

UNU-WIDER DEVELOPMENT CONFERENCE
INEQUALITY – MEASUREMENT, TRENDS, IMPACTS AND POLICIES
PANEL DISCUSSION
Joel Netshitenzhe: Executive Director (Mapungubwe Institute, MISTRA)
05 – 06 September 2014

NOTES
INEQUALITY IN SOUTH AFRICAN POLICY DISCOURSE

What are the major trends with regard to income inequality in South Africa?

First, income poverty has been declining since the advent of democracy.

Second, functional distribution of national income has worsened, and with it, income inequality.

Third, the change in the share of national income has not favoured the ‘middle class’, despite the fact that their proportion of the population has increased, with the per capita expenditure growth incidence curve evincing a U shape.

Fourth, being employed does not, on its own, guarantee an escape from poverty and this has worsened anomie within the labour market and across society.

Fifth, the inequality measures show a declining trend between races, while it has shown a rising trend within races.

Sixth, inequality in South Africa’s labour market is aggravated by the skills shortages which do add a premium to salaries; while on the other hand, the oversupply of unskilled workers pushes wages down at the lower end.

INEQUALITY IN PUBLIC POLICY CONSCIOUSNESS

To what extent have insights on inequality impacted on South African policy-making and discourse?

South Africa has not been immune to global discourse on this issue: both in the context of the negative impact of the global economic crisis as well as the positive instances of progress made in Brazil during the second term of Lula’s presidency. But the matter is of great interest to South Africa because it is estimated to have the second highest Gini coefficient across the globe; and this manifests along the racial dynamics inherited from apartheid.

In trying to answer the question, whether the issue of inequality has always been at the top of the policy agenda, a simple and superficial exercise, quite quick and rough, was undertaken – mechanically to check how many times the word ‘inequality’ features in formal policy documents from the 1990s to the present [*these are rough estimates which include headings and footnotes; but which nevertheless do reflect the essential trend*]:

- In the ANC’s Ready to Govern document, a 1992 framework that informed post-apartheid policy (a tome of some 67 pages), inequality features only 3 times.

- In the White Paper on Reconstruction and Development, adopted towards the end of 1994, defining the new government's approach to socio-economic policy (82 pages), inequality features about 5 times.
- In the government's 2003/4 Ten Year Review of its performance (88 pages), inequality features about 8 times.
- In a similar (Fifteen Year) Review five years later in 2008/9 (144 pages), inequality features about 41 times; and it appears about 43 times in the 2014 Twenty Year Review (175 pages)

EVOLUTION OF ASSUMPTIONS ON ADDRESSING INEQUALITY

This is an instructive indication that the notion of inequality has loomed larger and larger in public policy consciousness. It is not that the liberation movement and government did not take inequality seriously before. In the earlier years, inequality was viewed mainly from the prism of racial aggregates; and two assumptions informed attention to it.

The first assumption was that, with the post-apartheid dividend, generic policies to address apartheid socio-economic deficits would right the historical injustice and simultaneously deal with inequality: education and skilling, job-creation, social grants, extension of basic services in health, education, electricity, housing, water and so on (including free basic services for the poor) – as well as affirmative action and Black Economic Empowerment.

The second assumption reflects the logic of especially the early periods of East Asian developmental states: consistently high rates of growth would lift all boats; and if the rates of growth are high enough, the fact that not all the boats rise at the same pace may not matter. For instance, the recently adopted National Development Plan places quite a high premium on inequality in its diagnosis of South Africa's macrosocial challenges. But, while it proposes the elimination of income poverty and the attainment of full employment by 2030, its target on income inequality is quite modest: to reduce the Gini coefficient from the current 0.68 to 0.60 in 2030.

EMERGENCE OF A NEW DISCOURSE

But a new discourse is on the ascendancy in the country. This derives in part from an appreciation of the extent to which inequality fuels disquiet within society, irrespective of the fact that absolute poverty as such may be on the decline. In large measure, some of the social revolts the country has experienced, including extended workers' strikes, reflect this reality.

There is a better appreciation that the social pathologies attached to inequality aptly captured by Richard Wilkinson and Kate Pickett, in *The Spirit Level* manifest even more acutely in SA. Similarly, there is a wider understanding that *"...longer growth spells are robustly associated with more equality in the income distribution"* (Berg and Ostry, IMF Discussion Note 04/11). To these can be added the recent book by Thomas Piketty, *Capital in the 21st Century*.

And so, it is argued that forging a social compact to attain Vision 2030 will require a minimum level of social cohesion. For this to happen, the poor must have a sense that leaders are serious in dealing with social inequality, committed to improving state capacity and performance, and resolute in combatting corruption. In that context, and despite the logic cited above, the East Asian experience

points to low levels of inequality and higher levels of social cohesion when these countries launched onto new growth trajectories some 40 years ago.

The ANC's 2014 Election Manifesto and subsequent government programmes take up the issue of income inequality with greater alacrity. This is reflected in bold, though softly-formulated, proposals and emerging discourse on additional measures to deal with the challenge. In addition to generic issues such as quality education and skilling, the matters under discussion include:

- consideration of a minimum wage policy that should take into account the requisite Minimum Living Level for a household
- calls for a national incomes policy that should deal with the differentials in enterprises and society at large
- reducing the cost of living of the poor by addressing, among others, inflation (including administered price inflation) as it affects the poor; spatial dynamics relating to human settlements and areas of economic activity; as well as high mark-up prices in the production market and competitions policy
- renewed debates on Employee Share-ownership Programmes (ESOPs) and/or profit-sharing arrangements at company and enterprise levels.

INEQUALITY AND THE SOCIAL WAGE

It is necessary to underline the fact that poverty and inequality cannot be measured merely through the agency of income. Non-income measures such as access to basic services, assets and opportunity are fundamental in assessing the quality of the human condition; and there is a multi-directional relationship between the income and non-income measures of inequality.

South Africa has done quite well in this regard, as reflected in: reprioritisation of educational expenditure such as the introduction of no-fee-paying schools, now at 60% of public schools; indigence programmes which include provision of a basic minimum of water and electricity free of charge; subsidised housing; and free access to public health facilities (for households with income of less than R50 000 per annum) to which will now be added a form of national health "insurance" in the medium-term. There are of course challenges of quality of services as distinct from mere access, but this does not distract from the main trends.

As a consequence, government service provision has resulted in a decline in not only non-income poverty rates; but also in non-income inequality. For e.g., the Gini coefficient based on the Asset Index declined from 0.32 in 1993 to 0.24 in 2004 (Haroon Bhorat and Carlene van der Westhuizen, UCT DPRU: Shifts in non-income welfare in SA, 2006).

CONCLUSION

Social anomie within South Africa, combined with global discourse on inequality, has had an impact on South Africa's own policy approaches, with greater emphasis on addressing inequality.

There is greater appreciation of the link between economic growth, inequality and social cohesion; that trickle-down economics, even with very high rates of economic growth, is inadequate.

While inequality in earlier years was addressed mainly as a generic problem requiring generic solutions, there is now greater focus on direct interventions to deal specifically with inequality.

END