Breaking the grip of

Poverty and Inequality in South Africa 2004-2014

Current trends, issues and future policy options

<u>Executive Summary</u>

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Introduction

The single most important issue facing South Africa ten years after the transition to democracy is breaking the grip of poverty on a substantial portion of its citizens. There is a consensus amongst most economic and political analysts that approximately 40% of South Africans are living in poverty – with the poorest 15% in a desperate struggle to survive. This means that approximately 18 million out of 45 million people have not experienced the benefits of our newly found freedom. This poses a moral challenge to all South Africans – to work together towards the economic and social integration of the poorer section of our fellow citizens.

The debate on poverty could be approached from different perspectives and on different levels. The earlier ideological debate between capitalism or socialism, or a possible "Third Way", has subsided since the democratisation process in Eastern Europe gained momentum. Even with regard to the current dominant model of a liberal free market economy in the world, one could follow alternative routes: on the one hand, the fundamental principles of the current macro-economic model could be questioned and rejected as such. On the other hand, even if the reality of the current dominant model is accepted in a more pragmatic approach, critical challenges and questions could be raised with regard to the complexities, the contradictions and side-effects of this model.

This report represents an executive summary of three longer research papers by our task team and several colloquiums where the findings of the research were discussed with independent panellists. The integration of different research fields (demography, macro-economics, labour market and poverty) strives to create a common understanding of the problem and the challenge we face. Although the report is founded on solid and comprehensive academic research, it provides an intelligible analysis of economic trends and some of the complex choices (with far-reaching consequences) that decision-makers have to make: "High growth will certainly help to roll back poverty...but it might exacerbate inequality…which one gets the priority?", or "In the struggle against poverty, the needs will always be more than the available resources". This explains the intensity of the political debate on priorities within state expenditure.

This not only raises the temperature in the public debate with regard to the priorities of the state's budget, but it also challenges all sectors (state, business, churches, NGOs, etc.) on the quality and the efficiency of their social programmes to combat poverty. The task team has underlined the importance of public-private-partnerships to enhance both the efficiency and quality of public spending, but also to combine limited resources from different sectors for a greater focus and social impact.

One of the sobering findings is, that even if we accept a higher growth path as an important instrument to eradicate poverty, a large portion of our citizens would need the support of special programmes to alleviate the worst poverty – to help them to survive.

The report does not give a full analysis of macro-economic models, nor does it give all the answers to the complex challenges we face with regard to poverty. It strives to give an intelligible, reliable and realistic picture on the economic trends over the past years, as well as some of the complexities and tough choices that decision-makers are facing in shaping our future. In this sense we hope that this report could contribute towards a common understanding of the problem.

The report is an important building block in the three discourses that the EFSA Institute is currently facilitating in the public debate on combating poverty:

Firstly, what is the role of the church, as well as other religious communities, in social welfare and developmental programmes? This includes theological reflection on the identity, the calling and the role of the church in society. The prophetic witness of the church on issues of social justice, as being the church for the poor, is part of this discourse.

It also includes empirical research on the capacity, the contribution and effectiveness of intermediary networks that implement programmes. What are the best practice models and how does one measure the impact of these programmes?

Secondly, what is the best model of partnership between religious communities and the different levels of the state? What policy frameworks are necessary to provide equal access to public funds and stability in social services rendered by religious communities? What guidelines and conditions are necessary to ensure consistency and the responsible utilization of public funds, as well as efficiency in the implementation of programmes? How does one protect the identity of religious networks from political co-option, but ensure concrete co-operation? What incentives (e.g. tax deductions) would promote a culture of giving, of solidarity with the poor and the creation of a caring community?

Thirdly, what models of partnership between religious communities and the business sector could enhance the impact and the effectiveness of social programmes? Both sectors have unique networks, capacities and considerable resources available. Would co-ordination and the sharing of resources not enhance the impact and the sustainability of social services?

An important element in all three discourses is the quality of social spending: how does one ensure that limited resources are used in the most efficient and effective way to benefit the large number of poor citizens?

We are grateful for the work of our task team and would welcome critical remarks, comments or contributions on the issues that have been highlighted. Copies of the full report, containing the different research papers, are available.

Renier Koegelenberg

EFSA Report on Poverty & Inequality in South Africa

1. Problem statement(s)

Two distinct problems characterise South Africa ten years after democracy**:** poverty and inequality.

In public discourse the two (poverty and inequality) are normally linked and treated as an expression of the same problem.

In reality, they are very different. These differences have important public policy consequences.

1.1 Inequality

Inequality is measured by the Gini coefficient, which can vary between “0” and “1”. The closer to 1, the more unequal a society, and the closer to 0 the more equal a society.

The Gini coefficient measures the distribution of the national income. In a perfectly equal society 10% of the population will receive 10% of the income; 20% of the population will receive 20% of income and so on. For such a society the Gini coefficient will be zero.

If, say, 10% of society receives 30% of the income, or 20% receives 50% of the income, the distribution is more unequal and the Gini coefficient higher. At 1, being the highest possible score, 1% of the population would receive 100% of the income.

The Gini score for South Africa is about 0,6. With Brazil, South Africa has one of the most unequal income distributions in the world. This overall figure, however, hides a particular aspect: the Gini is higher amongst African households than amongst non-African households (Bhorat, 2003: 4; also Van der Berg & Louw, 2003: Table 3). This is the result of some African households improving their position – a process that started in the 1990s, but accelerated after 1994.

It is important to note that a society with low levels of poverty may still be unequal. Low poverty and inequality may co-exist. That is one of the reasons inequality cannot simply be equated with poverty. They are different phenomena.

But although separate, the two phenomena are obviously linked. Turkey has about the same per capita income as South Africa, yet poverty levels in Turkey are only about half those of South Africa. Some 18% of Turks live in poverty versus about 38% in South Africa (Van der Berg, 2003: 2). It is clearly possible to combat poverty by reducing inequality.

1.2 Poverty

Measuring poverty is not a straightforward matter, as it depends on a critical assumption**:** what level of income constitutes the poverty line?

In public discourse the $1-a-day-level has gained a lot of prominence. Whilst acceptance of that level helps to popularise notions and keep public debate intense, it is not necessarily an accurate indicator.

Firstly, $1 in the US is not the same as $1 in Tanzania. It buys very different quantities of goods and services in those two countries. Secondly, now that the dollar has depreciated by more than 40%, does it mean that poverty levels have also declined by more than 40%? That can hardly be the case. Applied to South Africa, the $1-a-day-argument would mean that at R8 to $1 the poverty level in South Africa would be R8 x 30 days = R240 p.m. At R7 to $1 it would come to R210 a month. The stronger the rand, the lower the level of poverty. That is hardly possible.

So the $1-a-day standard is not really useful.

For South African purposes we would take the minimum living level (MLL) as the cut-off point, below which people live in poverty. In March 2003 this was taken as R1 871 for a household of 4,7 people[1] as determined by the Bureau of Marketing Research in March 2003 (BMR, Report 3/19). Adjusted to rand values for 2000 that would imply an income of R1 489 per month per household of 4,7 people.

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[1] R1 871 is the MLL for an African urban household. Using it as the cut-off for rural households is a bit harsh. In general the MLL is rural areas is lower. But by using the urban figure for all, one certainly reduces the risk of under-statement considerably.

Using this level as the benchmark, 46% of South Africans live in poverty – meaning 20,5 million people in 2000, according to research done by Servaas van der Berg and Megan Louw at the University of Stellenbosch (2003).

This compares to Prof. Sampie Terreblanche's estimate of about 18 million people – about 40% of the SA population in 2002 (Terreblanche, 2002).

It is thus possible to refer to South Africa as a "45/55" society. About 45% of the population live in poverty and 55% do not.

Whilst this figure is high, it is (unlike SA's Gini coefficient) not one of the highest in the world. Comparisons on poverty levels are risky, but several countries have higher percentages of the population living in poverty than South Africa has (World Bank Global Poverty Monitor).

1.3 Differences between poverty and inequality

What are the differences between these two issues?

Firstly, even a society with a low level of poverty may still be a society with a high level of inequality. The United States clearly has a lower level of poverty than Tanzania, but it also has inequality.

Secondly, a fairly equal society may still have a high level of poverty. Many developing countries would have a lower Gini coefficient than South Africa, thus a lower level of inequality, but poverty is much worse. This will partly explain why citizens from those countries migrate to South Africa, some legally and others illegally. Judging by the way that people vote with their feet, inequality with less poverty is more attractive than equality in poverty.

Thirdly, a society in economic take-off will, whilst in the transition from poor to less poor, experience rising inequality. This is as inevitable as the night following the day. Whilst progress is being made with poverty reduction, inequality may be worsening.

Fourthly, the goal of transforming the ownership and composition of the economy to reflect the country's demographics more accurately will inevitably entail a worsening of the Gini coefficient within the Black community itself. This is discussed in paragraphs 2.7 to 2.9 below.

Fifthly, poverty and inequality will respond differently to growth. High growth will certainly help to roll back the one (poverty), but it might exacerbate the other (inequality). This confronts policy makers with a brutal choice: which one gets the priority? Under socialism the priority was equality – which ended with everybody being equally poor and societies collapsing. Examples would include Nyerere's African socialism, the Soviet Union and countries in Eastern Europe. Under rampant growth philosophies, combating poverty is the priority. The best example of that would be present-day China, Korea, Taiwan and Malaysia.

2. Trends around these two problem areas

Poverty

2.1 Taking the long view, which provides a better overall understanding, the proportion of people living in poverty has declined between 1970 and 2000 (Van der Berg & Louw, 2003). However, as a result of growing population numbers, more people (individuals) are now living in poverty.

This is summarised in Table 1.

Table 1:

	Population	In poverty	Proportion
1970	22 mil	11 mil	50%
2000	44,6 mil	17 mil	38%
Change	+ 22,6 mil	+ 6 mil	- 12%

2.2 In a population that has doubled, the number of poor has not doubled; and the proportion of people living in poverty has actually declined.

2.3 The influence of demography is clear from these data. As the United Nations World Population Report for 2002 states: "Actions by governments to lower population growth would help to promote economic growth and reduce poverty. High (population growth rates) increase poverty.” As the French philosopher Comte wrote in the 19th century: “Demography is destiny”. Maybe it is not quite so definitive, but it is certainly important.

2.4 The importance of demographics is also underscored by what is happening in the labour market. This is explored in paragraph 3.

2.5 Demographics leaves policy makers with very little choice**:** more wealth has to be created to roll back poverty and inequality. Anti-growth policies will not do the trick. Neither will growth-neutral policies. Reality dictates the creation of new resources to meet growing demands.

2.6 A second reason, apart from demography, for the lack of progress in reducing poverty is simply poor economic growth. For about a decade and a half South Africa’s average economic growth was about 1,5% p.a. – considerably lower than the population growth rate. Thanks to concentrated efforts, growth has now doubled to about 3% p.a. – more than the population growth rate. A low growth rate cannot remedy poverty.

Inequality

2.7 The main driver of inequality currently in SA is no longer the Black/White divide, but rather the intra-group divide between rich Blacks and poor Blacks (page 2 above). The national Gini figure is 0,6 (Bhorat, 2003: 4). However, amongst Black households it moved decisively up from 0,49 in 1970 to 0,59 in 2000 (Van der Berg & Louw, 2003: Table 3). Amongst Whites it moved from 0,43 to 0,49; Indians from 0,42 to 0,51 and Coloureds from 0,53 to 0,55.

2.8 This intra-Black move is understandable, given the concerted efforts to transform the ownership and personnel structures of the economy. The EFSA colloquium discussed the contradiction between poverty and inequality and came to the conclusion that, through a period of economic take-off, rising inequality might be an inevitable consequence – poverty may be rolled back, but not necessarily inequality at the same time.

2.9 It should be noted, however, that the intra-Black divide had already started to open up before 1995 (van der Berg, 2003: 5). That gives credence to the conclusion that economic take-off will leave some inequality in its wake.

3. Importance of the Labour Market

The Director-General of the International Labour Organisation (ILO), Juan Somavia, stated in a report to the ILO's annual conference: "Job creation should be put at the centre of global efforts to halve extreme poverty by 2015" (*Financial Times*, 9 June 2003). The only way to counter poverty and inequality trends is to create more jobs, and they need to be sustainable. Cosatu general secretary, Zwelinzima Vavi, emphasises the same point in the context of service delivery: "Everything starts with a quality job…" (*Business Day*, 2 December 2003).

Thus, without an expanding labour market, progress cannot be made.

Other measures like public works programmes, anti-poverty support programmes and social safety-net arrangements may indeed help, but less so than an expanding labour market.

What then is the state of the South African labour market and its contribution to the reduction of poverty and inequality?

3.1 Taking a long view, the labour market moves in tandem with the economy. It is not really possible to have an expanding labour market in a shrinking economy. And an ever-expanding economy will definitely create more jobs – even if one allows for the normal lags between growth and job creation. This is borne out by South Africa's own experience over the past 30 years.

3.2 Between the mid-seventies and the beginning of the nineties, the economy grew at about 1,5% p.a. This was about a third of the more than 4,5% achieved in the years between the Second World War and the beginning of the seventies. Since 1993 growth has slowly recovered to reach an average of 3% over the past few years. South Africa has thus doubled its sustainable economic growth rate from 1,5% to 3% since 1993 (SARB data).

3.3 2003 will be a “bad” year with growth of only about 2,2%, but a return to 3%+ growth is expected in 2004 and beyond. There is not really an argument that South Africa is now a 3% economy.

3.4 And, indeed, the labour market followed this improvement in the economy. Between 1995 and 2002 about 1,6 million net new jobs were created in the South African labour market. That is an average growth rate of about 2,1% p.a. in the number of jobs (Bhorat, 2003). These numbers include both the formal and informal economy. Given the structural changes in the economy, the growth of the informal sector cannot be ignored in evaluating the size of the labour market.

3.5 The conclusion is clear – the SA economy did not experience jobless growth over the past ten years. This is a myth that needs to be debunked. What is needed is more growth to create even more jobs.

3.6 In this sense, “size counts”. In order to sustain more jobs, the economy must be considerably bigger. Demographics force this reality. To think *only* in redistributionist terms will not do the trick.

3.7 The 1,6 million *sustainable* jobs created between 1995 and 2002 must be compared with the 1 million *temporary and intermittent* jobs that the government wants to create with its Expanded Public Works Programme over the next 5 years at a total cost of about R15,5 billion (CDE, 2003).

3.8 The conclusion is clear – there is room for support measures like a public works programme, but it cannot replace or be pursued at the cost of economic growth (and a bigger labour market). This has important policy consequences. It forces policy makers to make the growth of the economy and the expansion of the labour market their top priority.

3.9 This need to make growth the top priority is reinforced by demographics. Over the same period that 1,6 million jobs were created, more than 5 million people entered the labour market (Bhorat, 2003). That resulted in an increase in the number of unemployed of more than 3 million – meaning South Africa now has an unemployment rate (on the expanded definition) of about 40%. This is the result of too little growth relative to what population growth requires.

3.10 Quite often in public discourse, lip service is paid to the need for more growth, but then policy positions are proposed which, if implemented, would in effect reduce growth and the creation of new jobs.

3.11 A particularly important feature of the labour market is the relentless drive to higher skills levels required by employers (Bhorat, 2003: 12-14). Whilst this is wonderful for productivity and competitiveness, it does have the effect of putting formal employment beyond the reach of many who are not suitably qualified. It places the issues of education and skills development firmly on the agenda of labour market strategies.

4. The role of redistribution (or more state spending)

In paragraph 1.1 on page 2 above the point is made that there is room to reduce poverty by addressing inequality. This is done through state expenditure, financed through taxes and some borrowing.

There is evidence that social grants like the old-age pension and the children's grant all help to reduce poverty to some extent (Van der Berg, 2003: 10). These, linked to more and better quality social services, constitute what has become known as the "social wage".

The social wage is in essence redistribution and is dependent on higher expenditure by the state.

The state has to balance spending on the social wage with other competing priorities like fighting crime, providing education, developing infrastructure, dealing with HIV/Aids and, above all else, the priority of growing the economy. Growing the economy also requires expenditure, primarily on infrastructure and an enabling environment – lower taxes, lower interest rates, more skills training and the like. These all "cost money", either directly or in tax income sacrificed and borrowings not made.

Precisely how these different priorities should be balanced is a matter of intense political debate, quite often fuelled not by what is possible, but by what is needed. And one thing is for certain, what is needed is always more than what is available.

It is the opinion of the task team that a ceiling is being approached as to how much social spending can be undertaken by the state. The mini-budget presented in November 2003 with its 3-year spending forecasts reinforce this tentative judgement (see notes 1, 2 and 3 at end of this paper).

The quality of State spending

The fact that needs always exceed resources brings another issue to the fore**:** how efficient is state spending and can available resources be stretched further through enhanced efficiencies? Specifically, to what extent can churches, NGOs, development organisations and the like be used to enhance the quality of state spending. The task team is of the opinion that there is considerable scope for private-public-partnerships to enhance the efficiency of public spending.

This is part of an international trend, where more and more public funds are being channelled to the not-for-profit private sector to help the poor and fight poverty (Koegelenberg, 2003).

One plus one is more than two

More importantly, these public-private-partnerships may leverage the money currently being spent by private sector sources (the corporate sector, private individuals, churches and the like). If public and private spending are linked, this can leverage existing resources and help to enhance efficiencies.

There are examples of schools being built by corporations, whilst the same money put into existing church schools would probably have rendered a better return for everybody concerned. There are other examples of private networks which can be used to spend public money efficiently and quickly, thus stretching limited resources further.

5. What needs to be achieved

5.1 To roll poverty back from its current 55/45 level to 70/30 by 2014 (both the level of 30% and the date of 2014 are arbitrary choices) will require about 3 million jobs by 2014. Currently the labour market consists of some 11,8 million jobs. Thus, creating an additional 3 million jobs will require the labour market to be about 25% bigger. Allowing for the productivity increases needed to enhance competitiveness, the economy will in fact have to be approximately 48% bigger than it is now. That means a consistent growth rate of about 4,0% p.a. over the next ten years.[2]

5.2 This need for 4% growth is considerable, if one bears in mind that the average growth rate of the economy over the past few years has been about 3% p.a. and 2003 will deliver only about 2,2%. Clearly much more effort will have to go into generating the required 4%.[3]

5.3 Such economic growth will not just happen of its own accord. It will need careful management of the macro variables as well as growth-inducing measures. This will have to include fiscal discipline; monetary stability; enhanced productivity; restructuring to remove obstacles to investment and growth; reduced transaction costs and many other measures. These will not always be compatible with more popular policy demands, such as the "Basic Income Grant" [BIG] or a bigger tax load on the economy.

5.4 Realistically, the task team accepts that not all of the poor will be absorbed into the formal or even the informal economy. The notion of "two economies" is very real. This necessitates the need for a safety net to alleviate the worst poverty. And it is, in fact, being implemented systematically with the children's grant and increased old-age pensions, school feeding programmes and extended health services. Naturally, this should be done in a manner consistent with the macro-constraints and multiple priorities of our society. As the recent mini-budget shows, those limits might very well have been reached (notes 1, 2 and 3).

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[2] These figures discount the expected impact of HIV/Aids on population growth.
[3] The HIV/Aids pandemic will retard economic growth and make the achievement of a higher growth rate more difficult. It will require more careful management of the economy.

6. Conclusion

The quest to roll back poverty and inequality requires multi-dimensional analysis and thinking from all. Dealing with complexity is the name of the game. The enormous moral capital of the church should not be squandered on one-dimensional analysis and thinking. Preferably, it should be used to push the debate forward towards a more holistic approach.

Demography is important, but so is growth, sustainable redistribution, a leverage of private and public resources off each other, and improved efficiencies in spending by both sectors. All these elements need to be integrated into an holistic approach that will grow the economy sustainably, create jobs and ensure a safety net for the poor. And this, as paragraph 5 indicates, will still be a gigantic task.

At the same time, however, progress with poverty relief might not decrease inequality. As growth improves and more people are absorbed into the economy and living standards for many are improving, the “poor will still be with us”, resulting in inequality. An effective safety net is needed to protect the poor. This requires a more efficient application of all existing resources.

The time has come to replace the adversarial debate around economic and redistributionist policy options with a common approach to progress over the next ten years to 2014.

Notes:

1. The recent mini-budget shows that the proposed increases in state spending will increase government dissaving – from about 0,2% of GDP to probably more than 1% of GDP (MTBP, 2003). More concretely, that is about R1,33 million **per hour,** every hour of the 365 days in a year. That is the amount of money taken out of the national savings pool, thus reducing the money available for investment. And the less investment, the less growth.

2. Investment and saving are merely the opposite sides of the same coin**:** a nation can only invest what it saves, except when additional investment is financed by foreigners. Low savers like South Africa thus need foreign investment to overcome the shortage of local saving. If a nation can attract that money from foreigners, good and well; if not, the country is forced to use its own saving very prudently. In a country with insufficient saving like South Africa, government dissaving is – even if understandable – not necessarily desirable. The government has over the past number of years reduced dissaving. The 2003 mini-budget reverses that trend, although the medium-term forecasts are that the government wants to try and eliminate dissaving again.

3. Currently investment in South Africa is primarily driven by the private sector. Over the last few years the business sector has frequently provided more than 100% of national net savings, with dissaving by the public sector bringing the net national figure down to 100%. State dissaving clearly retards national investment.

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Background on the EFSA Institute

EFSA is an independent Ecumenical Institute which functions under a non-profit trust. It consists of a unique network of participating institutions: representatives of the Faculties of Theology and the Departments of Religious Studies of the Universities of the Western Cape (UWC), Cape Town (UCT) and Stellenbosch (US), as well as the Western Cape Provincial Council of Churches (WCPCC) are represented on the Board and Executive of EFSA.

Basic approach

Generally speaking, EFSA tries to promote consensus between different sectors, interest groups and stakeholders on the challenges and problems facing our society. EFSA strives to play a facilitating role by providing a platform for public debate on all issues, no matter how controversial.

Both in its structure and function there is a dialectic tension between an academic (research-based) approach and the need to address specific needs of the Church and other religious communities. This tension? is embedded in the main issues facing the churches in our society. In a general sense EFSA tries to focus public attention (and the attention of the Church or academic institutions) on specific problems in society.

General priorities

These are the *development role of the Church* and other religious communities in the eradication of poverty in South Africa; the role of religious networks in community development and in social and welfare services; and the development of community and youth leadership.

EFSA has successfully hosted several international conferences on the role of the church and other religious communities in community development and the delivering of social services. This has contributed to the founding of the “National Religious Association for Social Development” (NRASD) – a national coalition of faith-based social and welfare services.

Linked to its focus on development issues, EFSA and the Department of Social Services of the Western Cape Administration have launched a “Community Leadership Academy”. The courses address the three crucial elements in all successful community projects: the development of human capital (personal skills), of social capital (the network of relations and partnerships to focus joint action) and financial capital (funding) for specific proposals.

Secondly, the *healing and reconciliatory role of the Church* and other religious communities: this includes a project on the role of women in the healing of our violent society; the mobilisation of church and religious communities against crime and violence; and the breaking down of stereotypes (racism) in our society.

Thirdly, *the formation of values in the strengthening of a moral society by the Church* and other religious communities: this entails the promotion of moral values such as honesty, support for the weak, and respect for life and human rights.

These priorities cannot by separated from one another, since many of the complex social issues are interrelated.

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