Does growth
need more government intervention?

In the past ten years, the development discourse in SA has come full circle. Then as now debates centre largely on the relationship between poverty, inequality and growth. Is rapid growth possible without state-led efforts to address inequalities left by apartheid? Will moderate growth alleviate poverty without government measures to support redistribution? ***Neva Seidman Makgetla*** *argues that if more rapid growth depends on achieving greater equity then that will require both the redirection of anti-poverty measures and targeted support for light industry and services in the formal sector.*

According to the recent United Nations Development Programme Human Development Report on South Africa (UNDP 2004, p. 41) the number of South Africans living below the poverty line declined slightly after 1994, falling from 51% to 48,5%. At the same time, income inequality worsened somewhat. As a result, South Africa remained one the most unequal countries in the world.

Table 1 compares other economic outcomes for South Africa and other middle-income countries. South Africa performed substantially worse than comparable economies in terms of growth, investment and employment. It did improve compared to the deep crisis of the late 1980s and early 1990s, which primarily resulted from capital flight in the face of rising resistance, combined with the decline in gold mining.

Table 1.
Growth, investment and unemployment compared to other countries

	GDP growth 1990-2001	GDP per capita1 2001	investment as % of GDP 2001	unemployment rate 1998-20012
South Africa	2.1%	10,910	15%	23%
Middle-income countries of which:	3.4%	5,390	24%	5%
Malaysia	6.5%	7,910	29%	3%
Chile	6.3%	8,840	21%	10%
South Korea	5.7%	15,060	27%	4%
Egypt	4.5%	3,560	15%	8%
Brazil	2.8%	7,070	21%	10%

Notes: 1. The GDP per capita is here calculated in terms of purchasing power parity, which seeks to measure actual output without taking exchange rate fluctuations into account. 2. The unemployment rate is given for one year between 1998 and 2001. Source: World Bank, Development Indicators 2003. Washington, D.C.

Between 1995 and 2003, unemployment officially climbed from 16% to around 30%. These data do not include workers too discouraged too seek work. If they were included, the unemployment rate would be over 40%. Rising unemployment was associated with a shift into informal work and falling remuneration. Between 1995 and 2002, the share of the informal sector in total employment climbed from 17% to 20%.

The percentage of workers earning under R1 000 a month rose from 36% to 39%. (Calculated from StatsSA, 1996 and 2002) In this period, inflation cut the purchasing power of R1 000 by almost half.

Unemployment is highest for young people, blacks and women. In 2002, people aged under 30 made up 24% of formal employment, but 55% of the unemployed. (Calculated from StatsSA 2002)

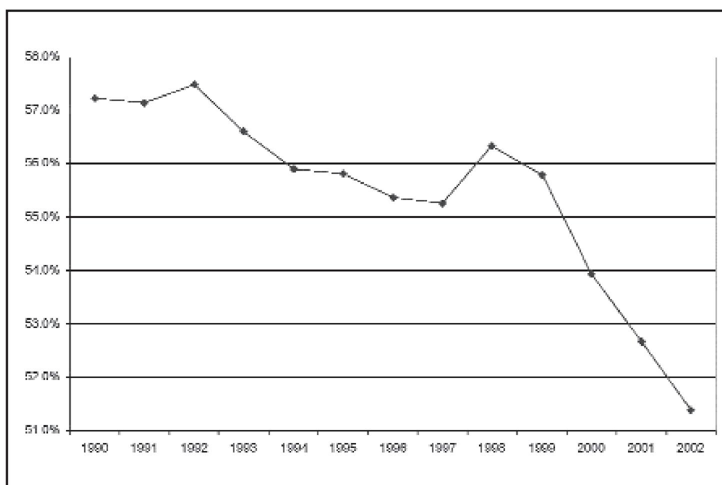
Rising unemployment has been associated with a falling share for labour in the national income. In 2002, remuneration accounted for around 51% of national income, the lowest level in any year since records began in 1946 except for 1980 (which saw a soaring gold price). Labour's share fell particularly sharply in 1999-2002. In this period, profits rose from 29% to 34% of national income. (Calculated from SARB 2003)

While unemployment rose, the GDP grew only slightly faster than the population, so that GDP per capita remains almost unchanged. Growth was particularly slow in the late 1990s, but picked up somewhat in the early 2000s. In 2003, however, it declined to 1,9%, largely because rapid appreciation in the rand cut into exports while encouraging imports. (National Treasury 2004, p. 26)

Slow growth has been associated with very low investment. Most economists agree a country must invest between 20% and 25% of the GDP to maintain growth. In the late 1990s, however, investment in South Africa fell to around 15% of the GDP, and it had not recovered by 2003.

In short, through the early 2000s the South African economy continued to be characterised by both extraordinarily high levels of poverty and inequality, and by slow growth and investment. These outcomes effectively reinforced each other.

Table 2. Remuneration as percentage of national income, 1990-2002



Source: Calculated from, SARB, long-term data series on national accounts; www.resbank.co.za, downloaded July 2003.

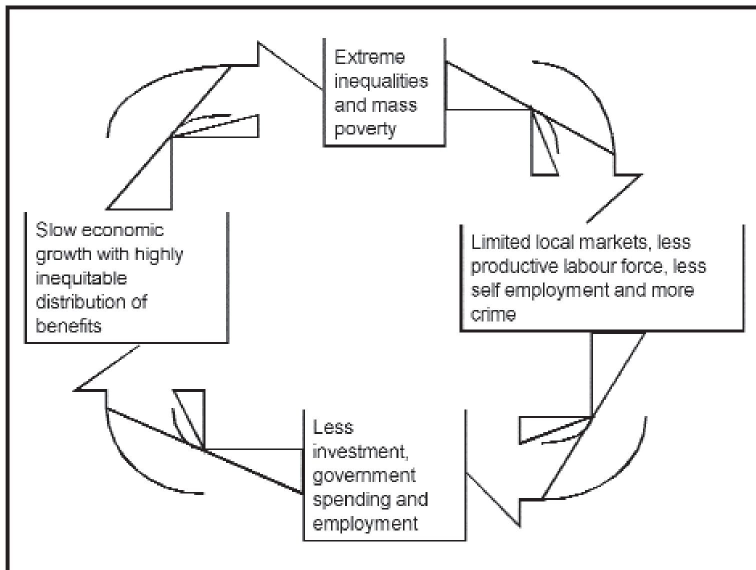
Roots of poverty

The RDP essentially argued that South Africa has been characterised by a vicious cycle of poverty. In this cycle, as the following graph (see page 36) demonstrates, poverty in itself slows down growth, and slow growth in turn maintains poverty. Massive inequalities constrain growth in the formal sector by limiting domestic demand. Moreover, they affect labour productivity by limiting access to education and skills, undermining public health through lack of infrastructure and healthcare, and through poor commuter transport. Finally, because households lack resources and access to skills, they cannot develop sustainable informal activities. In these circumstances, investment and growth remain slow and inequitable, and government cannot easily generate resources for anti-poverty programmes.

The vicious cycle of poverty

The vicious cycle of poverty has been identified as a feature of most developing countries. In South Africa, the situation was aggravated by apartheid strategies, which shifted the economy toward capital-intensive sectors and the systematically excluded the majority of the population from the formal economy except as cheap labour.

Since 1994, three factors have contributed to slow employment growth and the associated inequalities and poverty. First, the shift toward capital-intensive production in the formal sector has continued, reducing employment creation and maintaining concentration of ownership. Second, anti-poverty programmes have not provided resources or skills at a high enough level to allow marginalised households to engage much more strongly in the economy. Finally, until



recently, there was little effort to restructure formal sector institutions – especially the financial system and marketing – to make them serve smaller enterprise.

After 1994, the formal sector grew notably more capital intensive. Thus, sectors growing over 5% a year averaged R500 000 investment per job, four times as much as those that grew under 3% a year.

Total mining and minerals production remained fairly stable in real terms, at around 12% of national output. But gold, which is relatively labour intensive, declined, while capital-intensive platinum and aluminium refining expanded.

Heavy chemicals, essentially based in Sasol, increased its share in manufacturing output from 18% to 23%.

Light industry – essentially food, clothing, wood and plastics – declined from 47% to 41% of manufacturing output.

Output rose in telecommunications and financial services, but not employment. In contrast, services and retail essentially stagnated, and government employment shrank.

The continued shift to more capital-intensive production after 1994 limited formal employment creation. After a large decline in formal jobs between 1994-96, the data show 1% growth a year. Had the 1994 production structure remained unchanged with the same economic growth, formal employment would have grown just under twice as fast. In other words, the creation of formal jobs would almost have kept up with population growth.

The concentration on capital-intensive industries also has implications for the structure of ownership. These sectors provide little scope for small or micro enterprise. As long as they dominate the economy, efforts to support smaller firms seem unlikely to succeed on a large scale.

The question, of course, is why capital-intensive sectors have expanded faster than others, especially given falling capital productivity. The basic answer lies in the strong inertia of the growth path established long before 1994 remains. To understand this inertia, we have to leave behind simple economics models, where investors make decisions based solely on prices. In the real world, experience, biases and preconceptions shape investment choices and economic structure.

Specifically, the dominant sectors affect the state's economic project. In the words of D. Michael Schafer (1994), the lead sectors in any economy tend to "capture" state agencies.

In South Africa, the economic ministries and parastatals historically served the minerals and heavy chemicals industries. After 1994, public-sector reform focused on extending basic services to the poor. In contrast, for the Industrial Development Corporation, dti and other economics agencies, the development of new mandates and reorientation around them has been less systematic. Despite some measures to assist SMMEs and downstream production, substantial state support still goes to hugely capital – and energy-intensive activities around minerals and petrochemicals, especially for export.

The dti, in particular, has tended to emphasise 'knowledge-intensive' export industries. In the absence of explicit efforts to foster employment, that has largely ended up supporting minerals, heavy chemicals and auto – none of which can create jobs on a large scale. Moreover, the dti does not support most services, which could prove more labour intensive.

The dti's focus on relatively formal exports emerged in its 'Integrated Manufacturing Strategy.' This document argued that the dti should support knowledge-intensive, formal manufacturing, while admitting that this would not do much to address unemployment, support smaller enterprise or BEE.

While the structure of the formal sector continued to ensure inequality, government strongly supported the extension of services to the poor. Often, however, these services were not provided at a level or cost that could support productive activity as envisaged by the RDP. Ultimately, the benefits of these transfers from the state were largely offset by rising

unemployment and falling earned incomes.

The RDP expected the extension of basic services and housing, combined with support for micro enterprise and land reform, to support self employment. In the event, despite substantial government efforts, progress in these areas has remained limited.

The UNDP developed an index to evaluate access to seven types of basic infrastructure – formal housing, energy for cooking, heat and light, water, toilet facilities and refuse removal. It found that between 1996 and 2001, there was virtually no change in the share of households with access to adequate infrastructure. (UNDP 2004, p. 47) While government had extended services to millions of households, the population grew and household size tended to fall. As a result, the number of households without these services rose from 5,7 million to 7,4 million, while the number with them increased from 3,4 million to 4 million. (UNDP 2004, p. 48)

A similar picture emerges for education and health. Government officially ended discrimination in these services and expanded them in poor areas. But the services provided, especially in historically black communities, are often at a fairly low level. Between 1996 and 2000, for instance, the number of schools without electricity dropped from 68% to 43%; without water, from 35% to 28%, and without toilets, from 55% to 17%. Meanwhile, the share with inadequate buildings rose from 16% to 35%. (Department of Education, 1996 and 2000)

Land reform and support for micro enterprise has proven particularly disappointing. Estimates suggest that since 1994 around 3% of land has been transferred under land reform programmes – a far cry from the RDP target of 30% of arable land. The budget for land reform would have to grow tenfold to reach the RDP target by 2014. (People's Budget 2004) While the dti supports small enterprise, it does not have programmes for micro enterprise.

Government spending on social grants – mostly the old-age pension and, in the 2000s, the child-support grant – rose steadily from 1994. The UNDP estimates suggest that the percentage of people below the poverty line would be almost 4% higher without social grants. (UNDP 2004 p 89) Still, with almost half the population living in poverty, these programmes clearly did not offset the impact of extraordinarily high unemployment and low earned incomes.

The limited impact of efforts to extend government services to black communities resulted principally from budget cuts in the late 1990s. In contrast, the budget grew quite rapidly in real terms from 2001 to 2004. However, even in 2002 spending per person remained below 1995 levels. Education spending per person began to increase in 2001.

Finally, critical structures in the formal sector remain unreceptive to small and micro enterprise. The financial and retail sectors, in particular, provide little support for smaller producers, making it difficult for them to grow.

The concept of 'second economy' has been used as a powerful metaphor to describe the marginalisation of the majority. In fact, of course, marginalised communities do not really constitute a second economy, since they generate very little internal production or trade. Indeed, the so-called 'second economy' consists primarily of unemployed people plus some survival activities. As a result, it depends heavily on the 'first,' formal economy. This dependency emerges in reliance on inputs and markets from the formal sector. Even more important, the un- and underemployed largely live off income transfers from the state and individuals.

Way forward

Both the Presidency's Ten Year Review (PCAS 2003) and the UNDP (1994) find that improvements in services have not sufficed to overcome the inequalities arising from soaring unemployment and underemployment. Ultimately, both argue that unless economic policy is geared more strongly toward equity – both through job creation and by opening opportunities for self employment – economic and social development will remain stunted.

A more integrated approach to development will require

- A shift in government support to encourage more labour-intensive sectors, making possible more effective support for small and micro enterprise,
- Greater efforts to ensure that social protection, from infrastructure to education, does more to improve the productivity of poor households,
- Restructuring of formal-sector institutions, especially in finance and marketing, to support and integrate small and micro producers, including in the former homeland areas, and
- A more expansionary monetary policy.

For unions, the critical challenge has been to make sector strategies work to improve job creation and investment. As Cosatu's 2015 programme points out, this is the key way that unions can contribute to restructuring the economy toward job-creating growth.

LB

Seidman Makgetla is Cosatu's economist.

Subscribe to *The Shopsteward*

The Shopsteward is a unique magazine. Most newspapers and magazines are owned by millionaires and reflect the outlook of the rich and powerful. *The Shopsteward* is produced by COSATU and gives the workers a point of view on the big issues in the workplace, the community, politics and the world.

Why not make sure you get issues by subscribing. Fill in the form below and post it to:
COSATU, PO Box 1019, Johannnesburg 2000 or fax to 011 339-4060 or *email patrick@cosatu.org.za.*
Cheques and postal orders to be made payable to COSATU.

Shopsteward online

COSATU's website offers visitors the opportunity to purchase *The Shopsteward* online. With a few simple clicks, a copy of the latest issue or any back issue can be bought or a subscription entered. The site uses the services of a secure external e-commerce service provider. So dig out that credit card and point your browser to: *http:www.cosatu.org.za*

Subscription Rates

The cost for six weeks is:

South Africa		**Overseas**	
Workers and students	R40	Airmail	
Salaried employees	R50	Southern Africa	R280
CBOs and NGOs	R75	Other countries	R300
Institutions	R75	Surface Mail	
Companies	R85	All countries	R170

Name:____

Address:____

Postal Code:______________________ Country:______________________

Phone Number:____________________ Email address:__________________

Amount enclosed: R_______________________________________