Section 6. Addressing inequality

This section will assess the nature of, and prospects for, policy to reduce poverty and inequality in South Africa today. It will weigh up the sustainability (economic, fiscal and political) of the current approach – the transfer of resources between the two nations – and assess the viability of a 'one nation' approach, or shared growth.

Recently, President Mbeki has raising inequality in priority on government's agenda, focussing actively on the 'two nations' theme[43], and what needs to be done to overcome the divide between them. He has put forward what amounts to an elaborate conceptual framework for policy to address the issue, which is worth repeating at length.

> The masses yearn that we eradicate poverty and underdevelopment as quickly as possible, on the basis of a strong and thriving economy, and to uplift themselves not through charitable handouts but through the dignity of their own labour….we will have to act more vigorously to address such critical areas as poverty eradication, the development of the historically black areas, the restructuring of the system of property relations and therefore the deracialisation of the economy, increasing the black skill levels….(Mbeki, 2002)

> The 'third world economy' exists [within South Africa] side by side with the modern 'first world economy' …[but is] structurally disconnected from [it]. Accordingly the interventions we make with regard to [the 'first world'] economy do not necessarily impact on [the 'third world' economy] in a beneficial manner….it is sometimes argued that higher rates of economic growth of 6 percent and above would on their own lead to the reduction of unemployment in our country. This is part of a proposition about an automatic so-called trickle-down effect … none of this is true….[We must] intervene in the 'third world economy' [to] end its underdevelopment and marginalisation…so that it becomes part of the 'first world economy' …. [This] will require sustained government

[43] Though the distinction between them is now couched more in socio-economic than racial terms: first world/third world economies, first/second economies.

> intervention […and] resource transfers … includ[ing] education and training, capital for business development and …social and economic infrastructure marketing information and appropriate technology.” (Mbeki, 2003a)
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> It is impossible to solve the problem of global poverty through reliance on ‘the market’… the poor do not present themselves as an appropriate object of attention by capital, whose inner logic is the maximisation of profit…Something else must happen to make these poor multitudes ‘bankable’ …the EU has found the practical answer…a comprehensive system of ‘structural funds’ [for] transforming regions [which] cannot easily come into the ‘market system’ ensuring access to private capital...public capital has first to be invested in these regions to prepare them [to be] attractive to private capital. (Mbeki, 2003b)
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> The advances we have made with regard to the First Economy [since 1994] have put us in a position to meet the objective fundamental to our strategic outlook, to reduce the numbers of those dependent on social grants by enabling them to pull themselves out of poverty by engaging in gainful economic activity and exercising their right to human dignity. (Mbeki, 2003c)

This presents a strong ‘social democratic’ vision, in which government does a lot *for* the poor, notwithstanding the emphasis on self-improvement, personal responsibility and the like. The focus is on promoting individual and collective asset accumulation in the ‘second economy’ to enable participation in the ‘first economy’ from which it is structurally disconnected. Is this ‘new’ approach new? It involves *inter alia* education, construction of social infrastructure via an expanded public works programmes (recently announced), SMME development and skills training. All of these are programmes involving not income supplements and transfer to the poor, but rather asset transfers and accumulation by the poor. As noted above, the latter have not been entirely successful from the point of view of outcome quality during the post-apartheid period. An issue which needs to be addressed, in other words, is not whether the ‘structural funds’ can be *spent*, but what their impact on inequality might be.

Secondly, is this approach feasible? A major issue is that it argues that the 'first economy' has been successful, and indeed that the policies applied to the 'first economy' have been responsible for that success, so that this economy should be left untouched. In fact, this 'success' has to be substantially qualified, even in its own terms. The explicitly dualist conception ignores the two-way growth-distribution interactions which affect inequality, and which as seen above continue to characterise the post-apartheid economy. To the extent that growth in the 'first economy', it is unequalising and thus widens the gap between the 'two economies'. But furthermore, the discussion above shows that the 'second economy' affects growth – negatively – in a range of different ways, of which investor confidence may be the most significant.

Though 'first economy' growth is unequalising when it succeeds, even if it does so, the resources available for redistribution are limited. On the one hand, the 'easy' fiscal gains from tax and revenue collection reform are close to exhaustion, and an expansion of needed funds will require new strategies for their mobilisation. On the other hand, the debate on the basic income grant (BIG) – where the prospect of substantial increases in indirect tax rates failed to gain support as a financing mechanism – suggests that there is limited political will to support fiscal transfers.

The two nations view does not make a convincing case for 'shared growth', resting its position on moral grounds only. The benefits to those in the 'first economy' remain unclear, even for the long-run, not just on an aggregate basis but on an individual basis – this leads to 'status quo bias'.

A model of 'shared growth' – one which addresses polarisation and inequality directly – must have sustainable employment creation at its centre, if its benefits are to be spread widely enough. At this point, this would require a macroeconomic policy intervention. But the political conditions for shared growth are daunting: it requires social consensus or in the terms used above, a 'vertical' alliance of the middle class and the poor. For this a necessary condition seems to be the existence of an *own* (national) tradition of co-operation *or* compromise, which in many cases, goes back a long time. South Africa does not have such a tradition, of course, our tradition being one of conflict, exclusion

and 'winner takes all'. It is only over the last fifteen years or so that co-operation and compromise have become more of a reality in South Africa. As the discussion of institutions in Section 5 shows, this reality remains very fragile.

Traditions of co-operation and compromise are not innate or natural – where they have emerged and develop to enable social consensus to be achieved, it had usually involved a sense of crisis and threatened national survival, in other words, a crisis. Consensus becomes possible when the leadership identifies the crisis, 'names' it for its population, that is, underlines the seriousness of the situation, and points in a credible fashion to a strategic way forward, enabling groups to put aside sectional differences and unite together. Credibility here implies giving individuals and groups confidence that they will not be forced to carry an unfair share of the burden, giving each group the belief that the policies will be sustained (Campos & Root, 1996, p1). The most obvious example of such a crisis is a war or its threat, but there are also examples of natural disasters, for example, in Holland, "problems with water meant we had to take collective political action to be able to build dikes. You can't do that on your own. We always say the origins of Dutch democracy lies in this co-operative dike-building." (Winner, 2001, p49).

South Africa does indeed face a crisis and perhaps a threat to survival in the form of poverty and inequality and their attendant social ills. The difference is that this enemy is not as clearly identifiable as those faced in war or natural disasters – it has inchoate form, its negative effects are felt rather slowly, and its carriers are internal, part of 'the nation' itself: there is no clear 'Other'. These characteristics may be the reason that the economic growth rate seems trapped between zero and 3.5 -4 percent, rather than fluctuating more widely but returning after slumps to strongly positive levels, as in east Asian economies for example. Instead of disintegrating more fully and rapidly, and then recovering equally quickly, South Africa stagnates, rotting slowly. This also makes it more difficult to mobilise consensus.

Is consensus achievable in South Africa? One possibility may be that the cost-benefit calculus of the lower middle and working classes shifts, pushing them to alter their political position. If this happens quickly and even violently, a 'tipping point' could be

reached, creating a more visible sense of crisis which then evolves (with skilful leadership on all sides) into a new consensus. This is one scenario, optimistic in some ways, but others are also imaginable.