No poverty, economic growth and reduced inequalities

SDG 1: End poverty in all its forms everywhere
SDG 8: Promote inclusive and sustainable economic growth, employment and decent work for all
SDG 10: Reduce inequality within and among countries
Currently the most cited economist in South Africa, Bhorat is committed to adding to the base of knowledge in a dynamic way, through his own research and relationships with research partners in South Africa, Africa and globally.

“We want to ensure that our work within the ambit of the SARChI initiative becomes globally renowned, and is at the cutting edge of current academic thinking,” he says.

Bhorat, who is also the director of the Development Policy Research Unit, is widening his research in Africa, from inequality on the continent to Africa’s manufacturing malaise, as well as looking at resource dependence and inclusive growth.

In one such example, he is studying six African economies in research on growth, inequality and poverty under the SARChI initiative.

**Drafting the SDGs**

Bhorat’s focus on Africa also flows from his work for the United Nations Development Programme (UNDP) on the sustainable development goals (SDGs). He was selected to lead a team that conducted research to underpin the thinking of the 17 SDGs announced last October. The high-level panel included the heads of state of Liberia, the United Kingdom and Indonesia.

“With the theme of ‘Leaving no-one behind’, we needed to move from the framework set by the millennium development goals towards taking into account a whole range of new considerations on the environment, sustainability and gender,” says Bhorat.

“The SDGs need to ensure that all sub-groups – be they at country level, or disadvantaged or marginalised groups within a country - experience the same kind of progress. The goals around equality are really about having a more equal growth path for all marginalised groups in a society.”

Bhorat considers the opportunity to be part of the historic drafting of the SDGs to be a career highlight.

“It was an incredible experience, and very humbling to recognise that the core skills sets you have can be used on a global scale.

“What’s important is that it allowed us to elevate our thinking as South African economists to where the global discussions are, and to where they have resonance at a global level.”

Bhorat – who has a PhD in economics from Stellenbosch University, studied at the Massachusetts Institute of Technology, and was a Cornell University research fellow – says the research for the UNDP in New York helped to provide a road map for the goals.

“The challenge now is to ground all of the goals and lofty ambitions, and mould the SDGs into a
specific plan of action. Every country needs to think about how to implement them so that they can show progress.”

Bhorat and his team continue to provide back-up research and a knowledge base.

His work for the UNDP has helped him to shape a research agenda on a series of economic-policy questions, related to the SDGs, but focused on sub-Saharan Africa.

**Shaping Africa’s research agenda**

He has also initiated an active research agenda on sub-Saharan Africa, grounded in empirical labour economics, but applied to low-income countries in Africa.

“It’s virgin territory globally, and hopefully we are placing ourselves as a UCT collective at the forefront of a unique and innovative global programme.”

The SARChI has been strengthened within the context of the Africa Growth Initiative at the Brookings Institute, where Bhorat is a non-resident senior fellow.

Under the poverty, inequality and growth banner, researchers are exploring regional drivers of growth in west, east and southern Africa.

“We need to think about disruptive growth strategies ... about changing the way we do business, to redirect state subsidies from traditional industries, in some cases, and to new industries. We need to put employment at the centre of industrial and trade policy,” says Bhorat.

One of the key questions researchers are asking is how to protect employment in a job-starved economy. “The growth and development path in Africa doesn’t have manufacturing at its centre. We need to build capabilities and links with other institutions to see how we can change this.”

**South Africa’s labour market**

In South Africa, Bhorat’s name has become synonymous with labour-market research, particularly his investigation into a national minimum wage for South Africa. Together with a very dedicated team of researchers, he has explored the impact of minimum-wage laws on employment, wages and hours of work, and has advised and consulted on sectoral minimum-wage rates.

In South Africa, the most unequal emerging economy in the world, these kinds of questions are critical.

The huge inequality in education in South Africa and the unequal structure of the economy has been driven by South Africa’s fractious apartheid past.

“Unless you change the structure of the growth path, the schooling system and where people live, you will always have this replication of an unequal growth path.

“With very large firms dominating industries in South Africa, smaller enterprises and the informal sector find it very difficult to break into those markets. Much of the economic output is under the tutelage of very few firms. The ownership structure requires change, but in a way that retains incentives for companies.”

As a SARChI chair, Bhorat’s approach is to combine vigorous, academically credible research with policy-relevant questions and issues, from the national minimum-wage debate to student financial aid.

Looking ahead, he says certain issues deserve more careful analytical work. These include the debate around the national minimum wage, the rise of labour brokers, employment generation in the economy, and the future of Skills Education Training Authorities (SETAs). The unit will continue to be central in providing analytically rigorous information to relevant government departments and ministers.

**Bhorat’s work has earned the recognition and praise of his peers.**

“In my opinion, Haroon is South Africa’s pre-eminent economist working at the interface of research and policy,” says Professor Murray Leibbrandt, SARChl Chair in Poverty and Inequality.

“He is listened to and enjoys the trust of government officials at the highest level and across a number of ministries. This trust is forged on the basis of the measured, reliable research that he always brings into the policy processes in which he is involved.”

**Hope for the future**

Bhorat holds a number of key positions in global policy organisations, including recently being appointed a member of the World Bank’s Commission on Global Poverty. While his work schedule is demanding, he thrives on what he does.

“I’m very passionate about the work I do. I’ve always loved the idea of interrogating something further intellectually, but hopefully with an eye on a policy question, or a societal problem.” And on home turf, despite a somewhat bleak economic outlook, he has great hope for the country.

“I’m very optimistic. I’m South African through and through, and we remain optimists.”

*By Kim Cloete. Image supplied by Southern Africa Labour and Development Initiative.*
South Africa: who gets what – and why

Poverty in contemporary South Africa is both extensive and modest at the same time. It is extensive in that the ‘poverty headcount’ – the proportion of the population living in poverty – is higher than in other middle-income countries with similar levels of gross domestic product (GDP) per capita. At the same time, the ‘poverty gap’ – the difference between the incomes of the poor and the poverty line – is small in relation to the total income in society.

This means that the redistribution of a small amount from the rich to the poor could eliminate poverty. Indeed, the poverty gap is small by comparison with the increase in GDP per capita since the end of apartheid: the additional resources available through economic growth could have been used to eliminate poverty without any reduction in the standard of living of the non-poor.

In a democracy, one might expect that political pressure from the large number of poor and almost-poor people would ensure that the benefits of economic growth would be directed towards the relief of poverty, whether directly or indirectly.

The available data suggest that poverty did decline in the 2000s, primarily because of the expansion of cash transfer programmes such as the Child Support Grant. Public-housing programmes and the massive rollout of antiretroviral drugs also resulted in an improved quality of life that is not reflected in the data on income poverty. But widespread poverty has persisted. Most of the gains of economic growth have accrued to the non-poor, and redistribution to the poor has not come close to eliminating poverty.

Role of policy in reproducing poverty

In our new book, *Policy, Politics and Poverty in South Africa* (published in the UK in 2015, and to be published in South Africa by Jacana in 2016), we examine how and why poverty has persisted, focusing on the ways in which public policies serve to reproduce as well as mitigate poverty. The book comprises three sets of chapters. The first set considers who have been the ‘winners’ and who the ‘losers’ as a result of economic growth and change since the end of apartheid. We show that the ranks of winners include not only the rich, or upper and middle classes, but most households with members in formal employment. In real terms (i.e. taking inflation into account), wages for almost all of the formally employed have probably risen: albeit, often,
along with debt – the rising standard of living has been financed through both rising income and rising debt. At the same time, a large class of poor people – confined to the very edges of the labour market – has experienced only modest benefits, if any.

Neoliberalism overstated

This pattern of winners and losers is rooted in public policy. Most critics of post-apartheid public policy emphasise the influence of neoliberalism, to which they attribute these high levels of inequality. For two reasons, we argue that this is only part of the story. First, explanations focusing on neoliberalism exaggerate the extent to which the government’s social policies and service delivery have been characterised by ‘recommodification’ (a reversion to market-based distribution), and underestimate the extent of ‘decommodification’ (the recognition that citizens have claims on society independently of their position in the labour market). One in three South Africans receives a government grant or pension, millions live in publicly funded housing and benefit from subsidised municipal services, and millions more are alive because of publicly funded antiretroviral treatment.

The challenge of an over-regulated labour market

Secondly, the state is heavily involved in the regulation of wages in the labour market, especially through minimum-wage-setting for less-skilled workers. We argue that this is a major contributory factor in the persistence of unemployment, and hence poverty, because – in combination with industrial and other public policies – it serves to steer the economy down a growth path that favours people with capital and skills, and disadvantages those with neither. Poverty persists in South Africa, not primarily because of insufficient economic growth or the absence of redistribution, but because the economic growth path has not resulted in job creation; and the ensuing poverty has been too large to eliminate easily through redistributive government expenditure.

Lastly, we turn to the politics of distribution and redistribution. The formal architecture of representative democracy only partly empowers the poor, because – as is now well-recognised – the electoral system contributes to the centralisation of power within political parties, and the erosion of accountability to voters. The judiciary, and especially the Constitutional Court, provides modest pressure on the government to realise social and economic rights, but it is compelled to act cautiously in the face of legislative and executive conservatism. Business is less powerful than often alleged, with the governing party remaining deeply ambivalent about established, ‘white’ business. Organised labour, however, has enjoyed considerable political power, securing broadly labour-friendly policies across a range of government departments – and contributing to an economic growth path that favours higher wages over job creation.

Finally, direct action by the poor – the so-called ‘rebellion of the poor’ in urban areas across the country – has proved effective as a way of registering discontent with service delivery, primarily by local government, but does not address the underlying causes of enduring poverty in the form of an economic growth path that results in massive unemployment.

By Professors Jeremy Seekings and Nicoli Nattrass of the Centre for Social Science Research. Images by Matthew Skade.
Why South Africa isn’t cashing in on its demographic dividend

South Africa has very high unemployment levels. Part of the reason for this is that there has been a disconnect between the growth in employment and the growth in the labour force.

Although growth in employment has kept pace with growth in the working-age population, it has not kept pace with growth in the labour force. Unemployment has therefore increased, both in absolute terms and as a proportion of the labour force.

The disconnect between the growth in employment and labour force emphasises the importance of understanding the long-term challenges and opportunities associated with demographic change. A country achieves a demographic transition when it shifts from a high-fertility, high-mortality equilibrium to a low-fertility, low-mortality equilibrium. It is then associated with two potential dividends that contribute to long-term economic growth and development. The first is triggered by falling fertility rates after a decline in mortality rates, particularly among children. The second can be realised through capital deepening. South Africa is in the midst of just such a demographic transition. The magnitude of South Africa’s demographic dividend is in line with that of other middle-income countries. But estimates of the first demographic dividend show that we have passed through at least half the period in which it is expected to be positive; the magnitude of the dividend is now falling.

The two demographic dividends

One useful measure for analysing this transition is the support ratio. This compares the number of effective workers with the number of effective consumers. A rise in the support ratio means a lower level of dependence. Declining fertility leads to a reduction in the number of dependent children compared with non-dependent adults. In addition to demographic change, both income and consumption at each age influence the rate of change of the support ratio, and the magnitude of the demographic dividend. In South Africa, income begins to rise at a later age, and is lower – relative to peak income – than among young people in other countries; Also, per-capita income falls significantly for older working-aged adults.

South Africa is at a relatively advanced point in the demographic transition. The youngest cohorts within the working-age population are expected to stabilise in size and begin to contract. At the same time, the number of older working-age people – who comprise a large proportion of effective consumers – is expected to grow rapidly. To benefit from the final phase of the demographic dividend, the economy needs to grow employment and improve labour-market prospects for younger working-age people. Greater employment will raise mean incomes, allowing South Africans to invest in education and save. These actions are crucial for achieving the second demographic dividend.

The evidence confirms that inequality in consumption is limiting the size of the demographic dividend. This suggests that weak sharing mechanisms in the country may have a negative impact on per-capita income growth over time. In some sense this provides support for the argument that inequality acts as a brake on economic growth.

Morné Oosthuizen is deputy director of the Development Policy Research Unit. Image by Heinz-Josef Lücking, Wikimedia Commons.
Ingrid Woolard has social justice at heart

“She is without peer as a producer of survey data, and a top-cited economic researcher,” says Professor Murray Leibbrandt, pro-vice-chancellor for poverty and inequality, of Professor Ingrid Woolard, dean of the Faculty of Commerce and professor in the School of Economics.

Woolard’s work has focused primarily on the use of data to better understand the nature of poverty, inequality and unemployment in South Africa. It was in recognition of this that she won UCT’s prestigious Alan Pifer Award in 2015. The Alan Pifer Award is the vice-chancellor’s annual prize for outstanding welfare-related research.

Woolard cut her teeth as a data manager on the country’s first national living standards measurement survey in 1994, which the Southern Africa Labour and Development Research Unit (SALDRU) produced with the World Bank, at the request of the African National Congress.

Woolard was also a key team member in the second and third waves of the KwaZulu-Natal Income Dynamics Study (KIDS). This used the KwaZulu-Natal component of the 1993 Project for Statistics on Living Standards and Development, and then re-interviewed this sample in 1998, and again in 2003. KIDS was South Africa’s first socioeconomic panel survey, and it pioneered the analysis of poverty and inequality dynamics in South Africa.

Based on this data, Woolard’s work showed how destitution has driven many urban-based unemployed people back into rural areas, to survive off the pensions of parents and grandparents. This work was influential in unpacking how South Africa’s unemployed actually survive. It was also an important revelation for policymakers, to understand how unemployed people are forced to move away from labour markets.

Given this experience, Woolard was the first choice as a principal investigator for SALDRU’s bid for the National Income Dynamics Study (NIDS), the country’s flagship national household panel survey, which was launched in 2008. Later, by making the survey data widely available, Woolard positioned it as South Africa’s highest-profile national survey, with the unique potential to reflect the country’s evolving socioeconomic dynamics.

Woolard’s contributions have been internationally recognised. She was the only South African labour economist invited to be a member of the labour market team within the Harvard Group that National Treasury tasked with preparing a South African growth strategy. In 2011, the minister of labour appointed her to chair the Employment Conditions Commission. The commission, which makes sectoral wage determinations for vulnerable workers who are not covered by formal wage bargaining procedures, was informed by her own work on labour markets and inequality. She gave up the position in 2014, after being appointed to the Davis Tax Committee.

In 2016, Woolard was appointed dean of the Faculty of Commerce, an important next step in her already fruitful career.

“There’s a lot of really excellent socially driven research going on in the faculty,” she says. “And as dean, I’m looking forward to shaping the direction that takes.”

Adapted from an article by Helen Swingler. Image by Michael Hammond.
Thought leader

Unshackling Africa’s economic growth

Unchecked, rising inequality is one of the most important risks to the sustainability of African growth. Africa is in much better shape than it was 30 years ago. Growth has risen, poverty has been reduced, violent conflicts are less prevalent, and democracy and other forms of accountability are found in many more countries. The risk, writes Alan Hirsch, is that these gains are not consolidated and Africa slips into the same kind of stagnation that afflicted it in the 1980s and early 1990s.

The current slowdown is quite a serious challenge to sustainable African growth. Compounded with drought, humanitarian and financial crises are likely. Added to this, very few African countries are trying to compete globally in growing markets with new exports.

Growth has not led to greater competitiveness. While there are some productivity gains, especially in agriculture and mining, Africa is largely not catching up with global competitiveness trends.

Finally, Africa’s growth has not been equal. The income and wealth gaps between countries — as well as the gaps within many countries — are growing.

Inequality in Africa a grave concern

Southern Africa tends to have the most inequality within countries. South Africa (SA), Namibia and Botswana are among some of the most unequal countries in the world, and Angola and Zambia are not far off.

The average Gini coefficient for Africa is 0.43, which is significantly greater than the coefficient for the rest of the developing world at 0.39. On average, the top 20% of earners in Africa have an income that is more than 10 times that of the bottom 20%.

Gender inequality is a critical issue and it is not
improving significantly. There has been some progress in equalising access to education for girls and boys at primary school level, but there has been no progress, on average, in achieving gender parity in secondary schooling, and there has been a widening of gender inequality in tertiary education enrolment.

With many African countries relatively unequal, poverty reduction in Africa has not been nearly as rapid as it might have been, considering the rate of growth. In countries with high levels of inequality, even rapid economic growth often has a very small effect on reducing poverty.

**Uncertainty a fear factor for investors**

High levels of inequality are ultimately a constraint on growth, and also undermine social cohesion. Growth economist Johannes Fedderke argues in a 2010 policy paper, *Sustainable Growth in SA*, that the main reason for relatively low levels of private investment in the country is the high level of uncertainty.

Uncertainty, he says, reflects a perception of political instability and has a marked effect on private sector investment. So the lack of social cohesion, largely an outcome of inequality and other social cleavages, contributes to low rates of growth.

**A comparative look at Africa**

There is strong evidence that developmental and institutional reforms can reduce inequality. As in Latin America, once the most unequal continent, levels of inequality have decreased in many countries.

Broadening the distribution of education can have a positive effect by raising productivity and reducing the difference in income. In SA and in many other African countries, the skills differential remains extremely high.

Social assistance has counteracted inequality in SA, Ethiopia and several Latin American countries – the evidence is already very clear.

In many African countries, tax collection is lower than it should be and a general improvement in taxation systems could have a significant effect on the ability of a country to address inequality.

The tax collection rate in Latin America increased by 3.5% of GDP in the 2000s – a huge step forward and one that has not since been reversed. This was in addition to an increased commitment to education and social assistance in recent decades.

Latin American countries reduced their external vulnerability to shocks by avoiding the accumulation of foreign debt or large deficits, by adopting flexible exchange rates and by accumulating large foreign reserves. All this reduced the effect of shocks, which damage the livelihoods of the poor much more than those of the rich.

Land redistribution, accompanied by measures to encourage agricultural productivity, was an important foundation for relatively equitable growth in Asian countries such as Japan, South Korea and Taiwan.

**Policies, institutions and leadership key to growth**

Policies to develop high-growth sectors — such as manufacturing, construction and labour-intensive services — could have a significant effect on decent employment.

Finally, strong institutions are critical to underpin reforms that support growth and redistribution. This might sound obvious today, but it was not obvious to the global policy-makers of the 1980s and 1990s.

Africa needs smart, bold, well-informed leaders who understand what works and what is implementable.

A minimum wage needs to balance risk and opportunity, says DPRU

The benefits of setting a national minimum wage at R2 447 per month could, on average, outweigh the costs, but setting it at R3 400 could risk far greater job losses, warns a research paper from the Development Policy Research Unit (DPRU). Agriculture stands to lose a much bigger proportion of jobs than a sector such as mining, as farmers might struggle to afford a new minimum wage.

Weighing up the costs and risks of setting a national minimum wage at these two levels, the DPRU, in a study led by Professor Haroon Bhorat, argues that a baseline of R2 447 could result in job losses of up to 281 000 people across the board. This is far more palatable than the more than 500 000 low-wage workers who might expect to lose their jobs should the baseline be set at R3 400.

But when it comes to the bigger picture of socioeconomic equity, a national minimum wage would only be one – and perhaps a minor – component of a broader social programme to reduce inequality, boost employment and grow the economy.

How they got to those numbers

Bhorat and his fellow researchers attempted to provide a three-part analysis. The first part was an international review of the experience of minimum wages in mainly developing countries. They explored the types of minimum wages used around the world – whether they were sectoral or national – including the reach, and the type of enforcement used. They also looked at the impact of minimum wages on employment in particular.

The second part of the study was an examination of existing research on minimum wages in South Africa, “because, of course, we do have an existing system...
of minimum wages,” says Bhorat. “These were set either by sector (such as in agriculture) or occupation (contract cleaners).”

The third part of the analysis was to explore a feasible range for a minimum wage.

Those two levels were firstly the median of the existing sectoral determinations, and then the median South African wage, set at R2 447 and R3 400, respectively. From this, the researchers asked how employment – and job losses – would be affected should minimum wages be implemented at either of those levels.

**So, is it worth it?**

In the R2 447 scenario, around 281,000 jobs could be lost, the paper concludes. In the R3 400 scenario, this number rises to 566,100 – that’s 4.3% of employees.

“There’s significant sectoral variance in the potential job losses, with many of the jobs lost in sectors such as business services, domestic work and agriculture,” explains Bhorat.

“So the real question for me is: Can we find a creative way to set a national wage that recognises it is going to bite some low-wage sectors much more than others?”

**Could the economy eventually reabsorb workers who lose their jobs?**

In a perfect world, a higher minimum wage would mean higher productivity and potentially you could cope with an increase in labour costs, says Bhorat.

“That’s an incredibly hard thing to measure. It’s an uncertain outcome. We’re almost forced into a very defensive position because we’ve got very high unemployment rates – so an excess supply of labour – and you’ve got a low-growth environment.

“Labour markets with low unemployment, economies that are growing fast and that are dynamically competitive; this is where those arguments come into play,” says Bhorat. “The national minimum wage is used, if you like, as a mechanism for increasing productivity, for extracting creative value out of labour for the production of goods, which then can be exported and it builds on a particular growth path. We’re not in that game, unfortunately.”

**Socioeconomic parity needs more than a minimum wage**

Brazil is often cited as a poster child for what a national minimum wage can do to boost productivity and increase employment, says Bhorat.

The research shows, however, that a minimum wage played only a minor role in the Brazilian growth miracle, he says.

“Leave aside the fact that the growth miracle is now over. The massive poverty reductions and stalling of inequality that you saw in Brazil was primarily a function of two things: one is the conditional cash grant system, and the other improvements in the quality of the education system, which led to an increase in the supply of school graduates.”

That drove down the wage premium, and with more people competing for higher-skilled jobs, inequality went down, and the massively improved quality of the labour supply fuelled growth and created an aggregate demand kick for growing employment, says Bhorat.

These strategies are workable in South Africa, then, if sectors like education come to the party.

“You can find situations where you want to improve the quality of the schooling system precisely so that it acts as a trigger for unlocking this cycle of inequality, because what you’re then doing is reducing the wage premium on skilled workers.”

And that’s the crux of the argument put forward by Bhorat and his research team.

“For internal labour markets, obviously if you raise the national minimum wage, you’re going to reduce wage inequality in a workplace. But it’s not clear that for combating society-wide inequality, it’s the best or most appropriate instrument in South Africa.

“One has to take a broader approach and locate the inequality and poverty cycle within all of these contexts.”
Economic impact of informal sector not to be underestimated

Building on existing research into consumer markets, the University of Cape Town’s Unilever Institute of Strategic Marketing has uncovered hidden consumer markets in a study titled Connecting with Survivors. The research, which focused on those whose household income is less than R6 000 a month (referred to as ‘survivors’) attempts to understand the significant role the informal sector plays in growing the country’s GDP. The study revealed a far higher rate of economic activity in this sector than has previously been recorded.

Since 1994, economic activity has gone up slightly among the poor, due to social grants; while the upper end of the market has experienced massive growth. The so-called ‘missing middle’ has previously been recorded as experiencing no growth. But the Unilever study found that people in this ‘survivors’ category do not present their full earnings to official government sources, for fear of losing their access to the grants. This unrecorded income draws a new picture of economic activity in the informal sector.

The research was conducted in Tembisa and Ivory Park, situated between Pretoria and Johannesburg, and found that there is on average one enterprise for every 10 households, and more than one million unregistered and ‘mostly unrecorded’ enterprises countrywide.

Sourced from Cape Connect: a joint project between the Centre for Film and Media Studies, and the Poverty and Inequality Initiative. Image by Vgrigas, Wikimedia Commons.

How can we grow employment in South Africa?

One of the greatest challenges in post-democratic South Africa is massive and growing unemployment. In a country with substantial resources and a government that claims to be serious about addressing the issue, this lack of progress is not only troubling, but puzzling.

The data remain controversial, but even the more optimistic projections show that large-scale unemployment will remain an issue, even under rapid-growth scenarios. According to one estimate, the South African economy would have to grow at an average rate of 7% for about 15 years in order to reach the average global employment rate.

In Towards Employment-Intensive Growth in South Africa, edited by Anthony Black, professor in the School of Economics, a common thread that joins the various chapters is what policies are needed to steer the economy onto a more employment-intensive growth path. There is not one single policy change that will achieve this, says Black. What is needed, rather, is a host of small and large interventions in all sectors of the economy, perhaps underpinned by an ‘employment compact’.

Towards employment-intensive growth in South Africa by Anthony Black is published by UCT Press.