Inequality and the social wage in South Africa: debating aspects of the ten–year review

The publication of the South African government's ten-year review document has led to much public debate on the rate of service delivery and general socio-economic transformation in the country.

One prominent aspect to the debate is that of income inequality and the notion of the social wage. This collection of articles will be updated as new analyses are carried in the South African media.

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1 'Government has improved the lives of the poor'

Source: ANC Today, volume 3, no. 43 • 31 October —6 November 2003

SINCE 1994, the ANC-led government has worked effectively to improve the lives of the poor, according to findings of research collected as part of government's ten-year review process.

While much work still needs to be done, government interventions have made important progress in pushing back the frontiers of poverty. This has been achieved mainly through improving the 'social wage' of the country's poorest - increasing social spending, including social grants, and access to social services, like education, health care, water, sanitation, housing and others.

Since the ANC was elected into government, social spending has shifted to the poor. Between 1993 and 1997 social spending increased for the poorest 60 percent of households, especially the poorest 20 percent, and decreased for the 40 percent who are better off. It increased for Africans, who constitute the vast majority of the poor, and decreased for others. It increased in rural areas three times more than metropolitan areas and double than other urban areas.

This redistribution of public resources, in addition to improving the lives of the poor, has also had an important impact on reducing inequality in society. In 1993, social spending had no effect on the 'Gini coefficient', which is the measure of income inequality in a society. However, by 1997 social spending was seen to have a marked impact on the measure of inequality, reducing it by around a third. In 2000, social spending by the ANC-led government was calculated to have reduced the Gini coefficient by around 41 percent.

This means that while South Africa remains a country with high levels of income inequality, the efforts of government have served, over the last ten years, to reduce the impact of this inequality on the lives of the poor. The challenges remains to further reduce levels of inequality through increasing the income of the poor through employment and other economic activity.

One of the most successful interventions by the ANC-led government has been the expansion of social grants. Previously allocated on a racial basis, which privileged whites and discriminated against blacks, social grants were equalised under the ANC and access was massively broadened.

Between 1994 and 2003 the number of people receiving social grants has increased from 2.6 million to 6.8 million. The amount of money spent on social grants has increased more than three-fold over the same period from R10 billion to R34.8 billion.

The poor have been the greatest beneficiaries of the expansion of social grants. The poorest 20 percent of households receive the largest amount from grants. The difference the grants make on the lives of these people is profound. It is estimated that without the social grants almost 56 percent of the elderly would be living in poverty and 38 percent in what is known as 'ultra-poverty'. With the grants, this falls to 23 percent and 2.5 percent respectively.

As the findings of the research note: "Overall, social grants have the potential of reducing the number of individuals in poverty from 42 percent to 24 percent. Although great progress has been made in registering recipients, the full impact of these grants will only be realised when all [eligible recipients] are registered."

Another government intervention that has helped to address poverty is the public works programme. Expenditure on this programme has increased almost tenfold in the last five years, employing a total of 124,000 people. These however were mostly temporary.

While increasing the provision of assets to the community, these programmes have been found not to be as efficient as social grants in alleviating income poverty.

But poverty is not only about income. It is also about access to social services, like education, health, water and sanitation, and electricity - and asset capital, like housing and land. The ANC-led government has also made impressive progress in these areas.

About nine million additional people have gained access to safe water between 1995 and 2003. The proportion of households having access to sanitation has increased from 49 percent in 1994 to 63 percent in 2003. The government has taken steps to increase the rate at which sanitation is provided, since it has until recently been lagging behind water provision.

There have been around 3,8 million new electricity grid connections since 1994. This means that the number of households with electricity had increased from 32 percent to 70 percent by 2001. In poor households however electricity is mainly used for lighting, with only about half of all households using electricity for heating purposes.

Through the housing and land programmes about R50 billion of assets have been transferred to poor households since 1994.

Nearly two million housing subsidies have been approved over this period, with over six million South Africans having received housing as a result. Just less than half of all subsidies approved were granted to women.

"A major challenge for the housing sector will be to meet the increasing demand for housing generated by the decrease in household size between 1996 and 2001;[which] translates into an increase of two million additional households over and above that generated by population growth," the findings say.

Since 1994, 1.8 million hectares have been transferred under the land redistribution programme to almost 140,000 households. A total of 36,500 land restitution claims have been settled out of the 68,000 claims lodged.

All of these programmes to address income, asset and human resource poverty are "taking effect and showing improvements in the lives of people".

But, concludes the research: "Whilst service delivery and social grants are reaching an ever-increasing proportion of society, poor people and the social fabric that ensures their survival continue to be vulnerable."

http://www.anc.org.za/ancdocs/anctoday/2003/at43.htm

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2. 'We have closed SA's wealth gap – ANC'

Source: ThisDay, November 3 2003

Increased government social spending has boosted the effective income of South Africa's poor by more than 40% since 1994, the ANC says on its official website.

Though opposition parties yesterday disputed the claim, the ANC and the presidency stood by the figure, insisting that it was based on data and methodologies that would stand up to rigorous scrutiny.

The Web site says that spending on social grants has been boosted from R10 billion to R34,8 billion since 1994. The number of beneficiaries has risen from 2,6 million to 6,8 million.

The real income of the poor has been increased by state subsidies in areas such as housing, education, health care, water and sanitation. The net effect has been a real boost in income of 41 percent, especially for the poorest 40 percent of the population.

It says these improvements are apparent from the Gini co-efficient, a statistical measure of the income gap between rich and poor.

“This redistribution of public resources, in addition to improving the lives of the poor, has also had an important impact on reducing inequality in society” the ANC website says.

“This means that while South Africa remains a country with high levels of income inequality, the efforts of the government have srved over the past 10 years to reduce the impact of this inequality on the lives of the poor”.

Pierre Rabie, economic spokesperson for the DA, is sceptical. He would like to see a regional breakdown of the figures before waxing lyrical.

“It’s very difficult to make a balanced claim. It all depends on whether you are in a rural area or not. I would like to see a comparison between regions because a lot of disparities between rural areas and urban arreas can be covered over a blanket claim.

“In the light of our 40 percent unemployment rate I think the claim that the Gini coefficient has been cut by 41% is a big ask,” he said.

Independent Democrats leader Patricia de Lille was more outspoken: “When I hear that figure [41%] I take it with a whole bagful of salt.

“South Africa and Brazil have had the largest Gini coefficients and inequalities between rich and poor for 30 to 40 years. To think that we can have cut that back by 40 percent in just nine years is ludicrous,” she said.

She questioned the source of the ANC’s claim, saying the party was obliged to show “not just where they got the figure from, but who commissioned the study, who paid for it and the methodology used”.

“Its election campaigning, but there’s more to it than that: I want to know the truth and this is definitely not the truth,” she said.

“You can always talk about [South Africa as] a two-nation state, not so much divided between black and white, but between rich and poor, because there are lots of up and coming black middle-class people,” she said.

Joel Netshitenzhe, spokesperson for the presidency, said the report had originated inside the presidency and was based on a methodology devised by Stellenbosch University researcher Servaas van den Berg.

Presidential policy unit researcher Andrew Merrifield said Van den Berg’s research had been presented to peer review and had been presented to several seminars. The latest World Development Report had commissioned Van den Berg to draw up an analysis using the same metholdogy, he said.

Van Ben Berg had first taken a classic Gini sample of South Africa, which did not consider the effects of paying tax or getting state subsidies. He had then calculated a Gini where tax payment was considered and followed it up by including state subsidies in the equation. His study found that the Gini coefficient had been cut by a third in 1997, thanks to state subsidies.

Merrifield said the presidency's policy unit had used the same methodology and the same base figures, updated with the latest Household Income and Expenditure Survey, to arrive at the updated figure.

"There were certain concerns voiced about us using the expenditure survey. Some researchers have doubts about the statistical validity of its samples. We were not happy about using it and we said so, but it was the best data they had.

"Servaas is working on updating the data, but I do not think his findings will be very different from ours," Merrifield said.

He was adamant that the presidency's methodology was sound and would stand up to scrutiny: "It is not definitive and we acknowledge that. But it is a credible piece of research."

Van den Berg stood by his methodology but said that he had not been informed about the data that the presidency used. He had not read the report, he said.

He emphasised that his research has shown that tinkering with tax incentives had little effect in reducing the Gini coefficient, but that state expenditure was the most effective method of reducing inequalities between rich and poor.

Education had been found to be the most effective intervention because poor families tended to have many children. Housing's impact was limited because most state housing provision was in urban areas where the poor were not as vulnerable in rural areas where housing's impact was limited, he said.

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3. 'Our Gini remains large'
Neva Makgetla, economist, Congress of South African Trade Unions
ThisDay November 6, 2003

The government's 10-year review argues that, in economic terms, household equality has greatly improved, especially as a results of government programmes. This conclusion has received considerable publicity, although it is not particularly important for the review's overall integrity and findings.

It would be a great pity if the review's brief and not very sound note on income distribution overshadowed its deeper analysis and broader policy implications.

The 10-yar review analyses an array of more reliable and important information to reach telling conclusions. Above all, it finds that, although improved social protection and democracy for the majority, it must do more to ensure greater economic inclusion and preparation for most.

The review identifies soaring unemployment as the key factor behind growing economic disparities and exclusion. The unemployment rate has risen from 16 percent in 1995 to 31 percent today.

In contrast to these arguments, the statistical basis of the review's conclusion on income distribution is extraordinarily weak. It has two stages: defining the trend in income distribution, and then examining the impact of government spending.

As a first step, based on Statistics South Africa surveys, the review argues that inequality in terms of earned incomes dropped sharply between 1997 and 2000. But Statistics South Africaitself found that income distribution worsened slightly between 1995 and 2000. The review says that more people lived in poverty and, distressingly, more children suffered malnutrition in the late 1990s than five years previously.

A key problem is that the review relies on the 1997 October household survey and the 2000 labour force survey instead of looking at the full trend from 1995 to 2002. In addition, the 1997 figures are out of line with the years before and after because income inequalities appeared to be much worse in 1997.

As a result, the data suggests an unbelievable decline in income inequalities. It suggests that the Gini coefficient, which seeks to measure inequality, dropped from 0.68 to 0.59. In contrast, Statistics South Africa says the Gini worsened from 0.56 in 1995 to 0.57 in 2000.

If the 10-year review wanted to rely only on the 1997-2000 period, it should have explained the reported worsening in income distribution between 1995 and 1997.

In any case, the 2000 figure still represents a high level of inequality by world standards. The World Bank's World Development Indicators for 2003 report only about five countries with equal or higher inequality, most of them in southern Africa (Swaziland and Namibia) and Latin America.

As a second step, the review does not explain its methodology clearly. It seems this finding derives from a projection from 1997 spending patterns, without actual study of 2000 figures. As a result, the finding of better income distribution between 1997 and 2000 really seems to follow solely from the purported improvement in income equality in this period – which, as noted above, is highly dubious.

More fundamentally, we have to ask ourselves whether this is a useful way to understand the redistributive function of the state. After all, in most countries, government plays a significant redistributive function. But that is not all the same, in social or economic terms as improving income distribution.

For instance, suppose a household's monthly income is R1 000, or R12 000 for the year. If the family has four children in school they are getting an extra R12 000 from the state, doubling their income. But does that help us understand the economic difficulties they face in the short run? After all, it won't put food on the table.

It is important to assess the redistributive role of the state – but we shouldn't act as if that in itself is enough to justify or redress high levels of income inequality.

The income distribution figures in the review appear to underplay the extent of inequality and overplay improvements. Most studies show that income distribution has probably worsened, as unemployment has risen and wages have fallen.

Rather than picking out particular bits of interesting information from the review – which is packed with fascinating data – it would make more sense to engage with its overall argument.

The call for a sustainable, equitable development strategy should not be lost in debates over the data or efforts to highlight the good news while ignoring the bad.

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4. 'Government spending has reduced inequality sharply' Joel Netshitenzhe, dead of the policy unit in the Presidency ThisDay, November 12 2003

The Gini coefficient ordinarily does not capture the impact of the social wage.

In a perceptive article on the wealth gap in our country, THISDAY (November 2) cited research on social inequality by the presidency contained in *Towards a Ten Year Review*. Alas, as often happens with headlines, the claim is made that this research asserts that the poor are 40 percent richer that in 1994.

This simplifies complex research beyond recognition and distortions set in. What does the review say and what methodology is used to assess the effect of government policies on the poor?

The main assertion is that there has been a massive shift in government expenditure patterns since 1994 in favour of especially the poorest. Poverty is understood to involve three critical dimensions: income, human capital (services and opportunity) and assets.

The point in identifying these dimensions is that a narrow focus on income can ignore critical redistributive aspects of a government budget, normally referred to as the “social wage”.

This redistribution manifests itself especially in social spending on such services as education, social spending on such services as education, social grants, housing, water and sanitation.

To quote two examples: since 1994, the government has increased spending on social grants from a racially skewed R10 billion to more that R34 billion equitably distributed this year. It has transferred assets worth about R50 billion to the poor through housing subsidies, transfer of title deeds and land reform.

It is this dimension that the Gini coefficient as ordinarily used tends to miss. The Gini coefficient measures how far the distribution of income or consumption expenditure deviates from a perfectly equal distribution.

A low Gini of zero means absolute equality among all citizens, its highest magnitude of 1 means massive inequality. This Gini coefficient, as ordinarily used, relies primarily on income and ignores the social wage.

An important contribution to this debate has been made by Servaas van den Berg, a professor at Stellenbosch University, in research that is increasingly being adopted by international institutions. He recalculated the Gini coefficient taking government expenditure into account.

This is groundbreaking research because in unequal and market-driven economies such as ours a critical question should be if the government is playing its role as an agent of redistribution. Starting off with the ordinary Gini, Van der Berg’s calculations show that in 1997, taking into account only income before taxes and social transfers from the government, South Africa had a Gini coefficient of 0,68, reflecting extensive inequality. After taking into account the taxes and social transfers, that is, after accounting for the social wage, the Gini coefficient is 0,44. So inequality is reduced by about 33 percent through the social wage.

In 1993 the apartheid government’s social expenditure was essentially neutral and had no effect on reducing inequality. The researchers for *Towards a Ten Year Review* updated the information using Van den Berg’s methodology and the 2000 Income and Expenditure Survey. This produced a pre-transfer pre-tax Gini of 0,57 and a post-transfer Gini 0,35, a reduction of inequality of 41 percent.

The issue is less the comparison between the 2000 pre-transfer pre-tax Gini (0,57) and that of Van den Berg (1997 at 0,68) since the starting bases are different. It is better to contrast each individual year after social expenditure is factored in.

Neva Makgetla misses this point completely in her article (THISDAY November 6). She compares pre-transfer pre-tax figures for 1997 and 2000 and reads the review as it claimed that the pre-transfer pre-tax Gini was reduced between 1997 and 2000.

If she had studied the review closely she would have noticed that it explains that the 1997 computations are based on the household survey, but the extrapolation by the review researchers for 2000 uses the income and expenditure Survey. The twoare not meant to be compared.

The review's substantive conclusion is that social spending under democracy, in 1997 and 2000, reduced inequality, but its effect was neutral in 1993. the 41 percent reduction in inequality for 2000 indicates the effect of higher real increases in social expenditure between 1997 and 2000, averaging 5,5 percent a year.

This update and extrapolation in the review has been on the modest side because since 1997 there has been better targeting as the government improves its systems of delivery.

Van den Berg's methodology is important in at least two respects. It helps give quantitative expression to the three dimensions of poverty: income, services and assets. And it helps put the spotlight on governments: are they doing enough as instruments of redistribution of wealth?

When all is said and done, income inequality cannot be discounted as just another dimension of poverty. Affected mainly by employment, it also raises the issue of the dignity of a job and if workers are receiving a living wage.

Further, a social wage, such as provision of electricity to those without a job, means that families use electricity only for lighting because they cannot afford stoves and heaters or, if they have them, they cannot afford the electricity bills.

So, in suggesting a trajectory for the second decade of freedom, *Toward a Ten Year Review* asserts the importance of a massive public-works programme, skills development, microcredit and land reform as well as decisions of the Growth and Development Summit, all critical for job creation and self-employment.

Government programmes over the past nine years have substantially reduced inequality among South Africans.

Though this may not have made the poor 40% richer, it has certainly made a significant improvement to their quality of life.

5. Social wage' suggests admission of jobs failure

IN ITS recent 10-year review government claims to have improved the lives of the poor through the "social wage". This refers to both social grants and the provision of services such as education, health and housing.

The number of people receiving grants is said to have risen from 2,6-million in 1994 to 6,8million this year. Since the beneficiaries of these grants are mainly children and old people, nobody should begrudge them what they have received.

In confining welfare payments mainly to these categories, government has rightly rejected demands for a wider basic income grant. Its highlighting of the "social wage" suggests how it will answer demands for such a grant during next year's election campaign. Transfers to households are already the fastest-growing type of government expenditure.

But government's claim that it has pushed back the frontiers of poverty and reduced inequality "mainly through improving the social wage" needs to be recognised for what it really is: an admission of failure as far as jobs are concerned.

While the proportion of the total population receiving a social wage has more than doubled from 7% in 1994 to 15% this year, the proportion in employment has remained unchanged at 25%.

This does not mean there has been no increase in jobs, as Alan Hirsch of the presidency recently pointed out in Business Day. Between 1996 and this year, the number of people in employment, including the informal sector, rose by 2,3-million.

The problem is that the demand for jobs technically the increase in the economically active population increased by 5,3-million.

The net result was a rise of 3million in the numbers of unemployed, pushing their total up to 5,25-million on the strict or "official" definition (which excludes jobless people who want work but have given up looking for it).

Hirsch suggested one of the reasons the economically active population has grown so fast is that a greater proportion of African women is now joining the labour market.

According to Statistics SA, just more than half of all women of working age (most of whom are Africans) are now available for work, whereas that proportion was only 37% in 1996.

A "degree of social liberation" and migration from rural areas were among the reasons Hirsch cited for this greater demand among such women for jobs.

At the launch of the Brenthurst Initiative in August, Home Affairs Minister Mangosuthu Buthelezi identified another factor that may be pushing people off the land and on to the labour market. This is that there "is no subsistence economy in rural areas today".

Digging a little deeper into some of the most recent unemployment data, and sticking for the moment with the lower numbers captured by the strict definition, reveals a situation that for many people must be one of quiet desperation:

Of the jobless total of 5,25- million, about 59% have never worked;

Among jobless people between the ages of 15 and 30, about 75% have never worked;

Of the jobless total of 5,25-million, about 26% have been jobhunting for one to three years and 41% for more than three years.

These people are all counted as unemployed on the strict definition. This means they are out of work, available for work and trying to find it. If the last criterion is dropped, the total number of jobless rises from 5,25-million to 8,42-million (on the "expanded definition"). The difference 3,17-million are the so-called "discouraged" workers. They want work and are available for it, but they have given up the search.

A striking feature of unemployment in SA is that 70% of it is long term (longer than a year), against 7% in the US, for example, where lower unemployment means people find jobs much more quickly.

Conventional wisdom has it that unemployment helps to keep the crime rate up. Perhaps there is a growing reserve army of housebreakers, hijackers and other criminals among those older teenagers and 20-somethings 2,3-million of them who say they have never worked. But there must also be millions of law-abiding people of all ages who, on current rising unemployment trends, can see little hope of ever finding jobs.

Kane-Berman is the CE of the South African Institute of Race Relations.

6. **South Africa needs a new third way**

Lawrence Schlemmer

ThisDay 3 December 2003-12-09

The UK and South Africa today offer versions of what is called third way politics – among other things an apparently comforting compromise between welfare and market-driven priorities. As with so many persuasive compromises, someone has to pay the bill. In the case of the UK it seems it is not so much the rich but the solid middle classes.

The *Daily Express* of November 26 published an analysis made within the Blair government showing that under the Conservative government of John Major, 1990-1997, the real yearly income growth of the poorest 20 percent of the population was higher than that of the next 60 percent, and that in turn was higher than income growth of the very rich.

The third way of Tony Blair's "New" Labour government, 1997-2003, on the other hand, has produced the highest income growth among the poorest and, ironically, the richest 20 percent of the population. The middle 60 percent has lagged. The *Daily Express* describes the Labour programme as a "war on the middle class".

The South African government, in its *Ten Year Review,* claims that it has reduced inequality and poverty among the very poor with "social wages" – welfare grants and subsidies. This claim has been widely rejected by academics and opposition parties on the basis of rising unemployment and the falling incomes of the poor.

But all our income statistics underestimate the effects of welfare grants and they do not even attempt to measure education, housing and various service subsidies for the poor. They also miss the fact that most township and informal settlement residents do not pay rates and service charges at all. The result, as I have found in analysing the reputable AMPS (All Media and Products) surveys, is that though reported income inequality between the poor and the middle classes is widening, inequality as represented by lifestyle measures is narrowing.

Therefore the government is probably right - inequality has been reduced. But who pays for these various income transfers to the poor?

The middle classes and the rich bear the brunt, but for the rich, the penalties are relatively slight. For the middle and lower middle classes they can be crippling. The middle classes of all races tend to live in areas where credit control still exists and hence they have to pay all their bills, service charges and fees. They cannot buy cars or houses on credit unless they pay massive insurance premiums. Their medical aid fees are skyrocketing. Our income-tax rates start to rise steeply at middle class income levels. More and more people in the middle classes are forced to sell their houses to survive after retirement.

Obviously these problems among the middle classes are less severe than the problems of sheer survival among the poor. But there are knock-on penalties for the entire economy. The middle classes, through their personal savings, have been a very substantial source of the capital available for investment in economic growth and job creation.

As Finance Minister Trevor Manuel pointed out again recently, we are not saving nearly enough to ensure sustained economic growth. Our rate of personal savings in relation to real personal disposable income fell from 2,8 percent to a miserable 0,4 percent between 1994 and 2002, compared with rates of more than 10 percent in Europe and even more in Far Eastern economies.

In effect then, who is paying for our third way? It is the middle classes and the economy as a whole – and with it job creation. When the government takes credit for rising social subsidisation it is an admission of failure to create jobs, as John Kane-Berman pointed out *(Business Day*, November 18) It also raises the question of whether the level of welfare can be sustained and keep pace with rising expectations.

But it is pointless and irresponsible to hammer the government for trying, with some success, to assist the poor. We have to find a new third way between poverty relief and effective job creation. To protect the savings function of the middle classes, the costs of this new third way must be borne by more than income-tax payers, and therefore also by protected unionised labour, by those township residents who can afford to pay for their services and, above all, by the government itself.

Expenditure on superfluous generals, absurdly high salaries in the semi-state sector, fancy weapons purchases, new diplomatic missions in obscure places and all the other status projects by the government must also be trimmed. After all, there are no free lunches.

Lawrence Schlemmer is the director of the Helen Suzman Foundation

7. Why the black empowerment debate won’t go away

Inequality in the distribution of income in the black population has grown speedily

Ben Turok

ThisDay, 11 December 2003

That South Africa’s public institutions have been transformed by rapid black advancement is now undeniable.

As the most senior body in the country, the cabinet carries the flag in reflecting our demographics, as does the ANC’s contingent in Parliament. Even the former white parties now in opposition contain a sprinkling of black, coloured and Indian representatives. The top echelons of the public service have been transformed and annual reports indicate a massive shift in racial and gender representation.

In the economic domain, change has been much slower. The demographics of business and ownership show that white South Africans retain most positions of corporate power, though change is visible even there.

But the ANC has long understood that achieving political office does not automatically provide the leverage needed to introduce further change. Experience in the rest of Africa showed that economic transformation was much more difficult than political change and was in many ways more fundamental.

The ANC’s vision on transformation was set out in the Freedom Charter of 1955, which stated that “the people shall share in the country’s wealth” and that “the national wealth shall be restored to the people”. The opening sentence states that “South Africa belongs to all who live in it, black and white”.

These broad statements of principle have been subjected to many different interpretations over the years. Radicals on the left took them to mean public ownership of the commanding heights of the economy. Nationalists understood these clauses to mean the redistribution of the country’s wealth. More conservative-minded members thought that what was intended was the opening up of opportunities in business and professions. But all believed that an ANC government would bring not only political power, but economic power and opportunities as well.

The concept of black economic empowerment is meant to focus attention on economic transformation to achieve some of the objectives of the Freedom Charter. But as we have seen, these objectives can be interpreted differently. Certain people believe that what is intended is the deracialisation of the economy by the insertion of black people, especially black Africans (to use the terminology of Statistics SA), into the top structures of the corporate world.

This is clearly a necessary part of black empowerment. But we cannot evade the question of how black participation in the economy should function. Though there is universal support for the need for black entrepreneurs, there is also concern about the obvious dangers of tokenism, of co-option of a few, and of elitism. Another danger is that if the emphasis is on deracialising the top echelons of the economy with little empowerment at lower levels, the previously polarised society will remain in place.

Apartheid was notorious not only for its brutal nature, but also for its gross inequality. White per capita incomes were 12,3times higher than black per capita incomes, the worst inequality in the world.

The traditions of the ANC are opposed to the continuation of such polarisation, yet the evidence of incomes shows that in 2001 the inequality coefficient (Gini) for the whole population was 0,635. The Gini coefficient for black Africans was close to this figure or even greater.

There is much dispute about the data, but there can be little doubt that inequality in the distribution of income within the black African population has grown speedily.

The government’s 10-year review states that social spending since 1997 has reduced the Gini by 41percent. But the question is whether the economic empowerment of black people is addressed by such measures and whether they tend to take our society toward the ideal of sharing our national wealth. The answer must be partly in the affirmative, but few would hold that this is enough.

This is why the argument about what is intended by black economic empowerment continues. There is a sense that social relief measures are insufficient to change the socioeconomic profile of our society. A programme for redistribution is implicit in all ANC policies, as is the creation of a developmental state.

This is why the Department of Trade and Industry produced a document, Broad-Based Black Economic Empowerment, which led to legislation that was subjected to parliamentary public hearings and received considerable amendment in the relevant portfolio committee.

These amendments lay down that the minister "must provide for an integrated approach to broad-based black economic empowerment by all organs of state, public entities, the private sector, non-governmental organisations, local communities and other stakeholders".

The objectives include "to change the racial composition of ownership and management structures of enterprises… and increase ownership and management by communities, workers and cooperatives". This is a strong directive for an inclusive programme.

Part of the reason for these amendments was that the government has had some difficulty implementing previous measures intended to boost black economic empowerment, such as the Isibaya Fund, the National Empowerment Act and the Black Business Council. Much difficulty has also been experienced with the phenomenon of "fronting" in regard to tendering.

But the main concern was to ensure that whatever resources government puts toward black economic empowerment do not go to the few but are shared out widely.

The same considerations are said to be behind new proposals to hive off shares from the parastatals in a manner that will allow large numbers of previously disadvantaged people to purchase small allocations.

Yet even these measures cannot be more than palliative. Major policy issues remain, and they crop up regularly at ANC conferences.

There has been some debate about the role of the "black, emergent capitalist class" in such a broad transformation agency. Certain people have reservations on the grounds that this class seeks primarily its own empowerment and is inherently unpatriotic in the sense of lacking sustained commitment to social transformation.

There are also occasional suggestions that certain members of this class are deal-makers rather than productive entrepreneurs who boost economic growth.

But the official position is that this class is part of the "motive forces" of the democratic movement because their interests are also served from further social transformation.

Furthermore, the cause of both democracy and economic advance stands to gain from black capital winning an ever greater foothold in the economy. But this does not mean that simply replacing capitalists of one colour with another resonates with the broad transformation agenda of the ANC. Recent formulations state that this agenda remains the “elimination of the legacy of apartheid super-exploitation and inequality and the redistribution of wealth and income to benefit society as a whole, especially the poor.”

*** Ben Turok is an ANC MP and the author of a recent autobiography, Nothing But The Truth — Behind the ANC’s Struggle Politics**

8. **We need more details about the planned centralising of grants**

Hilary Joffe*, Business Day, 2004-02-10

http://www.bday.co.za/bday/content/direct/1,3523,1539355-6096-0,00.html

ONE of the most redistributive things government has done over the past decade is to increase spending on social grants massively. But this is not really a matter of pride. And between the lines, the president's state of the nation speech last week revealed the tensions involved for a government that sees itself as committed to providing jobs not handouts and is firmly opposed to the idea of a basic income grant.
As usual by now, the president listed the African National Congress government's impressive achievements over the past decade on the economic front, as well as in increasing access to housing, education, water, sanitation, electricity and the like.

There was no mention of its attainments on the old-age pension front, nor did President Thabo Mbeki claim any credit for government's efforts to protect the vulnerable through childsupport grants.

Yet spending on welfare and social security has been the fastest-growing category of government spending during the period, increasing 5% a year in real terms over the 10 years to go from 12% of consolidated government spending in fiscal 1992-93 to 16% in the 2002-03 year. Government is now paying monthly grants to more than 7-million people, up from 3-million six years ago. Welfare and social security is the third-largest line on the expenditure side of the budget, after state debt costs and education.

And rapid increases in spending in this area are set to continue, as the child-support grant is expanded and extended to cover children up to the age of 14, and pension provision keeps broadening. The medium-term expenditure framework puts social security spending in to increase at 12,7% a year for the next three years.

The president did, however, make reference to social grants but to emphasise that government wanted less of them. Characterising SA as a dual economy as he is wont to do, Mbeki said government sought development in both the first and second economies, and these "must create the conditions for us to reduce the numbers of our people dependent on social grants".

He wants to enable people to be better activists for reconstruction and development, as he put it, rather than "trapping large numbers within the paradigm of poverty alleviation".

Not that there was much detail in the state of the nation speech on government's plans to create development activists or income-generating jobs. But the broad objective as spelled out in other policy documents and speeches is to halve unemployment in the next decade. Even that will be a stretch. But if we are lucky and clever enough to achieve it, we will still have a very large number of people in need of social grants of one sort or another.

And pensions aren't just used for pensioners nor disability grants for the disabled they are crucial sources of income in very deprived areas of SA, and may contribute to anything from paying school fees to funding small businesses.

Given their importance in the budget and society at large the granting of social grants must be as efficient as possible which is one issue the president did raise in the state of the nation address, talking of the need to achieve better value for the money spent on social delivery.

This is worth watching, because of the radical restructuring planned for social grant delivery.

At the moment, the provinces are responsible for paying out the several different social grants so government funds these through transfers to the provinces. Provincial governments, in turn, contract with private sector operators to do the actual paying out of the grants, taking trucks out to remote rural areas, checking that pensioners are who they say they are, delivering cash and doing whatever else it takes (Absa's AllPay and Aplitec's Cash Paymaster Services between them do almost all of it).

Central government allocates funds to the provinces, for education, health and social security, according to a formula. But there have been significant problems in recent years lining up the demand for grants in each province with the funding.

Provinces frequently run short, and have to raid other budgets such as education to meet their obligations to pay pensions. Rapid expansion of the system has also put strain on provincial infrastructures.

The plan is to address much of this by centralising social grants in a new national social security agency. It will take over from the provinces the task of paying out the grants, and is supposed to cut costs dramatically by more than R1bn annually as a result. Legislation has been drafted and put before Parliament.

There has been little public debate, though, on the challenge of a changeover for provinces, the treasury, the private sector service providers or, for that matter, those who receive the grants. The sum involved is substantial nearly R50bn in the current year, rising to R70bn in three years' time. Anything that delivers this more efficiently and effectively would be desirable. But we need detail on how. Perhaps next week's budget will offer some hints.

* Hilary Joffe is financial services editor.

9. We need a people's contract to create work

Thabo Mbeki
ANC Today 5 March 2004

The challenge of growing the economy and creating ever-greater job opportunities will not be achieved unless all stakeholders play their part in what needs to be a massive national effort.

That is why the ANC is calling in its 2004 election manifesto for a people's contract to tackle the twin tasks of creating work and fighting poverty. As an organisation determined to renew its democratic mandate on 14 April, the ANC will ensure that government plays its part in working to build the economy and create work. But it will need the active involvement and joint commitment of business, labour, communities and other organisations to ensure that South Africa is able to address the biggest challenge it currently faces.

To tackle unemployment, it is necessary to understand the nature of the problem and its history. It is important to understand the shifts that have taken place in the South African economy and the challenges these pose.

The economy we inherited in 1994 from the apartheid state was one in which only a minority of the population benefited. The rest of the population was consigned to live below dignified levels in poverty and marginalisation.
The levels of consumption and savings of the privileged few were too small to create a wealth basis that could create jobs in the economy.

In fact, the South African economy had been shedding jobs for almost two decades by the time the ANC came into government. The economy was in an advanced state of near-terminal decline.

The new ANC-led government inherited a debt of about R254 billion, a 10 percent budget deficit to the GDP. This massive debt, together with a narrow revenue base, was the economic reality the new dispensation had to deal with. Added to this was an extremely narrow skills base, the result of decades of bantu education, job reservation and an economy preoccupied with the extraction and exportation of raw materials.

And all of this was taking place at a time of falling commodity prices, the global liberalisation of markets, the rapid and ever-increasing transfer of resources from one economy to another, and a marked shift away from primary economic activities towards secondary and tertiary activities, like hi-tech manufacturing and services.

Yet through intelligent policies and determined effort, the ANC has turned the South African economy around. It has halted the downward spiral of the apartheid years and placed the country on a sound economic footing. At the same time it has made impressive gains towards meeting the many challenges facing the country's people.

The economy has created 2-million net new jobs since 1995. But the number of people seeking work has sharply increased; many workers have lost their jobs; and many have been negatively affected by casualisation and outsourcing. As a result many South Africans do not have jobs or decent self-employment; poverty is still a reality for millions who do not have appropriate skills, while many cannot get credit to start or improve their own businesses.

This is the reality which the ANC has begun to address. In its 2004 manifesto, the ANC outlines the key programmes it will pursue over the next five years to ensure that by the end of the second decade of freedom, South Africa will have halved levels of unemployment and poverty.

A central task is to grow the economy at a faster pace, while ensuring that this growth is sustainable and benefits the millions of unemployed South Africans.

This means that the ANC will continue to ensure low interest and low inflation rates, as well as low government debt so that more resources are spent on attacking poverty, building economic infrastructure and creating work opportunities.

Through government and state-owned enterprises, the ANC will invest more than R100-billion in improving roads, rail and air transport as well as telecommunications and energy; and encourage more investment in key economic sectors such as manufacturing, information and communications technology, mining, and business services.

It will spend over R15-billion to facilitate broad-based Black Economic Empowerment which also benefits communities - including youth, women and people with disabilities - as well as workers and small businesses.

While growing the economy, however, the key challenge is to match the skills that people have to the needs of the economy. There are many positions that remain vacant, both in the public and private sector, because there aren't enough skilled people to fill them.

Increasing employment therefore requires increasing the number of people with appropriate skills. This needs to be done at a number of levels.

The ANC will continue the impressive work done to ensure greater access for all to quality education. It will ensure that all children have decent classrooms, further reduce the teacher-pupil ratio, improve spending in favour of children and students from poor households, and expand the school nutrition programme.

It will take more and more young people through learnerships so they can gain skills and work experience in order for them to access jobs. The ANC will also intervene to ensure proper functioning of skills development authorities.

The ANC will intensify assistance to youth agencies such as the Umsobomvu Youth Fund to provide skills training for employment and self-employment; and ensure the implementation of the National Youth Service.

There are also immediate, direct interventions that government can make. These will include the creation of one million job opportunities over the next five years through an expanded public works programme. This will ensure the provision of much-needed social infrastructure, while providing people with income, skills and experience.

The ANC will encourage the use of labour-intensive methods in sectors of the economy which lend themselves to this form of operation, including through the government procurement system. It will also conduct research into the full impact of casualisation of labour and outsourcing, and devise ways of dealing with their negative impact on workers and the economy as a whole.

Work will be done so that those who wish to start and sustain their small businesses, including youth and women, have access to credit, through dedicated funding to support micro-loan financing, through further reforms to existing support agencies and through changes being introduced in the financial system and institutions.

Importantly, the ANC will work to ensure the involvement of communities in local economic development initiatives to provide work, build community infrastructure and ensure access to local opportunities, and encourage the emergence of co-operatives.

The success of all these measures depends however on the cooperation and participation of all stakeholders in the economy, from the private sector to organised labour, from institutions of learning to the public servants who need to implement much of this work. It depends on the contribution that every community and every citizen makes in building a people's contract to build a better life for all South Africans.

10. AN ECONOMIC TRAP OF GOOD INTENTION

Lawrence Schlemmer, THISDAY 3 March 2004-03-09

Traps are usually well disguised, and this is also true of economic traps. Our approach to national budgeting is leading us very close to a trap. It is not the usual debt trap, but one even more difficult to escape because it is a trap of good intentions and apparently sensible compromises.

Part of the disguise is the confidence-boosting professionalism of Finance Minister Trevor Manuel. Another is the general lack of thorough analysis of the budget in the financial media. Aside from a gentle lament or two about the budget's predictability and constrained growth stimulation, the assessment of our recent budget ranged from polite to supine. These gentle reactions reassure decision-makers, hence masking a trap with serious consequences in the long run.

The trap I am talking about is analogous to a mild but chronic and ultimately lethal drug addiction. The most difficult addicts to help are those who manage their addiction, keep on working, do a few things here and there to kick the habit but never enough to succeed. It is a trap of medium-term sustainability – no emergency measures are required. But in the long run these addicts' health and finances collapse and they end up with not one but two serious addictions – one to the drug itself and the other to self-deceit about being able to manage the addiction.

Our fiscal management is becoming addicted to "sensible" trade-offs between competing priorities. Economic growth stimulation has a very modest place among many other targets, and the results are obvious.

Compared with our average economic growth of under 3 percent since 1999, the emerging markets with which we have to compete for foreign fixed investment and export markets are currently growing at more than 4 percent a year on average, and are on an upward trend. Their industrial production is increasing at an average rate of nearly 6 percent compared with our sluggish and falling rate, a difference only party due to rand strength. Almost all our official economic forecasts turn out to be too optimistic.

The recent budget makes provision for labour-intensive public works projects to create about one million temporary jobs. This is necessary but only some of these projects are likely to provide a sustainable impetus for economic growth.

Spending on transport infrastructure and economic services likely to stimulate growth has also been increased, but spending on welfare and social services has been increased even more. Ismael Momoniat, deputy director-general of finance, confesses that social grants stifle other spending (*(Financial Mail,* February 20). Both Manuel and President Thabo Mbeki have said that they regret that a better balance between growth stimulation and poverty relief is not possible.

Hence the budget tries to touch all bases and ends up being largely a balancing and maintenance budget. But we cannot live on balancing acts indefinitely. We simply have to break out into more rapid and sustainable growth. It need not involve neglecting the poor because there are growth-inducing ways of helping them to help themselves.

Other countries like ours have faced up to stagnation and jolted themselves into action. Slovakia, for example, once the "third world" of the combined Czechoslovakia, has cut taxes to a flat rate of less than 20 percent and concentrated ruthlessly on its comparative advantages, with a result of sustained growth above 4 percent.

We have myriad plans to stimulate growth and reduce dependency, but most of these plans are bogged down in problems of implementation. Most depressing of all perhaps is that the government has started to console itself by calling its welfare spending and cross-subsidisation of the poor a social wage, claiming that it has reduced inequality.

This kind of balancing act is self-perpetuating, hence the analogy of an addiction. It can go on for many years to come. The coming elections will probably show that though the poor may complain about poverty and unemployment, in the final instance they will thank the ANC government for granny's pension, sister's child grants and daddy's disability grant. Even if the poor get thoroughly fed up, there is no one in their communities to mobilise them. They have no option but to live in hope, fed by the promises of the most eloquent government in the developing world.

Hence we seem to be trapped in mediocrity and underperformance, sustainable in the short to medium term.

The government recognises the problem but it is too busy replacing programmes that fail in a low-growth environment to generate bold new decisions. In this trap one has to keep swimming just to stay afloat. But we know what will happen in the long run.

Lawrence Schlemmer is director of the Helen Suzman Foundation

Inequality hurts growth

Isobel Frye, This Day, March 30 2004

At the time of the budget this year the national treasury and some of its provincial counterparts questioned the sustainability of current levels of expenditure on social security and assistance.

Given the pro-poor principles articulated by the government, a more appropriate question would be whether the current levels of inequality and poverty are sustainable.

While mainstream economic theory suggests that some inequality stimulates economic growth, policy makers in South Africa should accept that the acute poverty levels of income inequality and resultant poverty may very well be retarding our economic growth.

Our debates should thus centre on whether redistribution through state social spending is effective as a way to lesson inequality, rather than questioning the state's ability to allocate resources for social spending.

A recent report by two World Bank researchers raises a number of interesting issues pertinent to the levels of poverty and inequality in our country. South Africa is classified as an upper middle income country. The high levels of poverty that exist are thus directly attributable to the highly unequal distribution of that income. The researchers conclude that the very high levels of inequality and baseline poverty may well of themselves be acting as a brake to the necessary economic growth and expansion that is so earnestly required in South Africa.

Equally important is the assertion that as a result of the extreme levels of inequality in South Africa, attaining economic growth will be insufficient of itself to address poverty.

Thus while the assumption of redistribution through economic growth inherent in the Growth, Employment and Redistribution policy may have had some cogency in other countries with less stark inequalities we find ourselves caught in a self-perpetuating trap of unequal distribution. This is the result of the structural aspects of unequal income distribution in South Africa, which cause the fruits of growth to be distributed solely according to existing patterns of inclusion and exclusion.

The World Bank authors' conclusion that economic growth has not been pro-poor does not come as a surprise. Their finding is corroborated by a report produced in November last year for the UK department for international development that finds that between 1990 and 2002 there was a "significant shift from wages to profits" in income distribution in South Africa. The share of profits in national income increased from 42,8 percent to 48,6 percent, accompanied by an equivalent fall in the share of wages. So, income inequality in growing despite the government's commitment to poverty alleviation.

What is to be done? The authors argue that, side by side with policies to grow the economy, the state needs to be pursuing "aggressive" (interventionist) poverty alleviation programmes.

Equalising cannot be achieved without redistribution. The most direct forms of redistribution to poor households is direct state transfers in the form of social assistance grants. These include the state's old age pension and child support grant.

The ministerial committee of inquiry into comprehensive social security found that a universal income grant of R100 per month could close the poverty gap by 76 percent, but even full take-up of the targeted grants could potentially only close the poverty gap by 36 percent. Targeted income can stimulate demand-driven local economic development in poor communities, enabling people to invest in sustainable livelihoods.

The right to social assistance is entrenched in section 27 of the Constitution and it is a justiciable right. While the right is subject to progressive realisation within the state's available resources, the state is under a positive duty in terms of section 7 of the Constitution to actively promote and fulfill constitutional rights.

We should be asking ourselves whether the state has done enough to progressively realise the right to social assistance for all those in need – especially in light of the R67 billion that the state has handed back in tax cuts to income earners in the last decade.