Structural Transformation, Inequality, and Inclusive Growth in South Africa

Haroon Bhorat, Kezia Lilenstein, Morne Oosthuizen and Amy Thornton

Development Policy Research Unit
University of Cape Town
Outline

• Economic History Prior to 1960
• Trends in Structural Transformation
• Income Inequality, Employment and Inclusive Growth
• Policies Shaping Structural Transformation, Inequality and Inclusive Growth
• The Political Economy of Structural Transformation
• The Future Trajectory of Structural Transformation, Inequality and Inclusive Growth
Economic History Prior to 1960s

• Pre-WWII
  • Agri based before discovery of gold and diamonds end of 19th century
  • Rise of mining – 1/3 global supply 1939
  • Mines profitable on low-cost African labour
  • White Wm set through unions - earnings of White to African workers 10:1 during inter-war period.

• WWII-1960s
  • Tripling of Real GDP
  • Start of industrialisation
  • Manufacturing output tripled between 1924 and 1939, despite the depression
  • 1948 - apartheid and discriminatory law
  • Jobs and skilled work reserved for White people
  • White welfare state: social assistance & generous state investment in White public education.
  • Spatial segregation: Africans in cities forcibly relocated to rural homelands, marginalised from economic opportunities.
  • Unemployment surged amongst African population in 1970s and remains high
Trends in Structural Transformation

- Period I: Industrialisation (pre-1981)
- Period II: Decline (1981 to 1994)
- Period III: The post-apartheid period (post-1994)
Period I: Industrialisation (pre-1981)
Period II: Decline (1981 to 1994)
Period III: The post-apartheid period (post-1994)
Income Inequality, Employment and Inclusive Growth - Current

**Poverty**
- 40% in 2015
- Africans - 47.1%; Whites - 0.4%

**Inequality**
- Unchanged or increased since 1994
- May be highest in the world – Gini at 0.69 despite being a middle-income country

**Unemployment**
- Highest in the world? Narrow rate is 25%, 29% for Africans, 6% for Whites

**Inclusive Growth**
- Growth peaked at 5.6% in 2006, trending downwards since
- <2% in the last 5 years
- General failure of the economy to generate inclusive, pro-poor growth
The South African education system is "grossly inefficient, severely underperforming and egregiously unfair".

- Spaul (2013)
Policies Shaping Structural Transformation, Inequality and Inclusive Growth

Real economic impact of apartheid powerfully felt in the labour market

- Minimum Wages
- Expanded Public Works Programme
- Employment Tax Incentive
Result is: Wage polarisation and Increasing Inequality

Annual Average Growth Rate of Real Employee Wages in South Africa for the Period 2000-2015

![Graph showing the Annual Average Growth Rate of Real Employee Wages in South Africa for the Period 2000-2015. The graph displays a trend of increasing inequality with higher wages disproportionately affecting higher wage percentiles.]
The Political Economy of Structural Transformation

- Deep-seated antipathy between labour and business
  - Caused by alignment of colonial and apartheid state with business sector, centrality of labour in mobilising against apartheid
  - Extremely difficult to generate a national consensus with buy-in from all three social partners
  - High degree of concentration and economic rents create adverse incentives

“[the] triumvirate of big business, government and organized labour is locked in a continual, boisterous public tussle over the distribution of the high rents being generated under the system” and economic rents create incentives to maintain the system.

- Mahajan (2014)
The Political Economy of Structural Transformation

- Weakening of a wide variety of state institutions in the last decade
  - Growing corruption and ‘state capture’ facilitated by insertion of complicit individuals into key positions of power.
  - Major SOEs and metros struggle to ‘keep the lights on’ and ‘keep the taps running’.
- Strong resistance to using the international labour market to fill skills shortages.
- Fiscus under increased pressure
Future Trajectory of Structural Transformation, Inequality and Inclusive Growth

• Post-apartheid era characterised by failure to address inequality & achieve IG
• Urgency is clear: working age pop is growing and unemployment continues to rise
  • Many developing countries have informal sectors absorbing ‘excess labour’, not true for SA.
• Contrary to East Asian model, SA experiencing premature deindustrialisation
• The case for a services-led growth path
  • Will unemployed be absorbed through growth path predicated on abundance of high-skilled employment?
  • Sub-sectors of services industry are fast-growing with capacity to absorb huge numbers of moderately skilled workers: tourism, wholesale & retail, transport & storage, catering & accommodation.
Future Trajectory of Structural Transformation, Inequality and Inclusive Growth

- Importance of multi-pronged approach in tackling unemployment and growth problem
  - Manufacturing and industrialisation remain the focus of SA’s policy landscape for creating labour-intensive growth
- Imperative to develop a strategy promoting the development of industries with and without smokestacks
Thank You!