

The structure of the South African economy and its implications for social cohesion

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Economic structure inherited in 1994

- Volatile fiscal policy and defensive (FI and Fiscal) monetary policy
- High levels of poverty, inequality and unemployment distributed by “race”
- Extremely unequal distribution of land and other forms of wealth, also by “race”
- Human capital also extremely unequally distributed by race, and poorly performing systems for black South Africans
- Concentrated and centralised business structure, owned by whites
- Declining mining and agriculture, stagnating manufacturing, rising service sector
- Mediocre levels of innovation
- Underperforming small business sector
- Spatial inequality in urban and rural areas

Continuity since 1994

- Income inequality remains, with small shifts within racial groups
- Wealth inequality (trajectory unclear)
- Inequity in economic power
- High levels of concentration and low levels of investment
- Further declines in mining and agriculture
- Spatial inequalities, exacerbated in urban areas, remain in rural areas
- Poor education and skills—significant improvements in access, but still underperforming at all levels

Changes since 1994

- Improvements in fiscal and monetary policy and practice but still not sufficiently supportive of local non-traditional tradables
- Rising importance of Asia and Africa for trade and investment
- Steeper decline of manufacturing
- Faster growing service sector
- Declining levels of innovation since just before the GFC (around 2007)
- The emergence of a black middle class and some growth of black ownership
- Rising value of social transfers aimed at the poor
- Considerable improvement in social services and infrastructure for the poor including, access to education and health services, township upgrading etc

Drivers of change

- Rise of Asia, especially China and India
- Internal political factors
 - Constraints of transition
 - Co-optive strategy and power of monopoly capital and weaknesses in BEE
 - Poor trust levels and conflictual industrial relations
 - Protectionist populism
- Choices in economic policies and strategies
 - Defensive monetary policy (response to deficit fiscal policies and dependence on foreign capital)
 - Industrial and competition policy
 - Innovation policy lack of coordination and commitment and poor institutional choices
 - Misconceptions and illusions of a “developmental state”
 - Skills and Education—especially skills framework, removing technokons and rationalising universities

Key links between economic structure and social cohesion

- Slow growth
- High inequality
- Spatial separation
- Corruption

Baseline scenario

- Slow growth
- Continued concentration of economic power
- Unequal wealth and incomes
- Low innovation and new business development
- Continued spatial race and class segregation
- Deteriorating social cohesion

Socially constructive scenario: growth and inclusion 1

- *Macroeconomic stability through greater fiscal balance, reducing public debt and reallocation of priorities (managing the public sector wage burden by trimming fat in the bureaucracy, not the frontline services, and judicious privatisation)*
- *Macroeconomics for Re-Industrialisation : Currency competitive and less volatile, lower interest rates for investors, and real wage rates linked to productivity*
- *Public service attractive again to quality staff and implement appropriate recruitment, promotion and training policies*
- *Fixed SOEs from Eskom to the UWB and rationalise them where possible*
 - Strategic partnerships, privatisation, unbundling, where necessary, but fix the market framework for network industries first (to avoid the Telkom scenario)
- *Fixed key policies—energy, telecommunications, mining, land*
 - Energy: clarified energy policy with a focus on storable renewable energy and the decentralisation of energy supply, and the rationalisation of Eskom, including the separation of power purchasing from production
 - Telecommunications policy (e.g. digital broadcasting and spectrum allocation) aimed at reducing barriers to internet access and usage for all and encouraging innovation and competition in content production
 - Mining: provide long-term certainty regarding mining rights and BEE framework
 - Land: continue land redistribution where viable, deepen emerging farmer support, move towards certainty over land-rights in former Bstans, and remove land claim uncertainties

Socially constructive scenario: growth and inclusion 2

- *Smarter innovation, sectoral, small business and trade policies leading to diversified business growth*
 - More systematic support for emerging potentially dynamic businesses
 - Sector development strategies based on capabilities and expectations of future demand and prices, focusing on: training; business environment, support for venture capital; support for innovation.
 - Cooperation between national, provincial and local governments on localised business development strategies
 - Trade and investment policies which serve to deepen regional value chains and deepen African economic integration
 - Additional preferences for empowerment outcomes (ownership, employment, training, procurement etc) within these frameworks
- *More effective and more dynamic BEE inclusion strategies for employment, promotion and business development*
- *Address spatial legacies*
 - Improved environment for public transport of all modes
 - Incentives and frameworks for cities to use their zoning powers and other levers to get private sector investment in affordable and social housing near to urban centres
 - More investment by public and private sector in social infrastructure in poor urban areas

Socially constructive scenario: Growth and inclusion 3

- *Skills and education*
 - Improved quality and throughput of basic education through:
 - Better school governance
 - Transparency in school learners outcomes through standardised tests
 - *Improved quality and throughput of FET through better cooperation with employers and SETAs and better governance*
 - *Improved throughput and scale of HE through*
 - *the HE grant programs*
 - *investment in HE infrastructure and personnel*
 - *More investment in ECD in poor communities*
- *Smart immigration policies for skills*
- *Improved quality of public health*

Positive disruptors

- *Continued African growth and deepening African economic integration resting on improved performance of SADC and the AU—a possible outcome of a new generation of leaders in Southern Africa (and elsewhere)*
- *Steady global growth without excessive commodity price volatility*
- *Greater policy relevance and certainty as an outcome of:*
 - *Greater trust between government, business, labour and the poor*
 - *Stronger and smarter leadership in government (and the other sectors)*
 - *Meaningful social compact(s) and/or forums facilitating and monitoring the adoption of agreed development strategies*

Negative disruptors

- *Poor global environment for growth*
- *Failure of African continental and regional institutions and national governments to manage economic integration, peace and security*
- *Poor political leadership due to*
 - *Persisting corruption of the ANC*
 - *Weakness of the opposition parties*
- *Absence of trust resulting from the lack of credibility in engaging with poverty and inequality*
- *Unrealistic/ideological policies and strategies in government*
 - *Backward-looking policies which can't support keeping pace with global technological change*
- *Short-sighted business strategies—lack of long term commitment to national and regional growth and poor incentive environment*
- *The rise of right wing populism, nationalism and xenophobia*
- *Conflictual trade union strategies nurtured by disruptive left-wing populism*

What won't work

- *Land reform in the current model—should focus on focused redistribution, tenure reform and farmer support (supported by agriculture r&d)*
- *Policies that hinge on a nostalgic view of reindustrialisation*
- *Depending on a reversion to labour intensive tradeable industries and trying to compete with low wage countries to solve job creation and inequality*

Alternatives

- *Land reform—focus on urban land for spatial reform, and land tenure and farmer support in rural areas*
- *Improve the environment for and support for survivalist informal sector especially at municipal level*
- *Support sectors that are growing in demand in the middle of the wage and skill spectrum and ensure that infrastructure, education and innovation policies support these*
- *Stabilise and deepen existing sectors and pockets of manufacturing and those with strong African demand including capital goods for mining and agriculture*
- *Strengthen regional value chains*
- *Allow for experiments on the margins in SA e.g. SEZs with social partnership support*

Persistence of unequal incomes

	Average per capital income		Annual growth	As % of average white income	
	1995	2010		1995	2010
African	R8 929	R10 893	1.3%	13.8%	14.3%
Coloured	R12 837	R21 687	3.6%	19.8%	28.5%
Indian	R29 765	R39 807	2.0%	46%	52.3%
White	R64 768	R76 177	1.1%	100%	100%

Within group ratios

	Ratios	1995	2010
All of SA	Richest 10% to poorest 10%	140	168
	Richest 10% to median	16	21
African	Richest 10% to poorest 10%	95	101
	Richest 10% to median	10	15
Coloured	Richest 10% to poorest 10%	24	67
	Richest 10% to median	7	10
Indian	Richest 10% to poorest 10%	20	54
	Richest 10% to median	6	7
White	Richest 10% to poorest 10%	20	64
	Richest 10% to median	5	5

Shares of net worth by decile (NIDS Wave 4)

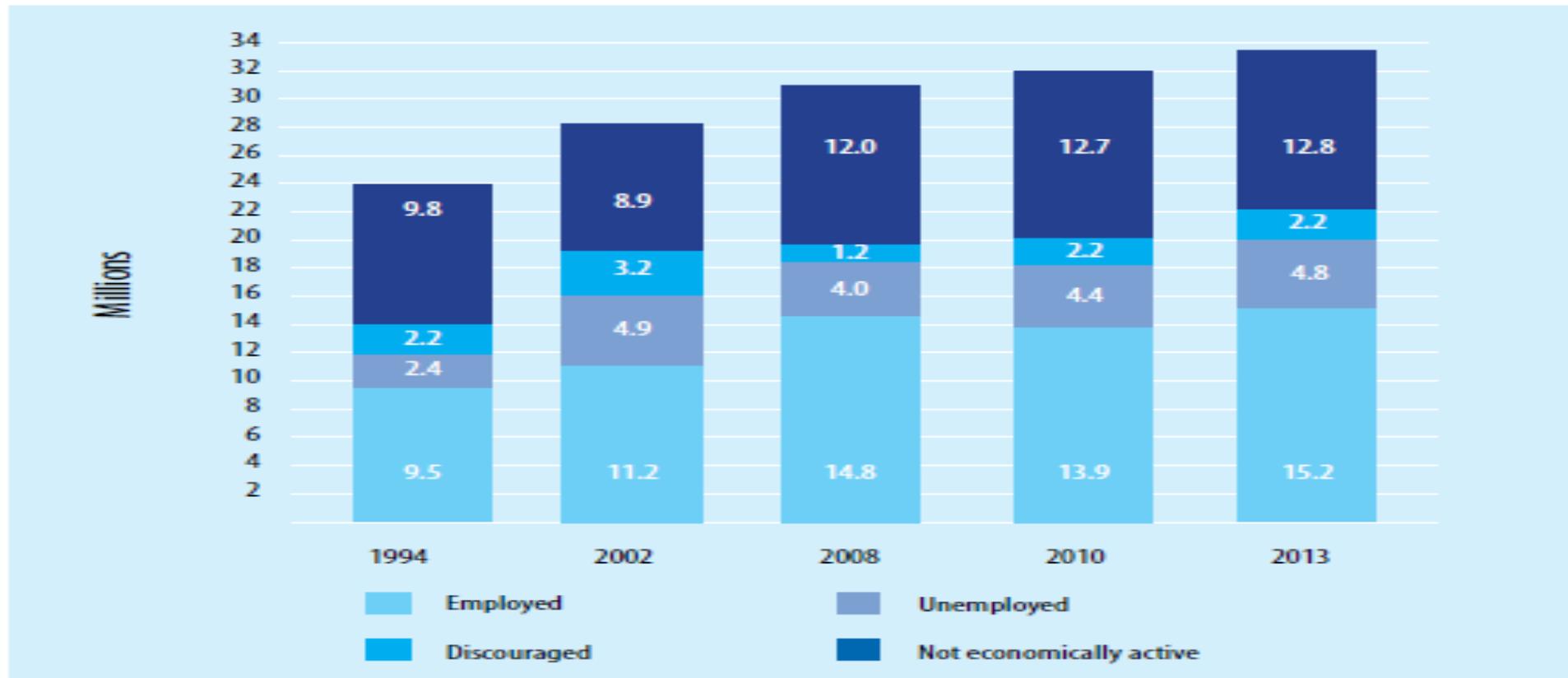
Decile	Share (%)	Median Value (Rands)
1	.10	R3,899
2	.31	R10,675
3	.74	R22,503
4	1.40	R40,599
5	2.27	R65,000
6	3.01	R101,104
7	4.57	R154,725
8	7.37	R300,000
9	15.39	R641,567
10	64.85	R 2,129,878

Gini coefficients of financial variables (NIDS Wave 4)

Assets/Debts/Income	Gini
Total Assets	0.87
Total Debts	0.90
Net Worth	0.90
Income	0.61
Property Assets	0.88
Retirement Annuities	0.87
Financial Assets	0.92

Labour force status of working age population 1994-2013

Labour force status of working age population, 1994-2013, in millions²

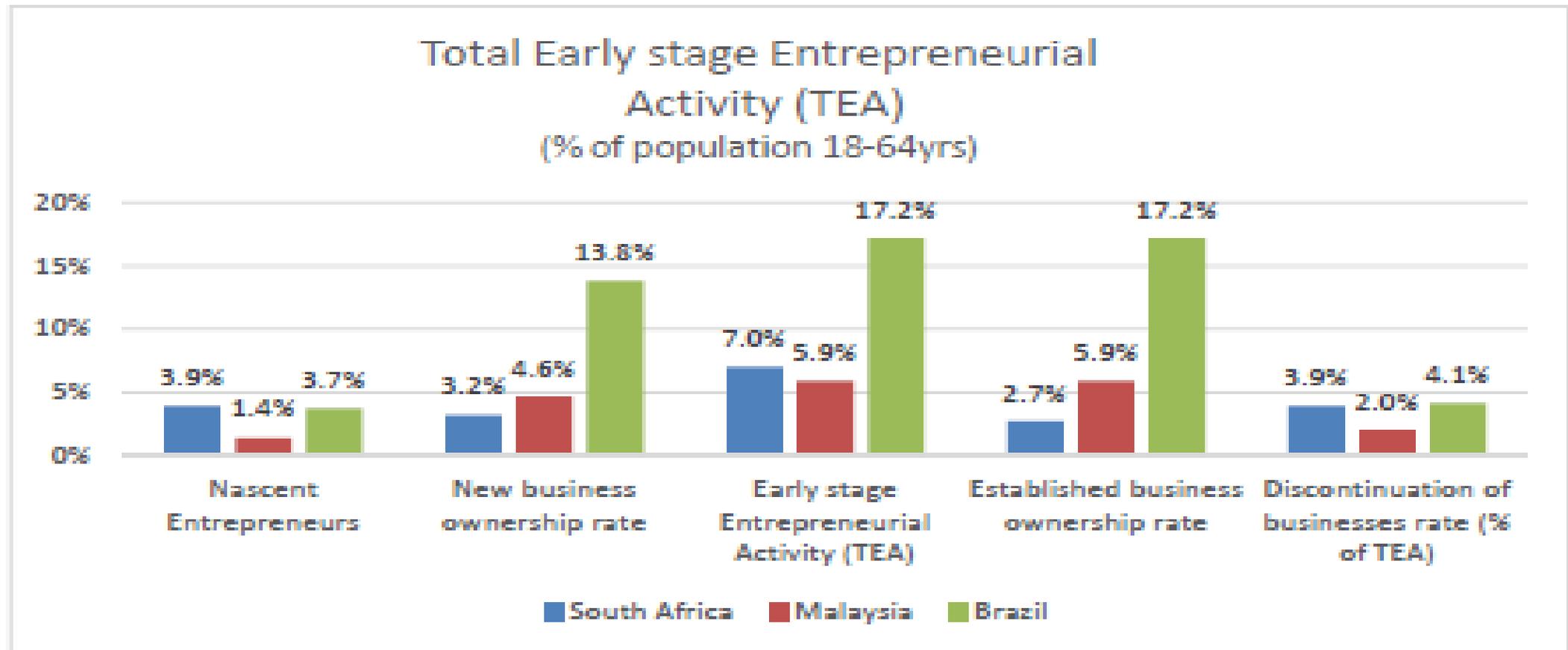


Sources: StatsSA (2012)

Distribution of Land

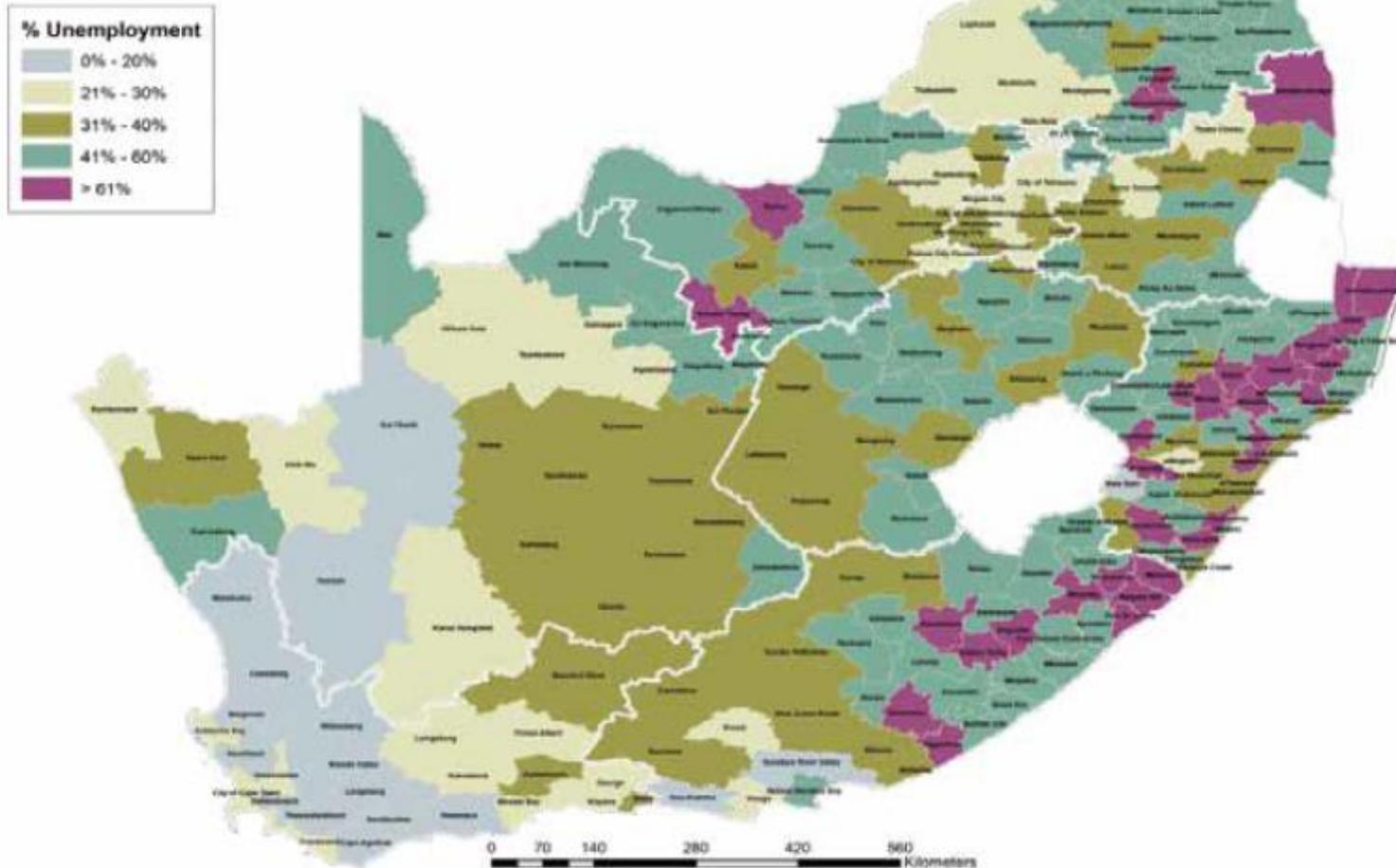
Land area of South Africa	Land area of former home-lands	Land area of former 'white RSA'	Commercial agric land	30% of commercial agric land	Total land redistributed to date	Land redistribution as % of commercial agricultural land
122 320 100 ha	17 112 800 ha	105 267 300 ha	86 186 026 ha	25 855 808 ha	4 701 542 ha	5.46%

Business start-ups



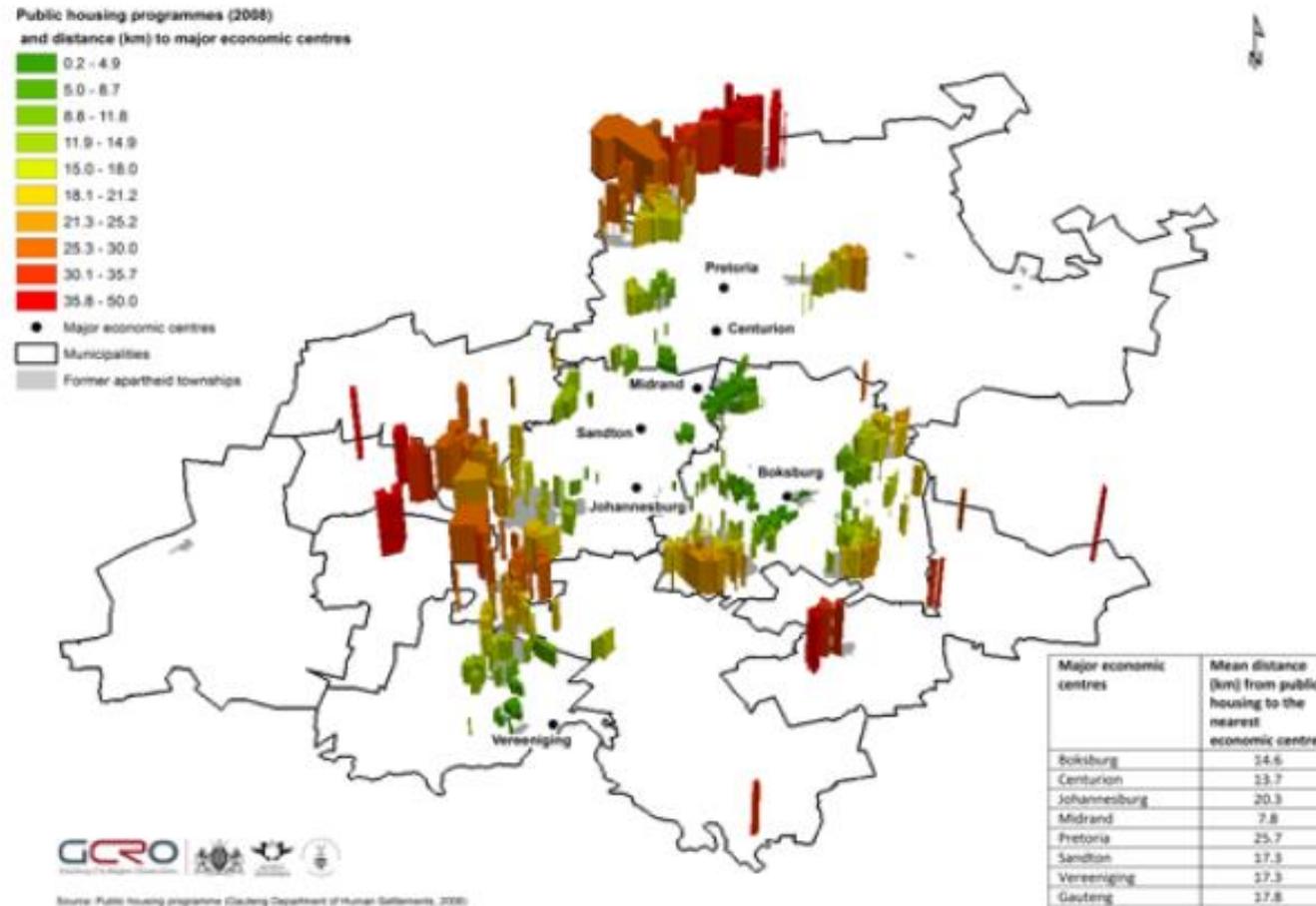
Unemployment per municipality 2011

Unemployment per municipality



Location of RDP housing in Gauteng

Proximity of RDP housing to major economic centres



Source: Gauteng Department of Human Settlements (July 2008 Housing Programmes)

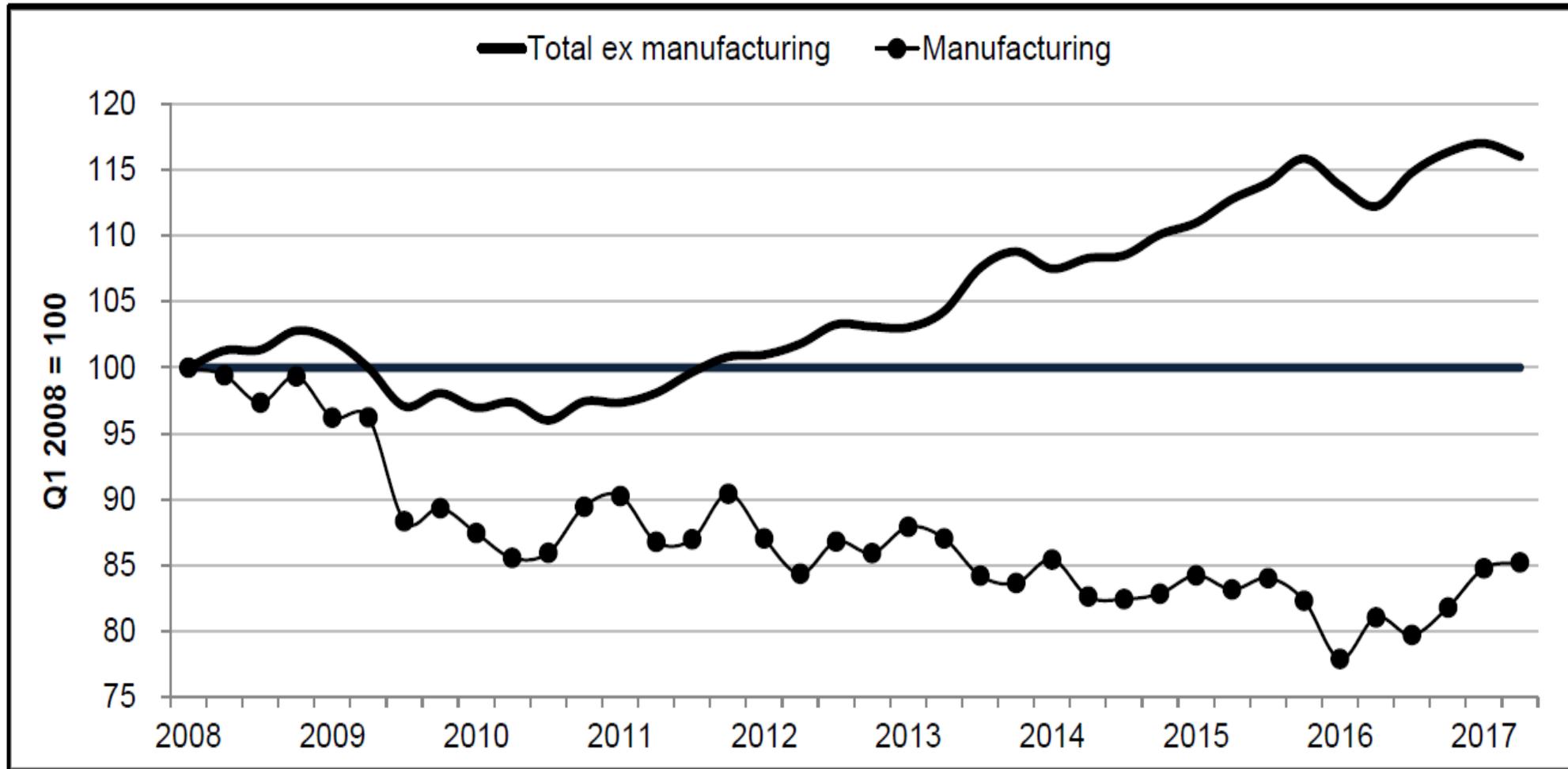
Sectoral trends in the economy 1994-2012

Structure of the economy (gross value added), 1994 and 2012

SECTOR	Percentage of total gross value added	
	1990	2012
Primary	13.9	7.9
Agriculture, forestry and fisheries	3.3	2.4
Mining and quarrying	10.6	5.5
Secondary	25.5	22.6
Manufacturing	20.2	17.2
Electricity, gas and water	2.3	2.0
Construction	3.0	3.4
Tertiary	60.6	65.5
Wholesale and retail trade, catering and accommodation	13.0	14.0
Transport, storage and communication	6.6	10.1
Finance, insurance, real estate and business services	16.4	23.9
General government	18.7	15.3
Other	5.9	6.2
Total	100	100

Source: Adapted from Roux, 2014

Employment trends in manufacturing since the GFC



Changing trade patterns 1994-2013

Figure 1: Twenty Years of Market Diversification (1994-2013)				
Top 15 Trading Partners in 1994		Ranking	Top 15 Trading Partners in 2013	
Total Trade (Rand)	Country		Country	Total Trade (Rand)
17,720,760,507	Germany	1	China	270,805,136,564
16,018,191,319	United Kingdom	2	Germany	144,553,250,856
15,954,930,057	United States	3	United States	129,902,631,814
13,694,512,201	Japan	4	Japan	93,162,680,107
8,275,716,749	Switzerland	5	India	80,864,944,753
5,026,286,415	Italy	6	Saudi Arabia	80,091,800,857
4,805,751,717	Taiwan	7	United Kingdom	64,153,954,483
4,484,807,611	Belgium	8	Botswana	49,521,276,279
4,178,455,241	Netherlands	9	Namibia	47,590,888,426
3,926,189,907	France	10	Netherlands	45,585,898,595
3,508,601,614	Zimbabwe	11	Nigeria	42,701,394,871
3,232,718,577	Hong Kong (China)	12	Mozambique	39,577,890,016
2,976,188,804	South Korea	13	Italy	36,435,940,544
2,298,057,872	Singapore	14	Switzerland	31,830,088,523
2,170,122,515	Iran	15	France	31,680,526,356

Source: Department of Trade and Industry trade data

Impact of social grants on Gini coefficients

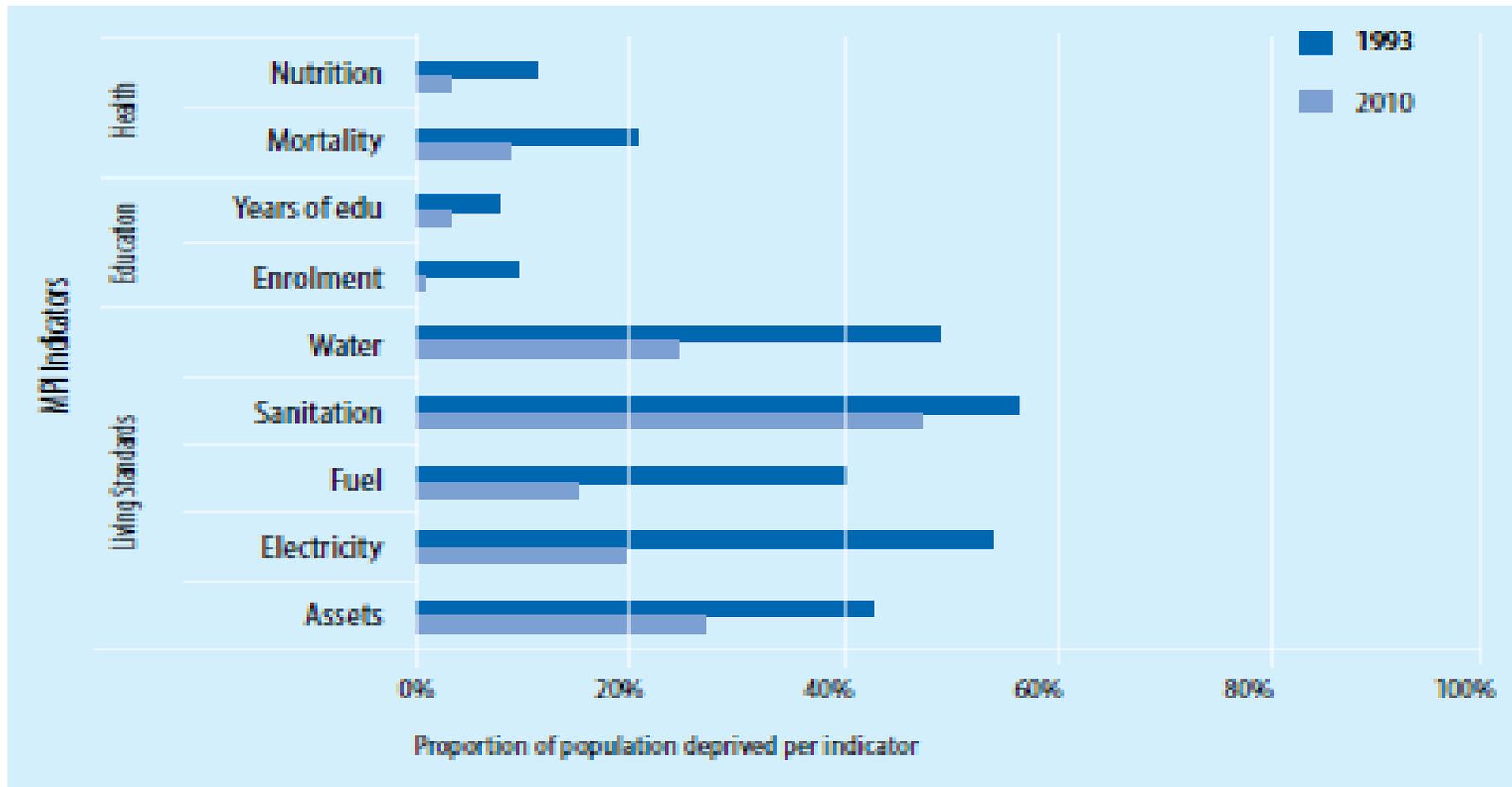
Gini coefficients broken down by deciles, showing decile 1-4 with and without social grants

Gini	1993	2010
Overall	0.674	0.696
Deciles 1-9	0.524	0.525
Deciles 1-8	0.450	0.438
Decile 10	0.327	0.351
Deciles 1-4		
With grants	0.338	0.297
Without grants	0.491	0.604

Source: Calculations by Murray Leibbrandt

Improved social access

Drivers of deprivation among the population



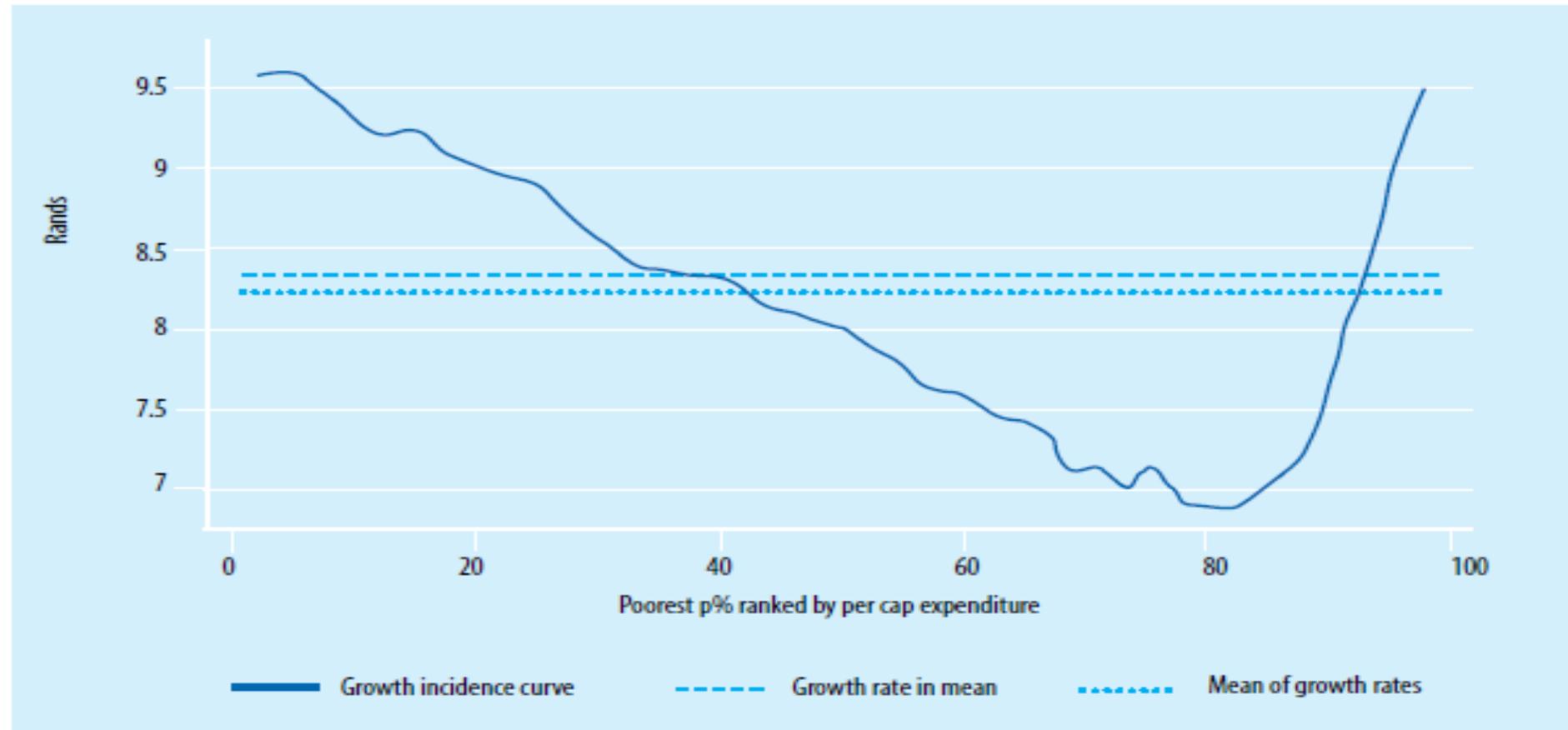
Source: Finn, Leibbrandt and Woolard, 2013

Access to infrastructure services

Year	Electricity	Piped water	Flush toilet
1996	58,2	60,8	-
2001	69,7	62,3	49,1
2007	80,1	69,4	55,0
2011	84,7	73,4	57,0
2016	90,3	83,5	60,6

Incidence of growth for African South Africans

Growth Incidence Curves for black Africans: 1995-2005



Source: Borat and Van Der Westhuizen, 2012

Grade 4 numeracy in 2008

FIGURE 10

Distribution of Grade 4 numeracy achievement by historical education department (Data NSES 20017/8/9)

