Economic inequality: A binding constraint

Aporde webinar

8 September 2020

The challenge

- South Africa consistently ranks high in terms of overall income inequality as well as inequality by race (less so by gender, though gender inequalities are severe)
  - ➢ But remember that many countries don't report at all, or misrepresent
  - ➢ No sound evidence that getting worse, but also not qualitatively improving
  - ➢ Until COVID-19, reduction in poverty but not inequality

- Raises two questions
  - ➢ Why should we care?
  - ➢ What factors lead to reproduction of inequality reproduced after apartheid?

Paper is on TIPS website under "recent research"

Why should we care?

- Economics: extreme inequality linked to slower growth
  - Investor insecurity as inevitable risks for property rights
  - Policy contestation
  - Depressed demand for mass consumer goods – higher demand for imports, services and artisanal luxuries
- Social and political: crime, protest actions, populism

- In SA democracy: inevitable tension between
  - Deeply unequal economic power
  - Much greater equality in political power

Measuring inequality

- Unusually deep inequalities in household income due to unequal payscales, high joblessness and business earnings
- Ownership
  - ➢ Big businesses capture bulk of incomes and market
  - ➢ Financial assets almost exclusively belong to top decile of households – even retirement funds almost only in top 20%
  - ➢ Land: Only around 30 000 commercial farms and 100 000 farmers in historic labour-sending regions
    - Another million do some gardening but rely on grants and other earned income, not agriculture
    - Low SA employment ratio mirrors very low self-employment in agriculture compared to peer economies
  - ➢ Housing: most SA households own their homes, but
    - Usually limited financial value (under R100 000)
    - Mostly no market, so limited economic impacts
- Education: Substantial differences in access to quality education by class and race
- Infrastructure: Still far worse in poor communities than in rich ones
- Historic labour-sending regions: Household incomes around half as high as in the rest of the country

COVID impacts: A K-shaped recovery?

- High income/big business more resilient
  - Big business more able to adapt than SMMEs
  - Easier to work from home and isolate
  - Able to negotiate credit and rent
  - Asset bubble globally

- For working people and poor
  - Grants and TERS provide partial protection, but not for self employed
  - Informal evictions but trying to ban land invasions
  - School closures without technology for remote learning

Why does inequality reproduce?

- Historic compromise in 1994:
  - ➢ Government would increase services for the majority and support emerging black business without
    - disrupting or downgrading historic centres of excellence (schools, healthcare, suburbs)
    - Radical changes in property rights – expropriation in public interest but tested by legal process
  - ➢ Labour rights and social grants/housing/ infrastructure/social services for majority
  - ➢ Rich and big business pay taxes and agree to engage on developmental aims
- On this basis, anticipated boom as economy re-integrated into global economy, facilitating redistribution

- What has happened:
  - ➢ Educated black people able to advance through state and to a limited extent private business, but overall inequality essentially unchanged
  - ➢ Pushback from taxpayers and creditors limited support for new businesses and low income
  - ➢ Little change in workplace power relations
  - ➢ Economy reflects commodity cycle, with diversification of exports only into auto, food, finance and tourism – limited scope for jobs and small business (contrast to Asia)
  - ➢ Endless policy contestation and fragmentation

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Specific processes include…

Re-opening the economy did not lead to a boom
- Mining dependency deeply entrenched in private and public systems and capabilities
- Upstream companies capture rents at cost of downstream
- Location and late-comer status mean not entering manufacturing VC except auto and through mining VC (basic metals, capital goods, chemicals, electricity)
- Growth in food, auto, tourism and finance but limited scope for emerging enterprise and job creation

Premium for qualified maintained by
- Unequal education
- Work organisation
- Restrictions on skilled immigrants (but not brain drain)

Deeply inequitable education systems
- Maintained centres of excellence through fees and rationing
- Education model dysfunctional with less resources
- Not meeting needs of modern economy especially if leave before matric

Infrastructure and housing
- Rapid rural-urban migration as ended residential restrictions
- Difficult to provide infrastructure where communities can't pay – user pays principle incentivises provision for rich and established business

Ownership
- When apartheid smashed small producers, it also stunted support systems of all kinds
- Need some large producers to compete internationally – but how to avoid just protecting them at the cost of change? (E.g. steel, agriculture)
- Inherited wealth means that even with equal incomes, have greater resilience and ability to take up new opportunities

Some questions

- If you could design three programmes to disrupt the reproduction of inequality, what would they be?
- What makes it so hard to overcome inequalities in government services?
- How can we achieve more equitable workplaces and payscales – and what would be the barriers?