Reflections on Strategies Required to Tackle Inequalities and Ensure Inclusive Growth

South Africa is a country designed to be unequal. The legacy of apartheid continues to divide the nation, and define who is rich and who must suffer poverty. South Africa ranks amongst the most unequal countries on the planet, and by some measures is the absolutely most unequal. The Miser Index, a rough measure of inequality, estimates that so much money is concentrated amongst the few, that a 1% increase in tax on the very wealthy would eliminate poverty in South Africa. On average, ‘Black Africans’ earn less than a quarter of ‘white’ South Africa’s income, and suffer unemployment rates of 29.7% compared to 7.7% for the ‘white’ group. The overwhelming injustice of the current distribution of wealth - of a system in which parents are unable to provide for their children, through no fault of their own - should compel policy to combat inequality.

But beyond injustice, promoting equality can be a powerful strategy to drive economic growth. Inequality makes everyone poorer, and hampers the ability of companies to succeed. While some employers do complain about high wages, many more claim their bigger barriers to growth are problems like a lack of skilled staff, too few clients, or the threat of political and economic instability. Reducing inequality increases educational outcomes, and improves the supply of skilled staff. Reducing inequality increases the spending power of the average consumer, and creates more customers for companies. Reducing inequality builds a society in which people do not feel marginalised, and fosters stability. Reducing inequality is good for business.

South Africa’s strategy to combat inequality sits on five core pillars.

First is job creation. South Africa’s unemployment rate is amongst the highest in the world, sitting at 26.4% of the work force. Unemployment disproportionately impacts poor, black workers - deepening cycles of poverty and worsening inequality. Job creation is an overarching goal of government policy, and is not limited to any targeted examples, but cuts across many different policy approaches. While inequality is not often considered the core of these policies, any initiative that creates job-rich growth can play an important role in addressing wealth imbalances.

Second is education. Workers with higher education are less likely to be unemployed and tend to earn more. However, the provision of education remains problematic, with half of students dropping-out before matric, and matric graduates receiving a set of maths and science skills that ranks amongst the worst in the world. The education system can be a tool to combat inequality, but it also is one of the primary ways inequality is spread. Students from poorer families tend to attend less well resourced schools, and their families have less capacity to provide extra lessons or other education tools. Fixing the education system would reduce inequality, but reducing inequality would also improve the education system: by better equipping the most vulnerable to cope with the challenges of a getting a high quality education.

Third is the welfare system. The South African government offers numerous grants - including to the elderly, the disabled, and parents of young children - and social security programmes - such as the Social Relief of Distress grant and Unemployment Insurance Fund - which combined reach over 16 million South Africans. The welfare system directly redistributes wealth from the rich to the poor, and thus directly impacts inequality, but nevertheless is often critiqued. Critics complain that the welfare system costs too much, has significant waste, and discourages entrepreneurship - and that money could be better spent in creating jobs. Despite this, welfare systems can be a powerful growth driver, by giving the poor the financial capacity to start businesses or gain education. Recent work by the International Monetary Fund finds that a welfare system that improves inequality boost annual growth by an average of 0.5%.

Fourth is organised labour. South Africa has an impressive system of labour protections, and an array of powerful unions. These unions of course aim to increase the wages of workers, but they also improve the stability of employment. This stability is vital to enabling poor families to plan for and invest in their futures. Labour unions have received substantial criticism from some commentators, who claim that an inflexible labour market increases unemployment - and yet these same unions undoubtedly improve equality amongst the employed, which can create spillover benefits such as, for example, creating more jobs in the retail sector. Unions must therefore balance their efforts to protect workers, with the need to also help the unemployed.

Fifth is Broad Based Black Economic Empowerment. BBBEE has been the centrepiece of the government's efforts to combat the racialized distribution of income that results from the Apartheid system. Early BBBEE efforts focused on improving black ownership and management of large companies, but more recent iterations have broadened the approach to attempt to directly assist workers and the poor. BBBEE is a favorite of critics, who argue that it benefits a connected few, and does little for the poor. Parts of the criticism has some validity, but the core of the policy - a direct attempt to address racial inequality - is extremely important in a country in which racial wealth divisions remain a huge sources of anger and division.

Expanding government's efforts to combat inequality is limited by an already strained budget, and by political resistance to government interventions for social justice. Nevertheless, there are some innovative strategies on the table that could help reduce inequality.

First would be a redirection of the welfare system. Welfare grants as they currently stand are targeted at the most vulnerable, including children and the elderly. A more developmental orientated approach to welfare could be to direct payments to the youth, within a targeted bracket within the 18 - 35 year old range. This group plays four vital roles in the economy: as students they create knowledge and skills, as parents they facilitate education for others, as entrepreneurs they drive job growth and innovation, and as consumers they sustain demand-driven industries like retail and telecommunications. A stable base source of income could help facilitate all of these roles. A more advanced form of the same argument is at play in the case of the Basic Income Grant, a flat sum given to all citizens, that some studies have shown could boost growth.

Second would be the expansion of efforts to help rural areas. The rural-urban divide is defined by inequality, with those living in rural areas generally much poorer than those in cities. A comprehensive strategy to expand the geographic distribution of growth, to small towns and rural areas, will help improve the distribution of wealth. While there are initiatives in place for smaller towns, with projects ranging from infrastructure development to the creation of Special Economic Zones, there are also direct interventions that are possible. India, for example, makes use of a Rural Work Guarantee System, that provides employment to those in extremely underdeveloped areas. Beyond rural areas, efforts must be made to close the structural inequality of divided cities, by improving accessible transport networks and promoting the development of integrated areas that house people from various income groups.

Third would be the closing of loopholes in the tax system. South Africa is part of a global programme on Base Erosion and Profit Shifting (BEPS), which aims to prevent companies and wealthy individuals from avoiding tax. This aims to combat strategies like transfer pricing - in which subsidiaries in tax havens like Bermuda charge fees to their local South African operations to avoid tax. This widely used practise was employed by the likes of platinum miner Lonmin to avoid paying tax on revenue of between $160 million and $315 million between 2008 and 2012. Combating practises like transfer pricing would assure that the rich pay their fair share, and would give the government more resources to combat inequality.

Beyond these and other innovations, getting the basics right will count for a lot. Improving government capacity to deliver inequality programmes would reduce waste and increase effectiveness. Perhaps most importantly, the South African public needs to buy-in to the importance of combatting inequality. Polarising critiques of government, the welfare system and labour movements are not productive, and are out of place in a country so deeply defined by inequality. Critical engagement is utterly vital to fighting inequality, but is only possible after a basic acceptance of the inherent injustice of the current distribution of wealth.