



## SA's Inequality Problem Needs New **THINKING**

**Conventional thinking alone will not solve inequality in South Africa. Some out of the box thinking is needed.**

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**W**hen we talk about inequality in South Africa, many of us have to accept the fact that we are the victims of our past. The effects of more than three centuries of colonialism and more than half a century of apartheid are evident in how the country is divided between the haves and the have-nots.

We have inherited a cruel legacy from policies that have intentionally created extreme inequality in every dimension of human well-being. The inequality gap is so dire that up to three-quarters of the population are battling to get by. An **income comparison tool**, produced by the Southern Africa Labour

and Development Research Unit (SALDRU) at the University of Cape Town, shows that a staggering 79% of South Africans live in households where the income per person is less than the recently implemented national minimum wage.

### **Have we made progress in bringing down inequality?**

South Africa's inequality has some characteristics that differ from global trends of wealth and income distribution. Our levels of inequality are higher with much higher shares of our income going to the best-off 10 percent of the population than elsewhere. Also, the persistence of race-based positioning in the distribution is remarkable. This situation prevails

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despite the fact that the post-apartheid government has attempted to break our structural legacy through policy interventions directed at dealing with inequality. We have not been able to move the dial, even though we have made some progress at overcoming poverty. This lack of success in bringing down inequality is true in most international contexts too.

Given this situation, South African researchers have dedicated themselves to confronting this major socio-economic challenge. Examples of these are the research and civil society engagement processes that were undertaken as part of the work of the DST-NRF Community of Practice (CoP) within the **Mandela Initiative**.

Eight research projects and engagement processes were explored under this initiative on important aspects of poverty and inequality in education, health policy, labour markets, gender and family relations, urban planning and development, land reform and rural job creation.

Against the context of our lack of success in reducing inequality in South Africa, and a lack of clear guidance from the international literature and policy experience, can we find a potentially useful framework to take us forward? Is there an innovative way to sharpen our policies to confront and tackle our inequality head on?

**O**ur **research** makes use of a framework put forward by the well-known economist, Anthony Atkinson to think outside of the box in tackling structural inequality at the policy level.

### **What is the Atkinson Framework?**

After a life's work devoted to measuring and addressing inequality, Atkinson argued that the established matrix of "inside the box" policies used to target inequality in earned income, capital income and disposable income have not had the expected impacts on inequality. These include policies that promote and protect employment, promote minimum wages, promote savings incentives, introduce taxation on inheritance, progressive income taxation, social insurance and social grants.

Atkinson proposed that these policies need to be complemented by a set of more unconventional "outside of the box" policies in order to tackle contemporary inequality. According to Atkinson:

- Inequality can be managed if countries increase their outputs by continuing to participate in globalised work but with public investment and industrial policies in place to encourage technical progress, which favours labour intensive rather than capital intensive growth.
- Alongside this, government could, and arguably should, act as an employer of last resort, by ensuring employment for all job seekers at the minimum wage.
- Social partners can be used to counteract the power of large capital holders. This should improve equity for wages and can be coupled with efforts to dismantle monopolistic pricing regimes. In South Africa, the Competition Commission and NEDLAC would be institutions »



- operating in this space.
- A capital sharing fund aimed at young people could be introduced to assist the youth into adult citizenship of higher education or the labour market. The idea is that government should guarantee a minimum inheritance or income payable at the age (18 or 21), which could be funded through methods such as a sovereign wealth funds and can help to reduce inequality arising from the returns to capital.
- If revenue from inheritance tax is used to (part) fund this income, both the revenue and the expenditure side of fiscal policy would be interventions that help to reduce intergenerational inequality.
- In addition, contemporary society needs to guarantee a citizen's income or a participation income paid out on the condition of some sort of economic participation, past or present which includes caring for dependents and being available to work if the government requires.

### How can we take the South African discussion for impact forward?

There is much that is of use in this “thinking inside and outside the box” framework and provocation that we can build on in our current policy matrix.

**f**irst, our piloting of employment guarantee schemes acknowledges that, given the disastrous consequences of our youth unemployment situation, we cannot allow our labour market to fail. We have policy experience with a few variants of public works programmes and we can place this alongside our piloting of guaranteed employment programmes to craft substantive, impactful sets of interventions.

Second, we do have active competition policy and are thinking hard at the moment about how to strengthen this policy. Our formal sector inherited and remains characterised by solidified

The country is divided between the haves and the have-nots

and uncompetitive value chains. Even when the South African economy is growing this serves as a key blockage on new entrants and therefore on inclusivity as well as innovation. We have to unblock this situation as one of the keys to a new, empowering labour-absorbing

growth path.

This view of promoting an inclusive labour market suggests an integrated approach to formal-informal sector interactions. The informal sector is part of the value-chain and needs to be conceptualised as such.

At a policy level, private sector employment creation and wage support will have to function as the engine room of sustainable processes of economic inclusion and inequality reduction. Right now in South Africa, we have recognised the need to put in place a menu of policies that seek to reduce the cost of labour to employers through wage subsidies and social wage interventions while simultaneously putting a floor on the wage support coming into households through a national minimum wage. Our policy review endorses these policies and this balance. Other ways of labour market entry, such as internship policies, need to be harmonised within this approach to ensure clarity and coherence in our approach.

Even if one endorses the need for these “inside the box” policies, they need to be augmented with more “outside the box” thinking. Some of the harder structural issues of the inequality discussion in South Africa revolve around facilitating access to land, housing and infrastructure such as public transport. We need to start by recognising and foregrounding the reality that the distribution of these private assets and the accessing of public goods like transport still work to perpetuate our inequality.

This reality constrains the livelihoods of South Africans. It also distorts and limits the potential and limits the effectiveness of other policies. A way forward is to focus on policy interventions that will



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increase access to land; housing and transport of adequate quantity and quality to work together to break this persistence and empower South Africans.

### Turning the tide on inequality

**t**here is no doubt that a virtuous dynamic that turns the tide on inequality will require a complementary mix of “inside the box” and “outside the box” interventions working together. In recognising this, the notion of binding policy constraints is a disturbing one; for example as we confront the shortcomings of South Africa’s education and health in isolation. In addition to directly improving our education and health policies, poorly implemented social expenditure policies further limit the effectiveness of other policy options.

We thus need to consider complementarities across policies in different but related socio-economic spheres.

Tackling inequality is more complicated and politically contentious than tackling poverty. In the context of a negotiated transition to democracy where former elites needed and still need to be accommodated, redistribution has always been and remains a highly political issue for South Africa. Building common ground on this issue remains one of the most difficult but also one of the most important prongs of a national vision to underpin a new South Africa.

At the same time there is no avoiding the fact that further redistribution has to be on the table as part of sensible set of policies to build a South Africa in which all of our citizens can flourish. This can be achieved by redistribution policies designed to empower and break constraints, along with a commitment to strengthening the effectiveness of what we already have in place. **SM**

**Read** the full report from the Mandela Initiative

“Inside the box” policies have not had the expected impacts on inequality