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February 2017

REDI3x3 conference: Policies for inclusive growth

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The REDI3x3 research project has completed most of its research at a time when unemployment, poverty and inequality is intense. With growth at just 0.5%, government needs to become more innovative in fixing the social policies that hamper progress. It should draw on all the research evidence to find ways to transform the structure of the economy without inhibiting growth. Addressing education, low labour intensity, the informal sector and the spatial legacies of apartheid can make a real difference.

Introduction

In November last year, senior policymakers met with some of the country's top economic researchers in Irene, near Pretoria, to examine the major social crises that threaten the fundamentals of democracy itself: poverty, unemployment and inequality. This happened on the same day that the ANC leadership met just down the road to discuss the future of its (and our) president.

The policy conference was convened by REDI3x3, the *Research Project on Employment, Income Distribution and Inclusive Growth*, a national research project funded by the National Treasury to help fill gaps in the evidence base to support the pursuit of inclusive growth in South Africa. In addition to *sharing* the benefits of growth, truly inclusive growth requires greater *participation* in economic processes, i.e. via increasing employment and enterprise ownership (inter alia). The objective of the conference was to present selected research findings from the project to policy-makers and other analysts.

As Parliament now debates the State of the Nation address, the question is whether his government could tackle the big questions raised at the other Irene meeting: rising unemployment that affects young people in particular, huge disparities in earnings and wealth, and an education system that perpetuates inequality.

The project's research shows that many of the structural imbalances in the economy are interrelated and too complex to be solved by simple populist measures. A major question is how to make growth more inclusive, but when the growth rate has barely nudged above 0.5% in the past year, this is difficult to answer.

Inequality and structural imbalances: important research findings

While better growth could create a breathing space for a heavily burdened Treasury, the research findings indicate this can do little on its own to address some of the country's deep structural imbalances. Some of them are described in the paragraphs that follow.

Earnings inequality has increased. Research by UCT's Martin Wittenberg shows that earnings at the top end have increased faster than earnings at the bottom (which have also increased but not as fast). Earnings in the middle, though, have stagnated. Younger people who are already in the labour market find it harder to move into higher paying jobs. Moreover, the average age at the bottom of the curve has not changed much, indicating that young people find it difficult to enter the workforce at all. Interestingly, 40% of the workers in the top half of the earnings distribution are unionised, while those in the public sector are likely to be above the median.

Inequality persists across generations. Research by Arden Finn, Murray Leibbrandt and Vimal Ranchhod estimates that if your parents are poor, the chances of your being poor are about 90%. The lack of a transformative education system is a key factor in this persistence. And the inequality of wealth is more extreme than income inequality. Researcher Anna Orthofer shows that about 10% of the population owns 95% of the wealth.

This profile, combined with youth unemployment of about 50%, is a recipe for anger and frustration. Social grants, which now sustain more than 17 million people, have done much to alleviate poverty as UCT's Ingrid Woolard, has shown, but they cannot catapult poor children off the bottom end of the income distribution. Personal income tax is government's largest source of revenue, yet only about 7 million people earn enough to pay income tax.

What can policymakers do?

Here are some answers that emerge from the research:

Fix education. Our education system is a central source of inequality. This is shown in a number of REDI3x3 papers by Servaas van der Berg and his colleagues at Stellenbosch and by Ranchhod and his colleagues at UCT. Although the number of years of schooling has increased substantially since 1994, the returns to schooling in the form of wages have not, unless a student passes matric or, better still, gets a tertiary qualification. This means that your earnings are likely be roughly the same – whether you have three years of schooling or nine.

Although there are high returns to a tertiary education, our public education system is generally so poor that only 4% of those who enter school are likely to get a tertiary degree and most of these students will have attended former Model C or private schools. For instance, only one in four Grade 5 learners could correctly answer the question: 'If Pam has R40 and spends R28, what does she have left?' Combatting inequality has to start with the quality of teaching in public schools that serve poorer students.

Use industrial policy **and** ***competition policy to favour labour-intensive projects.*** A team of researchers under UCT economist Anthony Black has found that since 1994 manufacturing in South Africa has become more capital intensive and employment has declined. Industrial policy interventions since 1994 – such as those in the automobile and components industry – have largely favoured capital-intensive projects. More worrying is that one of the policy prescriptions of the National Development Plan – support for small firms – may be misplaced. Employment in small firms is much lower than previously thought, according to University of Stellenbosch economist, Neil Rankin. More than 80% of jobs are created in firms that employ 50 or more people.

Competition-policy specialists Simon Roberts and Pamela Mondliwa have found that many small enterprises are blocked by anti-competitive practices. For instance, the plastics sector shed about 15 000 jobs from 2002 to 2014, partly because it struggled with uncompetitive pricing of a key input produced by SASOL. Some mega-firms that have benefitted from state support, such as SASOL and Arcelor-Mittal, have used their entrenched position to extract high profits from downstream industries rather than boosting industrialisation.

Support informal-sector enterprises. Local and national government should work in tandem to enable informal enterprises. Most informal-sector enterprises are 'survivalist', securing livelihoods for millions of marginalised people. However, many are also employing people, according to economists Frederick Fourie and Nwabisa Makaluza. The 'growth-oriented' part of the informal sector provides paid employment for about 850 000 people and makes an important contribution to reducing poverty. Government needs to understand the dynamics that affect both vulnerable survivalists and more stable, growth-oriented informal enterprises so that it can craft policies that support rather than hamper those trying to make a living in both types of enterprises.

Dismantle the spatial legacy of apartheid. Those who live in urban areas and earn the least, pay up to 40% of their incomes in transport costs because they live far from their work, researcher Andrew Kerr has found. National, provincial and local government, as well as parastatals, owns significant amounts of land near and in city centres, such as Cape Town, but do not co-ordinate to ensure better integrated living areas, and thus easier access to jobs for working-class people.

Edgar Pieterse, head of UCT's African Centre for Cities, has identified tracts of publicly owned land in Cape Town that could become integrated housing projects, as well as the still extant 'buffer-zones' of the apartheid era that could be used to develop safer housing projects.

Even worse off are those who live in rural areas that were once apartheid 'homelands'. Case studies of the old Transkei show that many agricultural projects have collapsed. Moreover, the administration of land rights and the cadastre system are a mess. Independent researcher, Siyabu Manona, says the collapse of land governance puts severe constraints on any development initiative.

Neva Makgetla of TIPS (Trade and Industrial Policy Strategies) puts together these rural and urban dynamics to show how spatial policies fuelled the Marikana conflict. A toxic combination of a fall in the price of platinum (which meant stagnating wages), appalling conditions in the informal settlement where many miners lived, and a stubborn refusal by local chiefs to allocate RDP houses to 'outsiders' were ingredients in the explosive and fatally violent events. Ironically, platinum miners were among the better paid workers in the country, but those in Marikana were faced with a choice between 'going from places where their families lived but where they couldn't find work and going to places they hated'.

Conclusion

With economic growth limping, it may be futile to rely on growth to create a more equitable society. As the Treasury's Michael Sachs pointed out at a recent Treasury/UNU-Wider conference, 'social policy is a binding constraint on economic growth'. We need to address the 'basic failure of our education system and…the spatial conditions of the labour market', he said.

The challenge is to change the structure of the economy in a way that does not inhibit growth. And this is the challenge that the political leadership needs to embrace. To do so successfully requires an unusual degree of common purpose and focus, including an imperative to draw on all the research evidence generated in support of this endeavour. The future of our citizens depends on it.

An edited version of this article first appeared in Business Day on 9 February 2017.