



Achieving an Inclusive Society – creating synergies between social protection, the labour market and the economy

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This talk provides a perspective to open debate on the strategies required to achieve an inclusive society through the consideration of synergies between social protection, the labour market and the economy. As this is a very brief input, the focus is strategic in nature, and deals principally with the major directional choices facing the country and some of the open debates that require resolution at this level. Ongoing discussions will have to constructively resolve debates at both this and more detailed levels. Although the National Development Plan (NDP) provides a valuable point of departure for discussion, in my view there is still way to go – with much depending upon whether open debate is properly fostered, and a willingness to build a powerful consensus across society is seen as an important value as central to the way forward as the values embedded within any proposed policies. Quite simply, achieving an inclusive society requires inclusive processes, and processes which can also converge on solutions.

If inequality and poverty were essential elements of accelerated economic growth and development, South Africa would be one of the most outstanding economic performers in the world. Instead, despite being at the forefront of the technological frontier in many sectors, South Africa manages to combine anaemic economic growth with high structural unemployment and terrible socioeconomic outcomes, some of them directly attributable to the poor performance of government programmes.

Although a consensus exists that structural factors are inhibiting both economic growth and the fairness of that growth, no general consensus exists on what these are, and therefore the policy measures needed to address them.

One influential position, which I refer to as the "*narrow growth path*", argues that inequality and poverty are inevitable, and even necessary, to foster rapid economic growth, and which will always be somewhat harsh in the early phases of development. Achieving accelerated economic growth, in this view, implicitly requires inequality as a form of input - generating the incentives and flexibility needed at both the level of the sector and the firm to unlock the dynamic potential of the economy.

The alternative view, which I refer to as the "*inclusive growth path*", regards the prevalence of unemployment and inequality is an outcome of ongoing policy choices, which inhibit growth and development through *externalising* many unmanageable risks onto individuals and families. Both growth and development are affected by the resulting behaviour of severely distressed families. In this view poverty is regarded as an inevitable consequence of the modern economy, regardless of a country's level of development. Far from driving

dynamic potential, the unconstrained social and economic pathologies hinder rather than foster growth and development.

International comparisons indicate that in the absence of redistributive programmes, poverty will settle at roughly 25% to 35% in all countries, regardless of their levels of development (**figure 1**). These rates are explicitly reduced to below 10% in those countries with mature social protection regimes. Extreme poverty in South Africa, by way of contrast, is estimated at 32.4% (in 2009) with poverty estimated at between 50% and 55%. Furthermore, South Africa's stunting rate of children is 24%, which implies that 24% of South Africa's children have compromised cognitive capabilities from youth. The question to ask is whether this poverty outcome is in fact a policy choice. And a bad choice at that.

If the *narrow growth path* view is accepted, that inequality and poverty are transitional concerns, to be addressed fully only when levels of development cross some (undefined) threshold, then comprehensive policy responses, apart from residual strategies focused narrowly on the most egregious social concerns, can be deferred indefinitely. Structural interventions to alleviate poverty, through redistributive and risk-sharing programmes of various forms, are, in this view, argued to become possible only when improved fiscal space, arising from economic growth, permits. Programmes to remove poverty and inequality, in this view, take on the form of a *luxury good* purchasable in quantity and scale only when aggregate incomes are very high. Social protection, far from being regarded as an input into the economic development process, is instead seen as a beneficial consequence of adequate growth.

The *inclusive growth path* view argues alternatively that poverty and inequality are a consequence of how society is organised, and not the outcome of a particular level of development. The modern economy, in this view, externalises many destructive social harms that cannot be countered without concerted action of some form or another. These externalised factors include: *complex risks transferred to families* – such as unemployment, old age, health care needs and their financial consequences, childcare, and the death and disability of a breadwinner. These also include: *market power imbalances* in the determination and protection of disposable incomes and conditions of employment; and *complex labour market activities* such as education, skills development, job search, and access to justice. Well-organised societies seek to internalise these externalities rather than to exploit their avoidance as some form of temporary market advantage.

The NDP appears to adopt a version of the narrow growth path, arguing that South Africa's social pathologies derive from the socioeconomic distortions of apartheid "*which constrained the development of skills of the vast majority of the population and kept them*

trapped in poverty." (NDP, p.325). The section of the report "*conceptual framework for social protection*" consequently headlines with the statement that "*Employment creation is the most effective form of social protection*" (NDP, p.327). The NDP therefore gives priority to addressing socioeconomic factors leading to differential capability development as the means to alter differential access to labour markets and remuneration.

The rapidly deepening inequality occurring after 1994, despite increased investments in capability development, is, however, not investigated in the NDP. The trends however suggest that the distribution of income is potentially dominated by factors unrelated to capabilities and the productivity of labour. Income inequality is in fact moving in the opposite direction to capability investments. High rates of unemployment also cannot simply be attributed to factors such as labour market inflexibility, as is often argued, as, according to the OECD, South Africa ranks fairly low (in fact lower than both India and China) on its protections for both regular and temporary employment (see **figures 2 and 3**).

If it is assumed that economic rewards are distributed in accordance with capabilities, inequalities should have declined slightly, or, at the very least, remained flat from 1994. Instead, South Africa exhibits arguably the most unequal top income structure in the world, with the top 5% of income earners receiving 40% of all income, a position structurally worse than during apartheid (which was around 35% during the periods of greatest inequality). It is worth noting that the top 5% of income earners in countries such as Malaysia and Sweden earn less than 20% of total income. (**Figures 4 and 5**).

The alternative interpretation of South Africa's social and economic trends, consistent with the inclusive growth path view, therefore argues that the distribution of income in South Africa is a potential *leading* causal factor driving the adverse economic outcomes (such as unemployment and slow growth) rather than compromised capabilities. Without diminishing the importance of ongoing programmes to address capabilities, this view suggests that policy imperatives require an elevated priority for measures to address structural failures in the distribution of income.

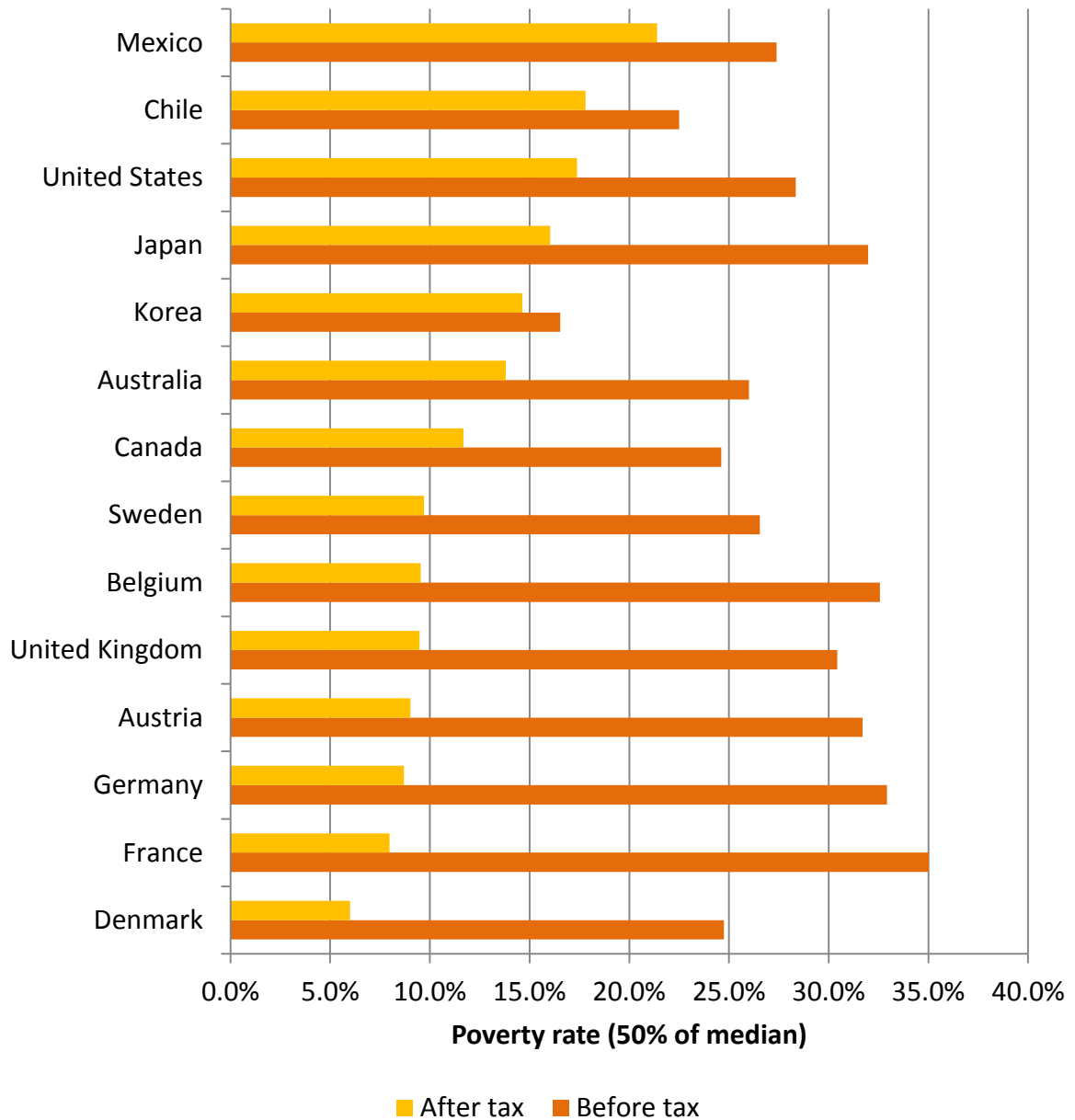
South Africa's social and economic history strongly suggests that narrow, rather than inclusive, growth strategies have been pursued - both before and subsequent to the democratic transition. This is not to say that human, social and economic development has been absent; but rather what has been implemented has not been sufficient to counter the inevitable harmful tendencies of the modern economy. Many risks associated with the conduct of economic activities have been externalised onto the vulnerable – implicitly as a trade-off for economic productivity and increased competitiveness. This has been permitted through: a poorly organised and developed social security and protection system; the

protected transfer of incomes to privileged groups and sectors; weak labour market protections; and a poorly performing government sector which prioritises patronage over delivery – undermining capability development.

Although the NDP clearly identifies many distributional concerns, it does so within the context of a conceptual approach that sees inequality and unemployment as an outcome of apartheid-induced human-capability gaps. While these gaps are most definitely present, the danger inherent in this approach is the implicit de-prioritisation of strategies with explicit distributional goals, in favour of programmes that, at best, passively impact on inequality, poverty and unemployment and at worst are totally drowned out by distributional factors.

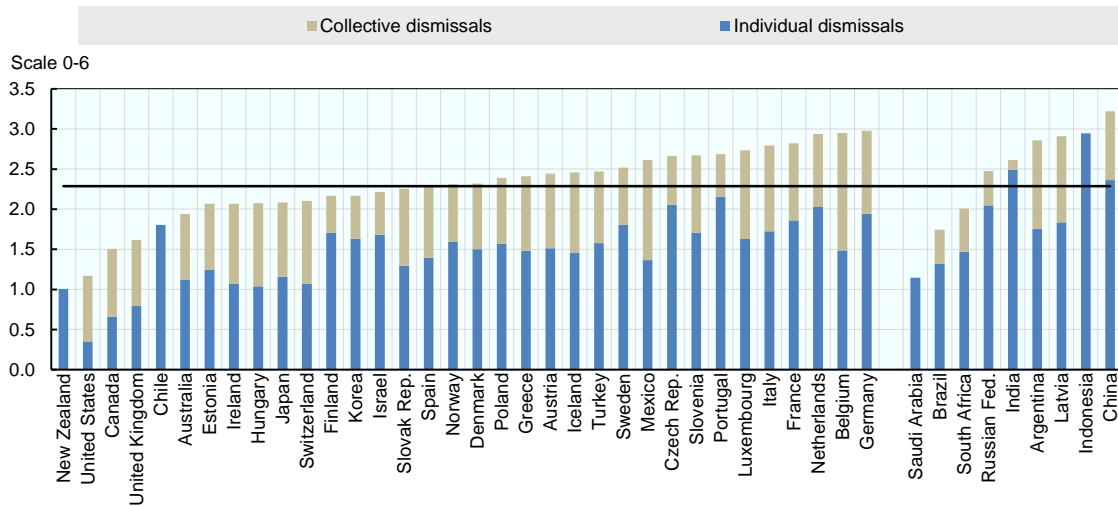
Bolder and more integrated approaches are potentially needed that combine substantial social protection, capability development, and labour activation at a scale sufficient to reconfigure structural deficiencies in the distribution of income and manage all material social risks. Although it may be argued that adopting a programme of this nature at scale involves unforeseen risks, the narrow growth approach, which has arguably been in place both before and after 1994, involves risks that are now well known and predictable. Continuing on the post-1994 trajectory may therefore send South Africa on a path to levels of inequality never before experienced, with unknown political and economic consequences. The options going forward consequently need to be considered with great care, especially as the default strategy, which involves doing nothing or a bit more of the same, is all that is required to structurally deepen inequality and poverty.

Figure 1: Pre- and post-tax poverty rates for selected OECD countries



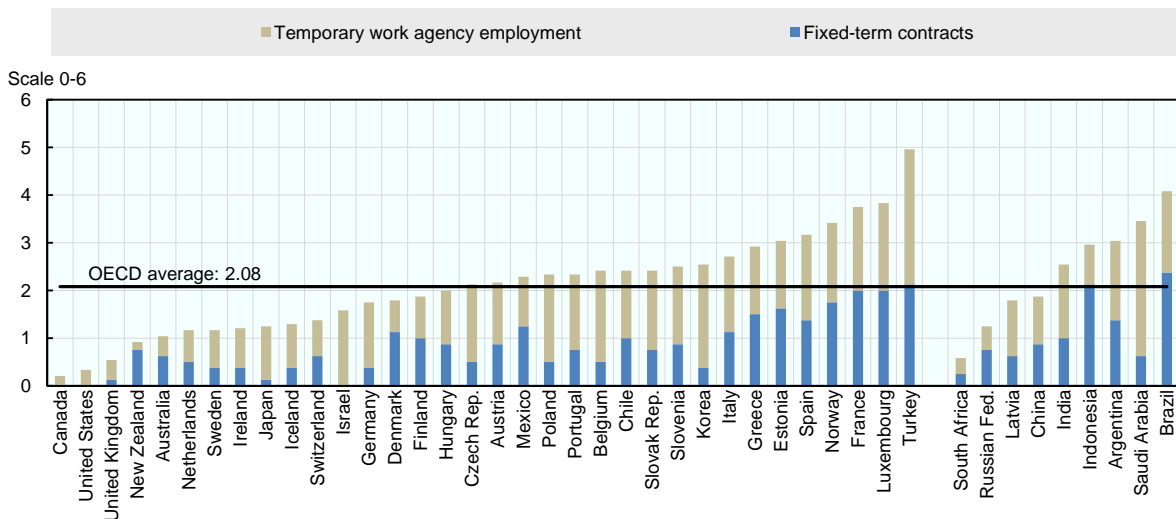
Source: OECD Stat [http://stats.oecd.org/Index.aspx?datasetcode=SOCX_AGG#]

Figure 2: Protection of regular workers against individual and collective dismissals, 2013



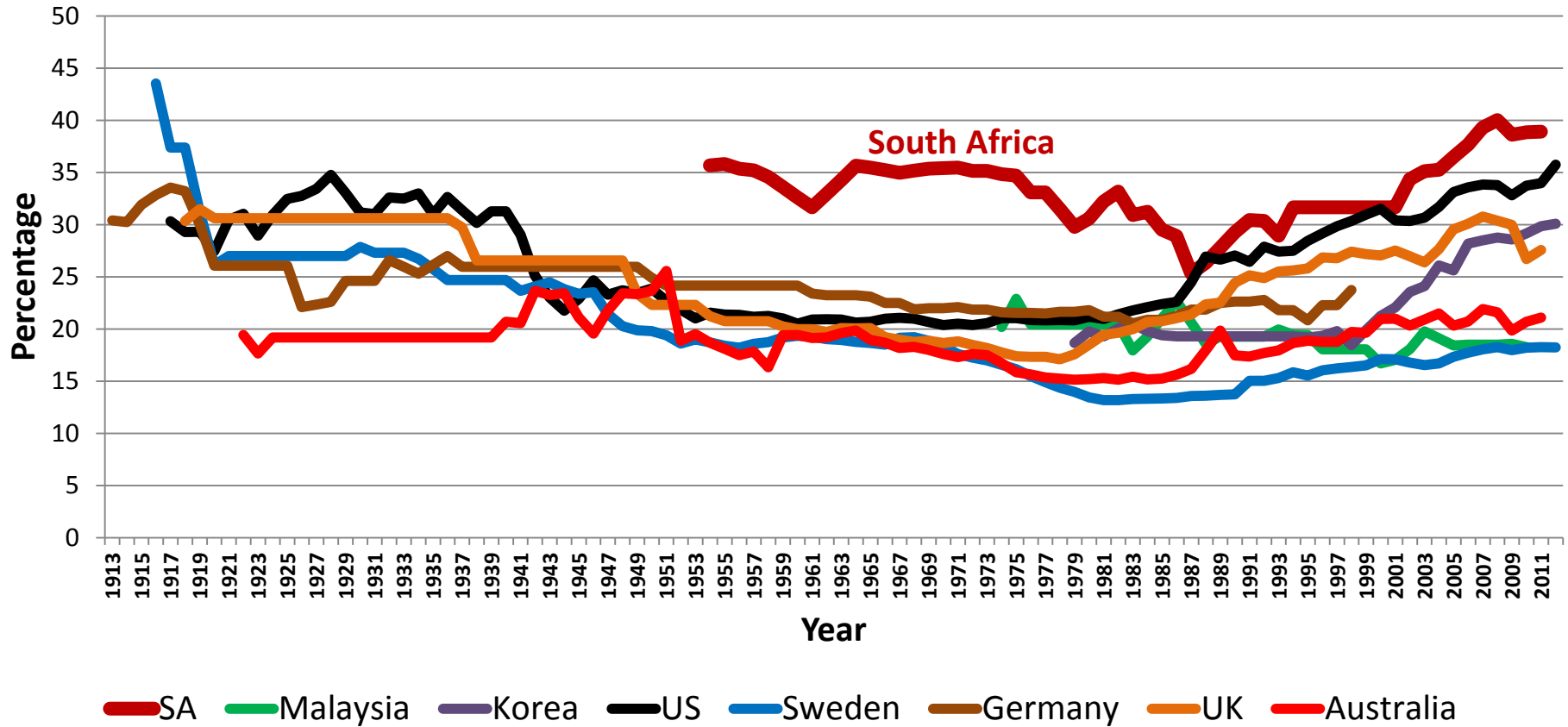
Source: OECD Employment Outlook, 2014

Figure 3: Regulation on temporary contracts, 2013



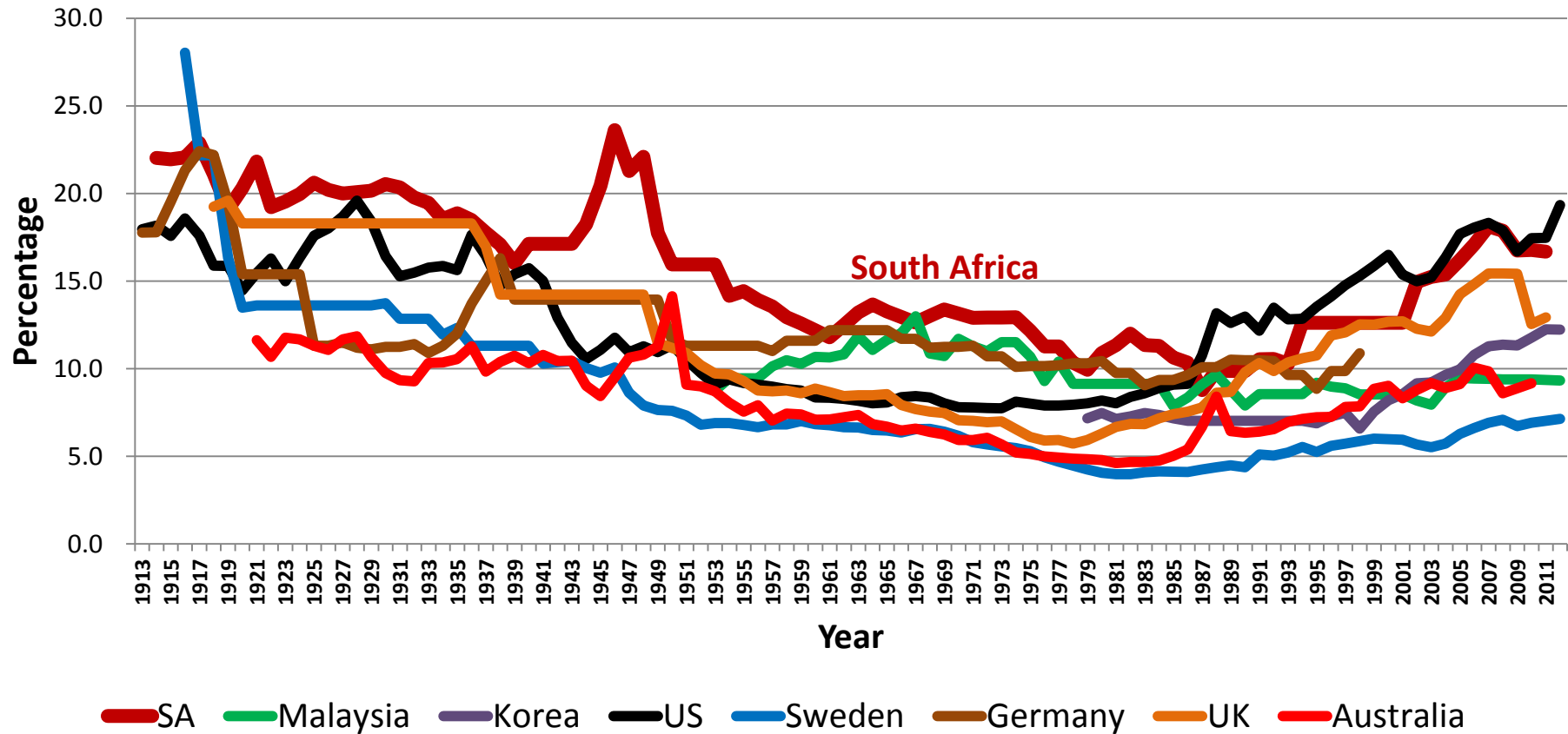
Source: OECD Employment Outlook, 2014

Figure 4: International comparison with South Africa of the percentage of total income accruing to the top 5% of income earners



Source: World top incomes database: <http://topincomes.g-mond.parisschoolofeconomics.eu/>

Figure 5: International comparison with South Africa of the percentage of total income accruing to the top 1% of income earners



Source: World top incomes database: <http://topincomes.g-mond.parisschoolofeconomics.eu/>