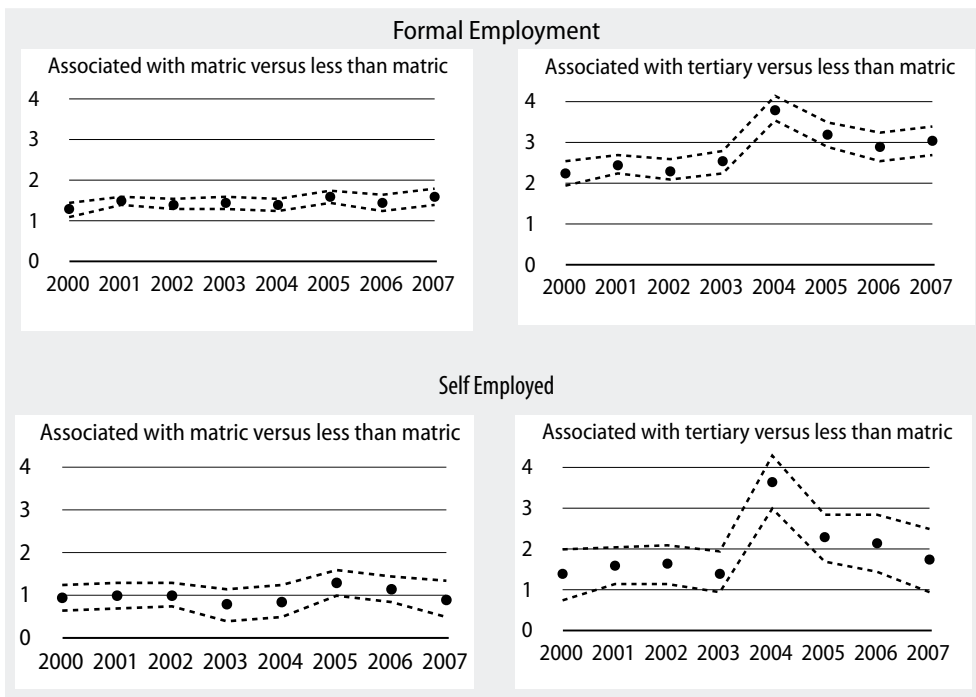
Returns on education

There are two factors that determine how education impacts on income: how it affects one's chances of getting a job, and how it affects one's salary if one gets a job. Figure 5

reflects the chances of being employed or self-employed associated with various levels of education.

The graphs show that someone with a matric has a 50 per cent better chance of having a job than someone without a matric. They also show that someone with a tertiary qualification is about three times more likely to have a job than someone with only a matric. Surprisingly, perhaps, having a matric makes you no more or no less likely to be self-employed than someone who has not completed school.

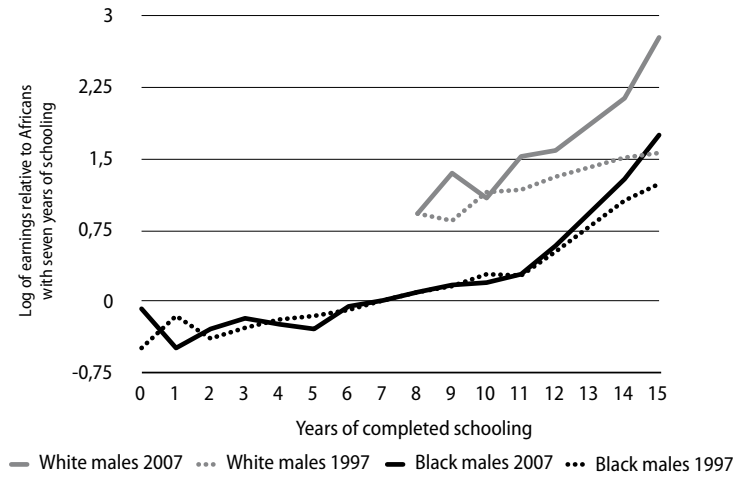
Figure 5: Chances of employment by educational level, 2000-2007



‘Improvement in the number of people spending more time in school has not led to improvement in the actual returns on education’

Besides improving one’s chances of getting a job, the amount of education one has accumulated also makes a big difference to one’s earnings once one has a job. This is reflected in Figure 6 which contains data for African and white men between the ages of 25 and 59 over a ten-year period.

Figure 6: Returns on schooling for males by population group, 1997 and 2007



‘Someone with a tertiary qualification is about three times more likely to have a job than someone with only a matric’

The data show that, in 2007, an African man with three years of post-matric education earned three times the salary of an African man with a matric, who, in turn, earned about 30 per cent more than an African man with 11 years of schooling. White matriculants, who earn a lot more than blacks with the same qualification, were also out-earned by white men with tertiary qualifications by a factor of 3:1.

Interestingly, over the past decade, the returns on having post-matric education have risen, while the returns on education levels less than a matric have actually fallen. This has impacted on inequality because of the slow progress being made in increasing the number of black people with matric or tertiary qualifications. It is ironic that the returns have fallen sharply on those years of education in which we have made significant progress, namely pre-matric secondary schooling. In fact, the situation is even worse than this, because even after one takes account of levels of education, white South Africans seem to receive far higher returns than others with the same level of schooling. This draws stark attention to the issue of the quality of education versus years of schooling.

What does this mean for education policy?

The international literature invariably recommends that developing countries should increase school enrolment rates. This is not the key issue in South Africa, however. We already have very high enrolment rates; our challenge is to raise the returns on being in school. This means raising the number of years of education, and raising the quality of each year of education.

There are high returns in South Africa on completing secondary and tertiary education, which suggests that the numbers of students reaching these levels should be increased. However, there are limits to what can be achieved. National policy cannot be directed at providing every South African citizen with a tertiary education. Importantly, focussing too hard on increasing the numbers of people receiving tertiary education by subsidising it can lead to increased inequality. This is because, almost invariably, only a

narrow elite benefits from this kind of spending. Thus there has to be a complementary focus on ensuring that primary and secondary schooling are good enough to give South Africans better returns on the time spent in those stages of schooling, whether or not they continue their education from there.

The international literature is useful in splicing a discussion of credit market reforms into this discussion. Well-functioning credit markets enable people to back themselves, and to pay for their tertiary education by borrowing money. They can then use the returns on this tertiary education to pay off these loans. If difficulties in borrowing are preventing such self-investment by the poor, this should receive policy attention.

Finally, it's vital that we address remaining racial differences in returns on education. These are unlikely to be a result of pure discrimination. It is much more likely that they reflect differences in the quality of education being received. Therefore, the issue of quality must be fundamental to discussions of educational equity.

Having said that, it is important to acknowledge evidence that the non-school environment also plays a very important role in explaining education outcomes. Social, familial and economic factors have a strong impact on educational performance. These factors are part of the human capital that learners bring with them into their classrooms, and inequities in this sphere reduce the possibilities for equitable outcomes from good quality education. The international literature is clear about the fact that interventions at the pre-school and primary school level are vital for addressing inequality in education, because it is very difficult to reverse these early disadvantages later.

PANELIST

Jonathan Broomberg

Discovery Health

THERE ARE some interesting similarities between education and health care in South Africa, particularly regarding returns, human capital formation during early childhood, and issues of access versus issues of quality.

One of our problems is that there are really no detailed local studies disaggregating the returns on different kinds of health care interventions. Crucially, this has been missing from the recent debate on national health insurance, where the general presumption seems to be that we need to give everybody in the country access to the same services as those who enjoy private health care. But we need to interrogate this presumption, and ask: what kind of access to what services would yield the biggest social returns?

The answers are pretty much the opposite from what is being proposed. For example, widening access to hip replacements and world-class cancer treatment are not the kind of investments that will yield the biggest social returns in our country. What will yield the biggest returns are investments in the prevention and treatment of HIV and AIDS, maternal and child health care, TB treatment, and similar 'bread-and-butter' interven-

'There are high returns in South Africa on completing secondary and tertiary education'

'Policy-makers
should focus
on expanding
inclusion in
the workforce'

tions. All of these would yield enormous returns in terms of health, productivity, and equality.

A second point that struck me in Prof Leibbrandt's presentation was the dramatic impact of early childhood human capital formation on all future returns. No matter how much we improve secondary and tertiary education, if the people coming into that system are disadvantaged in their early years, we are never going to make a dramatic impact. It is much the same for health care and health outcomes. There is a growing body of evidence showing the huge impact of a person's foetal experience on his or her health and potential. Also, investing in educating mothers generates greater returns in terms of children's health outcomes than educating fathers or others in the community.

So the data on education and health lead to the same policy conclusions: we need to think about what policy interventions we can design to impact on those early childhood experiences. Getting health and education policy right is vital to improving children's ability to gain from their education.

Finally, there is the issue of access to health care. The health status of individuals is linked to their ability to get and keep a job, and to be productive in the workplace. Access to health care then becomes a key issue. Catastrophic health care events can set families back, and can lead to greater inequality as people are unable to work and earn a living. Generally, the catastrophic impact of health events is not felt through the financial aspect of being out of pocket after paying for expensive treatments because health care in South Africa is generally very cheap, or free. Rather, the impact is felt through having poor access to hospitals and clinics, which are sometimes not easily available and often offer poor care. This results in people suffering from chronic disease or being disabled or dying when they should not.

DISCUSSION

DISCUSSION CENTRED on how to improve human capital in South Africa, thus improving access to employment and raising incomes. A participant noted that on-the-job training was a valuable form of human capital formation, but that this was a catch-22 situation in South Africa. Most South African unemployed had no work experience and, therefore, no training. The question was, how did one give people on-the-job training if they had no jobs?

A participant suggested that more vocational training was needed. This kind of basic education was important in everyday life and could lead to business creation if those with entrepreneurial instincts were given practical skills. Another suggested that impact evaluations of government policy in education were needed. Public-private partnerships, which included private education for the poor, could also help to improve the quality of education, and ultimately decrease inequality.

Prof Paul Romer cautioned against focusing too strongly on the education system as a way of creating jobs. It will take a very long time to change the labour force or influ-

ence the workforce through schooling reform. Instead, policy-makers should focus on expanding inclusion in the workforce.

Options for changing the structure of the South African economy

Paul Romer

Stanford Institute for Economic Policy Research

Every job could be a decent job

Prof Romer began his talk by setting out a broad framework for understanding development and human progress. He argued that, in the broad sweep of history, economic progress had been the consequence of the co-evolution of new technologies and new rules that allowed large numbers of people to co-operate. These rules consisted both of formal rules adopted and enforced by a state and the informal rules and social norms that structured most social interaction. Development could be blocked or facilitated by the adoption of appropriate rules, both formal and informal. 'For example, rapid growth in East Asia after World War Two partly turned on their ability to copy both technologies and rules that had been pioneered in other parts of the world. The problem is that one cannot replicate the informal rules that are encoded in people's norms.' Technologies could be copied, and so could laws. But norms evolved, so societies had to pay careful attention to how the policies they adopted affected their norms. If a society encouraged bad norms, they could be very hard to change.

Prof Romer argued that one of the most important challenges faced by any developing society was to guide the evolution of its social norms in a direction that let it take advantage of the enormous economic benefits that were possible when large numbers of people worked effectively with each other. This required a sense of inclusion for all members of a society in the benefits that came from a market economy. The practical challenge was how to achieve this sense of inclusion.

Equality and rights

'Equality' sounds like a goal that is valuable in its own right and one that will also support inclusion. But if we look closely, we see that the connections are more complicated than they seem at first. There are some forms of inequality that are both beneficial and consistent with inclusion.

Here's an example of good inequality. Imagine that everyone starts out with little skill but as they work, they learn quickly on the job. Everyone starts out in the same position,

'It will take a very long time to change the labour force through schooling reform'

‘Some forms of inequality are both beneficial and consistent with inclusion’

at a very low level of skill and income. But through hard work, they end up earning very high wages toward the end of their careers. Using conventional measures, this society would show a high degree of income inequality because young people earn much less than more experienced workers. But this kind of inequality motivates the hard work that develops skill. It is also inclusive because each person can participate in the same way as everyone else.

By the same token, some forms of inequality clearly are bad. One bad type is that associated with the lifeboat mentality. If a few of us are in the lifeboat, we may be tempted to use our oars to smash anybody else who tries to get in. We reason that if we let too many in, the boat will sink and we’ll all die. It’s not hard to invoke this kind of mentality in most people because we evolved as a species in settings where other people really were a threat to us. But in today’s world, it turns out other people no longer threaten us. Instead, we get enormous benefits from them. Nevertheless, this idea of the lifeboat is deeply etched into our psyche.

The more common phrase used to describe the lifeboat mentality is the notion of a society based on insiders and outsiders. In this kind of society, the insiders work very hard to keep the outsiders from threatening their privileged position and outsiders feel no sense of inclusion.

Rights and entitlements

Protecting rights is another strategy that sounds like it is inherently good and will also encourage inclusion. However, this can also have unintended consequences. When we start to argue exclusively in terms of rights and entitlements, it undermines our ability to think creatively about win/win arrangements. As a result, too much attention to rights can lead to paralysis until conflicting interests – framed always by the parties as rights – are definitively decided. Deciding these things definitively is not always easy, though, making it hard to make progress.

The role of education

One of the purposes of education is to socialise people to work together in large groups. Good schools give us skills and norms that let us interact well with each other. They teach us such things as to be courteous and punctual and to think about how we should interact with other people. In the United States, we made schooling compulsory precisely because schooling creates norms that will make the whole society better off. Unfortunately, we do not measure how well schools actually do this job. As a result, it is quite possible that some do it well and others fail miserably without us knowing about it.

In reference to the discussion about the differential rate of return of education observed for different groups of students, if we measured what students have actually learned instead of measuring how many years of schooling they’ve received, it might give us a completely different view of returns to schooling. The return to the kind of

schooling that encourages the right norms might be very high, but the returns to schooling that encourages bad norms might be low or negative. Instead of concluding that the returns to schooling are falling, we might instead conclude that some schools are not doing what they are supposed to do.

We would like to measure what our educational system is actually teaching young people. Many governments are now trying to measure the things that are relatively easy to measure – for example, the numeracy and literacy of students. If norms matter and schools influence norms, we should also measure the norms that students acquire. But this is hard to do. For now, the best we can do is hope that the school systems that are teaching good numeracy and good literacy are also socialising people to work well in large groups. If so, measuring even this would be a big improvement over simply recording how many years children spend in schools.

Employment and employability

Education can establish appropriate norms and build essential social skills. But the same is true of having a job. In fact, for people who have left school, the only chance they've got to acquire and maintain these norms that help us work together, is through actual employment in the formal sector. The formal sector matters because these firms are the ones that follow rules. People who work there expect others to work well together, for example by being punctual and courteous.

Formal sector employment is a process that teaches and inculcates norms. It offers the kind of on-the-job training and reinforcement that can increase growth, raise wages and make a society more successful. Unemployment has the opposite effect. To the extent that someone has learnt skills in school, they depreciate and corrode when that person is unemployed.

Raising the employment rate quickly should be relatively easy because there are literally hundreds of millions of low-skill jobs in areas like garment assembly. These could be created if wages are in the range of \$100 to \$150 per month.

Of course, a nation could insist on higher wages. But then the laws of supply and demand mean that fewer workers will be employed. For the unemployed, that means that any social norms they have obtained at school corrode, making them less productive and less employable.

This means that societies face a fundamental choice. One approach would insist on very high wages for all workers in the hope that the demand for workers will increase over time, in the process reducing widespread unemployment. The other approach is to go for full employment first, and then get the growth and higher wages that come from having people learning on the job and becoming more productive.

To get agreement on this latter kind of strategy we've got to find a way to do it that does not violate basic assumptions about acceptable standards of living. One way to do this is through wage subsidies. In principle, it might be possible to look at the 4 per cent of South Africa's GDP that now goes into transfers, and to note that it could provide about a R700 per month subsidy for 10 million workers. If all of that money were to go

'Skills depreciate and corrode when a person is unemployed'

'Wage subsidies could encourage employment and perhaps reduce the most extreme forms of inequality'

into subsidies for low-skilled workers you could, if you wanted to state it in the starkest possible terms, set up a garment assembly industry with 10 million employees, and charge the employer nothing for the workers. They'd take home R700 a month instead of having someone in their family receive social transfers. The workers, and the country, will then get the benefits from on-the-job training. Later, many would shift out of low-skilled work into more high-skilled, productive forms of employment. Taken literally, this is not a feasible policy, but this example should focus our minds on what one can do with a policy that goes for employment first.

More seriously, one could consider paying these 10 million workers R1 400 per month, with half coming from the employer and half from the government. This would make many forms of formal sector employment viable, including employment in highly competitive worldwide markets in garments and textiles. In practice, this kind of scheme has to pay attention to important details such as how the subsidy is phased out when workers start to earn more. The only point that matters here, through, is that wage subsidies could encourage employment and perhaps reduce the most extreme forms of inequality.

This kind of employment could have far-reaching beneficial consequences. To cite just one example, it could be a critical first step towards greater equality for women. When young girls in New England in the United States, or in Mauritius, Hong Kong or China, first sought out employment in the formal sector, large numbers of them started by making garments and spinning yarn. These jobs were not glamorous, but it was an essential first step on the path to freedom and equality for women. Putting them all on welfare would not have turned out well.

These then are the kinds of jobs that justify my claim that 'every job can be a decent job.' Every job can build skill. Every job can help a person feel like a full member of a society. The conditions at different jobs can be unequal, but they are all insiders. People on welfare can only look in from the outside and wonder how it would feel to be part of the world of work, self-sufficiency and accomplishment.

PANELISTS

Tanya van Meelis

Department of Economic Development

IT IS not true to say that South Africa's unemployment problem is linked to workers' pay. Workers in the clothing and textile industry, for example, are notoriously underpaid, partly because it is one of the sectors where it is relatively easy to get exemptions from a range of labour agreements. Despite this, the sector has been decimated by job losses. Our experience is that lowering wages does not increase employment. The same is true of domestic workers. There is a minimum wage in that sector, but it is completely unenforceable. We have seen massive job losses even though there is no way to enforce

minimum wages. On the other hand, government intervention has been successful in keeping jobs. In some sectors, such as construction, government's massive investment in infrastructure has stemmed job loss.

There is a strong tradition of social dialogue in the country, and it has had varying measures of success. The question we have to ask is: what happens when you have had conversations and you have tried to move to persuasion, and it simply has not worked? Or when you have moved into the area of regulation, and the regulation needs to be sharpened? How do you stop companies from moving towards greater capital – intensity, and encourage them to employ more labour? There is a limit to what social dialogue can do, and to what engagement can do. What happens in situations like these when inequality has become very deeply embedded in the economy, over decades ?

Nazmeera Moola

Macquarie Group

ONE APPROACH to making labour costs more competitive is to depreciate the currency. This will only work if workers are prepared to accept lower real wages. Since 1994 the rand has depreciated by 74 per cent against the dollar, but we have captured none of the benefits because we have also had higher inflation, and the rise in wages has offset the benefits of the weaker currency. Any proposal to use our currency to help clear the labour market by lowering the dollar costs of employment needs to be carefully thought through in the context of the likely response of increased prices and wages.

Despite widespread agreement that we have a serious skills shortage, and that sufficient skilled workers would create many more jobs at the bottom end of the economy, we have been hugely averse to importing skills. This needs to be urgently reassessed. By excluding skilled workers from abroad we are effectively excluding all of the unskilled people they would employ.

DISCUSSION

A PARTICIPANT suggested that a wage subsidy was a relatively simple and effective way of linking an employment-focused strategy with the maintenance of relatively high wages.

Others questioned whether lowering the cost of employment would really increase the demand for labour. One participant said the most recent estimates of wage elasticity implied that a 1 per cent decline in wages would increase employment by only 0.7 per cent. Eight million people were unemployed, at a minimum wage of R1 200. 'Given the inelasticity of demand for labour, it is simply not possible to reduce unemployment by more than one million, even by letting the wage drop to about R500 a month.'

'How do you stop companies from moving towards greater capital–intensity, and encourage them to employ more labour?'

Another participant disagreed with this, saying that several recent estimates of wage elasticity implied that the outlook was more optimistic, especially in respect of unskilled workers. It appeared to him as if lowering the costs of labour could significantly increase demand. ‘The proposed wage subsidy at least takes the price issue seriously, and responds to the existing evidence in this regard.’

The same speaker noted that South African industry had not responded very energetically to the liberalisation of the economy. One possible reason was that, compared even to the OECD, regulation of production was extremely high in South Africa. Not only did this raise costs, but it meant that established firms were able to avoid competitive pressure from new entrants, some of whom might have increased employment.

Key insights from the Round Table

WHAT SHOULD be done about South Africa’s deep and persistent inequality? Perhaps we first need to ask another question: ‘What *can* be done about it?’

The first thing to recognise is the sheer scale of the challenge. In 2008, the richest 10 per cent of households in South Africa earned nearly 40 times more than the poorest 50 per cent. More dramatically still, they earned nearly 150 times more than the poorest 10 per cent.¹

Estimates of income are seldom exact, but the scale of these differences are incontestable. And, while the income of the very poor has improved modestly – by one measure, the ratio of the average incomes of households in the richest and poorest deciles was close to 200:1 in 1993 – a great deal of this can be ascribed to the introduction of social grants provided by the state.

The number of grants being paid has increased dramatically, from 2.5 million in 1999 to 14 million in 2009.² To the extent that these instruments have assisted poor individuals and families, they are a significant achievement. It has meant that the incomes of the very poor have grown at roughly the rate of per capita economic growth. However, even as the welfare net continues to expand, many people in government and outside it now believe that this approach has reached or exceeded the limits of affordability.

If it is true that changes in state spending helped reduce inequality in the late 1990s, it was partly a consequence of the relatively slow growth in that period. When the economy grew more rapidly after 2000, the gap seemed to widen once again.³ This was largely because, in the absence of a rapid rise in the number of people with formal jobs, the benefits of faster economic growth tended to flow to those at or near the top of the income hierarchy. This should not be a surprise: as numerous participants noted, our current high-wage, high-skills growth model favours ‘insiders’ over ‘outsiders’, with the result that those with formal sector jobs, whether in the private or public sectors, generally enjoy a larger share of the benefits of economic growth.

‘The proposed wage subsidy at least takes the price issue seriously’

For those who see the narrowing of levels of inequality as the key indicator of progress, these are disturbing conclusions, made more so by some of the insights gained from the Round Table.

Insights for policy

1. The depth of poverty in South Africa is a major challenge.

However one defines poverty, and whatever data one chooses to use, it is clear that millions of South Africans live in absolute poverty. This represents a daunting challenge, one which continues to stunt human potential and limit the country's development. It has tragic consequences every single day. Not enough has been done in the post-apartheid era to address it.

2. Poverty cannot be reduced without high and sustained rates of economic growth.

The empirical evidence – demonstrated in one developing country after another – is clear: high rates of economic growth are an essential precondition for raising millions of people out of poverty. Only growth can generate large numbers of new formal jobs. Growth also generates the resources that smart states can use for improved public services, better schooling, more effective policing, more efficient public transport, and improved urban and rural infrastructure.

3. Inequality in South Africa cannot be ignored.

South Africa's high levels of inequality are a consequence of apartheid. They persist despite immense efforts by post-apartheid governments to widen the welfare net and redistribute benefits, rewards, and opportunities. And because inequality has the potential to be politically, economically and socially destabilising, it is a challenge that South Africa must address. Over the past 15 years, public spending has increased dramatically, including numerous subsidies to poorer communities and individuals, while new laws and regulations seek to shape outcomes normally left to market mechanisms. And yet all these efforts have done little to reduce inequality, which may even have risen.

4. Reducing poverty and dealing with inequality are not the same thing.

A tension sometimes exists between the steps needed to lift people out of poverty as rapidly as possible, and those that might reduce inequality.

International experience suggests that rapid economic growth can actually increase inequality in the short term, even as it creates jobs and lifts large numbers of people out of poverty. By contrast, attempts to address income inequality through public spending often impact negatively on rates of growth in both the short and long term.

If redistributive spending diverts and reduces public and private expenditure on the physical, institutional and other infrastructure essential for higher growth, the rate of growth will be lower than it could be. As a result, mass poverty may be alleviated more

Our current high-wage, high-skills growth model favours 'insiders' over 'outsiders'

slowly, if at all. It is not always possible, in other words, to reduce large-scale poverty while at the same time using public and private resources for redistribution.

5. *The South African state is already highly redistributive, more so than most other developing countries.*

With something in excess of a quarter of the country's people receiving a social grant, along with high levels of public expenditure on education, healthcare and housing, South Africa's state may well be the most redistributive in the developing world. Despite this, we remain one of the world's most unequal societies. How much further redistributive policies can be pushed is a critical question raised by a number of Round Table participants. It is a question asked also by taxpayers, investors and some prominent people in government.

6. *States are often not very good at redistributing income.*

Given the redistributive efforts of the South African state, their lack of success is striking. Thus the deputy minister of transport, Jeremy Cronin, recently asked: 'Why, despite the three million RDP houses, despite increasing social grant beneficiaries from just over two million in 1994 to 11 million by 2008, despite all these measures, why do we have such yawning, crisis levels of inequality and racialised inequality?'⁴

Part of the answer is that public spending is often highly inefficient, and that this typically impacts on the poor more than on others. They are the South Africans most in need of efficient, safe public transport; decent, well-located, well-built public housing; good public schools, training facilities, and healthcare. As one participant noted, efficiency gaps in some government programmes are as wide as income inequality itself. A case in point is the failure of most state-sponsored land redistribution projects, now fully acknowledged by the department concerned.

In addition to this, international experience shows that state-driven redistribution programmes have an important unintended consequence – the creation of a culture of dependency. South African government officials complain about communities and individuals who wait for the government to improve their lives. The willingness of people to find jobs or self employment is undermined in a context of handouts or grant dependency. This is why many governments elsewhere now introduce term limits to grants, or place conditions on their continuation. This, too, needs to be taken into account when thinking about South Africa's challenges and priorities.

7. *Too many policies have actually deepened inequality.*

South Africa's current growth path seeks to generate high-productivity, high-wage jobs, which raise the returns for those with education and skills while excluding those without them. This trend has increased rather than diminished in recent years. Its effects have been compounded by wage settlements, especially in the public sector, which have widened the gap between the employed and the unemployed, while also reducing the resources available to the state to deliver services to the poor. BEE, too, has helped to widen inequality among black South Africans. In fact, many policies have helped to

High rates of economic growth are an essential precondition for raising millions of people out of poverty

ensure that the incomes of black people at the top of the income pyramid have risen more quickly than those of people at the bottom.⁵

If it is true – as Kuben Naidoo argued during the Round Table – that recent growth has tended to create jobs either at the top or the bottom of the income spectrum, serious attention needs to be given to filling in the gaps. Unless there is a plausible route for an individual to move from poverty to higher levels of income based on their own efforts and achievements, it is hard to see how poorer South Africans can feel that they have a chance at a better life.

8. If we are to reduce poverty and inequality, we have to improve education and training systems.

A large proportion of our inequality is explained by inequalities in the accumulation of human capital. Addressing this skewed distribution will require many interventions, most important among them, improving the performance of schools serving poorer South Africans. These are our most inefficient, dysfunctional schools, and their failure traps poorer children in a life of poverty. At least the next generation needs to acquire the skills, attitudes and aptitudes that their parents were denied. Getting our schools right is a precondition for improving intergenerational mobility. It is also a precondition for ending the injustice in which one's destiny is largely determined by factors beyond one's control.

We also need to fix our training systems: effective vocational training for those in school and those who have left school. Further education and training needs to be dramatically improved, and private sector training expanded. These are vital rungs on the ladder of opportunity.

9. Improving the education system will not reduce inequality in the short term.

Important as it is, improving the education system would not significantly change the overall distribution of income in the short term. There are two reasons for this. First, as noted by a number of participants, educational outcomes are strongly influenced by factors outside the classroom, making it harder for children from poor or disorganised communities to acquire a good education. Second, even if successfully implemented, educational reform will take time to impact meaningfully on the structure of skills in the labour market, and even longer to impact on levels of inequality. The reasons for this are obvious: new entrants into the labour market are only a tiny fraction of the labour force. While their improved education will prepare them for better-paying jobs, it will do nothing for the millions whose education has been compromised.

10. More rapid and more job-intensive growth is South Africa's best strategy for dealing with mass poverty.

If the economy were to grow more rapidly, it would generate many more jobs. The benefits of a job – almost any formal job – are immense, and are often not sufficiently appreciated. Professor Romer made these points strongly.

South Africa's state may well be the most redistributive in the developing world

One of the consequences of long-term unemployment is the declining employability of those who go for long periods without jobs. The principal reason for this is that long-term unemployment results in deteriorating human capital: one loses the skills and aptitudes needed for work. Given the weaknesses of our school system, this means that many of those whose education was compromised have seen their employability decay further because they have not found gainful employment.

It may seem paradoxical, but precisely because the education system is so weak, the only feasible way of increasing the employability of those without work is to maximise the number of people who actually get jobs. Pursuing policies that generate job-intensive growth can create powerful self-reinforcing processes, because people who get jobs acquire the skills and aptitudes that workplace experience can deliver, making them more productive and more employable. It is the only sustainable process that enables large numbers of poor, badly educated people to begin to rise out of poverty. Dramatically increased employment – and all that flows from this – is the essence of broad-based empowerment.

Educational reform will take time to impact meaningfully on the structure of skills in the labour market

Concluding remarks

SOUTH AFRICA faces a difficult choice. We could choose to renew and redouble existing redistributive policies, with the state seeking to provide ever more income support to the poor. This could be done through some combination of increased welfare, an enlarged public works programme, and further spending on aspects of the ‘social wage’ (subsidies for schooling, housing, transport, healthcare, and so on). Properly implemented, this would make a marginal difference to poverty and income inequality; poorly implemented, the additional spending will simply be captured by the non-poor – ‘tenderpreneurs’, civil servants and others.

Whatever the quality of implementation, this approach will be problematic. The first and most obvious issue is that of affordability: even before the recent recession, there was a widening consensus that the growth rate of public spending in South Africa was unsustainable. Continued expansion of spending at rates seen between 2001 and 2007 will be unaffordable, and the consequent increase in taxes will slow the economy. While there is scope to improve the mix and efficiency of spending, we may have exhausted the inequality-reducing potential of our present trajectory.

Increased public spending on redistributive policies is not only unsustainable, it will have adverse effects on our growth potential. Every rand spent on transfers is a rand not spent on fixing schools, building roads and ports and creating more efficient cities and towns. Moreover, some redistributive spending will deepen costly forms of dependency that further restrict economic growth.

This approach will also place the state in an ever deepening trap. As growth fails, pressures will mount to expand redistribution even further – increasing the value of

each individual grant, widening eligibility for such grants, increasing the number of no-fee schools, subsidising rising electricity, housing, water prices, and so on. The only way to pay for all this will be to raise already high taxes, adversely affecting our growth prospects.

The current redistributive model is unsustainable. Instead, we should learn from the impressive performance of many countries in the developing world. This means we should focus as single-mindedly as possible on adopting and implementing policies that will maximise sustained economic growth. One reason for this is purely mathematical: if the economy were to grow at 5 per cent a year for 20 years, it would be almost 50 per cent larger than it would be if it were to grow at only 3 per cent a year. In today's terms, this amounts to a difference in national income of more than R1 trillion, and a difference of about R300 billion in potential state spending.

'Going for growth', in other words, will pay off in the form of far higher levels of national income, much higher employment rates and the consequent lifting of millions of people out of poverty. This is not just a question of increasing the size of the pie for its own sake. Higher levels of economic growth will entail faster expansion of formal employment, with more and more people being drawn into the formal wage economy. As Prof Paul Romer emphasised, this means that, instead of seeing their human capital corrode through unemployment, millions will obtain real workplace experience, on-the-job training, and the psychological and cultural attributes needed to become more employable. These are enormously important consequences of expanding employment. Such a strategy would also create a sense of participation and inclusion in our society that no amount of redistributive spending could ever hope to achieve.

There is something to the argument that South Africa's high levels of inequality are potentially destabilising and that they create fertile ground for populist politics. Given the country's past, and the racialised character of inequality, these dangers are clear and present.

However, we need to think carefully about *how* inequality is transformed into political discontent and instability. This can occur, in part, through political mobilisation and rhetoric. So, to the extent that inequality has the potential to destabilise South Africa, we need to recognise the importance of how politicians engage with and define the issues of inequality and its persistence.

Politicians' rhetoric works more successfully if there is underlying dissatisfaction with the status quo. There is no question that this is a real challenge. However the source of this discontent cannot be assumed to be the consequence of high levels of income inequality. Discontent is probably at least as much a reflection of a sense that a great many people (half the population, perhaps) feel excluded from the main currents of economic and social life, that they are locked out of the world of opportunity. This perception and consequent resentment is exacerbated by the growing evidence of corruption – where 'well connected' people get the high paying jobs and most lucrative opportunities, where employment, services or benefits are allocated because of who you know rather than how you perform.

Dramatically increased employment – and all that flows from this – is the essence of broad-based empowerment

It may be, in other words, that it is not the Gini coefficient or the underlying distribution of income that leads to discontent. It is rather the pervasive sense that the unemployed have become 'outsiders', that they are locked out of the economy, that they have no job and, as importantly, no real prospect of employment. It may be wrong, then, to equate high levels of inequality with high levels of frustration and discontent, and it may be more accurate to see high levels of unemployment and lack of opportunity - with clear and objective steps for how you get ahead - as the source of potential political instability.

In this light, a vital lesson can be learnt from Brazil, our long-time rival for the title of the world's most unequal society. In that country, rapid economic growth, combined with a modest extension of welfare spending, has dramatically reduced poverty - from nearly 30 per cent of the population in the late 1990s to about 16 per cent today - combined with a fall in inequality.⁶ The jury is still out on the precision of some of these numbers, but what is clear from this experience is that rapid increases in the number of people with jobs greatly lightens pressures on politicians to do something about inequality.

CDE should not be misunderstood. We are not saying that inequality and poverty should be ignored for the sake of growth. We are arguing that rapid economic growth has a proven capacity to address large-scale poverty and, in time, inequality. It is the only sustainable approach. It will improve the circumstances and quality of people's lives and their families opportunities for the future. And it is the only approach that will empower tens of millions of South Africans.

In the short and medium term, redistribution cannot do what finding a job can. It can marginally ameliorate the worst poverty, but it simply cannot create the sense of self-worth that is the consequence of full participation in a society. It follows that to reverse mass poverty and the sense of exclusion, South Africa needs to create an inclusive economy as quickly as possible. Doing that demands high and sustained economic growth, and a massive increase in the number of formal sector jobs. Nothing else will do.

Rapid economic growth has a proven capacity to address large-scale poverty

Endnotes

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Going for growth will pay off in the form of far higher levels of national income, much higher employment rates and the consequent lifting of millions of people out of poverty.

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