



Theme: The Economy

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Inclusive Growth: A Strategic Perspective

1. South Africa's structural economic decline

Nearly ten years after the 2008 global recession, South Africa's economic growth still lags well behind the rest of the world, unemployment is rising, inequality remains extreme and the public finances are under stress. Commentators describe the outlook as a "low growth trap": more rapid progress is needed in order to address social and economic pressures, yet the depressed state of the economy reinforces barriers that stand in the way of investment and developmental policy initiatives.

This project provides a "strategic perspective" on the growth and development challenge – identifying priorities for boosting growth and broadening economic participation, and possible elements of a policy consensus to underpin trust and improved coordination between social stakeholders.

The structural challenges have both macroeconomic and institutional dimensions.

- Slow economic growth is symptomatic of weak confidence, lack of trust and pervasive policy coordination failures.
- In sectors which have been sources of employment growth in the past – agriculture, mining and manufacturing – growth is slow and jobs are being shed.

About this brief

This brief was commissioned by the Mandela Initiative to help inform a synthesis report on its work since the 2012 national conference, *Strategies to Overcome Poverty and Inequality*, organised by the University of Cape Town. The MI provides a multi-sectoral platform to investigate and develop strategies to overcome poverty and reduce inequality in South Africa. While the Nelson Mandela Foundation is a key partner, the Initiative has relied on collaborations between academics and researchers, government, business leaders, civil society, the church and unions.

The synthesis report serves as a framework for reporting on the work of the MI at a national gathering on 12 – 14 February 2018 at the University of Cape Town. The MI *Think Tank* has identified the objectives for the gathering as:

- to anchor the contributions of the MI within an analysis of the current South African political and economic context;
- to share the recommendations emanating from the MI-related work streams at a policy/strategic level to advance the goal of eliminating poverty and reducing inequality;
- to critically engage with the potential impact of the recommendations on eliminating structural poverty and inequality; and
- to discuss ways of promoting popular conversations and debate about what needs to be done to eliminate poverty and reduce inequality, beyond the MI.

The synthesis report aims to assist participants to prepare for the national gathering. The report drew on findings from the sectoral research projects of Think Tank members; the MI's *Action Dialogues*; a report on an MI *Community of Practice workshop* with research chairs from different universities to identify cross-cutting themes emerging from the MI's *research programme*; and the work programmes of others who have expressed an interest in contributing to the goals of the MI.

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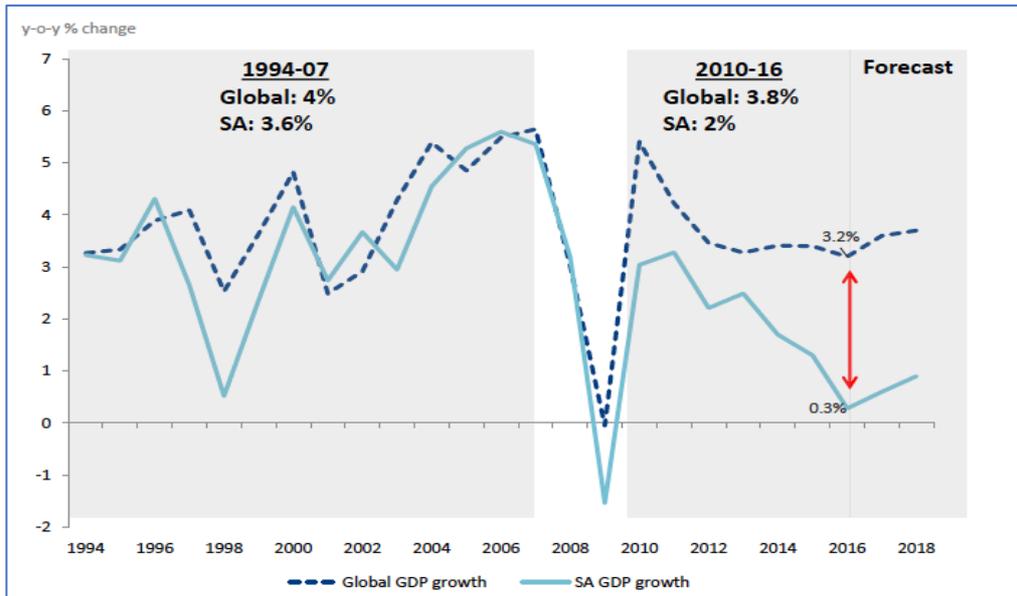
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Dialogue and action to overcome poverty and inequality



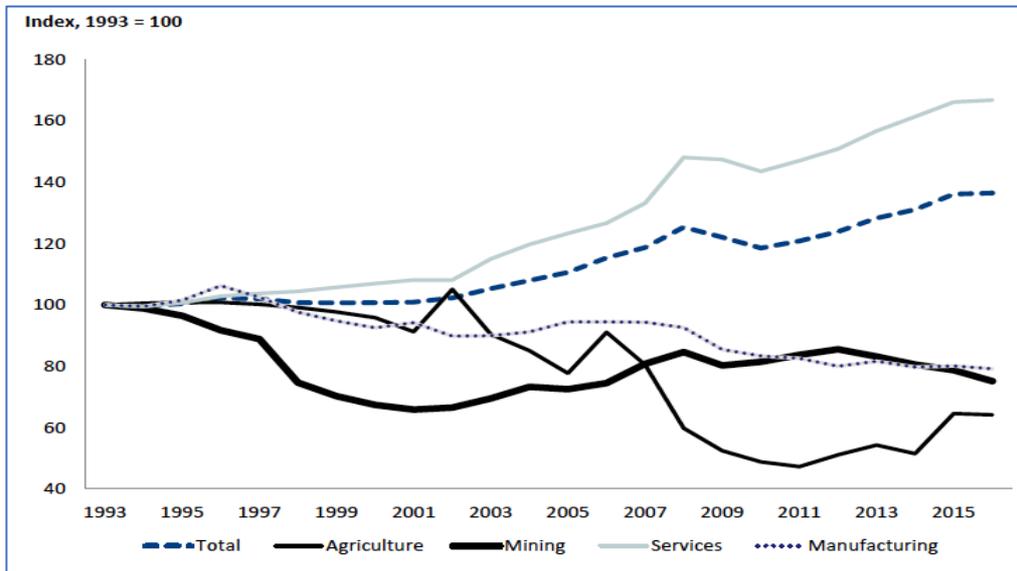
- Youth unemployment is especially severe, putting tertiary education under pressure, undermining skills development and fuelling discontent.

Global and South African economic growth: 1994 to 2016



Source: Hugo Pienaar, Bureau for Economic Research

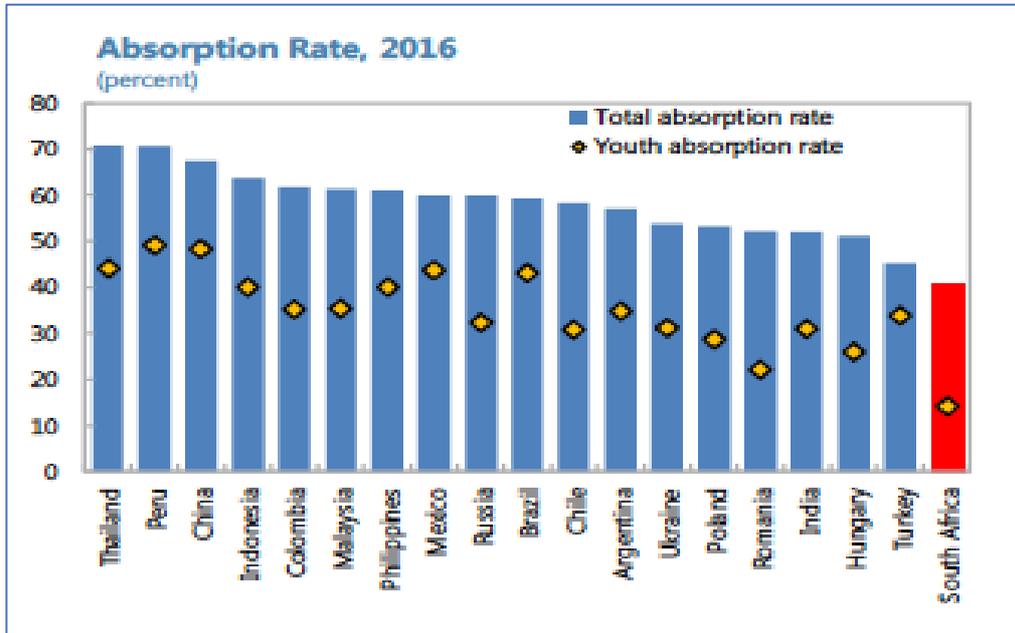
Slow or declining employment in primary and secondary sectors



Source: Hugo Pienaar, Bureau for Economic Research



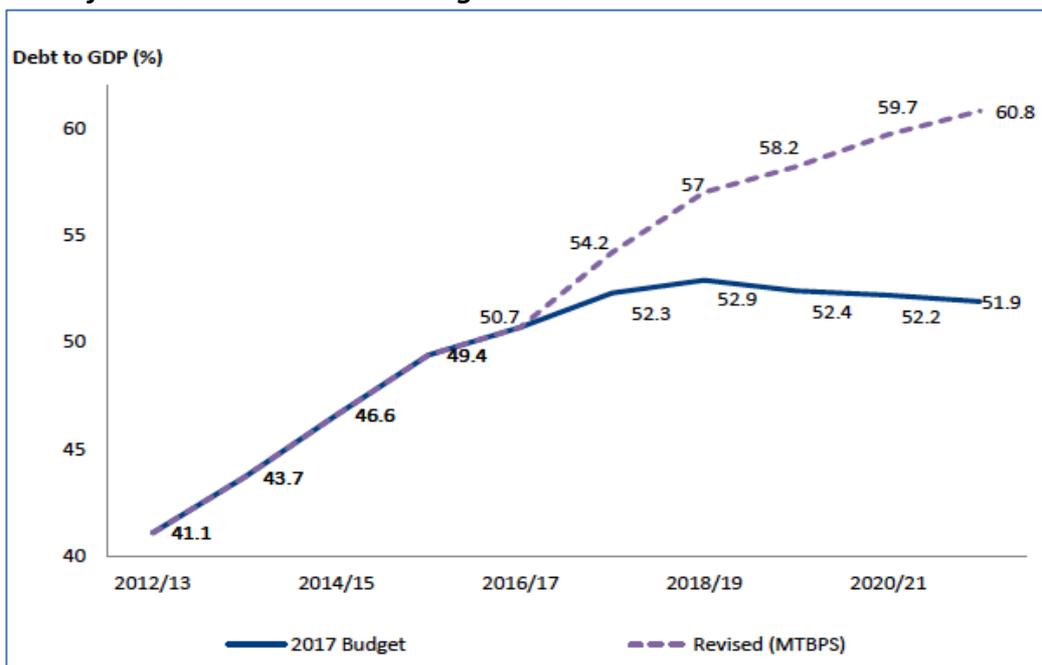
Youth employment in SA is lower than in other emerging economies



Source: International Monetary Fund, Country Report No. 17/189

- The public finances are under stress, with rising debt as a percentage of gross domestic product (GDP) and substantial fiscal risks in both revenue trends and the deteriorating balance sheets of state-owned companies.

Public finances under stress – rising debt-GDP ratio



Source: Hugo Pienaar, Bureau for Economic Research



South Africa remains a highly unequal economy, in its structure of employment and earnings, in the ownership of land and capital, in the design of its urban and rural landscapes and in access to education, health and other services. There is immense rigidity in these arrangements, and yet the possibilities of social and economic transformation are paramount in political and policy discourse.

2. Persistence of inequalities and poverty

A sluggish economy and high unemployment are powerful barriers to poverty reduction and more inclusive growth. Productivity is constrained by the spatial inefficiency of South Africa's cities and unresolved divisions in land reform and rural development. Education and access to skills opportunities reinforce earnings and employment inequalities.

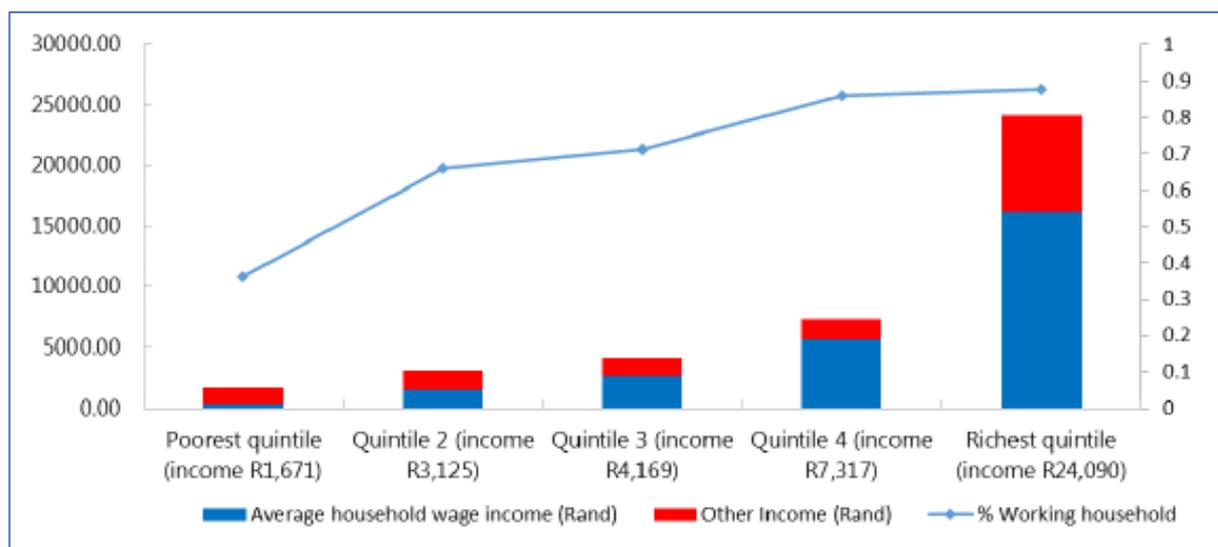
These economic determinants of the structural persistence of inequalities and poverty are reinforced by political and institutional fragmentation, and the absence of trust that characterises engagement between social stakeholders and local or regional interest groups.

There is broad understanding that this is a crisis point, that a strategic shift in direction and impetus is needed to restore confidence in investment prospects and a shared frame of understanding of the respective roles, responsibilities, capabilities and capacity for collaboration between government, business, civil society and other stakeholders.

It is sometimes said that we know what to do – there is a Plan that simply has to be implemented. However, in many areas of policy there are profound difficulties and unresolved priorities or sequencing issues. A plan is not enough, a strategic perspective is needed to clarify priorities and choices to be made, and to overcome implementation barriers.

A key point of departure of this initiative is a focus on earnings, the labour market and the structure of employment, in part because these are central issues in both growth and productivity change, and the distribution of income and opportunities.

Household income structure and the distribution of work opportunities



Source: International Monetary Fund, Country Report No. 17/189

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A second point of departure is the need to adopt policies, programmes, technologies and strategies that are known and understood, and are adapted to our specific challenges and circumstances. Bringing evidence into the policy process and programme implementation is partly about new knowledge and learning, but it is also about forging ahead with what is known, understood and capable of being implemented with the resources and understanding at our disposal.

3. Elements of an inclusive growth strategy

In drawing lessons from diverse experience with economic growth in the second half of the twentieth century, Dani Rodrik offers two key arguments. One is that there are many possible policy packages to promote growth – “first-order economic principles” allow for considerable variation in institutional designs to adapt to local opportunities and constraints. The second is that “igniting economic growth” and “sustaining it” are two somewhat different undertakings. Failure to distinguish between these tasks leads to over-ambitious and impractical policy agendas.²

A decade ago it seemed reasonable to regard South Africa’s growth imperative as a “sustain and develop” project. The National Development Plan is accordingly comprehensive in scope and involves a very wide range of programmes and policies. But in practice, its implementation now seems hopelessly ambitious, as growth has stalled and public resource constraints have tightened.

In these circumstances, efforts have to be more narrowly concentrated on “igniting growth,” though its distributional dimensions remain critical.

Drawing on Rodrik’s analytical framework, and on a range of contemporary reviews of South African sectoral developments, employment, distribution and policy considerations, this paper will suggest a strategic approach to igniting growth and improving its distributional impact, while also attending to important requirements for sustainability and enduring improvements in living conditions.

A preliminary outline of possible “elements” of an inclusive growth strategy, set out in a May 2017 discussion paper, serves as point of departure for this submission:³

A clear imperative is that the unbalanced infrastructure and market structures of apartheid should be addressed. This has several large and compelling implications. One is that far greater impetus is needed in urban development, including housing investment, more densified cities, transport integration and commercial renewal. A second is that productivity and wages should be improved, which is partly why openness and global linkages are important. A third is that job creation must be accelerated, especially for young work-seekers. A fourth is that social services – schooling, health care, social security and welfare services – must be improved.

The context is an economy caught in a “low-growth trap” brought on by worsening commodity prices and trade conditions after the 2008 recession and a subsequent deterioration in investor confidence. Political and policy uncertainty, institutional weaknesses and unresolved regulatory conflicts have contributed to the low-growth environment.

² Dani Rodrik, “Growth Strategies”, a working draft prepared for the *Handbook of Economic Growth*. June 2003.

³ Andrew Donaldson (2017) Elements of an an inclusive growth strategy. *GTAC WhatsUp*, 5 May 2017.

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Reigniting growth requires a change in the macroeconomic and financial environment, as well as the mobilisation of organisational capacity. The circumstances call for a heterodox mix of policy initiatives, both to improve investment and growth and to broaden opportunities and employment.

The 2017 paper outlines the following elements of an inclusive growth strategy, elaborating on several aspects of each of these policy arenas:

Macro, fiscal and financial considerations

- Broadening credit extension
- A competitive exchange rate
- Fiscal consolidation

Transformation of the economic landscape

- Urban infrastructure and city development
- Accelerated investment in housing
- Competition and control: modernising network industries
- A bias towards employment
- Implementing the minimum wage while expanding youth employment
- Social security and health insurance

Further work is needed to quantify these and other possible interventions or reforms, and explain the relevant policy measures and options. In taking this analysis further, this study will make use of a social accounting matrix, which allows broad distributive impacts to be assessed.

In scanning broad options for strategic interventions to strengthen growth and development, this project will draw on a wide range of available evidence rather than embarking on new research. Substantial bodies of work that will serve as sources and reference material include the working papers and publications of the SALDRU Research Programme on Employment, Income Distribution and Inclusive Growth; the set of papers in the 2016 publication, *Towards employment-intensive growth in South Africa*, edited by Anthony Black, and the 2014 *Oxford Companion to the Economics of South Africa*, edited by Borat, Hirsch, Kanbur and Ncube.

For more information on the Mandela Initiative:

