

NOTES¹
ROLE OF A CAPABLE DEVELOPMENTAL STATE IN ADDRESSING
THE INJUSTICE OF INEQUALITY

INTRODUCTION

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 and with it, income inequality has not improved. Interestingly, during the period of high growth (2003 – 2008), indications were that the rich were better able to take advantage of the benefits, including the wealth effect.

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 there is 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 labour pushes wages down at the lower end.

[A lesson one has learnt when going through some of the background information, is the need to differentiate between income and expenditure data, for the latter can evince prevalence of debt and remittances, and thus distort the actual picture.]

INEQUALITY IN PUBLIC POLICY CONSCIOUSNESS

Beyond understanding inequality trends, this Symposium is meant to contribute to the identification of the various interventions that a developmental state can and should make to reduce the scourge. In other words, reducing inequality as such needs to be an express part of governmental policy.

The question then arises: what is the extent to which insights on inequality have impacted on South African policy-making and discourse?

¹ These notes include extracts from other publications by the author, which can be found on:
www.mista.org.za

In trying to answer this question, a simple and superficial exercise, quite quick and rough, was undertaken in preparation for a recent UNU-WIDER Conference – 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 not always been very prominent in public policy consciousness. However, it has loomed ever larger over the past 20 years. 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.

One can argue that similar logic infuses the National Development Plan (NDP). The 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.

CAPABLE DEVELOPMENTAL STATE

What then should be the role of the state – a developmental state – in dealing with inequality? Before elaborating on this, it can be assumed that we are all familiar with the various attributes of a developmental state, briefly:

- strategic capacity in terms of a single-minded focus on economic growth based on industrialisation, and informed by the objective to raise people’s quality of life

- ideational capacity based on the legitimacy of the state, which affords it the wherewithal to mobilise all of society behind a vision and set objectives
- organisational capacity relating to macro-organisation of the state, enabling it to carry out its programmes, with a pilot agency that has got the capacity and authority to ensure that all of the state falls in line, in order to contain the polymorphous nature of the colossus
- technical capacity which would apply to the training and professionalism of the bureaucracy, giving them the ability to translate political intentions into programmes and projects, and ensuring requisite monitoring and evaluation.

Based on these attributes, we can assert that, while SA aspires to become a developmental state, it is yet far from being one. In fact we are the only country that has *a priori* declared its intention to become a developmental state – others were so classified, *post facto*.

It should also be noted that, in conceptualising the aspiration to become a developmental state, SA has noted some of the weaknesses in the East Asian model. Thus, we have sought to attach two qualifications to this notion: firstly, that it should be a democratic developmental state; and secondly, that it should have the best attributes of social democracy, reflected among other things in the social security system, relations with the trade union movement and so on.

INEQUALITY AND ECONOMIC GROWTH

Beyond issues of morality and taste, sense and sensibility, does inequality really matter?

The burden of inequality falls inordinately on the poor and the marginalised. Yet, as Richard Wilkinson and Kate Pickett demonstrate in their book, *The Spirit Level*, inequality has a negative impact even on the rich. This relates to such issues as the magnitude of violent crime, educational performance and even teenage pregnancies among both the rich and the poor. For all these correlations, Wilkinson and Pickett convincingly demonstrate that the common denominator and causal factor to these negative macrosocial indicators is inequality.

More critically, research, for instance, by the IMF, points to a direct link between inequality and consistency of economic growth. According to an IMF paper released in 2011, “...longer growth spells are robustly associated with more equality in the income distribution” (Berg and Ostry, IMF Discussion Note 04/11).

The World Bank argues, similarly, that pedestrian rates of economic growth in many developing countries may be a consequence of high levels of poverty. Among other reasons, they argue, this is because poor people have limited access to financial services; they have low returns to educational effort; and they are more risk averse. Inversely, the poor have a high propensity to consume; and if they have access to reasonable income, there are many positive spin-offs for various sectors of the economy.

“...for the average country”, the World Bank argues, “a 10-percentage-point increase in income poverty lowers the growth rate by about 1 percent, holding other determinants of growth constant... [A] 10-percentage-point increase in income poverty reduces investment by 6-8 percentage-points of gross domestic product (GDP) in countries with underdeveloped financial systems.”

And so, there is multi-directional causality between economic growth on the one hand and poverty and inequality on the other: it's not just that poor growth rates result in high levels of poverty and inequality; but inversely that poverty and inequality can in fact be responsible for low rates of economic growth in general – not just equitable growth.

In other words, poverty and inequality are bad for both the poor and the rich.

INTERNATIONAL CASE STUDIES

What can we learn from international experiences? Selected for brief reflection are three cases that bring to the fore issues about phasing of objectives as well as alignment between economic and social programmes.

China presents an interesting picture on poverty-reduction and inequality: Among the major global advances of the past 30 years has been the lifting of some 200-million people from abject poverty. However, this has been accompanied by growing inequality, with the Gini coefficient having risen from near-zero to 0.474 in 2012. Some researchers in China in fact put the Gini at 0.61, which would place China at the top end of income inequality across the globe. Having started off with mass absorption into economic activity, China is now moving up the manufacturing sophistication ladder, for e.g. recently ratcheting up the minimum wage to 40% of average salaries.

Germany's example is about low unemployment and inequality: For its low unemployment rate, Germany is the envy of most of its OECD peers. The 'jobwunder' is a product in part of its youth training programmes but also the labour market flexibility that was aimed at absorbing as many of the unemployed as possible. However, the country ended up with "the highest proportion of low-wage workers relative to the national median income in Western Europe". As such, low unemployment rates went along with rising income inequality; that is, until a higher minimum wage was insisted upon by the SPD in coalition negotiations after the 2013 elections.

Brazil and a few other LA countries evince an interesting counter-intuition: In these countries, income inequality has been coming down. In Brazil, in particular, it is estimated that the Gini coefficient was reduced from above 0.60 in the early 1990s to the mid-0.50 by the late 2000s. Researchers point to a combination of factors for this achievement, including the expansion of job opportunities, the introduction of a minimum wage, expansion of access to social grants as well as industrial policy to go along with the increased consumption demand. It is subject to debate whether such interventions are sustainable over a long period of time, given the economic and social difficulties that Brazil is currently experiencing.

FRAMEWORK OF POLICY ACTIONS

The issues raised above are already suggestive of some of the state interventions required to attack inequality. For illustrative purposes, let's list a few critical ones.

Economic growth

The issue is what kind of growth and how the benefits are shared. As the World Bank study referred to above argues, it is possible to achieve pro-poor growth and pro-growth poverty reduction. This should entail, among others, a focus on economic sectors in which a country has comparative advantages, but with emphasis on labour-intensive ones. When short-term pro-growth policies have a negative impact on the poor, there should be direct assistance for them. Further, fiscal measures such as a youth employment incentive and business set-asides for youth and women can help launch the marginalised into meaningful economic activity.

Education and skills training

Education and skilling are among the most effective measures to tackle inequality. Ironically current poor educational performance and disruptions particularly in poor communities conspire to reproduce poverty and marginalisation. However, educational interventions should be combined with other policies to ensure economic growth and the opening of economic opportunities; otherwise we'll just be raising the level of education of the unemployed.

Incomes policy and minimum wage

The 'trickle-up effect', reflected in large and ballooning emoluments of senior executives of large corporations, should be addressed directly either through appropriate regulations or taxation or both. A national income policy should seek to regulate the gaps between ordinary workers and the middle strata on the one hand, and the senior executives on the other.

Consideration should also be given to a minimum wage, set at a level which affords workers a living wage. While there may be instances where mass absorption of the marginalised may dictate lower entry thresholds, such interventions should be temporary. Research has shown that reasonable increases to the minimum wage do not necessarily lead to job losses; but that compliance in vulnerable sectors is often poor. As such, introduction of a minimum wage should be combined with requisite monitoring and enforcement capacity.

Reducing the cost of living of the poor

Besides improved earnings, the issue of the cost of living is fundamentally important. It is a matter of course that the aggregate inflation rate experienced by workers and the poor is often much higher and more volatile than that of the rich. This applies to such basic needs as food, transport and administered prices (e.g. electricity, water, municipal rates, education and health) on which the poor spend the bulk of their income. Many of these elements of the inflation basket, particularly administered prices, can be managed through appropriate interventions such as volume-based sliding-scale pricing and the floor of services for which charges are not levied. While complex, the issue of food pricing can also be tackled through management of the value chain, taxation, incentives, household food production and other measures. Changing spatial settlement patterns is also fundamental to reducing the cost of transport for the poor.

Employee Stock Ownership Plans

In addition to various measures aimed at sharing the benefits of companies' performance such as profit-sharing, serious consideration needs to be given to employee share-ownership. In the context of the Broad Based Black Economic Empowerment programme in South Africa, attention should be given to improving the weighting of this element. While this measure does have its complications, many of them can be addressed through appropriate representation in decision-making structures, financial education, and the building of trust between workers and their representatives and between these and the company boards and executives. This approach should also be considered in a more systematic way in relation to communities where enterprises in sectors such as mining and farming are located.

Social wage interventions

Social wage interventions are also critical, as 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 improving the human condition; and there is a multi-directional relationship between the income and non-income measures of inequality. Critical in our situation is not just access – in regard to which we have done quite well – but also quality of the services, efficiency in planning and delivery mechanisms as well as ethics in the handling of state resources.

CONCLUSION

Emphasis, as requested, has mainly been on the role of the state; but it needs to be underlined that success requires social compacting, as one of the critical attributes of a developmental state. This needs strategic acumen among leaders of all sectors of society, including the ability to identify change-drivers for movement to a higher trajectory of growth and development, and the courage to embrace compromise.

Critical in all this is the legitimacy and ideational capacity of the state: in other words, the poor must have a sense that leaders are serious in dealing with poverty and inequality and resolute in combatting corruption.

South African society should also raise its level of policy and political discourse, and ensure that political contestation is around matters of substance rather than a huckster's paradise where smoke and mirrors confound the real issues – reflected, for instance, in thinly-veiled attempts to defend the status quo ante and shadow-boxing among elites who mouth leftist slogans.

The battle for greater equality has been joined across the globe, and it can yield positive results as Latin America is showing. But we also need to pose the question whether any society can attain all the objectives about social justice all at the same time; or whether we need creative ways of phasing in and sequencing the various objectives as East Asia did.

There are no easy answers!

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