



Structural Transformation, Inequality, and Inclusive Growth in South Africa

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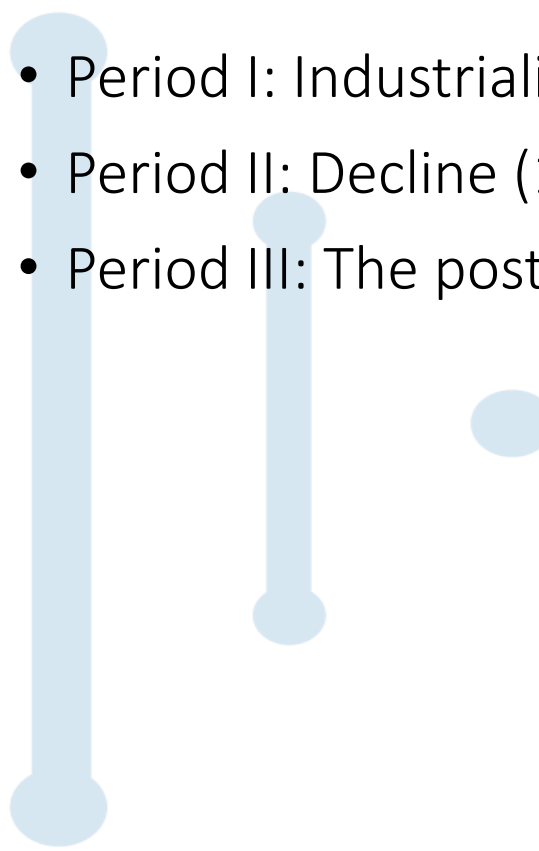
Outline

- 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

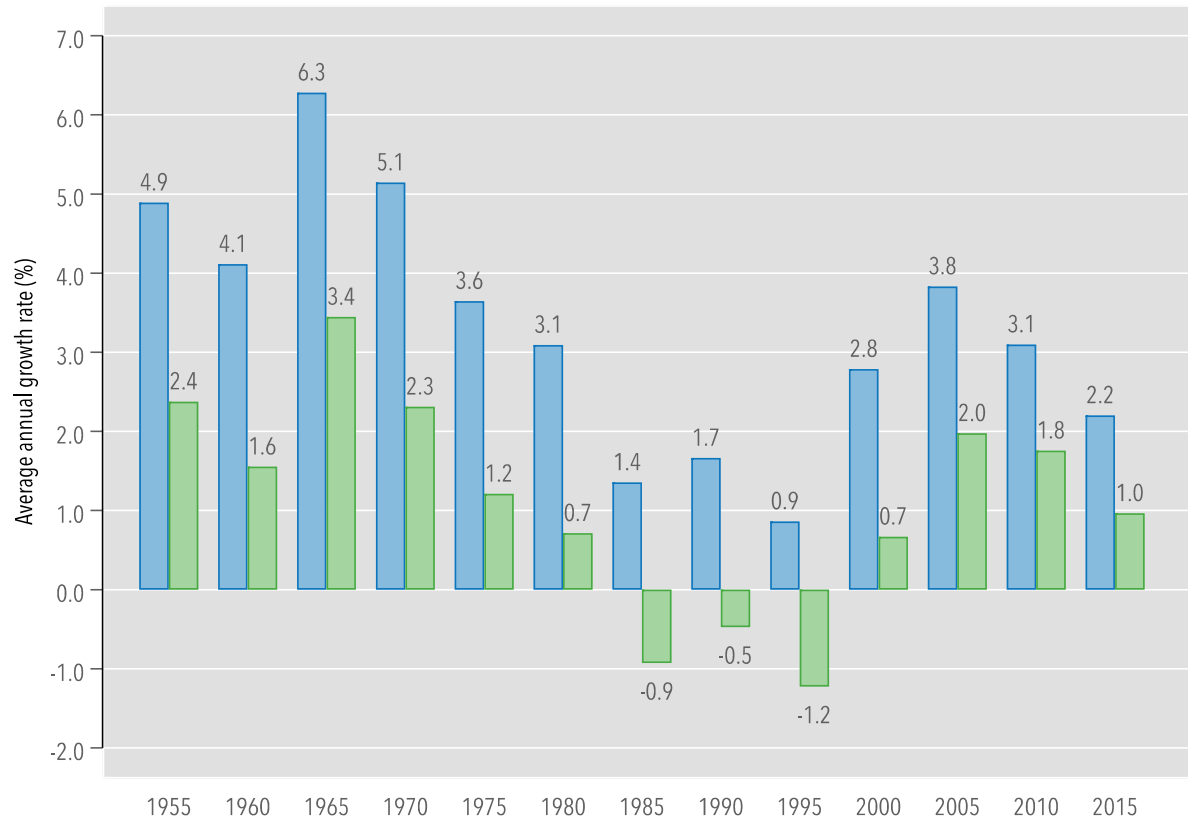
Economic History Prior to 1960s

- 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

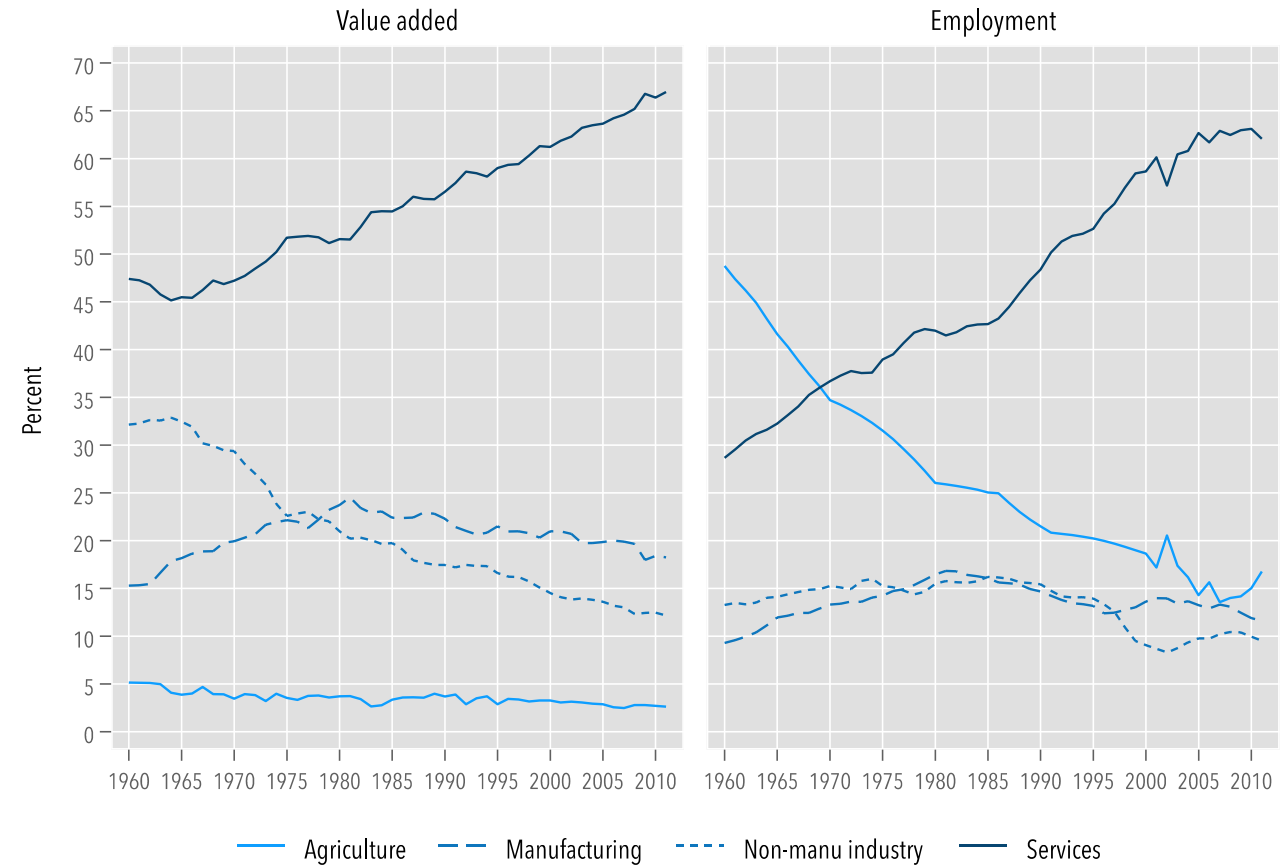
Trends in Structural Transformation

- Period I: Industrialisation (pre-1981)
 - Period II: Decline (1981 to 1994)
 - Period III: The post-apartheid period (post-1994)
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GDP Growth, Value Added and Employment

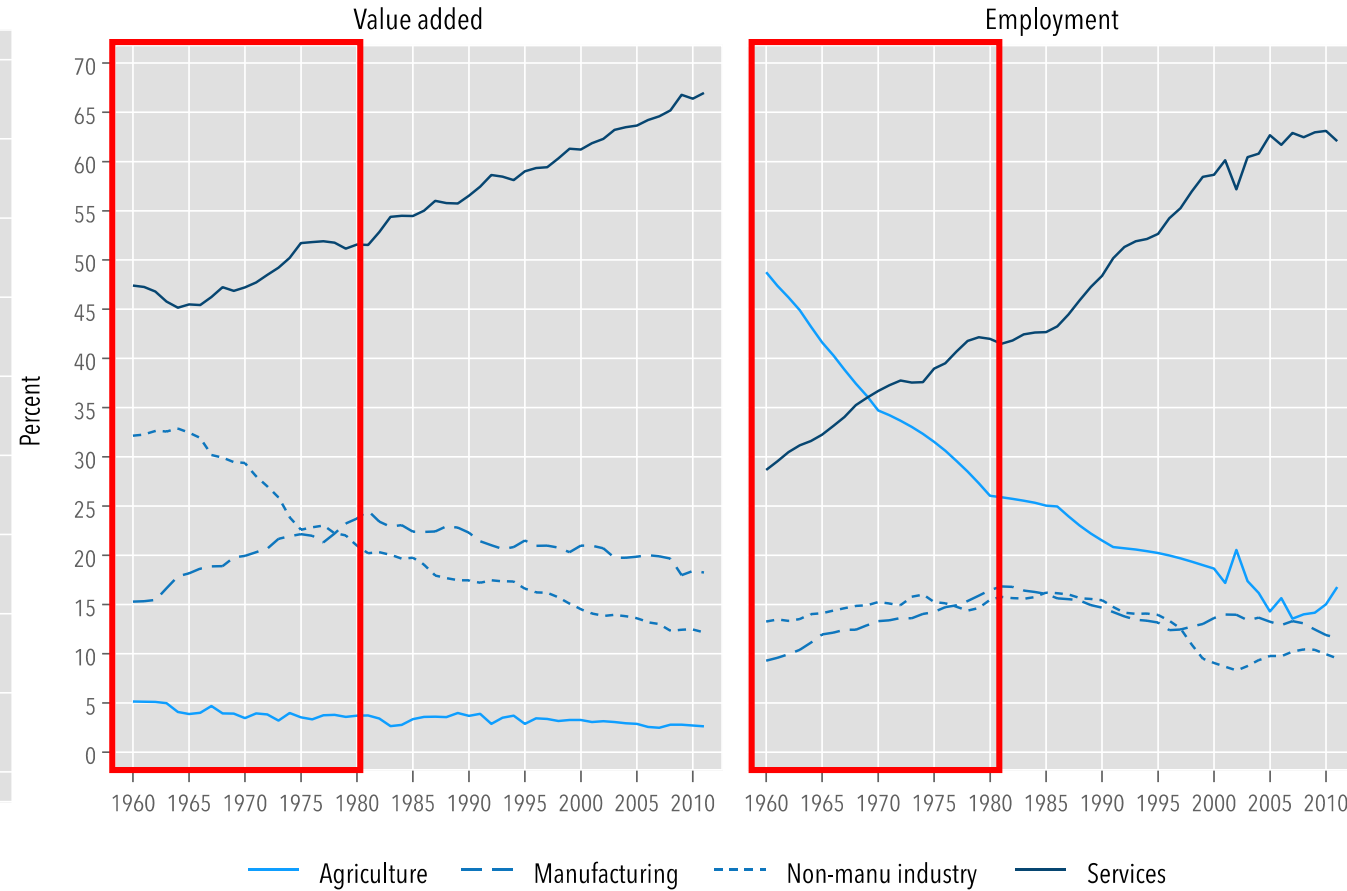
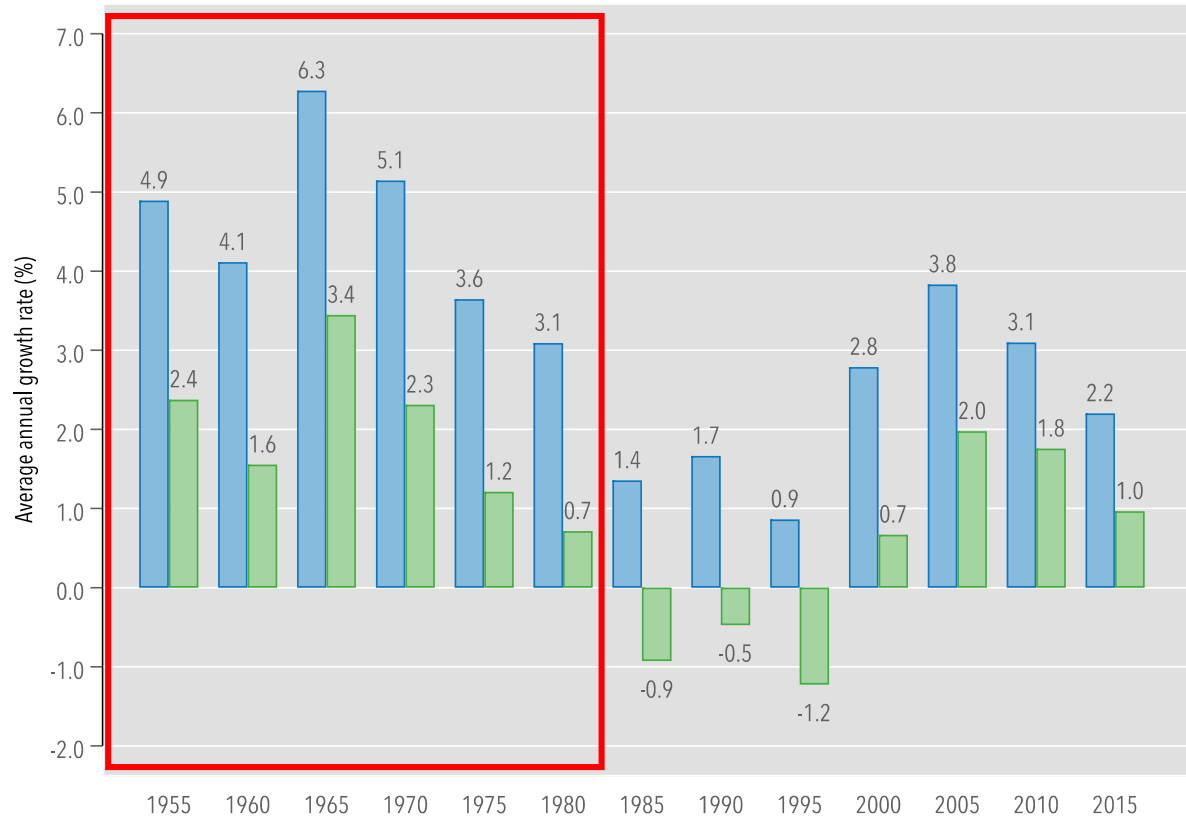


■ Real GDP
■ Real GDP per capita



— Agriculture - - - Manufacturing . . . Non-manu industry — Services

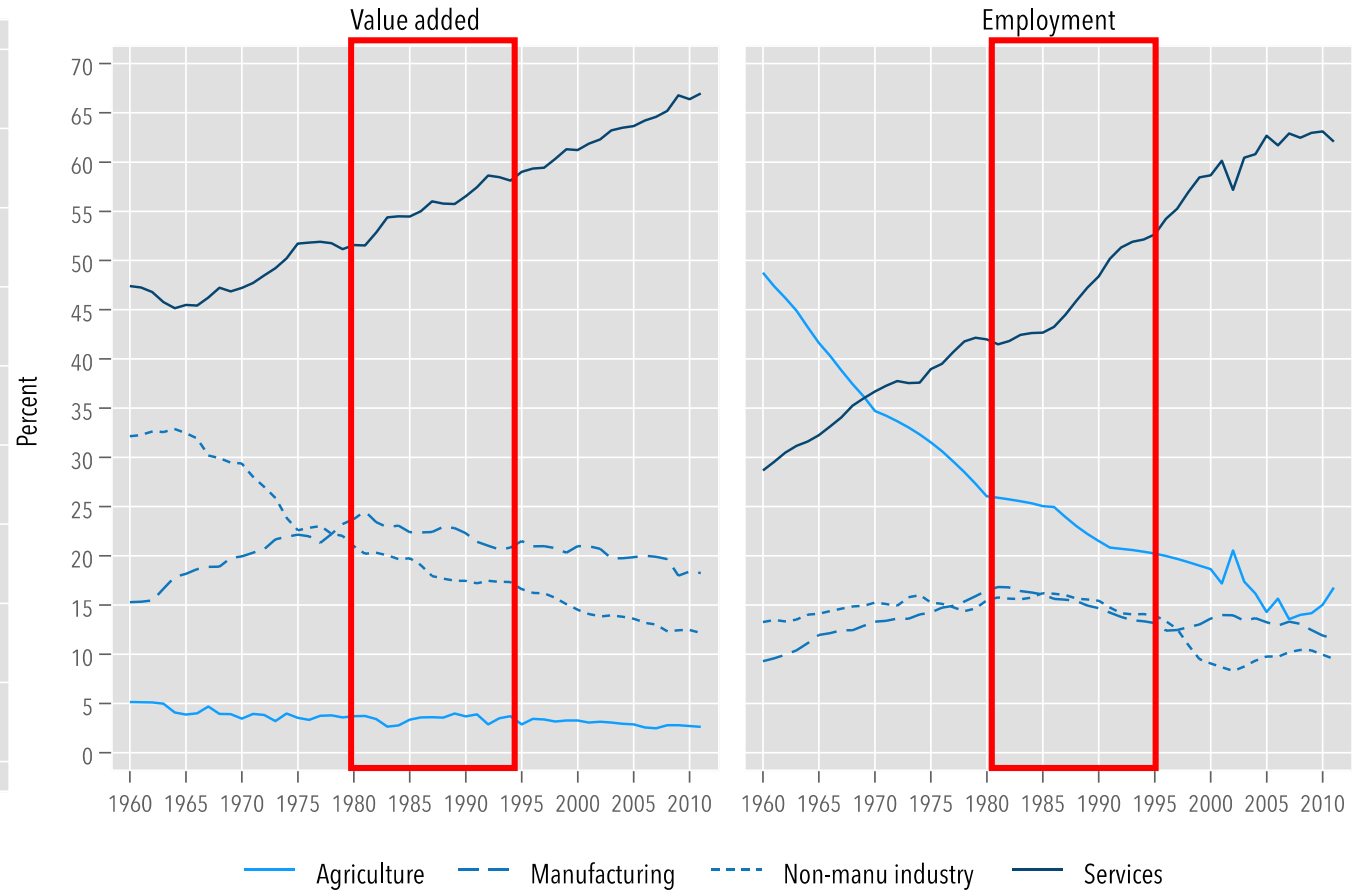
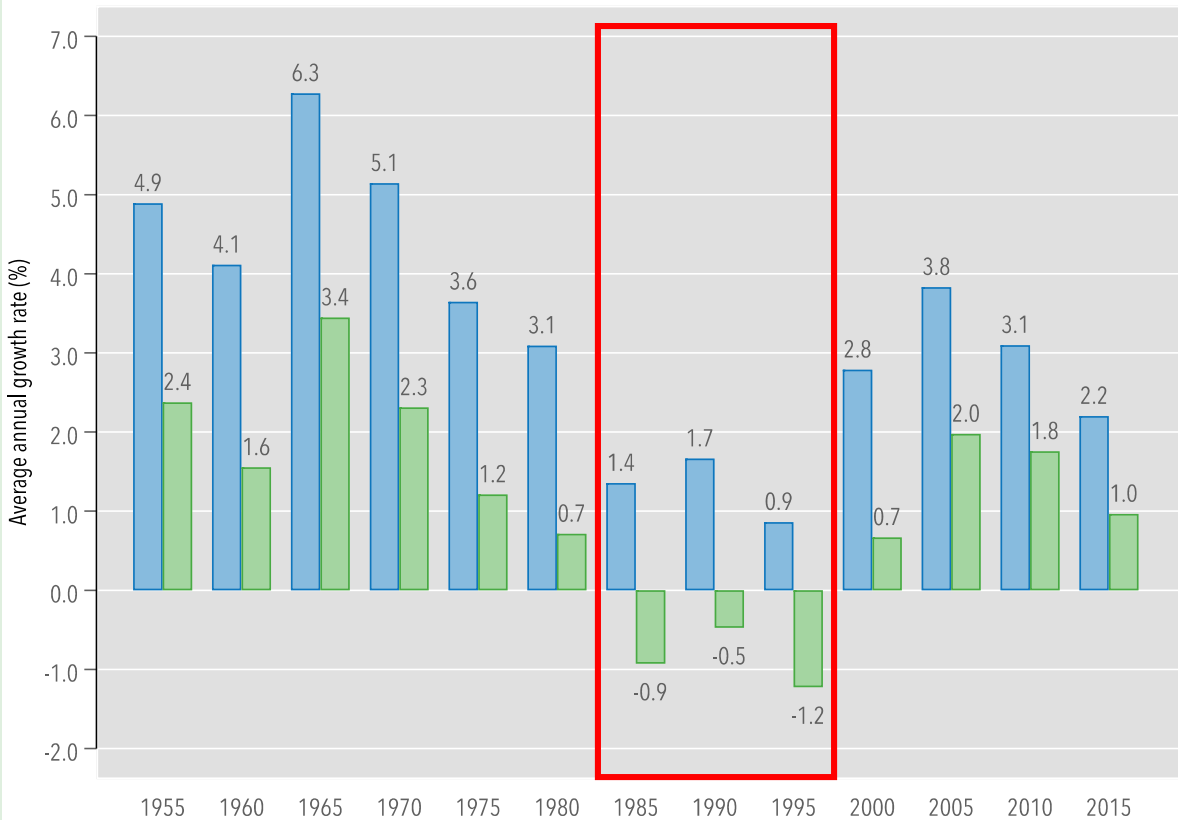
Period I: Industrialisation (pre-1981)



■ Real GDP
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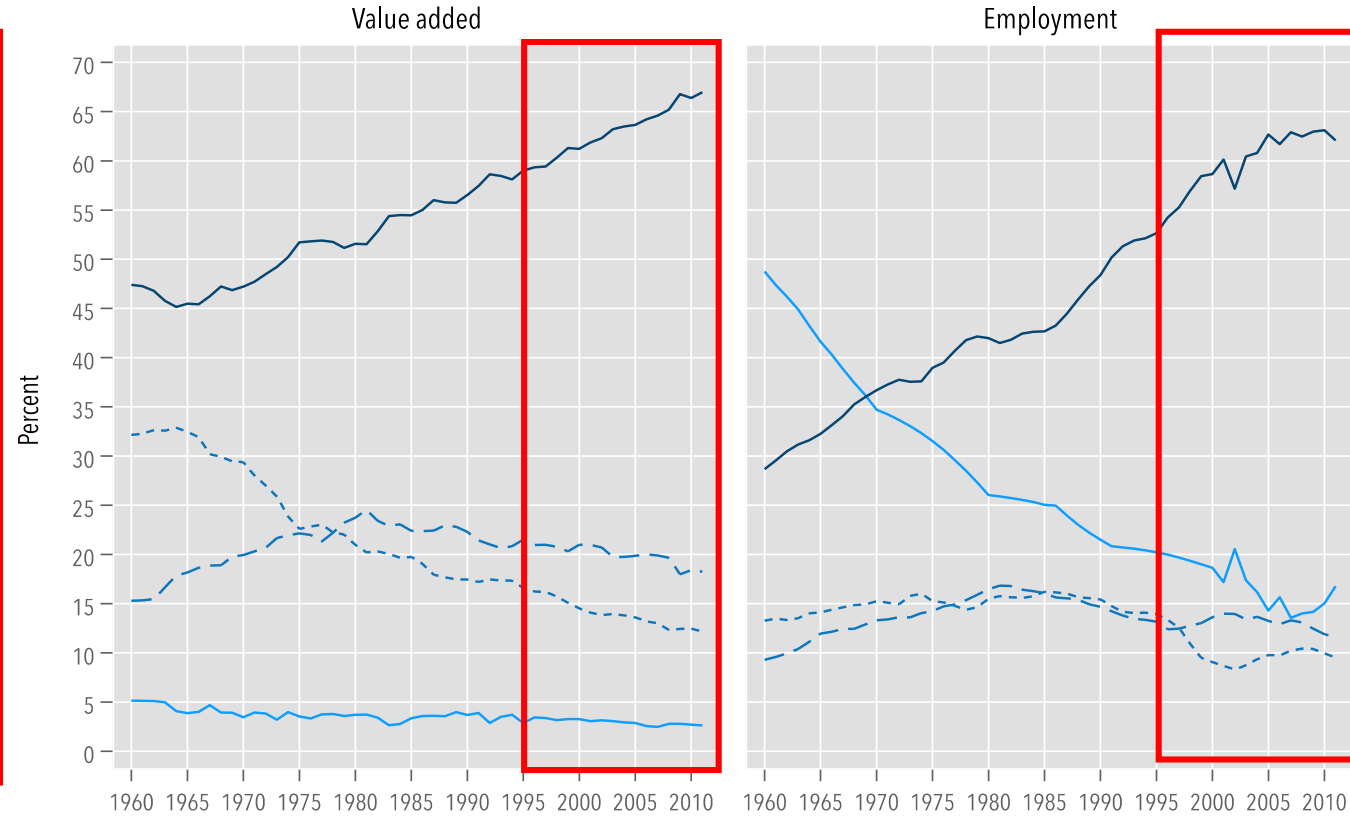
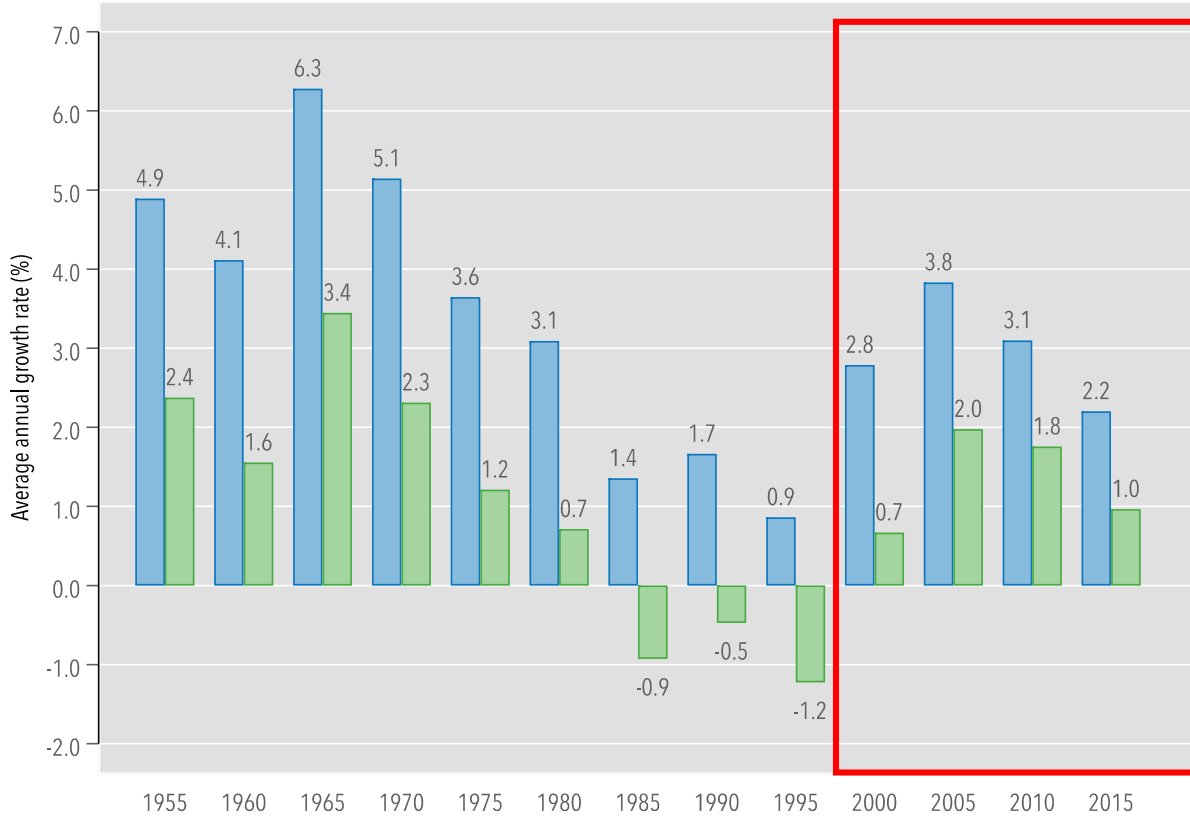
Period II: Decline (1981 to 1994)



■ Real GDP
■ Real GDP per capita

— Agriculture - - Manufacturing - - - Non-manu industry — Services

Period III: The post-apartheid period (post-1994)



■ Real GDP
■ Real GDP per capita

— Agriculture
 - - - Manufacturing
 - - - Non-manu industry
 — Services

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

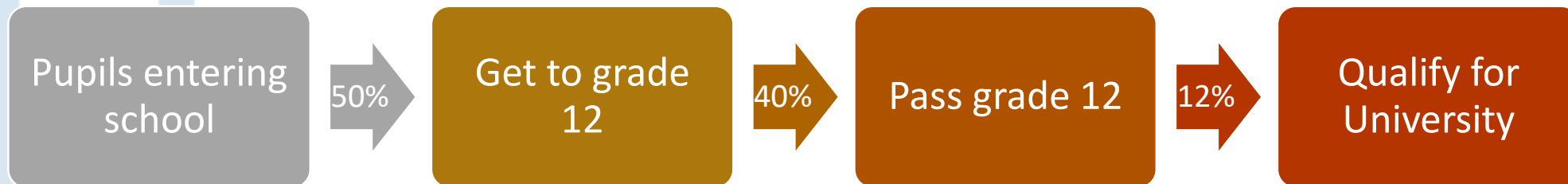
- Highest in the world? Narrow rate is 25%, 29% for Africans, 6% for Whites

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

Policies Shaping Structural Transformation, Inequality and Inclusive Growth

- 2003 - Broad-Based Black Economic Empowerment (B-BBEE)
- 2018 – Social Grants
 - 18 million covered by social security, only 4 million in 1994
 - Pension = 63% of median wage
- Focus on Education

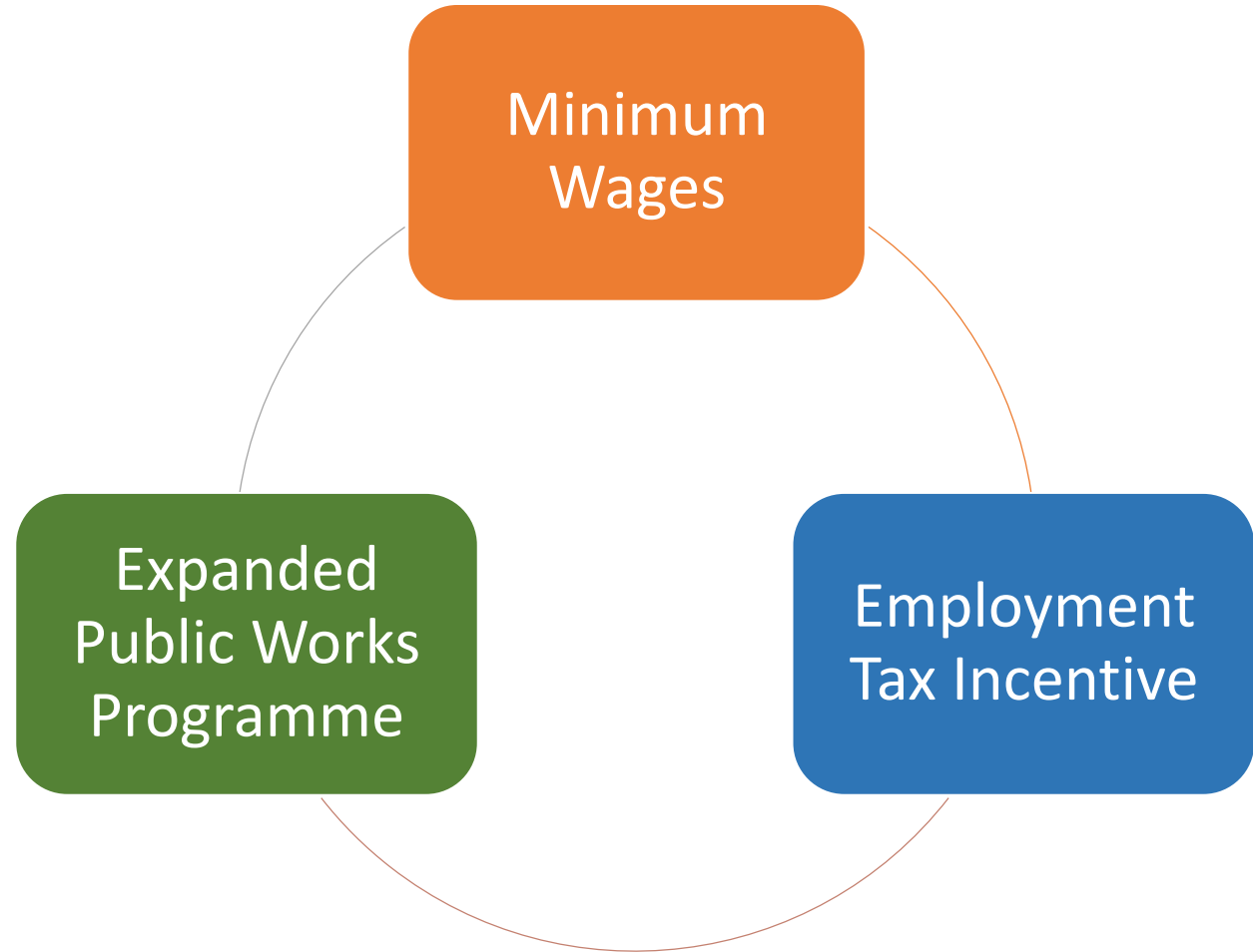


The South African education system is “*grossly inefficient, severely underperforming and egregiously unfair*”.

-Spaull (2013)

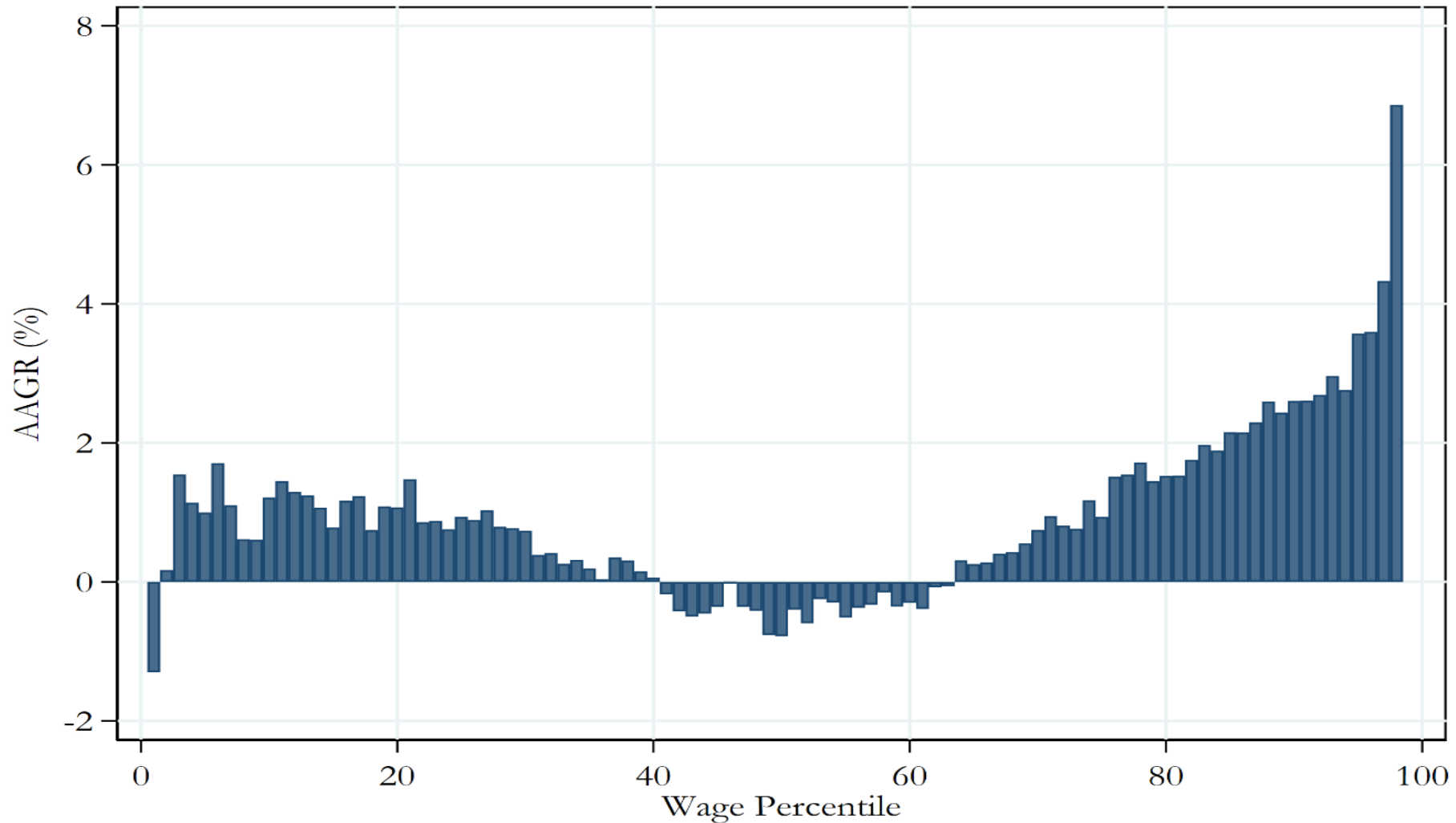
Policies Shaping Structural Transformation, Inequality and Inclusive Growth

Real economic impact of apartheid powerfully felt in the labour market



Result is: Wage polarisation and Increasing Inequality

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



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!