



**COVER STORY**

Addressing the  
**new faultline**

*In the aftermath of the election the focus is on delivery to meet the UN Millennium Goals of halving unemployment and poverty by 2015. The **Labour Bulletin** highlights some of the current debates around poverty and inequality in order to enhance our understanding of these complex issues. The various articles reveal that there is no simple solution or magic formulae. In the absence of this, what options are available to address the plight of the poor and marginalised who form what is now dubbed the 'second economy'? And where does organised labour stand in this debate?*

**E**conomist Steven Gelb argues in a recent paper on inequality in SA, that the country: '... does indeed face a crisis and perhaps a threat to survival in the form of poverty and inequality and their attendant social ills. The difference is that this enemy is not as clearly identifiable as those faced in war or natural disasters... its negative effects are felt slowly, and its carriers are internal, part of "the nation" itself. There is no clear "Other".'

Whether these sentiments have been accepted by politicians or not, it has been acknowledged that while the 1994 election was about political freedom, these elections were more about economic freedom (as opposed to the DA's liberating the markets through deregulation). Freedom from poverty, inequality and unemployment. That being the case, can we expect business as usual or is government going to introduce a range of new policies? Before exploring this further, this special report looks at the different dynamics around poverty and inequality and the current economic debates.

#### **Poverty and inequality**

Poverty and inequality are not the same but people talk as if they are although they affect people differently. Gelb says that people talk about the two issues together but the primary focus tends to be on poverty without giving equal attention to inequality. He argues that invariably the two concepts are collapsed into each other and this then makes it easier to talk about poverty reduction strategies which do not impinge on growth and on the rich. Ultimately, however, dealing with inequality would hopefully deal with poverty. In dealing with inequality, it is usual to look at strategies around the redistribution of wealth and provision of basic services. This then feeds into strategies in dealing with poverty. Poverty is multi-faceted and does not only refer to access to income. There are different forms of poverty, each requiring different strategies and targets. When we talk about reducing poverty, we need to be specific about what element of poverty we are referring to. For example, government cannot improve the 'social wage' (improve access to basic services and

hence reduce inequality) without looking at ways to address income poverty.

In the months leading up to the elections, President Thabo Mbeki began to talk increasingly about the 'two economies' (as opposed to the 'two nations' concept) where the first world economy and third world economy (and first and second economy) live side by side. It is through this conceptual framework that Mbeki has addressed rising poverty, inequality and unemployment (see p10). Mbeki has rather ingeniously presented the argument of the two economies without having to argue that policies introduced since 1994 should be reviewed as they have failed to deal with poverty and inequality. Some economists and Cosatu have questioned the ANC's performance arguing that the growth path adopted benefited a small elite rather than dealt with the millions of poor.

Mbeki has been able to ringfence the first economy – the main beneficiary of the policies introduced post-1994 – from challenges to review existing economic policy. Despite this some

economists would question its success, and how much the first economy did benefit, in view of current growth levels. It is acknowledged that the anticipated trickle down effect from the first (formal) economy has not had an impact on the second (third world) economy. This point was raised by Cornell University economics professor Eric Thorbecke during the TIPS Conference last year (see SALB 27 (5)). He questioned whether economic growth automatically translates into reducing poverty and inequality. Thorbecke concluded that while growth is clearly a necessary condition for poverty reduction, it is not sufficient, since growth may take place entirely in the modern enclave of the economy with no trickle down.

#### Current debates

Thorbecke raises some important issues around the policies necessary to reduce poverty and inequality. He makes the point that at the same time, there are views that inequality and poverty can hamper growth. He also believes that inequality and poverty cannot correct themselves.

International and domestic literature on poverty and inequality make it clear there are no miracles or quick fixes. But the most direct way of addressing the issue is job creation. ILO director-general Juan Somavia has stated that addressing poverty requires that governments place the labour market at the centre of their poverty reducing strategies. This view is stressed in the recently released UNDP's Human Development Report on SA. 'The problems in income poverty and inequality are, to a large extent, intractable unless labour market problems are resolved. Since employment is the bridge between economic growth, poverty eradication and opportunities for human

development, sustainable poverty reduction is not possible without sustained and rapid economic growth.'

Developing a deeper understanding of the complexities is critical. A leading authority, **Ravi Kanbur**, professor of economics at Cornell University, poses a number of key questions in attempting to analyse the relationship between poverty, inequality and growth (see p12). For example, is growth good for the poor? The answer, he says, is easy and clearly 'Yes' if we view growth in isolation. But if growth is accompanied by increased inequality, then the net effect on poverty is no longer clear - it all depends on the relative magnitudes of two opposing forces. Other questions raised included the relationship between growth and inequality. Does higher inequality at a point in time lead to slower growth in the subsequent period?

The traditional thinking is that if an economy wants to roll back poverty it has to grow the labour market and that requires a growth in the economy. SA economists **Julian May, Michael Carter** and **Vishnu Padayachee** (see p18) ask if SA's sluggish growth could be rooted in its high and increasing income inequality. If that is the case, they argue, 'a fundamental rethinking of economic strategy may be required. Making things right at the micro level so that the market economy can work for all, requires recognition of the interlinking nature of macroeconomic and microeconomic reforms. Microeconomic reforms and interventions need to be more ambitious if the poor are to push ahead. They would need to involve measures that improve the access of the poor to productive assets such as land reform, infrastructure and financial services, as well measures that reduce the costs of production.'

Continuing the debate on the link between economic growth and reducing poverty and inequality, **Haroon Borhat** and **Rashad Cassim** attempt to explore the linkage between policy changes and growth and equality (see p21). Borhat says the provision of social security (which has grown dramatically since the last budget) is a useful component of a social wage. However, the long-term challenge, he says, is rooted in economic growth. This being the case, 'we therefore, need to know what are the constraints on growth,' he says.

#### Can we expect policy shifts?

Immediately following the elections Mbeki said the ANC now has an overwhelming mandate to address poverty and the other ills facing the country. Does this mean a radical shift in thinking or policy? Adam Habib of the HSRC argues that the choices made by government in terms of policy options (in the past) have been as a result of the fact that the 'balance of power was unfavourable to poor and marginalised citizens and as a result it made sense for state elites to make the choices they did'.

Various analysts have argued that the elections will not lead directly to policy changes. Rather, they will reflect the shifts in thinking and perceptions within the various organs of power in the past few years. The main changes in ANC policy (or focus) arise from the recognition that economic strategies must do more to deal with massive inequalities in soaring unemployment. The presidential ten-year review (see SALB 27 (5)) reflects the failure to stem the steady rise in unemployment, which officially rose from 16% in 1995 to 31% in March 2003. That, in turn, has led to deepening poverty for much of the ANC's own constituency.

**Where to now?**

Various economists have argued that during the 'Gear era', government officials were more resistant to ideas from intellectuals and academics outside government. However, it appears there is now a growing willingness to listen. One economist says that this is partly because things have not worked out as anticipated and the market has not delivered to the poor. Under such conditions, another economist said, consideration should be given to developing a post-Gear job generating growth strategy. But is there a willingness to take a broad look at all economic policy, as demanded by Cosatu? Cosatu's economist **Neva Seidman Makgetla** outlines (see p34) the federations' thinking around the debate between poverty, inequality and growth. Mbeki has made it clear that the policies guiding the first economy should not be touched. 'The task we face therefore is to devise and implement a strategy to intervene in the third world economy and not assume that the interventions we make with regard to the first world economy are necessarily relevant to the former.'

What then *are* the policies being pursued to reduce poverty and inequality? In essence, government argues that high unemployment reflects the marginalisation of much of the population in what Mbeki has termed the second economy. He has argued that before 1994, most of the population was denied productive assets, skills, access to infrastructure, financial institutions and markets. If they cannot find a formal job, they are therefore relegated to subsistence employment and begging, or to joblessness. Creating employment on the vast scale required must involve finding ways to integrate this second economy with the first (formal) sector.

Soaring unemployment means there has been little improvement in overall economic equality since 1994. 'Although government has vastly improved services for black communities - including housing, infrastructure and social services - the gains have largely been offset by rising unemployment,' an analyst says.

The focus as highlighted by Mbeki in his various 'two economies' speeches include a combination of existing policies and a refocusing of others to ensure 'resource transfers', because that is what 'the 'third world economy' requires to enable it to break out of its underdevelopment, according to Mbeki. The overarching focus is therefore, on promoting individual and collective asset accumulation in the 'second economy' to enable participation in the 'first economy' from which it is structurally disconnected.

These resources include education and skills training, capital for business development and the construction of the necessary social and economic infrastructure via expanded public works programmes (as pushed by Cosatu), marketing information and appropriate technology. As Gelb says, these interventions do not involve income supplements and transfers to the poor, but rather asset transfers and accumulation by the poor. This focus on asset transfers and accumulation has become the latest buzzword in government circles. This approach, as Gelb explains, ensures government intervention on the one hand but also emphasis on self-improvement, personal responsibility and the like, on the other.

An economist says the attempt to reduce focus on income transfers to the poor is in line with current thinking in some departments such as finance that government has reached

the ceiling on state transfers and further massive increases will not be anticipated in the future.

**Conclusion**

In some ways the search for policies to address poverty, inequality and unemployment take us back to the key debates that emerged prior to the release of the labour market commission report shortly after Gear in 1996. It is clear from both the international and domestic debates that there is no magic or easy solution.

SA is amongst the five most unequal societies in the world with the top 10% having access to 40% of the national income. At the same time the share of labour has fallen while the share of profits has increased.

Ultimately, poverty, inequality and unemployment affects us all and no one can escape it. In view of these pressures policy makers should try and avoid falling back on tried (and not necessarily trusted) options, which Gelb argues, will leave the existing structures of growth, distribution and consumption intact. Added to this pressure, one economist says, is the need within government to always show success in everything it does. It has been sensitive to talk about poverty and inequality because it reflects a 'failure' of government. The ten year review was however, an attempt to open up space for discussion around these issues by saying that there are problems, 'but this is not all our fault'. This approach does not however, help in the formulation of policy and proper engagement on possible solutions. Hence, rushing to try and identify one and somehow get government to adopt a particular position will not bring the country closer to meeting its 2015 goals. - The editor