

NOTES

POLICY DIALOGUE ON INEQUALITY

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SETTING THE SCENE

It is critical to study the dynamics of inequality in SA, but also to assess how it intersects with various other macrosocial indicators. In this way, we'll be able to identify policy interventions to realise the humanist aspirations in our constitution; and, at the same time, ensure social stability and social cohesion.

Generic global trends

The problems being interrogated are not unique to SA, although ours may have specific features based on our colonial and racial legacy.

A **variety of trends** have manifested themselves in terms of the **functional distribution of national (and global) income**. On the one hand, there has been **convergence among some regions** of the world, in particular East Asian developmental states in relation to the most developed economies. Even Africa, which **had largely been left behind**, has recently experienced high rates of economic growth, **some technological leapfrogging** and some **improvements in social conditions**.

On the other hand, there has been **growing inequality within virtually all societies** (with the temporary exception of some Latin American countries in the 2000s). The essence of this is captured in the Global Wage Report (ILO:2013): *"During much of the past century... [a]s industrialised countries became more prosperous, the **total incomes both of workers and of capital owners grew at almost exactly the same rate...** [R]ecent decades have seen a **downward trend for the labour share in a majority of countries...**"* Along with this, the **Gini coefficient** (a measure of income inequality) has worsened in most countries, including China.

Why does inequality matter

Common sense is that **inequality is bad for social cohesion and it is morally reprehensible**. But beyond sense and sensibility:

- **Societal well-being** in terms of drug use, mental illness, life expectancy, teenage births, violence and prison population are worse in more unequal societies – affecting rich and poor alike. It's an equal opportunity disease (*The Spirit Level*, Richard Wilkinson & Kate Pickett). South Africa reflects a classical manifestation of these trends: violent crime & Latin America, in contrast to, say, Tanzania.
- **Inequality affects length of economic growth spells**: "...what separates growth miracles from laggards – is the ability to sustain growth... [L]onger growth spells are robustly associated with more equality in income distribution". (IMF Discussion Note, Berg & Ostry, April 2011)

South African trends

What have been some of the **trends in SA since 1994**? Most of these issues are covered in the papers that will be presented, so the aim here is merely to signal the issues.

- **Income poverty has been declining** since the advent of democracy.
- **Functional distribution of national income has worsened**, and with it, income inequality.
- The **change in the share of national income has not favoured the ‘middle class’**, even though their proportion of the population has increased, with the **per capita expenditure growth incidence curve evincing a U shape**.
- **Being employed does not, on its own, guarantee an escape from poverty** and this has worsened anomie within the labour market and across society.
- The inequality measures show a **declining trend between races**, while it has shown a **rising trend within races** – particularly among Blacks.
- A related trend, covered in the MISTRA paper, and which we’ll come back to later, is that **inequality has major implications for social cohesion**.

Discourse on addressing inequality

Before venturing briefly into the interventions required to deal with inequality, an **interesting observation** has been made about **how some privileged sections of society respond to calls for greater equality**. This is in the context of the debate in the UK about changing the education system to benefit poor households.; and it is by Robert Shrimmsley in the Financial Times in June 2016:

...there are a few squeals so shrill as those of society's winners defending their advantages... I find myself repelled [he says] by the self-declared victimhood of those with all the advantages as they seek to stop the less fortunate getting even a sip from their well. This is the world view of people who think trying to level even a notch in favour of those who did not go to Eton is “punishing” those who did. It is a martyrdom myth; an attempt by the least victimised in society to claim victim status. (Robert Shrimmsley, FT: 03/06/2016)

Identifying interventions

What then are some of the **interventions** required to deal with inequality?

- **Economic growth**: pro-poor growth and pro-growth poverty reduction including focus on sectors with comparative advantages and fiscal measures for youth and women: this is important because, **as was noted in the 15-year review**, during years of high growth (2003 – 2008), the **unemployment rate** was reduced from 31% to 23%; but **inequality increased**: in other words, the rich are better able to take advantage of growth and also benefit from improving value of existing assets.
- **Education and skills training**: to be coupled with growth strategies – otherwise end up with educated poor
- **Incomes policy and minimum wage(s)**: reverse the trickle-up effect through appropriate minimum wage(s), now pegged at R3.5K with some exceptions and improving the income of about 47% of the workforce. Consideration should be given to additional measures on wage gaps (pre-tax as in Japan through limiting income differentials) and a comprehensive social wage (post-tax as in Scandinavia with legitimate and efficient states)
- **Employee Share Ownership Plans**: in addition to other incentives, ESOPs and profit-sharing schemes should be emphasised, with appropriate representation, financial education and trust

- **Floor of decent standard of living: reduce cost of living** for the poor including **cost of basic necessities and “exceedingly high” mark-ups** over cost in product markets; **spatial issues & social security**.

The **critical point** arising from this set of interventions is a **methodological one** about the definition of poverty and inequality, in its **various dimensions** including **income, assets, access to opportunity and being part of useful social networks**. In government’s Ten Year Review released in 2003, what emerged clearly is that provision of **services can get discounted** if the income issue is not addressed. For instance, unemployed **recipients of electricity** only use it for lighting and even then they cannot afford the bills. Some beneficiaries of **subsidised houses rent them out** and go back to live in shacks. In the inverse, Dr Montek Ahluwalia, former Deputy Chairperson of the Indian Planning Commission raises an **important observation**: that where incomes improve but social services do not follow suit, you can have a situation in which poor water provision, for instance, perpetuates poverty and inequality in the form of diseases – thus **discounting the improved income**.

The question has been raised whether the NDP is **not too unambitious** in dealing with inequality. This question is quite legitimate, as the NDP’s target is **to reduce income inequality measured by the Gini coefficient from 0.68 to only 0.60**. However, the NDP is **relatively bold** in relation to the many interventions required, to ensure a decent standard of living and address what Amartya Sen refers to as ‘**unfreedoms**’. Sen says these ‘unfreedoms’ vary from **hunger and prevalence of preventable or curable diseases to social exclusion, economic insecurity and even the ability to exercise political rights**.

The socio-political environment

The South African **polity is essentially a stable one**, with the Constitution accepted across the board as the broad framework for the **regulation of socio-political relations**.

The **overriding trend arising from the 2014 elections** is that some 93% of those who voted supported parties that embrace the NDP.

There has been **progress in addressing poverty and providing basic social services**: water, electricity, sanitation as well as educational and health facilities, with some weaknesses of quality. Critically, **inequality** has not declined.

The reality is that, since 1994, SA has been in a **delicate balancing act** of preventing the **flammable social tinder** of poverty and inequality from catching fire. Besides social delivery and the base effects of movement of many Blacks into the middle strata, **hope was the stock-in-trade**.

Poor state performance and corruption are destroying that hope. It is unavoidable that **when** there is a **sense of repetitive poor management of allegations of corruption and patronage within high leadership echelons, the legitimacy of the state and the polity** get undermined. Combined with weak **capacity of state institutions**, these developments can result in a situation in which **the state as a whole starts progressively to lose the confidence** of the people. The hope that prevents South Africa’s social tinder from catching fire can thus dissipate.

If SA has to **prevent the social tinder from catching fire**, it does indeed **need a turnaround**: in terms of **inclusive economic growth**, efficiency and effectiveness of **'social delivery'**, and matters of **ethics** in government and across society.

Conclusion

As the MISTRA paper on inequality and social cohesion argues, we need to **avoid a reductionist approach in relation to the dynamic between social cohesion and social compacting on the one hand, and attending to the material issues facing society, on the other**. We **can't wait for material issues to be addressed** before the country attains social cohesion: need a minimal level of social cohesion to compact and move towards Vision 2030.

Perhaps, in the midst of the **dark cloud attached to shenanigans in the political arena and the threat of a ratings downgrade, there is a silver lining** reflected in co-operation between government, business and labour: from minimum wage to strike balloting, to agreements in business working group. This may be the beginning of something significant: the activation of combined social agency.

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