PUBLIC WORKS PROGRAMMES

AND

A BASIC INCOME GRANT

AS

POLICY RESPONSES TO

UNEMPLOYMENT AND POVERTY

IN SOUTH AFRICA

Submitted in partial fulfillment of the requirements for the degree

of Master of Arts

By

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January 2007
Declaration

I declare that this thesis represents my own work, except where due acknowledgement is made, and that it has not been previously included in a thesis, submitted to this University or to any other institution for a degree, diploma or other qualification.

Signed by: ________________________________

Date: 18/01/2007

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INTRODUCTION AND OVERVIEW

This dissertation will be mainly concerned with attempting to evaluate the usefulness of public works programmes (PWP) and a basic (or universal) income grant (BIG) as policy responses to what appear to be the extraordinarily high levels of unemployment and poverty in South Africa. These evaluations will be carried out in Chapter 3 and Chapter 4, respectively. In neither case will the policy receive an unambiguous endorsement.

To set the scene for the above investigations Chapter 1 will outline the statistical evidence of high and (probably) rising unemployment and poverty in South Africa – and will sketch an analysis of the causal factors lying behind this socio-economic pathology. Chapter 2 will describe efforts by the S.A. government to reduce or alleviate unemployment and poverty – especially using policy clusters packaged as the Reconstruction and Development Programme (RDP) and the Growth, Employment and Distribution Strategy (GEAR). The disappointingly small measure of success apparently achieved by these efforts and related measures justifies the search for alternatives conducted in Chapters 3 and 4.

Finally in Chapter 5 the argument of Chapters 1-4 will be summarized, and evidence will be briefly considered that suggests that by 2005 mainline government policies may have begun to have greater effects in reducing unemployment and poverty than seemed to be the case in the late 1990s. Very brief notice will also be taken of some possible policy measures neither used in South Africa, nor discussed in this presentation.
CHAPTER ONE

UNEMPLOYMENT AND POVERTY IN SOUTH AFRICA: DEFINITIONS, MEASUREMENTS AND EXPLANATIONS.

1.1 Introduction

During the 1970s unemployment among the mass of the population in South Africa emerged as a serious and growing problem. Initially there was controversy among economists about the nature and extent of the phenomenon\(^1\). However as the average GDP growth rate fell after the mid-1970s until the early 1990s, it came to be a widely-held, and increasingly plausible, view that unemployment was high and worsening. This view was partly confirmed by the first official efforts to measure mass unemployment from October 1977 (the Current Population Survey organized monthly by Central Statistical Services) although these met with serious difficulties which later led to their suspension and replacement by an annual survey (the October Household Survey). Contrary to the expectations of many, the political transition in 1994 -- while lifting the economic growth rate somewhat -- failed to reduce the now officially-measured rate(s) of unemployment. By 2000 the term “jobless growth” was in use to describe the overall process. In fact both the narrow and broad unemployment rates rose by about 10 percentage points each between 1995 and 2004 (see Table 1 below) -- standing at the extraordinary levels of 26% (narrow) and 41% (broad) by the latter year.

Given the South African economy’s history of coercion, dispossession, discrimination and (various types of) dualism it was to be expected that a substantial proportion of the population would live in poverty. However, it was possible as late as the early 1980s to take the view that recent and current economic growth was absorbing black citizens into the “modern” economy at a rate sufficient to hold out hopes of a substantial reduction in poverty in the foreseeable future\(^2\). The reality of these years -- as outlined in the previous paragraph -- was otherwise. GDP growth slowed, GDP per capita fell, employment creation slowed or disappeared, and measured unemployment increased. And a widely-held view was that even after political transition, while black “elites” were benefiting...
from new opportunities, poverty was increasing at the bottom-end of the income distribution. Sampie Terreblanche (2002) is a forceful exponent of the view. At one point (2002:390) he refers to the “further pauperization” since 1994 of “the poorest two thirds of the population”, despite increased social spending by the government. He also claims (over a longer time-span) “that the per capita income in real terms of the poorest half of the population in 1996 was 42 per cent lower than in 1975, and in 2001 slightly more than 40 percent of what it was in 1975”. (2002:34)

After these very preliminary paragraphs, the remainder of this chapter will try to dig a little deeper. This involves (1) some attention to definitions and measures, (2) the presentation of more detailed evidence concerning the claims about high and rising levels of employment and poverty in South Africa and the admission that there are substantial uncertainties about some of the statistical data, and (3) an attempt to explain (in outline) why the situation is what it is. However, since the focus in the dissertation is on the evaluation of public works programmes and a basic income grant, neither definitions, nor evidence, nor causal analysis will be presented with anything like as much detail as would in principle be possible.

1.2 Unemployment
The discussion commences with unemployment -- and will turn to poverty in the next subsection (1.3)

1.2.1 Definitions of unemployment
There are two definitions of unemployment: narrow and broad. The former counts as unemployed all jobless persons who want to work and have searched for work in the recent past (i.e. four weeks prior to the survey visit). The latter counts as unemployed all jobless persons who report they want to work even if they have not searched in the reference period (Kingdon and Knight, 2001:80). The unemployment rate is usually measured as the number of unemployed persons given as a percentage of the total economically active population (or labour force). The total economically active
population (or labour force) consists of both those who are employed and those who are unemployed (Stats South Africa 1999: xvii)

1.2.2 Scale of recent South Africa unemployment

The following table illustrates the difference between the two measurements of unemployment (narrow and broad) and also shows that both aggregates have in general been rising during the last decade (1993-2004) -- though not monotonically.

Table 1. Unemployment rates in South Africa (1993—2004)

<table>
<thead>
<tr>
<th>Year</th>
<th>Broad definition % p.a.</th>
<th>Narrow definition % p.a.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td>31.2</td>
<td>13.0</td>
</tr>
<tr>
<td>1994</td>
<td>31.5</td>
<td>20.0</td>
</tr>
<tr>
<td>1995</td>
<td>29.2</td>
<td>16.9</td>
</tr>
<tr>
<td>1996</td>
<td>33.6</td>
<td>21.0</td>
</tr>
<tr>
<td>1997</td>
<td>37.6</td>
<td>22.9</td>
</tr>
<tr>
<td>1998</td>
<td>38.6</td>
<td>26.1</td>
</tr>
<tr>
<td>1999</td>
<td>36.2</td>
<td>23.3</td>
</tr>
<tr>
<td>2000</td>
<td>35.9</td>
<td>25.8</td>
</tr>
<tr>
<td>2001</td>
<td>41.5</td>
<td>29.5</td>
</tr>
<tr>
<td>2002</td>
<td>41.8</td>
<td>30.5</td>
</tr>
<tr>
<td>2003</td>
<td>41.8</td>
<td>28.2</td>
</tr>
<tr>
<td>2004</td>
<td>41.0</td>
<td>26.0</td>
</tr>
</tbody>
</table>


Figure 1 (on the next page) provides a graphical representation of these figures.
For the 1993 to 2004 period the narrow rate of unemployment increased from 13% to 26% (a doubling), and the broad unemployment rate rose from 31.2% to 41% -- if one focuses only on end-points.

1.2.3 **Uncertainties and controversies surrounding rates of unemployment in RSA.**

In fact there are uncertainties about the unemployment estimates just set out. For one thing, there are three separate sources for the 1993-2004 series -- pointed out by Simkins in C.D.E (2004:15) in a context where he was illustrating how “shaky” South African statistics are: “....there are breaks in the employment and unemployment series between the October Household Survey up to 1999 and the Labour Force Survey from 2000 onwards, and there was also a breakdown in the Survey of Employment and Statistics in the late 1990s. That has been changed, so we’re unsure of what’s happening”.

There are various examples that can be produced which show the difficulties that are created for sensible interpretation of the unemployment trend (or fluctuations) by deficiencies, or oddities, in the figures. The International Labour Organization team of Standing, Sender and Weeks (1996) rejected the view, based on the broad
(or expanded) measure of unemployment, that “unemployment in South Africa is the highest in the world”. At a time when the expanded measure of unemployment was in the region of 32%, they preferred an estimate in the region of 20%, arguing that much own-account agricultural work, particularly by women, was not being recorded. Schlemmer and Levits (1998:71), reached a similar conclusion, arguing that “casual and hidden” employment in the formal sector might account for one fifth or more of those identified as unemployed by the official expanded(or broad) definition.

The possible effects of changes captured in some surveys but not in others which are more focused on formal economic sectors, can be illustrated for the adjacent years 1998 and 1999.

Table 2 Economically active population and formal and informal sector employment, 1996 to 2003

<table>
<thead>
<tr>
<th>PERIOD</th>
<th>ECONOMICALLY ACTIVE POP.</th>
<th>FORMAL SECTOR employment</th>
<th>INFORMAL SECTOR employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>13853</td>
<td>6792</td>
<td>996</td>
</tr>
<tr>
<td>1997</td>
<td>14449</td>
<td>6726</td>
<td>1186</td>
</tr>
<tr>
<td>*1998</td>
<td>15024</td>
<td>6390</td>
<td>1316</td>
</tr>
<tr>
<td>*1999</td>
<td>16251</td>
<td>6564</td>
<td>1307</td>
</tr>
<tr>
<td>2000</td>
<td>15794</td>
<td>6842</td>
<td>1933</td>
</tr>
<tr>
<td>2001</td>
<td>15358</td>
<td>6876</td>
<td>1873</td>
</tr>
<tr>
<td>2002</td>
<td>15866</td>
<td>7034</td>
<td>1703</td>
</tr>
<tr>
<td>2003</td>
<td>16192</td>
<td>7461</td>
<td>1899</td>
</tr>
</tbody>
</table>


Between these two years table 2 displays an 8.2% increase in the broad economically active population (year-on-year): or an increase of 1 227 000 persons, split between an increase of roughly 600 000 employed workers in the informal sector, roughly 175 000
more workers in the formal sector and an increase of roughly 450 000 unemployed persons. Narrow unemployment (see table 1) fell from 26.1% to 23.3% (and broad unemployment from 38.6% to 36.2%)

The response by some has been simply to refuse to believe such statistics. Kelly (in Business Day, 1/8/00) said they contradicted the fact that “retrenchments had continued over a number of years at a robust rate”. Orkin the head of Stats S.A., defended the plausibility of the results suggesting that the rise in the number of the employed came from sectors and industries not covered by surveys of formal establishments, but possibly picked up in a survey of households.

There have been similar disputes over the interpretation of more recent surveys (e.g. Schussler: 2004) – Some economists stress the fact of job-creation (put by Schussler at 60 000 per month for the September 2003 to March 2004 period) and others stress the continued fast growth of the labour force. This last point is worth noting. Hirsch (2003; 2004), who was Chief Director: Economic Sector, the Presidency, has emphasized what he call a “jobs paradox”: the root of the problem is not “jobless growth” but rather that unemployment rises even as jobs are being created – and this is partly the result of the rate of increase of the economically active population. This in turn is the result of an increasing labour force participation rate (or activity rate) – linked to urbanization, an increased degree of social liberation for women and to the fact that a significant proportion of jobs created since 1995 were open to, and attracted, African women. According to Hirsch (2004:31) during 1996-2001 “the population grew only moderately by about 2 per cent a year, or 11 per cent over the whole period. However the number of households increased by 30 per cent”! This has various effects – including a bigger burden on the state to deliver services – but it is also contributing to the demand for employment (i.e. the growth of the economically active population)

1.2.4 **International unemployment comparisons**

Whether South African unemployment rates are rising or have started to decline they are high by world standards – though there are difficulties in making such comparisons. As
we have noted, the “highest in the world” claim is dubious, but if South Africa’s unemployment levels are simply compared with those which are available internationally they are a good deal higher than those in most other developed and developing countries. McCord (2002:11) cites ILO figures for the year 2000 which put the developed country average at 6.2%, Latin America and Caribbean at 8.9%, Asia and the Pacific at 4.6% and the transition economies (former members of the Soviet Bloc) at 10.9%. In that year the South African (narrow) measure, which is consistent with international practice⁶, was 23.3%.

There are three short comments which arise out of these (or similar) comparisons. First, there is a contrast with Brazil, which is often linked with South Africa as heading the world league-table of income inequality (with similar levels of GDP per head). In 1999 Brazil reported an unemployment level of 9%. So there is more involved than simple income-(or wealth-) inequality.

Secondly, McCord suggests that rates of unemployment comparable to those that South Africa has been experiencing, among middle income countries, are only to be found when there is (or was recently) “conflict” (e.g. Algeria) or “extreme economic isolation” (e.g. isolated Central Asian states of the former Soviet Union”). What is somewhat surprising is that she does not seem to intend this comment to shed any light on the South African case – whereas arguably it does. For many, South Africa would have seemed a prime example of “conflict” during the mid-1970s to mid-1990s, although of course the conflict was in some senses contained. As for “isolation” a partly-successful attempt was made (at least in the 1980s) to isolate South Africa from the world trading and financial system. There is (or was) also a sense in which the regional was isolated – connected with (a) protracted political, including armed, conflict in Southern Africa, (b) its low population densities – especially in the western part of the region and (c) its geographical position in the far South – without proximity to any cluster of robustly-growing economies.
Thirdly, McCord does draw attention to the fact that high unemployment is not confined to South Africa within Southern Africa. There is some interest in producing her figures (from the ILO, *World Employment Report* 2001) for the region.

**Table 3: Unemployment rates in selected Southern African countries**

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>YEAR (1999)</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>23.3</td>
</tr>
<tr>
<td>Botswana</td>
<td>21.5*</td>
</tr>
<tr>
<td>Namibia</td>
<td>19.5**</td>
</tr>
<tr>
<td>Zambia</td>
<td>15.0</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>6.0</td>
</tr>
<tr>
<td>Lesotho</td>
<td>40.0**</td>
</tr>
</tbody>
</table>


*1996 **1997

The table indicates that around 1999 the SA unemployment rate was 23.3% and the other countries (apart from Lesotho) had 21% or less. With specific reference to developing countries such as Botswana, Namibia and others in this region, the table shows that South Africa is part of a cluster of high-unemployment economies and not really an isolated outlier among generally lower-unemployment economies.

Despite the interest of the topic (or topics) raised by these figures we must stick to the main point (at least at the surface level) viz. that with some exceptions, the whole region and not South Africa alone suffers from high unemployment. Leaving the issue there fails to be illuminating, but it is some improvement on the S.A-as-international-unemployment-freak view.

1.2.5 **The causes of high unemployment in South Africa.**

An attempt will now be made to establish why unemployment has emerged as a problem in recent decades in South Africa. "Chronic labour shortages" have historically been the problem – in a commonly-accepted view (Nattrass, 2004: 143; Terreblanche, 2002)
passim). What has changed? Satisfactory answers to this question may assist in the search for unemployment-remedies.

Putting things schematically, we may say that unemployment in South Africa grew from (roughly) the mid-1970s to (roughly) today because (1) the rate of real GDP growth slowed substantially, and with it the rate of growth of the demand for labour; (2) the rate of growth of the labour-force (or the supply of labour) increased both because the population growth rate increased until fairly recently and because over the period the activity rate (or labour-force participation rate) increased; (3) there were major structural changes in the South African economy which reduced absolutely the demand for unskilled labour, and which put the economy on a more skill-, technology-, and capital-intensive growth path; and (4) (probably worth mentioning separately although related to what has already been said) readmission to the world economy with its global trading pressures, and government industrial relations policies and labour market regulation have (at least in the short-run) destroyed jobs in formerly protected industries and discouraged, to some degree, the creation of new ones.

1.2.5.1 Slow growth of real GDP

From 1910 until 1960 the South African real GDP grew on average at a little over 4% p.a. The 1960s saw faster average growth at close to 6% p.a. Thereafter what Lewis (2002:727) calls a “secular deterioration” set in — with the growth rate falling to around 3% during the 1970s, to 2% during the 1980s and then performing in an “erratic” way during the 1990s, with an average of 1.3% p.a. (an average which includes the negative growth rates in the early 1990s — just before the political transition).

And why slower G.D.P. growth? No adequate answer can be given here, nor probably is a full-blown discussion needed. It is plausible to take the view that the extended 20-year political crisis that the country experienced after 1976 had a major dampening effect on the growth rate — via the increase in radical uncertainty which reduced domestic investment, encouraged capital flight (despite financial controls), discouraged new foreign investment and gave an incentive to emigration by skilled and entrepreneurial
individuals. The conflict (given the tactics used on both sides, including deliberate attempt to harm the economy via trading and financial boycotts) diverted resources into military budgets and into a search for increased economic self-sufficiency. The external debt crisis of the mid-to-late 1980s “required resources to be put into the balances of payments” (by import restraint) so as to repay unrolled-over debt.

But there were other factors not related (or not directly) to the political conflict. There were external shocks and instabilities — the stagflationary recession is the world economy of the 1970s, the change in the gold-market and a new level and a new volatility for the gold-price with some of the attendant problems posed by commodity price-cycles for successful economic management. In the period before 1984 the “Dutch disease” problem appeared — creating an extra obstacle to the expansion of manufactured exports for an economy already biased against exports. South Africa’s share of world manufactured exports declined as the “Asian tigers” rode to rapid growth with expanding manufactured exports as an integral part of their strategies. And the import-substitution path South Africa had followed in the 1950s and 1960s was no longer available as the opportunities associated with the easier and less-technologically-advanced phase of the process had probably been exhausted.

1.2.5.2 Fast growth of the labour force.

Censuses (if they are to be relied on) suggest that for roughly the first half of the twentieth century the South African population grew at an average rate of about 2% p.a — with racial shares being roughly constant over time (implying similar growth rates). After the Second World War, however, the rates began to diverge, with whites soon entering the declining phase of the demographic cycle while the other groups experienced faster growth — as they passed through the expanding phase of the cycle. The overall population growth-rate peaked at close to 3% p.a. in the years around 1980. By that stage Indian and ‘Coloured’ growth-rates were on the way down- but it was not until the 1990s that there was clear evidence that African female fertility had declined and that the overall population growth rate was declining and (increasingly affected by HIV/Aids-related deaths) was closer to 1% p.a than 2% p.a. If we allow a 15-20 year time-lag
between birth and entry into the potential labour force, and place the start of the faster population growth of groups other than whites in the 1950s, then the faster-growing labour-supply would have made its appearance by 1970 (or the 1970s).

As regards the activity rate (or labour force participation rate) of this more rapidly growing population, we do not have good theoretical or quantitative studies. We do know however that throughout Southern Africa as late as 1950s there were African groups, essentially in rural areas more or less distant from urban centers of mining, manufacture, white settlement and administration, who undertook only a limited participation in the “modern economy” (primarily as wage-workers) and saw this as a means to the end of maintaining or preserving a more-or-less traditional way of life. (Mayer (1961), Watson (1958), Moodie (1994). It is interesting that there was some degree of coincidence of interest between “tribal conservatives” and those political elements in white society who were much concerned to limit the permanent transfer of Africans to “urban areas” -- using pass laws and “influx control” to attempt to inhibit the flow. What seems clear is that by the end of the century (if not before) this alliance had effectively lost the war. The legal restrictions on urban entry were gone; cultural conservatism was reduced, and the aspiration to a “better life” -- defined largely in terms of material consumption and access to “modern” facilities and services -- was dominant. Amongst other ways this manifested itself in the break-up of households earlier maintained over large distances. Hence perhaps the Hirsch (2004) talk about the number of households increasing 3 times as fast as the number of individuals in the 1990s (see above in subsection 1.2.3); and his (2003) view that many African women who defined themselves as outside of the job market in 1995 now define themselves as employed or seeking work. None of this unfortunately enables us to say “the increase in the wage-labour participation rate has added X% per annum on average to the rate of growth of labour supply during the period (say) 1970 to 2005;” but we are reasonably convinced that it is part of the explanation for the inability of the S.A. economy to employ all of the labour on offer during these decades. Nor does the process seem to be at an end.
1.2.5.3 **Structural changes in the South African economy**

Over the roughly three decades we are considering the following three changes, which had the overall effect of making the economy less labour-absorptive, took place in the economy. (1) The sectoral composition of the economy changed in the sense that the share of the primary and secondary sectors in total output has declined since the 1980s (and probably earlier) relative to that of the tertiary sector. This represents a switch from more to less labour-using sectors; it also goes along with a decline in the absolute number of workers employed in some of the relatively-declining sectors -- which, at least in the case of mining and agriculture, were major employers. (2) The economy now requires increased average skill levels. The percentages of the labour force which is classified as skilled and highly skilled has increased from 38% in 1978 to close to 57% in 1997/98 (Bhorat 2000:Table 2) and the percentage who are unskilled has declined correspondingly. In the context of reasonably full-employment this would be good news; in the South African context where there are large numbers of unemployed job-seekers and where we know that employment totals in sectors with relatively high demand for unskilled labour force have declined absolutely the inference must be that there has been a decline in the demand for unskilled labour and an increase in the number of the unskilled who are unemployed. (3) Behind both the sectoral shifts in output and employment, and the changes in skill requirement within sectors and resulting from shifts between sectors, are pervasive changes in technology -- which South Africa has increasingly come to share with the global economy in recent years. And these changes (along with greater trade flows), so some argue, are responsible for the "reduction in the number of workers needed to produce the goods and services required to satisfy global demand" (McCord:2002:19)

1.2.5.4 **Policy influences: labour market regulation and international trade policy**

So far we have looked at the effects of slow GDP growth and structural and technological change in reducing the growth in the demand for labour, and have noted that for much of the period there were factors speeding the growth in labour supply. In this final subsection we pay brief attention to two aspects of government policy-making which are
thought by some to have **reduced the demand for labour** below the level it would have reached (in the absence of the policies)

- **Labour market “rigidity”**

An explanation often advanced for low employment creation – elsewhere as well as in South Africa – is the presence (or operation) of labour market “rigidity” (or inflexibility). Although the concept is difficult to pin down precisely it is usually associated with features of the industrial relations system which increase the costs of employing labour – either directly via union-imposed wage-levels or non-wage benefits, or indirectly via restrictions on management discretion over hiring and firing decisions or other decisions which employers will wish to tailor to individual or market circumstances (without their being subject to external review or appeal). In the neo-classical view higher expected costs will imply lower labour employment.

It is impossible to survey all the relevant legislation here for the South Africa case. Lewis (2002:744-49) has a brief discussion and cites Standing, Sender and Weeks (1996: chapter 6) and Fallon and Lucas (1998) as presenting opposing cases about the “impact of the institutional and regulatory environment on employment”. Lewis also notes that surveys (as distinct from theory) present divergent views. Thus the World Economic Forum’s Global Competitiveness Report (1999) ranks South Africa at the bottom of its 59-nation comparison on whether “labour regulations on wages, hours or dismissals favour flexibility”. However a survey of large firms in Johannesburg (also in 1999) found that 60 per cent reported that “the combined labour legislation had no impact on employment decisions.”

Lewis (2002) and Fedderke (2003) present similar arguments about the more direct effect of increases in wage-costs on employment. Lewis reports that between 1970 and 1999 unemployment among people in lower skilled labour categories increased from low levels initially, increased steadily after 1976 and reached more than 50% in 1995. In the same period real remuneration per unskilled or semi-skilled worker grew (in 1999) to 250% of its 1970 level. He takes this broad picture to endorse the conclusion that “unskilled and semi-skilled labour has to a large extent been priced out of the market.”
Fedderke (2003) in a newspaper article shows a diagram of the real wage and employment in manufacturing industry for almost the same period (1970-2000). The wage more than doubles; employment rises to about 1981 (a peak growth year) and then declines markedly to 2000. Without deriving it specifically from the figures behind his diagram, Fedderke reports a real wage elasticity of demand for labour in manufacturing of 0.7 (estimated by Heintz and Bowles (1996)). “A 1% reduction in the real cost of labour in the manufacturing sector would lead to a 0.7% expansion in job opportunities”, he declares. Presumably this wage-effect has been working in reverse for much of the period during the 1980s and 1990s. Although all this is of interest and although it seems plausible that South Africa’s “labour market institutions and regulations have constrained more rapid growth in employment” (Lewis, 2002:748) there are two important reservations: (i) scale — what percentage of present unemployment could be attributed to labour market rigidity or high wages? and (ii) how politically feasible is a policy of labour-market “reform” aimed at a major increase in market “flexibility”? Evidence suggests that achieving such a goal soon is unlikely. (This of course does not show that the analysis is incorrect)

• **International trade policy**

The process of trade liberalization began in the early 1990s but the speed of reintegration into the world economy increased after 1994. Some have suggested that increased international competition has been part of the reason for job losses or slow job creation in the 1990s. Firms must cut costs to survive and they make efficiency gains by slimming down their workforces. However it does not seem as though this phenomenon operates in such a way, or on such a scale, as to be heavily involved in the recent growth of unemployment. The increased efficiency of manufacturing firms has led to a fast growth of exports, in line with the logic of liberalization, and some studies suggest that trade liberalization “has stimulated the demand for labour in South Africa.” (Fedderke, Shin, and Vaze, 2000:25). However even relative optimists such as these authors recognize that there are some offsetting factors at work. “The manufacturing sector has not seen any major job creation despite the rapid overall growth in export. The largest
export expansion has occurred in relatively (human physical) capital-intensive sub-sectors, and the unskilled labour-intensive category has performed poorly relative to most of the other sectors” (Lewis, 2002:759). An obvious possible explanation for these compositional trends in manufactured exports is the “rigidity” of the labour market discussed in the previous sub-section. It is an explanation accepted by several (but not all) researchers who have written on this topic.

1.3 Poverty

In the brief introduction to this chapter we raised the issue of poverty and justified the expectation that black South Africans, in particular, would suffer from it. We did this in a rough-and-ready way by referring to (1) a history of conquest, settler colonialism, racial domination and discrimination and (2) the failure of the society to grow its GDP strongly in a labour-absorptive way in the last 2 or 3 decades – thereby confirming its heritage rather than overcoming it. We also noted the forcefully expressed view of Terreblanche (and others) that since political transition poverty has worsened.

Another, though linked, way to introduce poverty to the discussion is to refer explicitly to the inequality in South Africa along many dimensions, including certainly that of income. While in per capita terms South Africa is an lower-middle-income country, the experience of most South Africa households, in the lowest three quintiles of the income distribution, is of outright poverty or continuing vulnerability to being poor (May, 1998:4). Another statement of the situation, compatible with that just presented but not identical, is that approximately 40% of South Africans are poverty-stricken – with the poorest 15% in a desperate struggle to survive (Landman, 2003:1).

We shall try in the remainder of the chapter to be a bit less “rough-and-ready” about a number of questions dealing with poverty – especially as it applies to South Africa.

1.3.1 The meaning of poverty

Lipton and Ravallion (1995:2553) write: “By common usage, ‘poverty’ exists when one or more persons fall short of a level of economic welfare deemed to constitute a
reasonable minimum, either in some absolute sense or by the standards of a specific society". (Emphasis added).

In most attempts to measure poverty the concept of "economic welfare" is taken to be related positively to "command over commodities" – and this latter is measured by the current consumption of privately supplied goods, goods from own production (e.g. crops) and the imputed rents from owner-occupied housing. (Woolard and Leibbrandt, 1999: 4). Some comments on this measure are called for. First, income data is sometimes used, rather than consumption, but where available consumption data is preferred because (especially among the poor) expenditure is usually more reliably reported and is also more stable than is income. Secondly, the omission of benefits from the consumption of, or access to, public goods from the consumption measure of the material standard of living (or economic welfare) is justified on pragmatic grounds – "the problems involved in valuing access to public goods are enormous" (Woolard and Leibbrandt, 1999:4)\(^\text{13}\). Thirdly, it is generally agreed that the "commodity" approach to measuring poverty is not the only approach, and that it leaves out important dimensions of the human experience of poverty. Woolard and Leibbrandt (in the discussion already referred to above) write that: "the poor are not concerned exclusively with adequate incomes and consumption. Achieving other goals such as security, independence and societal participation may be just as important as having the means to purchase basic goods and services".

Although not much use will be made of it in what follows, the last point just made is perhaps worth elaborating. Under World Bank auspices a Voices of the Poor study was made aimed at understanding poverty from the perspective of poor people themselves. Narayan (2001:19) found that poor people defined poverty as the inability to exercise control over their lives. Notice the difference between the minimum standard of living definition and this one: the former is limited to what can be bought for money, whereas this latter definition goes above and beyond money (e.g. includes power). An old man in Nigeria is quoted in the study as saying, "if you want to do something and have no power to do it, it is \textit{taluchi/ poverty}" (Narayan, 2000:19). May (1998:13) in similar vein argues
that the absence of power is virtually a defining characteristic of being poor, and is worsened for women by unequal gender relations.

May (same source) was involved in a study in South Africa similar to that by Narayan above. This study was called the South African Participatory Poverty Assessment (SAPPA), and May reports that qualitative data derived from it show clearly that poverty typically comprises continuous ill-health, arduous and often hazardous work of low income, no power to influence change and high levels of anxiety and stress.

1.3.2 Poverty measures
To use and implement statistically the basic notion of poverty – as inadequate private consumption for an individual or household, in the sense of being below some reasonable minimum – a number of decisions are required. For purposes of identification (i.e. to be able to answer the question: who is poor?) a “poverty line” is required, and establishing this will usually require some normalization or consideration of the relevance of household differences in composition and size. After identification, aggregation is the next necessary issue: “how do we aggregate (the) information into a measure of poverty for each of the distributions being compared?” (Lipton and Ravallion, 1995: 2578). In recent work two or three such aggregate measures are usually employed.

1.3.2.1 Identification: poverty lines
In what follows we are not concerned with a thorough exposition of the issues as understood theoretically, but wish to introduce applied South African practice. We begin with “poverty lines”- below which an individual/household is identified as poor, and above which they are non-poor. Inevitably this (or they, if there are more than one proposed) will be an “imperfect measure” and will be “somewhat arbitrary” (Woolard and Leibbrant, 1999: 8. In the remainder of the discussion of poverty measures we rely heavily on this paper). The approach employed in much work to date in South Africa specifies some minimum basket of goods (given basic needs for food, clothing, shelter, etc) and establishes the cost of this basket. The two most commonly used poverty lines in South Africa are the Household Subsistence Level (HSL) calculated by the Institute for

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Planning Research (at U.P.E) and the Minimum Living Level (MLL) researched and published by the Bureau of Market Research (at U.N.I.S.A.). These are published twice a year for the major urban areas in the country, but only irregularly for rural areas.

The poverty lines introduced so far are absolute lines. However some scholars hold the view that poverty ought to be seen as a matter of well-being relative to the standards of living prevailing in the society in question. Such a view supports the construction of relative poverty lines -- such as, for instance, the income level which cuts off the poorest p (say, 40) per cent of the population, or which equals a particular percentage (say, 50 per cent) of the national mean or median. Woolard and Leibbrandt compared 6 absolute and relative poverty lines on 1993 South Africa data – determining the percentage of individuals below the poverty line in each case. A range from about 26% to 57% was obtained – with the lowest percentage being the outlier (the international poverty line of US$1 (1985 prices) per capita per day), and 5 of the 7 being in the range 46% to 57%. This divergence between the poverty lines is these authors' justification for using a “poverty critical range” rather than a simple poverty line in further work.

1.3.2.2 Identification: Adult equivalents and adjusting for household size and structure.

Information about consumption is usually available on a household basis. But simple comparisons of household consumption may be misleading since households differ in size and demographic make-up (age and gender, in particular). It is possible to respond to the problem by doing no more than converting to a per capita basis (dividing by household size). However such a procedure ignores the facts that consumption varies with age (child or adult status) and possibly gender (depending on the division of labour), and that there are economies of scale in consumption of household public goods. So an effort is made to convert household consumption to consumption per “equivalent adult male” – or (as Woolard and Leibbrandt1999:12) write: “a household of given size and demographic composition is taken to have the equivalent needs of a given number of adults males”. But on what numerical bases does one establish equivalence?
Apparently in much work done recently in South Africa, the child cost ratio is set at 0.5 and the economies of scale parameter at 0.9. Woolard and Leibbrandt show that employing a range of values for these parameters (child cost ratio between 0.5 and 1.0, and economies of scale parameter between 0.6 and 0.9) makes less difference to the poverty profile than might be expected (their tables 8-10). So they retain the commonly used values.

1.3.2.3 Aggregation: poverty measures for distributions

So far discussion of poverty measures (section 1.3.2) has focused on how to identify the poor. Now we turn to the questions that arise when one attempts to combine the information into a “national poverty statistic”. Statistics (or measures) proposed take account not only of the number of poor households but also of the depth and the severity of the poverty experienced. The latter two aspects are registered by measures which are distribution sensitive i.e. sensitive to the distribution of income among the poor. Those aggregate measures which are in common use (corresponding to the concepts introduced in this paragraph) are:

1) The head-count index (H) which gives the poor as a proportion of the population;

2) The poverty gap index (PG) which provides a measure of the average distance that a poor person is from the poverty line – and so reflects depth of poverty (on average); and

3) A measure of the severity of poverty (sometimes written as P2) and which involves an average of the squared distance that a poor person is from the poverty line. (See Woolard and Leibbrandt, 1999:21 for P2 and some explanation of how it is to be interpreted).

It makes sense to use all three of these measures as Woolard and Leibbrandt do for 1993 in the paper we have been using, and as van der Berg et al (2005) do in an important paper we shall pay attention to briefly in this Chapter and more fully in Chapter 5.
1.3.3 A profile of poverty in South Africa.

What kind of picture emerges from the attempts to construct poverty measures for the South African economy? Who are the poor? Where are they located? How do the racial groups compare? How relevant is gender to poverty incidence? What about other correlated variables – education, employment, access to basic services, health, and so on? We shall content ourselves initially with the Woolard and Leibbrandt investigation, although it uses data collected in 1993. We proceed in this way because we shall report developments in the poverty-field after 1993 in the later sub-sections of this chapter and in the final chapter. (Note that they work with 2 poverty lines viz. the Household Subsistence Level of R3509 per adult equivalent p.a., and the “dollar a day” set at R2200 per adult equivalent p.a. – both in 1995 prices). A full profile is not possible. A few sampled results relating to the predominantly rural character of poverty will have to do. At the higher poverty line the headcount measure gives 63% of individuals in rural areas classified as poor, with 22% in urban areas (of all sizes) taken together (only 14% in metropolitan areas). As defined by the higher poverty line 73% of all the poor live in rural areas. A combination of high poverty headcount and deep poverty among the poor in rural areas means that 75% of the total poverty gap is accounted for by poverty in rural households (though rural households are only 49% of the total population). After presenting other aspects of the poverty profile, Woolard and Leibbrandt summarize their findings (1999:41): “We have highlighted the dramatic differences in the poverty levels of the different race groups and different geographical areas. The poor are more likely to be African and to live in rural areas. In addition to these poverty dimensions, we have also shown the importance of other cross-cutting correlates. The poor also have low levels of education, lack access to wage employment and are likely to be found in female-headed households. The poor also lack access to basic services and to transport. Given all of the above, it is not surprising that the poor are more vulnerable to illness and to stunted growth. Such physical and human capital deprivations are important in perpetuating the cycle of poverty”.

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1.3.4 Poverty trends in South Africa
Given the concerns of this dissertation with policy, more is needed than a few 1993 poverty measures. We need answers to questions such as, what have been the poverty trends in the economy going back some decades, and has poverty been increasing since political transition? As we noted earlier Terreblanche has claimed the latter and one might be inclined to imagine that he is correct if one takes the increasing unemployment figures as correct and interprets them as the consequence of job losses and failure to create new employment.

It turns out that these are not easy questions to answer, and it is not even easy to summarize the debate, which Van der Berg and Louw (2003:1) refer to as “heated” -- though the complexity has partly to do with the fact that more has been at stake than poverty alone, including issues such as the: the racial distribution of income, inequality within racial groups and inequality overall.

Van der Berg and his co-workers have recently produced poverty estimates for as far back as 1970, and have brought them forward to 2000, and then 2004. Since there is nothing else available with this coverage (that we are aware of) and since the studies are based on more extensive sources and a more critical use of sources than other studies, we shall present a summary of their findings in this section. As it happens the picture that emerges is a somewhat more optimistic one than that painted by Terreblanche and other researchers. In the next sub-section (1.3.5) something will be said about how these divergent findings have arisen.
Table 4. Poverty headcount and headcount ratio in South Africa, 1970 - 2000

<table>
<thead>
<tr>
<th>YEAR</th>
<th>IN POVERTY</th>
<th>IN POVERTY %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>11 349 734</td>
<td>49.8</td>
</tr>
<tr>
<td>1975</td>
<td>11 333 527</td>
<td>43.7</td>
</tr>
<tr>
<td>1980</td>
<td>11 361 103</td>
<td>38.9</td>
</tr>
<tr>
<td>1985</td>
<td>12 874 522</td>
<td>38.8</td>
</tr>
<tr>
<td>1990</td>
<td>15 273 670</td>
<td>35.3</td>
</tr>
<tr>
<td>1993</td>
<td>15 269 709</td>
<td>38.2</td>
</tr>
<tr>
<td>1995</td>
<td>16 033 948</td>
<td>38.8</td>
</tr>
<tr>
<td>2000</td>
<td>17 239 710</td>
<td>38.6</td>
</tr>
</tbody>
</table>


Note that the poverty line is at R3 000 per capita per annum (2000 prices) – said to be broadly in line with the higher poverty line used by Woolard and Leibbrandt in the previous section. Note also that incomes include “transfers from government”.

As shown in table 4 (for the period to 2000) and as Van der Berg and Louw (2003:17) write: “poverty declined sharply in the 1970s, particularly the first half of that decade. That is quite understandable, given the rapid growth rate achieved until 1975 and the rapid rise in black wages that occurred in that period”. For the later period, which includes the years after political transition, they write: “the poverty headcount ratio has remained largely unchanged from the mid-80s, with more recent movement cancelling out an initial improvement ....” (emphasis added). They accept the reality of rising inequality in most groups – which, especially in the case of blacks, has been interpreted as involving increasing poverty at the bottom of the distribution – but take the view that “the net effect of rising per capita incomes for all race groups has just cancelled the effect of rising inequality”. Of course population growth has increased the poverty headcount itself “quite markedly”.

In a later paper Van der Berg and 4 other co-authors (Van der Berg, Burger, Burger, Louw and Yu, 2005) extend forward the work reported above, but confine themselves to
a much shorter period overall viz. 1993 to 2004. They allow (as their estimates in table 4 did) for a small increase in poverty in the 1990s but find “a marked decrease in poverty since 2000”. Using all three poverty measures (and two poverty lines) they report: “the headcount poverty rate, the poverty gap index and squared poverty gap index all increased slightly over the first half of the period covered (1993-2000), and declined to well below their starting levels towards the end of the period covered (2000-2004)”. (emphasis added).

These researchers are inclined to attribute much of this reported poverty reduction to the substantial increase in social grants which has taken place in recent years, but also refer to “a combination of faster growth (and) better labour market prospects”. Our intention is to return to this paper and Van der Berg et al’s claims in the concluding chapter of the dissertation. At this stage we need to pay some attention to those who for some years have been claiming that poverty has been worsening – and establish (if we can) why there has been such disagreement over the issue, and what has created such uncertainty.

1.3.5 Uncertainties and controversies about levels of poverty in South Africa

The following quotation from Van der Berg and Louw (2003:2) will introduce this topic, takes us to an example of the central informational problems involved and suggest (along with the endnote 16) why a certain amount of “heat” and frustration has been involved:

“One of the main areas of contention regarding post-transition trends relates to whether poverty has increased or decreased. Confusion was fed by the release of IES 2000 (the Income and Expenditure Survey 2000 conducted by Statistics South Africa) and in particular by a publication by Statistics South Africa (Stats SA 2002) comparing the results of this survey with the IES 1995. This comparison concluded that income in South Africa has been declining in real terms between 1995 and 2000 – contrary to all national income and demographic statistics also compiled by Stats SA -- that racial income distribution has worsened and that poverty has substantially increased. However, Statistics South Africa has since admitted that this survey is not comparable with the IES 1995”16.
An unsatisfactory feature of much of the work that has found that inequality and poverty have been worsening in that, as in the above example, the studies are entirely (or largely) dependent on two end-point data-sources – often surveys of one kind or another – and are not subject to the check of longer time-series derived from other sources. (Van der Berg and his co-authors use current income figures from the national accounts and also attempt to incorporate as wide as possible a range of surveys, censuses and other sources).

Thus Hoogeveen and Ozler (2004) and Leibbrandt, Levinsohn and McCrary (2005) use, though in different ways, IES 1995 and IES 2000 – criticized above. Leibbrandt, Poswell, Naidoo, Welch and Woolard (2005) use 10% samples from the 1996 and 2001 censuses – which are plagued by missing data ("zero-income" households were 23.2% of all households in 2001!). The KwaZulu-Natal Income Dynamics study (KIDS) in 1998 reinterviewed a sample first interviewed in 1993 – but not in the years between (Aliber, 2003: 476-8). Whiteford and Seventer (2000), who are one of Terreblanche’s main sources, compared the 1991 and 1996 censuses, making comparisons of income distribution – but largely ignored household size changes in their analysis (“thus invalidating much of their conclusion as to trends in inequality”, according to Van der Berg and Louw, 2003: 12fn)

Perhaps there is a danger of exaggerating what is in dispute, or is uncertain, concerning poverty. No-one denies that approximately 2 in 5 people (roughly 40% of the population) have less than R250 (2000 prices) per month to live on, and that this percentage has shown no reducing trend since the early- to mid 1980s until (perhaps) 2000. No-one denies that for the African part of the population the figure is rather closer to 1 in 2. (Van der Berg and Louw, 2003: Table 5). No-one (presumably) would deny that the South African performance at poverty-reduction is miserable by comparison with what is claimed for India – in this regard – a continuous, though partially contested, drop in the headcount ratio from 54.9% in 1973-4 to 26% in 1999-2000 (Mehta and Shah, 2003:491). There is clearly enough human deprivation and misery associated with poverty in this country to justify the search for policies that will be poverty-reducing – whether that poverty is worsening or not.
1.3.6 The causes of poverty

The reference in the previous sub-section to the claimed Indian record of poverty-reduction since the early 1970s suggests that an interesting and (probably) illuminating section might have been compiled about international comparisons with the South African experience of poverty. In particular a comparative focus on the Southern African region, as attempted earlier with unemployment (section 1.2.4) might have been useful. But the relevant information has not been collected, if indeed reliable data on poverty is available, and so it seems sensible to push on to a final aspect of the poverty issue. Why is poverty high and why has it not been decreasing until perhaps the last few years?

The trouble with the first of these questions is its historical dimension. How far back do we go? And what aspects of social reality (political, sociological, ideological) do we need to weave together? Terreblanche (2002) goes back to “Dutch colonialism” in the seventeenth century and traces out 6 “systemic phases” of history – within which no less than 8 “unfree labour patterns” are encountered. The last of these (post-1970/74) is really an “unfree labour pattern” only in a manner of speaking: parallel to the dismantling of the formal apparatus of “proletarianism, repression and discrimination in the labour market” South Africa has since 1970 “experienced socio-economic processes that have plunged the majority of Africans into a different kind of economic bondage marked by structural unemployment and abject poverty”. (Terreblanche, 2002: 10-11; emphasis added)

How relevant are the colonial and apartheid legacies? Will a focus on the post-1970 phase not be adequate? Terreblanche himself (2002 : section 10.2) when explaining “unemployment and underemployment” in this period makes much the same sort of case as was used here in explaining increasing unemployment figures (section 1.2.5 above): “sustained decline in economic growth since 1974” ... “high and growing capital intensity after 1970” ... “structural shifts in production: a decline in the primary sector, and an increase in the tertiary sector” ... “the high rate of growth of the African population”. However, when moving on to the explanation of poverty (2002: section 10.3), he does insist on the relevance of the legacies derived from the colonial phases, and from the periods of segregation (1900-48) and apartheid (1948-94). The legacies he
points to are (1) “land deprivation, proletarianisation and repressive labour systems” (which he links with “chronic community poverty” and “social and cultural disruption of Africa and coloured communities”); (2) “discriminatory measures to protect the white... proletariat against black competition in labour markets” – affecting skill-acquisition, asset-accumulation and attainment of status and social confidence; (3) “discrimination in social spending” as between the four population groups – affecting education and health and thus employment prospects.

Presumably if an economy with a set of historical legacies such as land dispossession, labour market discrimination and discrimination in social spending were to grow rapidly along a reasonable labour-absorptive path it would probably show continued signs of inequality – but such poverty as was present might be reduced significantly.

Presumably this is what Van der Berg and Louw think was happening in South Africa in the years between 1970 and 1980 (or 1985) when the headcount ratio was falling from 49.8% to 38% (see above at table 4). And presumably the cessation (or severe slowing-down) of this growth-and-labour-absorption process is what lies behind the failure of the poverty measure to continue to fall. It is also part of what lies behind the sustained rise of the unemployment level. So Nattrass (2004:99) is able to assert: “the root cause of the poverty problem in South Africa (is) high unemployment”.

The close link between poverty and unemployment (leaving aside how best to analyze the link) can be demonstrated in the 1993 cross-section data that Woolard and Leibbrandt (1999: 36-7) used in their work on poverty that was reviewed in section 1.3.2 above. The broad unemployment rate among those from poor households was 52% but among those from non-poor households it was 18% (with an overall national rate at the time of 29%). Some years later (using 1999 and 2002 data) Meth and Dias reported that 61% of unemployed people were living in “the poorest households” (Meth and Dias, 2004:65, cited by Van der Berg et al 2005:3)
A somewhat more detailed statement of the unemployment-poverty correlation in cross-sectional data is provided by Van der Berg (2003). Using 2000 data he presents individuals aggregated in income deciles and reports unemployment rates and other labour market information by decile.

### Table 5 Labour force status by income decile, 2000

<table>
<thead>
<tr>
<th>Income decile</th>
<th>Employed (% population)</th>
<th>Unemployed (% population)</th>
<th>Labour Force (% population)</th>
<th>Unemployment rate (unemployment/labour force)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>10.4</td>
<td>19.4</td>
<td>29.8</td>
<td>65.1</td>
</tr>
<tr>
<td>2</td>
<td>12.5</td>
<td>17.8</td>
<td>30.2</td>
<td>58.9</td>
</tr>
<tr>
<td>3</td>
<td>14.2</td>
<td>17.1</td>
<td>31.2</td>
<td>54.8</td>
</tr>
<tr>
<td>4</td>
<td>16.9</td>
<td>17.3</td>
<td>34.1</td>
<td>50.7</td>
</tr>
<tr>
<td>5</td>
<td>19.9</td>
<td>17.4</td>
<td>37.2</td>
<td>46.8</td>
</tr>
<tr>
<td>6</td>
<td>25.0</td>
<td>18.1</td>
<td>42.1</td>
<td>42</td>
</tr>
<tr>
<td>7</td>
<td>30.2</td>
<td>16.5</td>
<td>46.6</td>
<td>35.4</td>
</tr>
<tr>
<td>8</td>
<td>37.9</td>
<td>14.5</td>
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<td>27.7</td>
</tr>
<tr>
<td>9</td>
<td>46.3</td>
<td>8.7</td>
<td>55</td>
<td>15.8</td>
</tr>
<tr>
<td>10</td>
<td>56.2</td>
<td>8.6</td>
<td>69.8</td>
<td>6</td>
</tr>
<tr>
<td>Total</td>
<td>26.9</td>
<td>15.0</td>
<td>42</td>
<td>35.7</td>
</tr>
</tbody>
</table>


Notes: (1) Those in decile 1 have lowest incomes. (2) Unemployment is "broad" — obtained by adding "unemployed" and "discouraged workers" in Van der Berg's table.

A few points are worth emphasizing. First, the unemployment rate (broad and measured as a percentage of the economically active population, or labour force) is inversely related to income level. The unemployment rate for population in the lowest 4 deciles (40%) is 57.1% and for the top 6 deciles is 26.8% — with an overall rate of 35.7%. Throughout the income range the unemployment rate increases monotonically from 6% and 15.8% for the two highest-income deciles respectively to 65.1% for the poorest deciles (column 4). Secondly, the labour force participation rate (or economic activity rate) is directly related to the income level. Only 29.8% of those in the lowest income decile are either working or wanting to work; by the 6th decile the percentage has reached 43.1% and it peaks at 59.8% with the highest income decile (column 3). This is strongly related to the fact that the lower the income decile the larger the percentage of the relevant population who are children under 15 years of age; but that is not the only
reason – some of the same relationship remains if we remove children from the calculations and measure the activity rate only for adults. Thirdly, the combination of the two previous relationships – viz. a lower activity rate and a higher unemployment rate as we consider lower-income deciles – means that there are on average less employed adults per household among the poor than among the non-poor (as long as household sizes are not too divergent). Unless there are perverse variations of average labour remuneration by income deciles (higher average wages for lower income deciles) lower employment will mean lower incomes. (The argument is assuming that wage-employment is on average the main source of income).

It would be possible to leave the discussion of the cause of poverty at this point, having established a linkage with unemployment, and having given an account (in section 1.2.5) of why unemployment has been increasing in the post-1970 period. However that would be to ignore the nagging question raised by Terreblanche about whether or not “historical legacies” which have determined certain structural features of the economy need to be taken into account. A view which sets the unemployment figures within a “structural” context in an interesting way is provided by Van der Berg et al (2005:3) – and confirms the need to probe things a little more deeply. These authors write: “such high unemployment rates (for 2004) should be seen in the context of a country that has an unusually small informal sector by international standards and very little peasant agriculture, leaving unemployed workers with few alternative income earning opportunities and thus a real possibility of falling into poverty”. (emphasis added). The argument being made is not that the presence of larger informal and peasant agricultural sectors would reduce the levels of open unemployment (which they probably would), but that by providing alternative income sources they would reduce the impact of the absence of wage-employment on income level (especially at the poverty end of the income distribution).

Given the need to dig deeper, an alternative approach to the nature and causes of poverty in South Africa – which notes labour-market factors but which also opens up other perspectives related to “structure” – is to be found in a paper by Carter and May (1999).
This is focused on rural African households – as surveyed in 1993. 52.1% of these were judged to be poor (using a poverty line of R237 per adult equivalent per month) – and contained close to 70% of all rural African individuals.

Rural incomes (or livelihoods) were and presumably still are, generated by own-account productive activities (including agriculture), work for wages – in the primary and secondary sectors (defined below) of the labour market, claims against household members (remittances) and claims against the state (welfare transfers). What Carter and May (1999:66) attempt is “to identify strata of households which assemble similar bundles of income-earning tactics ... and in so doing share common survival strategies and comprise distinct livelihood classes.” They suggest eight such classes – which are listed in table 6 together with statistical information about economic activities, incomes, poverty-status, and assets (including access to land). A slightly more descriptive account of them is given immediately below.

- **Marginalized households**: no access to wages or remittances from formal sector or welfare transfers. Income from “petty commodity production” (e.g. small farming or micro enterprise) is R92.00 per month or less (4.3% of population of households)

- **Welfare dependent households**: have access to welfare transfers (mainly pensions in 1993) but no access to wages or remittances; “petty commodity production” is R92.00 p.m. or less (11.5%)

- **Remittances dependent households**: have access to a remitted income but no “direct wage income” received. Welfare payment may be received; “petty commodity production” is R92.00 p.m. or less (25.1%)

- **Secondary wage dependent households**: wage income earned by people living at home and employed in “secondary” labour market (where low wages, little security, little upward mobility); “petty commodity production” as before (19.8%)

- **Primary wage dependent households**: wage-income earned by people living at home and employed in “primary” labour market (where jobs well paid, secure, and with promotion prospects) (13.6%)
> Mixed income households with secondary wages: wages earned in “secondary” labour market combined with “modest” small business and other self-employment income. (15.8%)

> Mixed income households with primary wages: wages earned in “primary” labour market combined with small business and other self-employment income. (8.1%)

> Entrepreneurial households: income in excess of R 1000 per month from agricultural activities and/or business. (1.0%)

*Table 6. Characteristics of the different livelihood strategy classes*

<table>
<thead>
<tr>
<th>Livelihood strategy classes</th>
<th>Percentage households (%)</th>
<th>Dominant tactic (share of total income)</th>
<th>Mean adult equivalent (R) income (median)</th>
<th>Poverty risk % households</th>
<th>% in worst-off basic needs group</th>
<th>Mean per adult equivalent capital (median)</th>
<th>% access to land</th>
<th>% access to educated labour</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marginalized</td>
<td>4.3</td>
<td>Agriculture 81%</td>
<td>191(191)</td>
<td>79</td>
<td>42</td>
<td>2402(753)</td>
<td>36</td>
<td>27</td>
</tr>
<tr>
<td>Welfare dependent</td>
<td>11.5</td>
<td>Transfers 95%</td>
<td>196(159)</td>
<td>74</td>
<td>30</td>
<td>1540(524)</td>
<td>35</td>
<td>31</td>
</tr>
<tr>
<td>Remittance dependent</td>
<td>25.1</td>
<td>Remittances 64%</td>
<td>256(? )</td>
<td>57</td>
<td>27</td>
<td>1847(751)</td>
<td>36</td>
<td>40</td>
</tr>
<tr>
<td>Secondary wage dependent</td>
<td>19.8</td>
<td>Wages 86%</td>
<td>415(274)</td>
<td>42</td>
<td>17</td>
<td>975(30)</td>
<td>10.1</td>
<td>15.5</td>
</tr>
<tr>
<td>Primary wage dependent</td>
<td>13.6</td>
<td>Wages 98%</td>
<td>507(353)</td>
<td>29</td>
<td>29</td>
<td>2787(861)</td>
<td>10.2</td>
<td>58</td>
</tr>
<tr>
<td>Mixed income with secondary wages</td>
<td>15.8</td>
<td>Even spread 90% - 30%</td>
<td>238(177)</td>
<td>62</td>
<td>27.9</td>
<td>2017(610)</td>
<td>31</td>
<td>35</td>
</tr>
<tr>
<td>Mixed income with primary wages</td>
<td>8.1</td>
<td>Wages 72%</td>
<td>376(266)</td>
<td>38</td>
<td>8.3</td>
<td>4328(1543)</td>
<td>30</td>
<td>74</td>
</tr>
<tr>
<td>Entrepreneurial</td>
<td>1.0</td>
<td>Self-employment 70%</td>
<td>631(387)</td>
<td>24</td>
<td>9.4</td>
<td>10206(5133)</td>
<td>28</td>
<td>60</td>
</tr>
</tbody>
</table>

Although this is a partial picture of poverty (because confined to rural poverty) it is useful because we know that most South African poverty (approximately 75%) is or was until recently, rural. The details in the table confirm some of the generalizations we have
Come across in the discussion so far and (with some extra information from Carter and May) enable us to make some related points about the causes of poverty.

(1) The small size of “peasant agriculture” is confirmed. Only for the two small groups ("marginalized" and "entrepreneurial" together only just over 5% of the sample) were agricultural incomes a substantial share of total income – 81% and 32%, respectively. Only just over a quarter (26.1%) of African households had access to crop-land – and for these eight “livelihood classes” the maximum access percentage was 36%, with 2.2 hectares the average land-holding. Only 24% of African household in rural areas owned livestock – with an average holding of 5.4 MLUs, valued at R4 300. Few agricultural endowments or assets, and constraints (financial and time-related) on their use, mean that “agriculture contributes on average little income, even among those households that engage in it.” (Carter and May, 1999:6a)

(2) Other small and micro-enterprises are confined to about 10% of the sample of households. Apart from the last three livelihood strategy classes in the table, the monthly income from “petty commodity production” (which combines small agriculture and other small enterprise) is given for all the rest as “R92 per month or less”.

(3) A quarter (25.1%) of households are dependent on the remittances of incomes from households members who work elsewhere (some 39% of households receive such transfers, though clearly not all are dependent on them). Households of this type are disadvantaged in a number of ways – apart from the central advantage of having established a claim to income. Their relation to the labour-market is at-a-distance: job-search is difficult and costly, residence costs are duplicated, and transfers may be irregular and uncertain. This pattern of working and looking for work (unemployment) has a spatial dimension to it that is an “historical legacy”. It is not possible to explain in detail here how this came about – but it is important to
recognize that reducing unemployment and poverty in South Africa must involve issues of population location and relocation and/or the regional development of formerly “backward”, “underdeveloped”, neglected and investment-starved areas.

(4) Such employment as is available locally was predominantly (though not exclusively) in the secondary labour market – where wages were on average only one third of what they were in the local primary labour market (R450 as against R 1500 per month). Only 15.5% of households dependent on such work had access to “educated labour” (10 years or more of schooling).

Notes to Chapter 1

1 There is a survey in Bromberger (1977) and later discussion in Gerson (1982). Early disagreement was about whether so-called unemployment was largely voluntary i.e. the result of choices to limit wage-labour force participation so as to make possible fuller participation in the economic, social and family life of the “homelands” (as they were then called). The first researcher to estimate Black unemployment during the 1960s and 1970s was Simkins (1977), who put a composite measure of Black unemployment and underemployment for 1976 at around 20% (see Gerson, 1982: 129). Bell (1985) drew attention to the effect of a slow-down in the G.D.P. growth-rate, and Gerson (1986) is an example of the widening acceptance that the unemployment trend was rising – at least partly because of the low economic growth rate.


3 The third source not mentioned here by Simkins was the SALDRU (1993) survey – a once-off study in 1993 conducted by the S.A. Labour and Development Research
Unit at U.C.T. with the assistance of the World Bank. Note that the low figure for the narrow definition of unemployment (13% p.a.) in 1993 is from this source. Simkins’s reported reference to the Survey of Employment and Stats is probably a mistaken with the “Survey of Employment and Earnings”

4 The I.L.O. team (1996) were in general skeptical of South African unemployment figures -- believing they were over-estimates. The grounds for this view went beyond the under-enumeration of female work in own-account agriculture mentioned in the text. In section 3.3.2 of their report they list 14 reasons for doubting the official employment estimates.

5 The figures in table 2 for the economically active population do not give clear support to this claim. There are certainly years in which the increase in the economically active population is markedly faster than the reported increase in the population e.g. year-on-year increases in 1997(4.3%), 1998(4.0),1999 (8.2%), 2002 (3.3%) and possibly 2003 (2.1%). However, substantial declines in 2000 and 2001 blur the picture.

6 The ILO report (1996:108) suggested that the SA narrow definition was less narrow than that used in some other countries: “The strict definition is not as strict as in many countries and the broad is very broad indeed”. Both measures are thus biased upwards compared to those of some other countries.

7 Of course the list of countries omits Mozambique and Angola, Swaziland and (perhaps) Malawi. Questions which are prompted by the reported unemployment levels for the countries which are covered are too numerous for an adequate discussion. And the exercise would be pointless without more preliminary investigation of the consistency of definitions and data-collection procedures across the countries.(a) It is difficult however not to be a little puzzled by Botswana’s 21,5% unemployment after having experienced real GDP growth of up to 13% per annum for a decade or more and often have been listed as top of the world growth
league table. (b) What of Zimbabwe? Do we believe the numbers? If so what made the contrast with other surrounding countries? -- Climate, prosperous commercial—and small-scale-agriculture? (c) Is the arid or semi-arid character of much of Southern Africa, of some relevance? Do hunting, raiding, semi-pastoral economies less-easily make the transition to economies based on settled crop-agriculture (with its labour-absorptive capacity) – given their low (initial) population densities and unreliable rains? (d) Was this possible feature of much of Southern Africa reinforced by the pattern of opportunities and restrictions supplied and imposed by the settler economy – drawing off labour into the mining sector and commercial estate-agriculture, using political power to advantage and subsidize this estate-agriculture, and supplying an increasing percentage of wage-good needs through the formal market -- from large farms and imports of commodities, and using imported industrial techniques of manufacture? (e) To some extent the economies of Southern Africa were linked by extensive flows of labour to and from the South African mining sector. It may be therefore that we are dealing with the same problem in several of these countries.

8 Trevor Bell wrote as follows about the debt crisis, its links to the fluctuating gold price and its consequences for the economy: “In a nutshell, it was excessively optimistic domestic and foreign expectations, and their subsequent disappointment, in the context of an uncertain and fluctuating gold price which produced the debt crisis... The consequence of the debt crisis was a sudden, massive increase in net transfers of resources abroad, which necessitated an equally large and abrupt increase in the surplus on the balance of trade. In South Africa... the only way in which this could be achieved quickly was through a drastic reduction in imports. The South African economy, in short, was subjected to what in the Latin American context has been called ‘external strangulation’ ” (Bell, 1993:93-4)

9 Moll’s summary (1993:223) of factors affecting growth (especially in the 1980s) is largely consistent with the view taken here (in subsection 1.2.5.1). He wrote: “… it can be argued that the slow growth of the 1980s should be ascribed largely to factors
like the lack of a systematic exporting policy, political resistance, costly state investment in "strategic" industry, inadequate provision of education and skills, and poorly functioning labour markets, worsened by a phalanx of supply-side shocks..."

Labour markets are discussed below in subsection 1.2.5.4.

10 Nattrass (2003:Table 6.1) using SARB figures reports mining employment to have more-or-less halved between 1990 and 2001. Aliber (2003:481) accepts a reduction in "agricultural employment" of some 860 000 "regular" jobs during the three decades 1970 – 2000 (commencing with employment of more than 1.4m. in 1970.)

11 Bell (1993: 83-90) refers to two somewhat earlier "liberalization episodes" – viz. 1972-76 and 1983-91. Perhaps the second is continuous with the changes in the "early 1990s" referred to in the text. The emphasis in these earlier "episodes" was on the reduction of "quantitative restrictions on imports" rather than on tariff reduction.

12 One paper that stress the importance of "distorted factor prices (particularly wages)" is Fedderke, Shin and Vaze (2000:25).

13 The omission of benefits from the consumption of, or access to, public goods from consumption measure of the material standard of living creates problems when attempts are made to track the effects of government policies and spending on poverty over time.

14 The studies of poverty that Van der Berg has undertaken (with his co-workers) use income data rather than consumption. This is related to his use of annual data on personal income drawn from the national accounts. There are some problems about the components of his income variables – but these problems will be postponed until later (Chapter 5) or left aside altogether.

15 There is an apparent puzzle about the claim that "per capita incomes" were rising for all groups in the period studied.
Van der Berg and Louw add in a footnote to this paragraph: “Those working on the IES 2000 have found it to be an exceedingly poor data set, with evidence of sloppy work both in the gathering and in the management of data. For instance, grain expenditure is double counted in total food expenditure and in total expenditure. About 25% of records are useless for many purposes, for instance because recorded food expenditure is zero, or because total expenditure and total income differ (after allowing for savings and dissavings) by more than 30%”.

MLU= Mature Livestock Unit. “A simple cattle-equivalent scale in which five sheep or goats are equivalent to one head of cattle.” (Carter and May, 1999:18 and note13).

The ILO report on the South African labour market (1996) put some considerable stress on the low-wage employment in poor rural households. There is evidence to suggest that many of the poorest rural households . . . survive through the rural wage labour of their adult members, albeit badly paid and insecure work, while many richer households . . . contain members who are unemployed. An implication is that tackling rural poverty requires interventions to improve the wages and working conditions of the employed, as well as policies designed to increase, and widen access to, rural wage employment opportunities.” (Standing, Sender, Weeks 1996 :244)

Note that not everyone is agreed about the relative importance of unemployment (on the one hand) and structural features (on the other) in causing poverty. For instance, Aliber (2003:478) writes of a later similar paper written by Carter and May (2001) that the “emphasis Carter and May place upon household assets as a determinant of structural poverty or non-poverty – even though ‘assets’ are understood broadly to include human capital, money, social claims, and other forms of wealth – appears to obscure the overriding importance of employment as a source of sustenance, and unemployment as a cause of poverty.”
CHAPTER TWO
GOVERNMENT POST-TRANSITION POLICIES AIMED AT REDUCING UNEMPLOYMENT AND POVERTY.

The objective in this chapter is to review the policies or strategies that the government of South Africa since 1994 has employed in the struggle to reduce unemployment and poverty. Given what we have established in Chapter 1 we know that when political power was taken over by the Government of National Unity in 1994 this must have been a central policy aim. The statistical evidence concerning unemployment and poverty we have studied for the years since then, despite the uncertainties involved about trend and explanation, establishes that, whatever progress may have been made, these problems are still very much with us and have not yet begun to diminish unambiguously. Is this the fault of policies employed? Are they misconceived? Or somewhat inadequately applied? Or are there “gaps” in the policy-array, so that additional or supplementary policies are called for? Or is it rather that a small, open economy is constrained by unpredictable international economic forces and that finding policies which will increase its growth rate and find a niche for its relatively unskilled labour force in the expanding global division of labour is a form of “gambling” with no certain returns?¹.

It is reasonably easy to spin out possibilities as above. It is possibly rather more difficult to choose between them or some combination of them on the basis of a review and assessment of the policies employed. However, difficult or not, such a review is what must be attempted in this chapter.

A distinction employed by Streak and Van der Westhuizen (2004), on whose comprehensive study we shall rely heavily², is that between “indirect” and “direct” assistance to the unemployed³. Indirect assistance is aimed at increasing job-creation both by raising the rate of economic growth and by encouraging more labour-using growth. This is both a long-term strategy and one that depends on the responses of the private sector. Direct assistance is dependent on public sector budgets and includes such “poverty relief measures” as job-creation via public works programmes (or conceivably
public sector employment), social assistance programmes that provide income transfers to the poor/unemployed, and social and basic service programmes that give free (or subsidized) access to health, education, housing, water, sanitation and electricity. We shall adopt this distinction in attempting to organize the material — though it may not always hold up.

There have been shifts in strategy during the periods under consideration — at the level of articulated policy documents, and at the level of practice. We follow Streak and van der Westhuizen (2004) in distinguishing the RDP (2.1), the GEAR framework (2.2), practice during the years 1996 – 2000 (2.3), and shifts in policy (MERS) and practice in the 2000-2004 period (2.4).

2.1 The Reconstruction and Development Programme (RDP)

It seems that a not uncommon way in which the R.D.P is now thought of is to say it has provided “building blocks” for policies and strategies that have subsequently been implemented. Clearly many supporters at the time saw it as a lot more than that. The concept of “reconstruction” was linked with “redistribution”, and the two were to be pursued in concrete terms by “infrastructure development, led by government investment and co-ordination”. (Streak and van der Westhuizen:2004:6) The substantial government spending and infrastructure programmes would involve direct support for the poor and unemployed by providing goods, services and jobs to meet basic needs. It would also stimulate more general economic growth (with jobs and incomes) by raising aggregate demand.

The emphasis on basic needs is illustrated by the list of RDP goals provided in the Appendix at the end of this chapter. The sense in which the “building blocks” claim is correct is demonstrated by Streak and van der Westhuizen’s (2004:6-7) list of eleven “aspects of the RDP” which are part of current strategy and were incorporated in the GEAR document (including the emphasis on government spending on infrastructure, targeted industrial support, trade liberalization, technology policy, support for SMMEs, and public works projects).
2.2 The Growth, Employment and Redistribution (GEAR) framework

In mid-1996 the government published the GEAR policy framework document. This marked a clear commitment to giving priority to what we are calling “indirect” channels of influence on unemployment and poverty - viz. measures to stimulate private investment and so increase economic growth and to make growth more labour absorptive. Still present in the package were government spending programmes. A summary of the strategy (from the GEAR document), makes clear that these were to play a supporting role to growth and employment creation driven by private investment.

“Accelerated economic growth associated with stronger employment creation is the key to continued progress towards an equitable distribution of income and improved standards of living for all. Employment creation provides a powerful vehicle for redistribution, supported by government housing, water supply and sanitation, health, education, welfare and social security services” (Department of Finance 1996:22)

Stimulation of private sector investment was to be linked to conservative fiscal and monetary policies. These included:

1. Reducing inflation: the rationale for this is that a low and stable level of inflation (as shown by international experience) reduces uncertainty and promotes confidence and hence investment.

2. Reducing the government deficit: Gear’s deficit-reduction targets were aimed at lowering interest rates and preventing the “crowding out” of private investment.

3. Relaxing exchange rate controls: it was believed that this would encourage foreign private sector investment and ensure that the real exchange rate was at a competitive level (to make our exports more attractive overseas).

The key goals of the policy were economic growth of 6% p.a. by the year 2000, inflation at less than 10% p.a., employment growth above the rate of increase of the labour force, the deficit on both current account and the balance of payments in the region of 2%, reduction of the budget deficit to less than 4% of GDP.
In the GEAR document measures to make the economic growth being promoted more labour-absorptive were referred to but detail was often lacking, and in some cases it was not clear that the required changes were politically (or otherwise) feasible. Thus wage-restraint (or-moderation) was said to be critical — but this would require a “national accord” between labour and capital, and possibly a modification of the system of collective bargaining which would give the Minister of Labour more discretion over extending collective agreements to non-parties (This was unlikely at the time and in fact was not achieved — see below section 2.3.2)

Another cluster of labour market measures aimed at increasing absorption concerned skills development. There were also industrial policies — covering trade, technology and small business promotion. And also a reminder that land reform and small-farmer support programmes ought in the long-term to promote employment and income-generation in the rural economy.

Often down-played in the presentation of what the GEAR framework involved are a series of growth-promoting micro-economic measures, as well as the forms of more direct assistance to the poor and unemployed that we have noticed are carried forward from the RDP e.g. government job-creation, especially by spending on public works. More detailed policy listings, description, and attempted analyses of how these fit together (or do not) and how they might be classified within the overall framework will have to be left aside.

2.3 Policy in Practice, 1996-2000

2.3.1 GEAR: aims and achievements
The GEAR framework of policy was presented with projections until the year 2000. These held out a prospect of improving fortunes throughout the second half of the decade with an astonishing culmination in 2000: 6.1% real GDP growth, riding on 17% growth in private sector investment in the same year, and accompanied by employment growth at 4.3%! As we have seen the grounds on which such forecasts were based were the
achievement of the policy targets of lowered inflation, reduced fiscal deficits and lowered real interest rates.

It is well-enough known that these latter targets (apart from the real interest rate) were actually exceeded – but that economic growth and private investment did not respond as positively as expected and that job-creation performed dismally. A version of these results is presented below (in table 7).

Table 7
GEAR OUTCOMES VERSUS THE GEAR OBJECTIVES

<table>
<thead>
<tr>
<th></th>
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<th></th>
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</thead>
<tbody>
<tr>
<td>GDP growth (real)</td>
<td>2.4</td>
<td>2.9</td>
<td>3.8</td>
<td>4.9</td>
<td>6.1</td>
<td>4.2</td>
</tr>
<tr>
<td>Inflation (CPI)</td>
<td>8.5</td>
<td>9.7</td>
<td>8.1</td>
<td>7.7</td>
<td>7.8</td>
<td>9.2</td>
</tr>
<tr>
<td>Fiscal deficit</td>
<td>-5.1</td>
<td>-4.5</td>
<td>-3.5</td>
<td>-3.0</td>
<td>-3.0</td>
<td>-3.7</td>
</tr>
<tr>
<td>Employment growth</td>
<td>1.3</td>
<td>3.0</td>
<td>2.7</td>
<td>3.5</td>
<td>4.3</td>
<td>2.0</td>
</tr>
<tr>
<td>Private sector invest (growth)</td>
<td>5.3</td>
<td>6.1</td>
<td>9.3</td>
<td>13.6</td>
<td>17.0</td>
<td>11.7</td>
</tr>
<tr>
<td>Real bank rate</td>
<td>2.4</td>
<td>7.6</td>
<td>7.6</td>
<td>6.9</td>
<td>5.3</td>
<td>8.3</td>
</tr>
</tbody>
</table>

Source: Department of Finance, 1996:7

Note: By 2001:02, the fiscal deficit as a percentage of GDP had come down even further, to -1.4% of GDP (National Treasury, 2001:58).

Actual outcomes for key economic indicators predicted in GEAR (1996-2000)

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP growth (real)</td>
<td>4.2</td>
<td>2.5</td>
<td>0.8</td>
<td>2.1</td>
<td>3.4</td>
<td>2.8</td>
</tr>
<tr>
<td>Inflation (CPI)</td>
<td>7.4</td>
<td>6.6</td>
<td>6.9</td>
<td>5.2</td>
<td>5.3</td>
<td>6.6</td>
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<tr>
<td>Fiscal deficit</td>
<td>-4.6</td>
<td>-3.5</td>
<td>-2.3</td>
<td>-2.6</td>
<td>-2.6</td>
<td>-2.2</td>
</tr>
<tr>
<td>Employment growth</td>
<td>-0.0</td>
<td>-1.9</td>
<td>-3.4</td>
<td>-2</td>
<td>-2.7</td>
<td>-2.2</td>
</tr>
<tr>
<td>Private sector invest (growth)</td>
<td>7.7</td>
<td>4.6</td>
<td>-1.8</td>
<td>-3.3</td>
<td>4.4</td>
<td>2.7</td>
</tr>
<tr>
<td>Real bank rate</td>
<td>7.0</td>
<td>7.4</td>
<td>11.1</td>
<td>5.8</td>
<td>2.1</td>
<td>8.3</td>
</tr>
</tbody>
</table>

Source: Streak 2004 for all except the bank rate, which was supplied by the South African Reserve Bank on 13 September. The real bank rate has been calculated using CPI inflation and annual average.

Note: CPIX has been used to indicate inflation in 2001. This is because the CPI indicator, the inflation measure used by GEAR, is not given any longer in the Budget Review for CPI. The data on the fiscal deficit as a percentage of GDP uses the main budget deficit and is for the financial years beginning in 1996/97.

Overall source: Streak and van der Westhuizen(2004:48)

2.3.2 Labour markets and the failure of wage-restraint

The GEAR package incorporated a target of private-sector real wage restraint – as conducive to job-creation. Such restraint did not materialize; in fact real wages rose
relatively quickly — undermining the expansion of employment (if one accepts that the wage-elasticity of labour demand is significantly different from zero and fairly large though less than unity).

Part of the explanation for this is that government legislation passed during this period made labour more costly to employ (for details see Nattrass 2003:165-7). Moreover the collective bargaining system, rather than giving the Minister discretion over the extension of bargaining council agreements, obliged him to extend them to those not party to the council.

Legislation was also passed setting up a national system for skills development. This strategy which was intended to make labour more employable began to pick up momentum only after 2000 — and we shall say a little more about it in the relevant section.

2.3.3 **Industrial policy measures.**

In these years government (led by the Department of Trade and Industry) “developed, coordinated and implemented a set of industrial policy measures to assist the unemployed via stimulating economic growth and labour absorption” (Streak and van der Westhuizen 2004:15). The context was the world economy and South Africa’s joining of the World Trade Organization at a time when developing economies were being integrated more closely into the world trading system, export subsidies were prohibited and tariffs had to be reduced. Much of the attention of necessity was focused on growth (rather than labour absorption per se) — measures were taken to liberalize trade, promote exports and advance technology.

(Streak and van der Westhuizen 2004:16-18 supply some specific details).

Success in this domain seems to have attended the shift from mining towards manufacturing and services, and the increased competitiveness of the manufacturing sector — as shown by increases in exports and the structural shifts in exports away from minerals toward manufacturing and services(Streak and van der Westhuizen 2004:16).
Less successful was the effort to promote SMMEs. Also disappointing was the continuation through this phase of the shift in labour demand away from unskilled workers towards skilled workers.

2.3.4 Land reform and agriculture support measures
Land restitution and redistribution were in general judged to have proceeded slowly – and presumably made small contributions to the productive absorption of labour or relief of poverty.

2.3.5 Direct assistance measures
In this period there was a reprioritization in social spending (especially in health and education) from high level to low level services. There was a shift away from institutional care towards the development of community support structures. To increase access to social and basic services for the poor a wide range of programmes (often with roots in the R.D.P.) were financed and implemented. The National Housing Subsidy programme, provision of potable water, early childhood development, school nutrition, free health services to pregnant women and children under six, social assistance programmes-including the Child Support Grant introduced in 1998 (3) – and the Community Based Public Works Programme, are some of these. ((Streak and van der Westhuizen 2004:19)

There are a number of points to be made about (or in the context of) this expanded social and basic services delivery – points which establish some of the limitations to what was achieved. (1) The rate of investment in service delivery was probably constrained by the fiscal goal of deficit-reduction. (2) The lack of a basic income constrains the access of millions in rural areas to services, since access requires user charge payments and travel costs. (3) Funds were often substantially underspent because of “insufficient implementation capacity” (Streak and van der Westhuizen 2004: 20). (4) Government refrained from introducing an income transfer to the unemployed – and saw (in 2001) the launch of a campaign for a Basic Income Grant, which this dissertation will investigate in Chapter 4. (5) Government contributed to the unemployment problem by “downsizing”
public sector employment (Bhorat and McCord, 2003). Finally – there was a serious discrepancy between plan and reality as regards government capital spending, which only grew in real terms at about half the rate it was planned to, “in part reflecting the budget constraint” (Bruggemans 2003:65).

2.4 Post-2000 shifts in strategy
Government’s post-2000 plan of action is stated in the Microeconomic Reform Strategy (MERS, 2002). This is seen as a supplement to GEAR and the RDP, not a replacement. The objective is to increase the pace of development now that “macro-economic stabilization [has] been achieved” (Streak and van der Westhuizen 2004: 22).

It is not entirely obvious what “micro-economic” means in this context. It seems that attention increasingly is moving to specifics. “Key constraints” to more rapid growth are identified – high tariffs charged by state-owned enterprises, lack of basic infrastructure “in the underdeveloped economy” – so that they can be removed. Five “priority industries” are identified – each to have a programme aimed at “growth, competitiveness, employment, small business development, black economic empowerment and the geographical spread of economic activity” (Streak and van der Westhuizen 2004:23). The role of government and government spending is increased – especially in the context of issues of “geographical spread” where problems are encountered of “structural disjuncture” between the “first world economy” and the “third world economy” (At this point perhaps the historical dimension stressed by Terreblanche surfaces – providing a background to the spatially distorted character of the South African economy). And “geographical spread” continues the emphasis on specifics – for instance the need for local government capacity.

2.4.1 Indirect assistance: enhancing private sector job-creation
Two points are worth stressing here. The first is the more expansionary fiscal stance that government is adopting – with much of the spending going to extra capital expenditure on social and economic infrastructure, with commitment to programmes being defined well into the future.. Secondly, the somewhat lethargic early phases of the skills-
development programme(s) are being followed by more intensive activity. Details of this work and the specifics of what we have earlier referred to as "industrial measures" will not be provided here.

2.4.2 Direct assistance: measures of support to the poor and unemployed.

There are also two "favourable developments" (Streak and van der Westhuizen 2004:32) on this front which will concern us in the following two chapters – and so will merely be introduced here. First, in April 2003, government announced an extension of the child support grant (CSG) with the age of eligibility being adjusted upwards (over 3 years) from 6 to 14 years of age. And for this and other reasons government welfare disbursements have increased very substantially in the last few years. Secondly, an expanded Public Works Programme was launched in 2004. Both of these are concerned with immediate need – and so are seen as partially plugging a gap in the policy responses of government to unemployment and poverty. As mentioned above they will receive attention as part of the discussion in Chapters 3 and 4.

**Appendix to Chapter 2: R.D.P. Goals**

**Housing:** Provide well-located and affordable shelter for all by the year 2003. Build one million houses in five years.

**Electricity:** Supply 2.5 million more households and all schools and clinics with electricity by the year 2000.

**Land reform:** Implement land reform based on redistribution of residential and productive land to those who need it but cannot afford it and restitution to those who lost land because of apartheid laws.

**Social security and social welfare:** A new system to provide for all people regardless of their race, gender or physical disability. A pension system to meet the needs of workers in the formal and informal sectors.

**Water:** Supply 20 to 30 litres of clean water each day to every person in two years and 50 to 60 litres per day within five years from a point no more than 200 metres from their dwelling.
Health care: Give free medical care to children under 6 years and to homeless children; improve maternity care for women; organize programs to prevent and treat major diseases like TB and AIDS.

Job Creation through public works: A national public works program to provide basic needs such as water supply, sewerage and roads and at the same time create jobs, particularly in poor and rural areas. Education and training: Literacy for all, equal opportunity, 10 years of free and compulsory education, class sizes of no more than 40 pupils, training workers to meet the challenges of the new political and economic conditions.

Notes to Chapter 2
1 For “gambling” in this policy context see Nattrass (1996).

2 Given that a comprehensive survey of the type compiled by Streak and van der Westhuizen (2004) is available it seems unnecessary to try to redo the job using primary and other secondary sources.

3 Streak and van der Westhuizen (as their title indicates) writes as though they are concerned with policies directed at assisting “the unemployed.” It seems clear however that most of the direct policies they record are aimed at “the poor” more generally. This being the case their coverage coincides with what is required for the purpose of this Chapter.

4 This Child Support Grant replaced the State Maintenance Grant – providing income support to poor children aged 0 to 6. Its coverage was extended from 2003 in phases. (See this Chapter section 2.4.2).

5 Figures for the growth of real government expenditure 2000/01 to 2004/05 are available in table 6 (p. 26) of Streak and van der Westhuizen (2004): 2001/2: 8.3%; 2002/3: 2.9%; 2003/4: 10.2%; 2004/5: 6.5%.
CHAPTER THREE
PUBLIC WORKS PROGRAMMES TO CREATE EMPLOYMENT FOR THE POOR

In Chapter 1 evidence has been set out for the view that South Africa is experiencing high (and possibly rising) levels of unemployment and poverty despite government efforts to reduce them (summarized in Chapter 2). This chapter will introduce the discussion of what effective strategies are available (if any) to reduce the incidence of unemployment and poverty under these circumstances. It will do so by focusing on public works programmes, leaving the proposal of a basic (or universal) income grant for treatment in Chapter 4.

Initially these strategies will be discussed as alternative options, which seems to be how they are regarded by government -- which at present is committed to an expansion of public works programmes but has either rejected, or at least not accepted, the basic income grant proposal. However, while their objectives overlap they are not identical, and so it is conceivable that the two strategies could be treated as complementary. In fact this approach will not be considered in a focused way in this thesis.

Public works programmes (PWP) are worth investigating because there is evidence that they have had some success. Lipton (1998:73) writes: "Third World experience with public works to reduce poverty via employment income is quite hopeful", but he follows this with the warning: "However, care is needed." – because before the 1980s their record was “dismal” (Lipton: 1998).

In the discussion that follows an attempt will be made to explain the two sides to Lipton’s judgment. Initially (in Section 3.1) public works programmes will be described in general terms. In the following Section 3.2, some terms will be defined which are necessary for stating (and measuring) the effectiveness of a public works programme. There will then (in Section 3.3) be a survey of alternative specifications, or design options, which may be adopted, with some illustrations from cross country experience.
Finally, in Section 3.4 the discussion will focus on South African experience in recent years with PWP and on what prospects there are for a successful expansion of the scale on which they are run and why these prospects are not better than they apparently are. This last question will be pursued in an appendix to the chapter.

3.1 Public Works Programmes: Their character and objectives
What are PWPs? They have employment creation as their immediate target. Public funds are used to pay volunteer workers (from the unemployment pool, or perhaps from those not at present in the labour force) a relatively low wage to work on (usually) infrastructure-creation projects in areas where unemployment or low labour force participation, or both are concentrated. This description is repeated with one additional feature in McCord's statement (2002:24): “The primary purpose of PWP is poverty alleviation through labour absorption, and this is frequently achieved through the creation of public assets using labour intensive methods”. Examples of the type of “works”, or projects, frequently undertaken may be inferred from the statement that the Employment Guarantee Scheme (EGS) in Maharashtra State in India is multi-sectoral with “the main sectors...irrigation, agriculture and soil conversation, forestry and rural roads”. (Joshi and Moore, 2000:35).

3.2 The effectiveness of a PWP: Some conceptual issues.
Given its objectives, we say that the effectiveness of a PWP depends on the benefits (direct and indirect) it confers on the poor, on the costs of participation it requires, or imposes, and on the way it is financed. We take notice of the direct/indirect benefit distinction but do not make much of it because little seems to have been done to measure the indirect benefits. They consist of multiplier effects and capital effects (Lipton, 1998:75-6). The former are the employment and labour income due to spending out of the incomes created by the PWP. The latter are net extra incomes earned from employment in using and maintaining new assets or skills created by the programme. Below we shall note that the direct or indirect distinction also applies to costs.
We now concentrate on direct benefits and introduce a distinction between two types – transfer benefits and stabilization benefits. Both types derive from the receipt of wage-income from work. Transfer benefits refer to the increase in income which is earned from the employment created by the scheme. Stabilization benefits are received if the timing of the work and income provided is such as to offset (to some extent at least) the anticipated or unanticipated declines in local non-scheme economic activity, or increases in spending needs. Such income offsets stabilize incomes over time and make possible consumption-smoothing – without the need for such emergency adjustments as “distress-selling of productive assets in bad agricultural years” (Subbarao, 1997:3). The transfer benefits perform a distribution function, and the stabilization (or risk) benefits have an insurance function. In some environments, presumably where the poor face particularly severe risks, “the risk benefits … can be as important as the transfer benefits to the poor” (Subbarao, 1997:3). By emphasizing the insurance function of PWPs we are reminded that in developed economies, the use of PWPs in the twentieth century was closely associated with counter-cyclical policy aimed at stabilizing employment (and incomes) over the business cycle.

We now turn to examine the possible costs that individual poor and (in some sense) unemployed persons incur in pursuit of the benefits the PWP provides. We may distinguish between (1) participation costs, such as the cost of transport to the project site, extra food-intake, possibly payments (bribes) to obtain access and (2) foregone earnings in cases where some who are participating in the project would (in the absence of the project) undertake less desirable or lower-paid work, or work on own account on small farms or craft enterprises etc. Using the distinction introduced above we might say that participation costs are direct and foregone earnings indirect. The latter in some contexts may be substantial: 20-30% of direct benefits (Lipton, 1998:76, in discussion of the Employment Guarantee Scheme in Maharashtra, India).

An obvious question that arises at this stage is whether anything useful and general can be said about the determinants of these benefit and cost variables. Particularly on the benefit side there are some factors that can be identified, and it seems worth listing them
here so that we can be on the lookout for them later when considering cross-country evidence and South African experiences and prospects.

For the individual participant the transfer benefits will approximate to (1) the programme wage multiplied by (2) the duration of work performed. Net transfer benefits will of course be less than these since we would expect participation costs and foregone earnings to be non-zero. (It has been argued that in some contexts where the impact of the programme on the local labour market will be to raise the market wage, the net transfer benefits may be higher then the programme wage. We ignore this possibility here).

For the programme (or more narrowly, the project) as a whole the transfer benefits will be obtained by aggregating the benefits of individual participants. The results will depend on (3) the scale on which the programme is operated, measured by the number of persons, or person-hours, employed per reference period. Alternatively, if we measure scale by total monetary expenditure on the programme, for a given wage the transfer benefits will vary directly with expenditure and (4) the share of wages in total expenditure – which in turn is related to technical and organizational features which determine the shares of material input costs and management costs.

Individual and aggregate stabilization benefits will be related to (5) the timing of the programme and (6) whether, and to what extent, employment on the programme is rationed, or whether it is readily available either because of excess supply or legal guarantee. There are some further factors influencing benefits and costs which Subbarao (1997:3) refers to as (7) “design features”. He appears to be referring to “the institutional framework and the type of implementing agencies (e.g. line-ministries of the government, private contractors, non-governmental agencies or a combination of the above)”. His point is that for a given expenditure, share of wages, wage-rate, duration, timing and availability/rationing there will be a maximum potential net benefit (of both types) which might accrue to the poor / unemployed. However, the design / institutional framework details may have an effect on the benefits the programme in fact transfers. On the one hand, benefits may be reduced in the presence of leakages (payments to officials,
contractors or politicians; or avoidable participation / transactions costs). On the other hand, design features may be such as to benefit particularly vulnerable groups: “payment of wages in-kind or piece-wage payment may attract more women than men to worksites” (Subbarao, 1997:4).

The previous paragraph referred to benefits accruing from the programme to “the poor/unemployed.” What guarantees that the beneficiaries of a PWP are in fact from this category (or categories)? Clearly if the PWP is (to some extent) transferring workers from existing jobs to more attractive jobs (wage, conditions, location etc.), and failing to meet the needs of the chronically poor (aged, disabled, sick, malnourished) its effectiveness will be less than it appears to be. This brief discussion introduces a further determinant of net benefits viz targeting: the extent to which the actual beneficiaries are the intended beneficiaries.

At the beginning of this section (3.2) we listed benefits, costs and financing as determinants of the effectiveness of a PWP. So far we have considered benefits and costs. We now turn to financing. The discussion will be brief – for lack of discussion in the literature or of available quantitative evidence.

Of the aggregate net benefits accruing to the participants in a PWP it is always in principle necessary to ask the question: What alternative uses were there for the resources used to finance the programme? If employment creation is entirely aid-financed, it is possible to regard the benefits as straight-forward and not subject to opportunity–cost deductions at the indirect economy-wide level. If however the PWP is financed from domestically-generated tax revenues then the question of alternative uses does arise. Subbarao (1997:3) pursues this issue by asking two questions:

a) Would the participants have received greater benefits from some alternative expenditure of budgetary resources?

b) Has the PWP expanded at the expense of other activities which produce “non-labour income for the poor” (e.g. educational or hospital services)?
It is not entirely clear what the difference is between these two questions. Assuming that (b) is relatively self-explanatory, we focus on (a). Some comments of P. Dasgupta (1993:535) may shed light on the meaning of Subbarao’s question. “Public works” says Dasgupta, “can be (and often have been) a potent route to the prevention of hunger and destitution, but they retard growth in net national product if the investments are unproductive. And all too often they have not been productive: the projects have been ill-conceived and badly managed, yielding little......This is a constant problem in poor countries”. From the point of view of the aggregate economy, slower growth of NNP is a clear loss or cost. From the point of view of the poor / unemployed (and those who would wish to prioritize their needs) the loss resulting from slower growth of NNP may be somewhat less, depending on the poor’s marginal share in NNP growth and the labour-absorptive character of growth.

However, this theoretical discussion does not help very much at this stage. After raising these questions, Subbarao complains: “Rarely does one find empirical evidence on either issue” (1997:3). And so we leave them at this point.

3.3 Programme and design features: available options, cross-country experience, and the conditions for PWP success

As indicated in the previous section, planners and managers of PWPs need to make choices between alternatives. Do they set the programme wage-rate below, equal to or above the market wage for similar work? Do they attempt to target their job-offers at the poor? If they do, how should the targeting take place i.e. how should the selection of workers be made so as to ensure a large proportion is drawn from the poor? Can PWPs be organized so as to involve a substantial share of the labour-force? What of duration? What of training during the year, or between years and so on? This is not a complete list, but it illustrates the sorts of features to be discussed below.

Two further introductory points (to this section 3.3) need to be made.

(1) The survey of alternative ways of designing and managing PWPs that will be undertaken here is not intended to be seriously comprehensive. For instance, Lipton
(1998) presents a 30-page discussion of 13 rules for “success in reducing poverty ... through employment”. To follow him through all of this detail would make this thesis too long and create problems of balance.

(2) Much written on public works relates to economic environments rather different from that to be encountered in South Africa. The largest PWP s are to be found in India and Bangladesh where levels of “open unemployment” are lower than our 30% to 40%. Also they possess rural sectors which may accurately be described as based on peasant agriculture. The absence of such small-scale agriculture which has market linkages but is imperfectly integrated into the market economy is in fact thought to be a major contributing factor to the high levels of “open unemployment” recorded in South Africa. It is possible then that a certain amount of the analysis and discussion of optimal anti-poverty PWP design in the literature may not apply fully in the South African case. And to decide for certain whether it is, or is not, relevant is difficult at this early stage of modern experimentation with PWP s in present-day South Africa. We need to return to aspects of this matter in section 3.4 and the appendix to the chapter, before our overall discussion is complete.

3.3.1 Scale

Is there evidence which suggests that PWP s can be, and have been, operated on a scale sufficient to involve a substantial proportion of the labour force and so reduce aggregate unemployment and poverty significantly? Evidence is clearer in answer to the first question than the second. We present it schematically for South America and Africa (1980s and 1990s); and employ a separate table for Asia (mainly India)
### Table 8: Public works programmes in South America and Africa

<table>
<thead>
<tr>
<th>Country</th>
<th>Date</th>
<th>Employment (workers; or person-days)</th>
<th>% labour force</th>
<th>Effects</th>
</tr>
</thead>
<tbody>
<tr>
<td>BOLIVIA</td>
<td>Mid-1987</td>
<td>30 000 workers</td>
<td>3%</td>
<td>Average earnings raised by 45%</td>
</tr>
<tr>
<td>CHILE</td>
<td>1976</td>
<td></td>
<td>6%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1983</td>
<td></td>
<td>13%</td>
<td></td>
</tr>
<tr>
<td>HONDURAS</td>
<td>1990-1993</td>
<td></td>
<td>5%</td>
<td>20% cut in open unemployment: direct effects only</td>
</tr>
<tr>
<td>COSTA RICA</td>
<td>1991-1994</td>
<td>8.9m. person-days</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CAPE VERDE</td>
<td>1983</td>
<td></td>
<td>30%</td>
<td>Checks mortality in face of prolonged drought</td>
</tr>
<tr>
<td>BOTSWANA</td>
<td>1985-1986</td>
<td>74 000 workers (3m. person-days)</td>
<td>20% to 25%*</td>
<td>Also relief in drought context</td>
</tr>
<tr>
<td></td>
<td>1992-1993</td>
<td>7m. person-days</td>
<td></td>
<td>Ditto</td>
</tr>
<tr>
<td>GHANA</td>
<td>1988-1991</td>
<td></td>
<td>0.5%</td>
<td></td>
</tr>
<tr>
<td>KENYA</td>
<td>1992-1993</td>
<td>1m. person-days annually</td>
<td>0.6%</td>
<td></td>
</tr>
</tbody>
</table>

Sources for Table 8: same as for Table 9. * relates to number workers involved for some duration (not to full-time equivalents)
<table>
<thead>
<tr>
<th>Country/Region</th>
<th>Date</th>
<th>Employment (workers or person-days)</th>
<th>% Labour Force</th>
<th>Other Scale Indicators</th>
<th>Effects</th>
</tr>
</thead>
<tbody>
<tr>
<td>PHILIPPINES</td>
<td>1990</td>
<td></td>
<td>0.3%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AHARASHTRA TATE (INDIA)</td>
<td>1975-76 to present (mid-1990s)</td>
<td>1975/76 to 1997/98: average annual workdays—132m. Peak:190m. (1986)</td>
<td>1986 peak: 15% state budget; 10-14% since; about 20% state govt capital spending budget</td>
<td>Reduces rural unemployment by 10%-35%.</td>
<td></td>
</tr>
<tr>
<td>IDIA NATIONAL RURAL EMPLOYMENT PROGRAMME (IREP)</td>
<td>1980-1989</td>
<td>320/370m. person-days per year</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IDIA: JRY+ INTENSIFIED JRY*</td>
<td>1993-1994</td>
<td>&gt;1b. person-days per year</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IDIA ALL MAJOR EMPLOYMENT THEMES INCLUDING EGS</td>
<td>Mid 1990s (still expanding)</td>
<td>2.2 m. full-time equivalent &quot;working years&quot; per year.</td>
<td></td>
<td>Well below 2% rural workforce</td>
<td></td>
</tr>
</tbody>
</table>

Note: Also substantial Food for Work Programme in Bangladesh, not listed above.

Source for Tables 8 and 9: compiled from Subbarao (1997) and Lipton (1998) (m. = million; b. = billion)

* JRY = Jwahar Rojga, Yojna a nationwide programme of public works,

"intensified JRY" — launched in 123 backward districts.
Unfortunately the data presented above in tables 8 and 9 is not uniform and information is not complete in several cases. The effects of PWP on poverty- and unemployment-reduction are by and large not available. But at least it is clear that work-creation has been achieved in various countries on a large scale—although even there problems arise in assessment. India in the mid-to-late-1990s was annually creating about 2.2 million working years of employment but this was equivalent to less than 2% of their rural workforce. On the other hand in Cape Verde and Botswana in the 1980s the effects of drought were combated by creating public works employment for 20% to 30% of their labour forces— but in absolute numbers the jobs created were few (74 000 in Botswana and these do not seem to have been full-time equivalents; measuring in FTES reduces employment created to less than 3.3% of the labour force, so that the proportionate scale contrast with India disappears)

It would be interesting to know more about why the scale of PWP activity has varied across countries to the extent it has. Subbarao (1997: 5) does not take things very far when he says, “Depending upon historical circumstances and source of financing, scale of operation varied across countries”.

Presumably there is a “demand” side to this (or supply of poor and underemployed would-be workers), a “supply” side related to political will and available financing and possibly technical factors such as the backlog of infrastructure, population density and so on. It would be particularly interesting to know more about the Botswana case—given its proximity to South Africa.

What can be concluded from tables 8 and 9 is that at least in some cases it has been possible to reduce unemployment and poverty significantly (see final column in the tables); and that at least in Maharashtra State in India substantial fiscal resources have been employed in the E.G.S. (15% of the state budget at the peak). On the basis of much the same evidence as we have set out here Lipton (1998:77) concludes

(1) that India’s public works schemes since the early 1980s “represent a significant success in poverty reduction”; and (2) that “on scale, ...several works schemes, in a wide range of developing countries, have created very many workdays since
about 1980. There has been great improvement on the dismal earlier record. This is mainly because schemes are much better pre-planned, reducing real cost (especially non-wage cost) per job and per unit of real assets created.”

3.3.2 Wage and targeting

If state (or other) agencies concerned with the incidence of poverty and employment in the population, use public funds to design programmes of relief which offer attractive employment on public works (with good wages and conditions) what will ensure that the relief reaches those whose poverty is severe and those without employment? If the employment is attractive enough what is to prevent some of those with social and economic status and capacity from acquiring a significant share of the employment and income on offer? These questions raise the issue of targeting.

An apparently simple answer to these questions is to say: "you (the agency) determine who the poor are, and how poor they are, and you establish who are unemployed." Allocation of jobs is then made to those applicants who are in these categories. If there is a need for rationing, perhaps depth or severity of household poverty can serve as the ultimate criterion. Such procedures would constitute what is known as direct targeting.

There are however major difficulties to be encountered if one proceeds in their way. First, the informational requirements are huge and there are incentives for people to provide inaccurate information. Secondly, using proxies to reduce the informational requirements (such as landlessness as a proxy for poverty) involves the risk of considerable imprecision -- more so, of course, in some rural contexts than in others. Thirdly, such direct targeting often in practice puts power into the hands of managers, officials and politicians and this makes leakages (bribes or “taxes” of one or another sort) more likely. It is in this context that the argument for indirect targeting becomes more compelling. The trick is to set wages (and possibly working conditions) at a level such that the poor will self-select, and the more well-favoured inhabitants of the project areas will drop out of the pool of applicants. A straight forward version of this approach would be to set the programme (project) wage below or at about the level of the market wage for similar,
usually unskilled, work.

If there is a minimum-wage applicable to the sort of work undertaken in the programme, the wage setting issue becomes more complicated. As Subbarao says (1997: 5) "political and legal constraints may make it difficult to maintain the programme level at levels less than the minimum wage" -- assuming that for there to be some point to a minimum wage it must be set above the market wage; though of course over time, if it is left unadjusted, it may fall below the market level.

There is a further serious limitation to self-selection by the poor when the wage is set at (or below) the prevailing market wage for unskilled work. For certain groups among the poor whom it may be wished especially to target -- women in general, the ill and the weak, and those with major child-care obligations -- manipulation of the wage alone will not ensure participation. Programme design may help -- such as availability of transport, creches, payment by task (piece-rates) and other devices to make work hours flexible.

In addition to this limitation to what the wage can do to ensure desired indirect targeting, Lipton insists that wage effects are complex (1998:83-6). For one thing, transfer benefits are lower with a lower wage -- an obvious point not yet stressed. Secondly it is obviously not sensible to lower the wage without limit. At a very low wage only the weakest and least competent may be attracted. Thirdly if programme resources allow it, setting the wage slightly above contemporary market levels may pull up private wage rates -- a good secondary outcome for the very poor.

A final point to be made about the appropriate level at which the programme wage is to be set, concerns conditions under which self-selection by the poor (thus removing the need for rationing) does not take place. The relevant conditions exist when unemployment and poverty levels are severe and the scale of PWPs is small. McCord (2003:32) quotes Devereaux to this effect in Zambia: "self-targeting in Zambia's cash for work programme was undermined by the massive scale of rural poverty (estimated at
"As we shall see in the next section (3.4) this seems to apply also in the South African case. This is not an argument for not setting the wage at or below the prevailing wage rate, but a recognition of the need under conditions of mass unemployment for additional interventions (involving presumably some type of more direct targeting).

### 3.3.3 Duration and timing of employment

If PWPs are composed mainly of short-term projects each lasting for only a few months their main effect may be “only to churn the unemployed, replacing one cohort of the unemployed with another in short term employment projects removing them temporarily from the pool of unemployed labour, rather than addressing either the underlying problem of unemployment or having a significant or sustained impact on the livelihoods of participants.... In this context prolonged public works schemes are needed that will offer sustained employment”. This statement by McCord (2003:28-29) draws attention forcefully to the importance of the duration of PWPs.

Exactly how to formulate the point she is making is not as easy as it might seem, however. Suppose that a substantial part of unemployment in a particular region of some economy is seasonal. Surely 3-6 months projects in such a context, provided their timing within the year is synchronized with the agricultural slack season, will confer valuable stabilization benefits. What does “prolonged” or “sustained” mean in this context? Presumably that these relatively short term projects are available for an uninterrupted sequence of years. Presumably availability must have some spatial dimension as well. But what if most unemployment (even in a rural region) is not seasonal? Then 3-6 months projects are perhaps open to the “churning” criticism. It is difficult to think that they are doing no good, but it is a limited good.

### 3.3.4 Other programme and design features

In section 3.2 some further design features (including the share of wage costs in total programme expenditure) were referred to as determining the effectiveness of PWPS as means of transfer of benefits to the poor and unemployed. It would be possible to continue this section 3.3, accumulating information on these further features as they have appeared, or failed to appear, in cross-country experience. But this survey of experience
has already become somewhat over-extended, and it is necessary to turn at this point to a consideration of the use of, and prospects for, PWPs in South Africa.

3.4 PWPs in the South African case: experience and prospects.
This investigation will require (1) some assessment of the experience with relatively small-scale public works that has accumulated locally in recent years, and (2) a consideration of the cost (and hence likelihood) of public works programmes being launched here -- with the appropriate features and on the scale required if a significant impact is to be made on the high levels of poverty and unemployment in South Africa.

3.4.1 Experience
It is perhaps worth noting that public works were employed in South Africa during the 1920s and 1930s as part of the response to the so-called "Poor White" problem -- which was produced by a combination of short- and long-term factors. Interestingly, expenditures on such projects reached close to 16% of the total State budget at their peak (McCord, 2003: 17). (This is slightly more than the EGS share of the Maharashtra State budget at its peak in 1986: see table 9).

An interest in public works programmes in South Africa began to re-emerge during the last quarter of the 20th century as the rate of growth of GDP declined in the 1970s and 1980s and overall GDP per capita began to decline. The Conference of the Second Carnegie Inquiry into Poverty and Development convened in 1984 (the first had focused on the "Poor White" problem). More than 200 papers were presented many of them dealing with aspects of poverty in Southern Africa and they included a study by Norman Reynolds attempting to apply the experience of the Maharashtra Employment Guarantee Scheme (MEGS) to the South African realities.(Reynolds, 1984). Extensive further research was undertaken by Abedian and Standish (e.g. 1989), dealing both with the South African historical experience and with the current role of PWPs in economic development in South Africa.

In the early 1990s negotiations took place between organized labour, the construction
industry and government over issues arising from the use of labor intensive construction methods. These generated a temporary Framework Agreement, the principles of which later became part of the Code of Good Practice for Special Public Work Programmes formally gazetted later in 2002 after further negotiations. In the meantime a substantial investigation into the feasibility of labour-intensive PWPs was conducted under the auspices of the National Economic Forum. PWPs were included in the Reconstruction and Development Programme under the name “National Public Works Programme” (NPWP) as a central element of employment creation efforts (Phillips, 2004:3)

3.4.1.1 National Public Works Programme
According to Phillips (2004:3) the NPWP had two strategy thrusts. The first was a community based public works programme (CBPWP). Initially funds were allocated to community based organizations (CBOs) to undertake projects, but once democratic local government elections had been held, municipalities received the funds and became responsible for organizing the projects. The second strategic thrust of the NPWP was an attempt to reorient mainstream public infrastructure projects towards the use of more labour intensive techniques. Unfortunately, reports Phillips (2004:3), the “NPWPs goal of achieving a major reorientation of public expenditure was not realized.” We shall make some kind of return to this issue when discussing prospects for the future including the currently planned Expanded PWP which involves a renewed attempt at increasing the labour intensity of techniques across a broad front.

3.4.1.2 Community Based Public Works Programme
As implied above this was the main programme used in the 1990s and first years of the new century for job creation with public funds. It was certainly not the only programme of this kind. There was a range of others under the Special Public Works Programme--some of which were environmental PWPs such as Working for Water -- but these other programmes were “considerably smaller” than CBPWP (apart from the Working for Water case). Some Provinces and municipalities have also launched their own programmes and we will note some of them later.
What was the scale of CBPWP? What success did it have with job creation? Phillips (2004:3) says at its peak it was allocated roughly R350m p.a. and it created approximately 130 000 work opportunities between 1998 and 2004. McCord (2003:10-13) provides somewhat more detail. After discussing problems of measurement (What is a “job” in terms of days worked? It is often not clear in the reported data what is being assumed) she compares the days of work created with unemployment also measured in days for the period 1996/97 to 2001/2 (6 years). Her results are that

i) work-days created as percentage of total official (narrow) unemployment range between 0.24% and a maximum of 0.48%; and

ii) work-days created as percentage of total broad unemployment range between 0.11% and a maximum of 0.27%.

“This suggests that the scale of job creation over this period has been negligible in terms of the magnitude of current employment, and does not offer a significant response to the problem of mass unemployment” (McCord, 2003:13). A “significant” response offered by way of illustration is MEGS. In the 1980s and 1990s job creation was greater than 100m workdays per year which constitute 10-30% of total unemployed workdays in the state of Maharashtra (see Table 9 above).

3.4.1.3 2 provincially-initiated infrastructure PWPs

As noted above there are and have been programmes additional to CBPWP, although by and large their scale has been small. Phillips writes, despite this, of their “rich diversity and innovativeness” (2004:4) and produces 2 examples viz. the Gundo Lashu programme in Limpopo and the Zibambele programme in KwaZulu-Natal.

• Gundo Lashu

This was initiated by Limpopo provincial government in 2001. It is concerned with road upgrading and construction. 24 aspirant small contractors (each with 2 higher-level supervisors) were chosen in an open competitive process and sent for a 3 year full-time training programme in labour-intensive construction -- run in Lesotho by the Minister of Works Labour Construction Unit training school. The intention is for them to compete
on the open market for “tenders specifying the use of labour-intensive construction methods” (Phillips, 2004:4). Contractors move from project to project with their supervisory staff—employing 60-100 local workers on a task-based payment system (on average for about 4 months per upgrading project).

**Zibambele**

This was initiated by the KZN Department of Transport in 2000. Its objectives are to carry out routine maintenance on the province’s “rural access roads and provide poor rural households which have no other source of income with regular income” (Phillips, 2004:5). The programme is based on the “lengthperson” contract system. In return for 8 days of work a month spent carrying out maintenance work to an agreed standard on an agreed length of roads, households receive a transfer of R334 per month. Each household is a contractor, and so no employer-employee relationships exist. This gives freedom from some of the constraints involved in the agreement with organized labour. The continuous nature of routine road maintenance makes it possible to create longer term work opportunities. In 2002/3 there were 10,000 contractors (working on approximately 1/3 of the rural access road network). Plans were to increase them to 14,000 by the end of the 2002/3 financial year and ultimately to a maximum of 40,000 poor households.

3.4.1.4 Targeting in South African PWPs.

It is clear from the above that within the first ten years of experience under the new political regime in S.A., the scale on which public works have been operated has been small—certainly small in relation to reported levels of unemployment and poverty. At the same time there has been a certain amount of innovativeness in the field.

Is there evidence that expenditure on PWPs has at least been reaching the poor and creating employment for the unemployed? In so far as programmes are producing infrastructure are they siting it in areas with severe infrastructural deficits, or not? It appears that there are no straightforward answers to such questions, because at this stage of things South African monitoring is lagging behind programme development. Early national evaluations carried out in 1996 and 1997 are said to “find little evidence that the
The authors just cited themselves carried out a study of 101 public works projects run by seven programmes in the Western Cape Province and which were initiated and completed between 1993 and 1997. Socio-economic and infrastructural information was also gathered on a magisterial district basis for this part of the country. One conclusion of their study was that "between districts, the 101 public works are not well-targeted in terms of poverty, unemployment, and infrastructure" (Adato and Haddad, 2002:31). Some districts with very high poverty and unemployment had no labour-intensive public works projects, and some districts with low poverty rates had several.

As regards targeting within districts and within communities "jobs went to the poor and unemployed, though not always the poorest, and did well in reaching women despite local gender bias. Targeting guidelines of the state are mediated by diverse and sometimes conflicting priorities that emerge in programmes with multiple objectives, by local perception of need and entitlement, and by competing voices within civil society" (Adato and Haddad, 2002:1).

In brief explanation of this judgment it is possible to point to some of the following factors: (1) Adato and Haddad take the view that the "multiple objectives" of PWPs in South Africa are "without precedent elsewhere in the world" (Adato and Haddad, 2002:4). In particular, the stress on "training" and on "community capacity building" imply probable trade-offs with simple job-creation for the poor. The very poor may not have the basic training or skills necessary for training of the kind that will fit then for the labour market and which is supposedly on offer as an integral part of programme employment. The community emphasis (present in the very name of the main programme) led in contexts they studied to considerable involvement by CBOs not only in setting up the projects but in the selection (direct targeting) of participants. Frequently the view was taken that the leadership of the CBOs (and their families) deserved employment. Moreover equality of opportunity was often given high priority, and achieved by using a random selection procedure.
(2) The use of the wage rate — set at, or below, local unskilled market rates — as a device for promoting self-selection by the poorest was beset with obstacles. (i) Given the small scale of most projects and programmes and given the high estimated levels of unemployment and poverty (though lower for the Western Cape than for S.A. as whole), there appears to be excess demand for jobs on typical projects even at below-market wage-rates — requiring rationing. (ii) The authors report that 78% of projects studied set wages below market wage levels but since selection of participants was made by “the community” the wage-level presumably promoted wider coverage rather than targeting on the poor. Anyhow, it seems also to have been the case that setting below-market-level wage-rates faced opposition. Many of the Western Cape projects were in relatively urban areas and comparisons with formal sector wages were easily made. “Often workers accept the offered public works wage, but later strike for higher wages. Many of the projects in our study started at a low wage, but wages were raised at a later point”. (Adato and Haddad, 2002:32). (iii) There were a few cases where wages were lowered — given an understanding of the benefits from the project and/or of the connection between the wage and increased coverage.

3.4.1.5. Other design features in South African PWPs

In section 3 we noted some design and programme features of PWPs, which would be most pro-poor and produce most effective programmes. In this section (3.4), where we are examining South African experience, we have so far considered scale and targeting on the poor—but have not written much about duration, timing, ways of reducing participation costs, the share of non-wage costs in programme expenditures and so on. In fact since overall survey-based information is not readily available on these matters, we shall not attempt to tackle them here. We wish to point in passing however to admirable work done by McCord (2002). She includes a case study of Zibambele and is able both to report encouraging comparative figures for cost per job and cost per rand transferred, and also to say something (based on informal interviews with participants) about how benefits are perceived by them. The micro section of her joint work with van Seventer (2004:7-17) contains a similar report on the Gundo Lashu programme.
It seems necessary, despite the decision not to tackle a range of design questions here, to take some notice of McCord’s more recent micro-economic evidence just mentioned. This reinforces her skepticism about the “churning” effects of essentially short-term programmes. Her point is that there is a “mismatch” between the long-term, structural and chronic nature of much rural unemployment and poverty and the short-term or “acute” nature of the PWP policy response.

3.4.2 Prospects for the use of PWPs in S.A.
We turn now to the future and consider what role PWPs are likely to have in the struggle against poverty and unemployment in this country.

Government is now committed to an Expanded Public Works Programme (EPWP). The President referred to it in his State of the Nation speeches in both 2003 and 2004. On the latter occasion he announced that the programme was planned to create “one million work opportunities in its first five years”. (Phillips, 2004:7) In the next subsection we shall look at the Expanded Public Works Programme in a little more detail and consider what contribution it may be expected to make to poverty- and unemployment-reduction -- given its projected scale and on the other hand the scale of the problems it is aimed at.

3.4.2.1 The Expanded Public Works Programme
This account will depend on a presentation by Sean Phillips, Chief Operations Officer, National Department of Public Works (Phillips, 2004:1-14). Despite the importance of such matters in practice the summary will try to minimize discussion of administrative detail.

(i) The EPWP is a broad framework in order to allow for the diversity of existing programmes and provide flexibility for future expansion.

(ii) It is a “programme of the whole of government-- it is not just a Public Works Department programme”. It aims “to utilize public sector budgets to alleviate unemployment by creating temporary productive employment opportunities coupled with training”. As indicated by the underlined phrase, a switch is being made from financing poverty relief through a special fund to funding it through the normal budgeting process.
In addition Departments should now only undertake poverty relief programmes in their "core functional areas". Thus funds for the CBPWP which were originally allocated to the DPW have been reallocated to the Department of Provincial and Local Government for transmission to the municipalities as part of their Municipal Infrastructure Grant allocations. So the EPWP is funded "by earmarking funds on the budgets of line-function departments, provinces and municipalities".

(iii) The following sectors have been identified as likely to be able to create EPWP employment opportunities:

- Infrastructure (increasing labour-intensity of government: funded infrastructure projects)
- Environment (public environmental improvement programmes)
- Social (public social programmes- e.g home-based care, and early childhood development)
- Economic ("e.g. income generating projects and programmes to utilize government expenditure on goods and services to provide the work experience component of small enterprise learnership/incubation programmes").

(iv) Scale: R15 billion of the conditional infrastructure grants going to provinces and municipalities over the next 5 years will be earmarked for the EPWP. Similarly R4 billion for environmental EPWP programmes over the same period, and at least R600 million to social sector EPWP programmes i.e approximately R20 billion in total. This may create approximately one million work opportunities-- perhaps (given the varying durations) equivalent to about 500 000 person-years of employment (or an average of 100 000 person-years per year).

(v) Phillips stresses that "The EPWP is not a solution to the unemployment problem..... The employment creation which will result from the EPWP is small in comparison to the scale of the unemployment problem". (Phillips, 2004:13). The averaged figure for annual employment creation over the first five years just reported above was 100 000 person-years, whereas in 2003 4.6 million people were unemployed in terms of the strict definition and 8.3 million in terms of the broad definition.
(vi) Phillips calculates that if EPWP is to reduce unemployment by 30%, it would need to create at least 8 million person-years of employment over its first five years (apparently using the strict definition of unemployment). If funds were allocated to sectors in the same proportion as currently planned, and if capacity constraints were not a problem, such a scale would require expenditure of R 64 billion per annum.

(vii) Figures in the same kind of range are estimated by McCord, (2003:22). She puts the cost of a 30% reduction of the official measure of unemployment by creating 3.2million part-time jobs at between R16.8 billion and R 28.0 billion per year (using 2002/3 wage levels). 3.2 m full-time jobs would cost in the range of R37 billion to R61.60 billion- the upper bound of which range is close to Phillips's figure of R64 billion, but would produce double the reduction in official unemployment levels (66%). (It does not seem profitable here to dig more deeply into the probable costs of PWP schemes operated on a scale large enough to reduce unemployment by 30% or more).

(viii) What we can say is that these costs would constitute a substantial share of the total government budget in recent years. On McCord's estimates, for the 3,2m full-time jobs annually costs would constitute 11-18% of the total 2003/4 government budget. If costs are scaled by comparing them with the anticipated total Social Security and Welfare budget allocation of approximately R46 billion in 2004/5, it emerges that the whole of that budget allocation in its entirety would be absorbed by PWP expenditures. Noting this fact and also that the sum involved is of a similar order to the estimated net cost of a universal basic income grant, McCord (2003:22) writes of fears about “the potentially negative fiscal shock” that would result.

3.4.2.2 Institutional constraints to large scale employment creation using PWPs.

In addition to doubts about the “fiscal feasibility” of PWPs on a scale required to reduce unemployment by say 30%, there are obstacles in the way of large scale versions of such programmes which are caused by “institutional constraints”. McCord (2003:22-25) lists and explains three such constraints as follows:

(i) Limitations of institutional capacity and project management skills at government and community levels. What these problems amount to is the “lack of a strategic or
programme approach to public works, which results in a multiplicity of individual project-based interventions. The proliferation of small projects is inefficient because it

- intensifies the shortage of management skills; and
- makes identification of appropriate projects difficult in the absence of an overall coherent programme, and so makes spending of allocated funds difficult.

Under these circumstances employment-creation per unit of expenditure is lower than is in principle feasible, and this is reinforced by the short time-scales of many (small) projects — which involve high set-up costs but terminate before the benefits of optimal scale (linked to duration) are reached.

(ii) Lack of credible incentives for provincial ministries to use labour-intensive techniques. McCord’s discussion of this hinges on the choice of techniques private sector companies are likely to make when tendering for projects financed by provincial ministries. At the time of writing (2003) her view was that there was a considerable “degree of skepticism...within the civil engineering sector regarding labour-intensity”. Despite evidence produced by McCutcheon and others about the competitiveness in cost terms of labour-intensive methods, many figures in the industry regarded conventional methods as cheaper and less arduous for workers. Moreover a common view has been that road construction (say) should be expected to contribute to employment-creation through the use of the roads (once constructed) rather than through the processes of construction. Furthermore, labour intensification was thought likely to involve “the incorporation of a social development agenda into the construction work plan”- and thus to lead to increased management complexity, delays and costs. This being the case, substantial and credible incentives would have to be developed to swing the industry round (at least to some extent) to the desired methods.

(iii) Lack of skills and experience in labour-intensive construction within the industry. Presumably this lack is at least part of the reason for the views about labour-intensity reported in the previous paragraph. The view of McCutcheon and Taylor Parkins (2003)
about the competitiveness of labour-intensive method depends critically on “training in labour-intensive construction...at all levels of management, from consultants to contractors,... site supervisors and community liaison staff”. The current lack of people trained in this way was, and is, a major obstacle to the rapid expansion of PWPs.

3.4.2.3 Reducing institutional constraints to PWP expansion

Since these constraints seem plausible--and serious--it is encouraging that the discussion by Phillips (2004) of the expanded P.W.P provides evidence that these constraints have been noted and that efforts are being made to relax them.

In the first place, the limits on the capacity to manage, co-ordinate and sustain programmes over time are being addressed by removing PWPs from the status of special add-on activities -- with their own special funding -- and making them the responsibility of line-ministries, provinces and municipalities which receive funding in the normal way. Some part of this funding will be earmarked for PWP activity. There will be a sector-co-coordinating Department for each of the 4 sectors involved and the Department of Public Works (which co-ordinates the infrastructure sector with an EPWP unit with 15 professional positions) will be responsible for overall co-ordination.

In the second place, the problem of anti-labour-intensive bias is being confronted by the introduction of conditions imposed on the use of earmarked funds received via the Provincial Infrastructure Grant (PIG) and the Municipal Infrastructure Grant (MIG). These conditions are specified in the 2004 Division of Revenue Act (DORA) which requires provinces and municipalities “to execute all low-volume roads, storm water drains, and trenching work (funded through PIG and MIG) in a labour-intensive way, in accordance with guidelines produced by DPW, and approved by SALGA and National Treasury:”

(Phillips,2004:11)

Finally, the absence of experience and training in the use of labour-intensive methods is being addressed in various ways. The DPW is providing special training for provincial and municipal officials on the use of the guidelines. The guidelines require that only
contractors and consulting engineers may be appointed to undertake these projects who undergo training in “the design, supervision and management of labour-intensive works” -- in line with standards and skills programmes put in place by the Construction SETA. Also, a “labour intensive contractor and supervisor learnership programme” has been launched by the DPW and the Construction SETA -- with the intention of expanding the use of the approach adopted in the Gundo Lashu programme to other provinces. Over 1000 learnerships had been applied for by October 2004.

3.4.3 PWPs in South Africa: a preliminary summing up

It seems clear that PWPs have a contribution to make to the reduction of unemployment and poverty in South Africa. However -- contrary to what one might initially imagine--the contribution is unlikely to be immediate and, even in the long-run, it is doubtful that it will amount to a major reduction in unemployment. (Less can be said about the poverty impact). During the next 5 years the EPWP is intended to create half a million person-years of employment (over against annual unemployment rates of between 4.6 million and 8.3 million). Correctly Phillips refers to this as a “modest” contribution. Even this however will require R4 billion worth of expenditure per annum -- ten times bigger than the CBPWP at its peak. And to make a 30% cut in unemployment (8 million person-years created) would require R64 billion per annum, sixteen times the current planned annual expenditures.

Such a scale of operation is probable not fiscally feasible at present, nor does the institutional capacity exists to make an effective job of so large and complex an undertaking. That of course is not a reason for abandoning PWPs, but perhaps a reason for building programmes and capacity steadily and (if possible) in an innovative manner. As Phillips (2004:14) writes: “The immediate challenge is to ensure that the programme’s current targets are met. Once the programme is established and is shown to be economically effective, then motivations can be made for increased funding levels to take the programme to a larger scale”.

There does not seem to be any point in objecting to such a mildly hopeful approach --
which is already launched. However there are grounds for serious doubts about the feasibility of the shift in factor-intensity given the institutional constraints in the way, and about the possible “mismatch” between short-term infrastructure projects and the nature of the poverty and unemployment problems in South Africa.

Appendix to Chapter 3: The puzzle of low-level South African use of PWP — some conjectures.

1. Suppose that the question is posed: why is Maharashtra State in India willing and able to allocate budgetary resources to PWP on a scale (10%-14% of the State budget after the 1986 peak) which the current South Africa regime has not yet contemplated? Or suppose the comparison is made with Botswana, South Africa’s neighbour: in 1985-6 Botswana created employment via public works equal to 3.5% to 4.0% of her total labour force and roughly doubled this in 1992-3, whereas South Africa will probably create employment for no more than 0.5% of her total labour force per annum in the years currently planned for the expanded PWP. Why is there such a discrepancy?

2. Part of the reason for the constrasts may be derived from some discussion of the E.G.S by Dev (1995) and Joshi and Moore (2000) — and some references to Botswana’s programmes by Lipton (1998).

Dev (1995:134) lists the urban middle class and rich as willing to pay (via tax) for the E.G.S because they hope to limit urban overcrowding by creating rural employment opportunities in an economy which is substantially rural/agricultural. Then interestingly he suggests: “The rural rich support the programme because they benefit from the assets created by the scheme. This may be one of the most important reasons for the sustainability of the E.G.S…….” (Emphasis added). He also lists politicians, the rural poor and intermediate groups, such as bureaucrats, as supporting the programme “because it offers something for everybody.”
Joshi and Moore (2000:35-48) give an account of the origins and lengthy survival of E.G.S which is consistent with Dev’s views but is both more detailed and highlights additional factors. Changes in state boundaries in the 1960s led to a shift in power within the ruling Maharashtra Congress Party from Mumbai-based industrial and commercial capitalists (mostly ‘outsiders’ to the new language-based state) to “mainly big farmers and rural commercial interests of the Maratha caste, many based in the drought affected areas of Western Maharashtra….E.G.S was essentially founded by a tax on Mumbai. It was in part an expression of the political dominance of this new Marathi-speaking, rural bourgeoisie.” These larger landowners further benefited when in 1988 and 1990 amendments were introduced allowing EGS funds to be used for “the construction of agricultural wells and the planting of tree crops on private land.” (emphasis added). Although the formal eligibility requirements are designed so as to direct these funds to small farmers, they “mainly benefit the rural rich in fact”

The additional perspective introduced by Joshi and Moore is to insist that in addition to the class interest (of the rural rich) account must be taken of the presence and strength of Marxist parties and of trade unions in Maharashtra -- both in Mumbai and in the large district towns of the drought-prone area of the state. This factor helps to explain the origins of the scheme and has some linkage to its sustainability.

As regards origins, pioneering work including pilot projects was done by socialist activists. Also there are “leftist claims to paternity of EGS” (Joshi and Moore:40) deriving from activities during the major drought of 1972-4, when a “massive” public works programme was launched for relief – on which the EGS was later built. Urban left organizations put pressure on government to fund drought relief by making deductions from all formal sector salaries and this can be seen as a forerunner of the Professional Tax that mainly funds the EGS. The rural left emphasizes the strikes and “agitations” organized in the drought areas at the time to improve conditions on the relief works. “There seems little doubt” write Joshi and Moore (2000), “that, at a time when the Americans were losing the Vietnam War and the East appeared to be turning Red, fear of
more general left-inspired rural unrest helps explain why the drought relief exercise gave birth to a large and well-funded EGS in which job-seekers were given legal rights”.

As regard the long-term sustainability of the EGS these “legal rights” (enshrined in the guarantee of employment) have been responsible for the fact that: “The poor in Maharashtra have been mobilized around E.G.S” (Joshi and Moore 2000:42). There have been marches, sit-ins, sieges of government offices, activist co-ordinating committees and court litigation (with the Government of Maharashtra being taken to court over EGS issues). Joshi and Moore develop a lengthy and complicated argument about how the design of the EGS facilitates this mobilization, and how the mobilization is “central” to the effectiveness and long — life of the scheme. This argument goes beyond what is needed here.

By supplementing the Dev emphasis on the role of (especially) the rural rich and powerful in sustaining the EGS with an insistence on the role the rural poor themselves play the view developed here has became more open-ended —and it is less clear what, if any, the implications are for the prospects of (largely rural) public works in South Africa. However before pursuing that question it may be worth considering a little more evidence about the support for rural public works that is derived from their value to the rural rich (and powerful).

3. Botswana showed up well in Table 8, and in the introduction to this appendix comparisons were made between the scale of its public works achievements in the 1980s and 1990s and South African experience and plans — with Botswana again(showing to advantage. The ruling elite in Botswana (within a multi-party democratic system) has a traditional rural base and has derived considerable wealth from cattle-ranching. The connection between this and the extensive public works programmes used for anti-drought relief in Botswana is insisted on by Lipton (1998:100). He makes the general point that “the concentration of public works benefits in rural areas on large farmers can be extreme”, and cites Harvey and Lewis (1990:304) to provide evidence that Botswana is such a case. They say that the “emphasis (was) on creating projects useful to farmers
such as dams and firebreaks, and to encourage increased food output on commercial farms”. (Lipton 1998:100) emphasizes the words shown and writes that the statement implies that “public works involved durable benefits (as opposed to short-term employment incomes) largely for people who were wealthy, sometimes extremely wealthy, and especially prone to use labour-displacing methods. He sees Botswana as a more extreme case” of large-farmer bias of benefits from public works than for instance the EGS (Lipton 1998;100).

4. It is important to note that both Maharashtra and Botswana are drought-prone. The 1985-6 and 1992-3 episodes of “public works” in Botswana (technically, labour based drought relief) have an emergency and short-term character. And presumably were more easily funded because of their limited duration and because Botswana’s fast average G.D.P. growth and budget surpluses provided the resources. In the Maharashtra case the major drought of 1972-4 and the permanent drought-proneness of the Western parts of the State have provided context in which the political and social forces we have discussed were able to convert emergency relief into a permanent programme with legal guarantees and dedicated tax-funding.

5. Although the evidence produced is hardly comprehensive, or convincing, it seems worth conjecturing that if anti-poverty public works schemes are more suited to rural and agricultural conditions14 then they are more likely to be adopted on a large scale in contexts where (i) poverty is substantially rural-based but (ii) agriculture is extensive and contributes a moderate to large share of the GDP and (iii) there is a politically powerful class of “rich” landowners, landlords or farmers who will benefit from the assets being created in rural areas by the public works programme.

Of these conditions only (i) is met in South Africa. There is no politically powerful class of rural rich in South Africa at present. The numerically small class of prosperous commercial farmers (almost entirely white) was a powerful group for parts of the twentieth-century but is now under threat from restitution claims and redistribution plans. The share of agriculture in GPD is surprisingly small -- in the region of 3%15. And, as an
attempt was made to describe at the end of Chapter 1, the rural areas of much of the former "homelands" are dependent on external income sources and employment, some of which are in adjacent commercial farming areas but many of which are not. Only about one quarter of households overall have crop-land or livestock.

Bekker (2004:5) brings a good deal of this into focus when he writes: "over the past 25 years, the populations of the rural former homelands areas of the eastern seaboard of South Africa -- Transkei, Ciskei and KwaZulu -- have experienced huge population shifts. Though people are moving on a massive scale from rural to urban places, it appears that shifts from rural to rural are even more massive. One result of this process is intense competition for land in areas that are densifying. In effect, South Africa’s rural population is becoming more concentrated in dense clusters, many of which may be classified as dense rural informal settlements in which cultivation and stock-farming is rapidly disappearing. This is a move away from a collapsing land economy towards the nearest location of the developed cash economy."

6. What appears to be the case is that South Africa has a need for a regional policy -- and is also facing a series of inter-related problems over land-redistribution, and the need for a shift to a more labour-intensive agriculture -- all in an economy which has been moving towards greater concentration of land ownership and increasing capital-intensity of agriculture for years.

Reynolds (1984) wrote about public works in Southern Africa as "the core of Rural Development Strategy". Today there is talk about public works -- but not a coherent regional and rural development strategy within which they might be fitted. Mobilization of the poor themselves -- by themselves or by a political party as in Zimbabwe -- does not seem either likely or promising in this complex context.
Notes to Chapter 3

1 Writing of “developing countries” Lipton (1998:75) says: “the largely rural location of success against poverty, noted... for credit policy, appears also to apply to public works policy”. (Emphasis added).

2 As the research has turned out, less attention has been given in what follows to these determinants than was initially thought likely; but the present discussion has been retained because of its intrinsic interest.

3 As the rest of the paragraph will show (a) is interpreted to concern alternative outlays which should have generated more “labour income” for the poor/unemployed and (b) is concerned with alternative outlays which would have provided alternative benefits – such as educational and health services – for them.

4 This view was introduced in Chapter 1.

5 We conjecture that the use of public works in S.A. (among other policies) in the 1920-1940 period had sufficiently different objectives and took place in a sufficiently different context for it not to be worth close study here. (There is a further reference to this in section 3.4.1 and footnote 10)

6 This is reported by Lipton (1998:76). There is a puzzle about the 2.2 million working years. This is a conversion of 1.1 – 1.2 billion working days – but seems to imply 500 working days per working year. This would make sense if the working “days” were not full days. (In a public works project in Pietermaritzburg in the 1980s the average “day” worked was not much more than three hours).

7 These figures are due to Lipton (1998: 75), but the 3%-4% of total rural labour force is calculated from his figures—assuming a fully employed worker works in the region of 250 days per year (50 weeks X 5 days per week). The three mil. work
days are then equivalent to 12,000 working years which are 4% of 300,000 workers or 3.4% of 350,000 workers.

8 A little more is said about Botswana in the Appendix to this Chapter, and there are a few remarks about the level of unemployment in the country (which is surprisingly high given the GDP growth rate) in Chapter one (Table 3 and fn 7).

9 There is no known measure of overall seasonality with respect to rural employment and unemployment in SA. It is fairly clear that in some areas adjacent to commercial agriculture some employment is seasonal and where there is "subsistence" agricultural activity it will presumably be seasonal. However in the absence of an overall estimate the impression must be that seasonality is not a marked feature of rural employment and unemployment in SA.

10 It is not clear that the comparison just quoted between expenditure on public works in South Africa in the 'Poor White' period and the share of the Maharashtra budget going to EGS is fully justified. Abedian and Standish (1985, table 9:161) includes expenditures some of which appear to be relief measures (or "assistances") for farmers suffering stock and financial losses associated with drought and foot and mouth disease. In the years of peak expenditure (1932 – 37) "farmers special relief" was a major part of "unemployment relief measures". It is not clear from the source that this "special relief" was spent primarily on public works.

11 A detailed discussion of the Zibambele Programme can be found in McCord (2002, chapters 5 and 6)

12 Improved regularity of school attendance and easier credit for purchasing staple foods were two benefits referred to as resulting from the regular (through part-time) employment provided by Zibambele. More formal assessment of anti-poverty impacts were not available in 2002.
McCord’s (2004:1) abstract states: “The microeconomic analysis suggests that while participation in a public works programme may contribute to a reduction in the depth of the poverty, with improvement in participation in education and nutrition, and have positive psychosocial benefits, the impact of a short-time programme may not be significant in terms of a reduction in headcount poverty or improvements in assets ownership (material or financial). If this case the public works programme income may function essential as a temporary wage shock, since the insurance function of the transfer is limited by the short duration of the employment period.”

As reported in the first note to this chapter Lipton views most public works success in developing countries as being “rural”. We have not investigated this but have noticed that (at least in South Africa) there seems to be a distinct suspicion of “low-wage” public works programmes by trade unions. (Adato and Haddad, 2002, refer to such experience in their study). The substantial negotiations required before labour movement agreement could be reached for public works programmes are further evidence (see section 3.4.1 in the text)

CHAPTER FOUR

THE BASIC INCOME GRANT

As proposed for South Africa the Basic Income Grant (B.I.G.) is a policy instrument for the direct reduction of poverty via a universal welfare grant. Given the scale of measured poverty in the country, the long-term nature of growth strategies being pursued to attack unemployment and poverty, and the time it will take to launch and gear up a major PWP, the B.I.G appears to offer something (relatively) immediate and comprehensive. In this chapter we shall consider what proposals have been made for the B.I.G, and review the arguments for and against this major piece of policy engineering. This review will include looking at the question of whether it is administratively and fiscally feasible.

4.1 The Universal Basic Income (U.B.I.)

Before attempting to assess B.I.G in this way it is important to make clear that B.I.G appears to be a related, but scaled-down, version of a more fundamental, and revolutionary, proposal -- the Universal Basic Income (U.B.I) scheme. This has been designed for developed, industrialized economies. Philip van Parijs (2000:2-3), chairperson of the Basic Income European Network (B.I.E.N.) defines it as follows:

"...Income paid by a government, at a uniform level and at regular intervals, to each adult member of society. The grant is paid, and its level is fixed, irrespective of whether the person is rich or poor, lives alone or with others, is willing to work or not. In most versions, certainly in mine, it is granted not only to citizens, but to all permanent residents. The UBI is called “basic” because it is something on which a person can safely count, a material foundation on which a life can firmly rest. Any other income -- whether in cash or in kind, from work or savings, from the market or the state -- can lawfully be added to it. On the other hand, nothing in the definition of UBI, as it is here understood, connects it to some notion of “basic needs”. A UBI, can fall short of or exceed what is regarded as necessary to decent existence."

We do not propose in this thesis to try to evaluate (or even discuss) the U.B.I. Our interest will be in a universal income grant of the same sort (though available to all
individuals and not just adults), but which will be set at a much lower level than one imagines it would be set in the developed world and designed to make a contribution to poverty reduction\(^1\).

4.2 **The Basic Income Grant (B.I.G)**

There are various ways of describing the B.I.G., but one that captures its main features is provided below by le Roux (2002:8):

- Every permanent resident will be individually entitled to receive a regular grant (the current proposal is about R 100 per month). Given distribution costs, recipients will be encouraged to claim together (in family groups etc).
- Those who are already entitled to other grants such as the State Old Age Pension will receive B.I.G., but the other grants will be adjusted downwards by the same amount.
- In the case of children under the age of 19, the grant will be granted to the caregiver such as a mother or the grandmother. Implicit in this arrangement is the assumption that the mother or grandmother is a responsible person. The grant is not conditional. There is no means test, and everybody qualifies for the grant.

Perhaps not surprisingly, various versions of the above proposals have been suggested. In particular the Democratic Alliance has endorsed the idea, but appears to have amended a central feature viz. universality or unconditionality; it proposes in effect a means test – R110 a month\(^2\) for those individuals who earn less than R7 500 per annum. In what follows we confine our discussion to the universal grant without any income conditions for eligibility.

4.3 **The case for the introduction of a Basic Income Grant (B.I.G)**

In setting out the arguments for the introduction of a B.I.G. this investigation will lean heavily on the work of the Committee of Enquiry into a Comprehensive System of Social Security for South Africa (2002), often referred to as the Taylor Committee of Enquiry.
and on Samson et al (2002). In section 4.3.1 the anti-poverty argument for a BIG is outlined. In the next section (4.3.2) the arguments which claim that B.I.G potentially supports economic growth and job creation are set out. Finally, in section 4.3.3 the proposals for financing a B.I.G and the grounds for arguing that such outlays are “affordable”, or fiscally feasible, are considered.

4.3.1 Anti-poverty: a BIG will raise the living standards of the poor.

South Africa possesses a social security system which, despite its limitations, makes “a significant impact”—reducing the average poverty gap by approximately 23% or about one quarter. Severe poverty persists however with most of the poor living in households not receiving any social security benefits; and the rest of the poor being poor despite benefits.

There are two major reasons why the current welfare system does not give adequate protection. First, there are serious coverage gaps: the major programmes are old age pensions (S.O.A.P.), disability grants and child support grants (C.S.G) -- and poor households without pensioners or disabled persons and with few (or no) children receive little support. For instance, poor households consisting of only children and working-age adults have their average poverty-gap reduced by only 8.4% -- compared to a reduction of 46.1% for similar households including a pensioner.

The second major reason for lack of protection is the low rate of take-up of existing programmes (though these rates vary between programmes). It was estimated that an astonishingly low figure of only 43% of eligible individuals actually succeeded in receiving the grants to which they are entitled in March/April 2001. The State Old Age Pension had a relatively high take-up rate of about 85%, whereas the Child Support Grant take-up was very low -- approximately 20%. Samson et al (2002: 2) see the existence of means tests and other eligibility criteria as being at the root of the low take-up rates: “Extremely poor individuals are likely to fail in large numbers to qualify for a grant with a complicated and expensive means test and application process”.

83
Seen from these perspectives the social security system is in need of substantial reform -- and a "universal grant, provided as an entitlement and without a means test, will more readily reach the poorest population" (Samson et al, 2002:2)

Why should it reach the poorest more effectively than the present grants? Samson et al advance three reasons. First, means tests for grants impose a stigma of poverty which some potential recipients are not willing to carry. Secondly, removing the means tests lowers the cost of accessing the grant for beneficiaries and for government agencies charged with delivering the grants. Thirdly, if the grants become a fundamental right the arbitrary discretion under a conditional system wielded by officials is removed -- and with it opportunities for corruption are reduced.

On the assumption that a basic income grant achieves almost universal take-up for the reasons advanced, its estimated poverty impact will be a reduction of the poverty gap by three-quarters, compared (as we noted above) to one-quarter with the present system (Samson et al, 2002: 2)

4.3.2 Pro-growth: a BIG will “potentially” support economic growth and job creation.

While the primary effect of a basic income grant delivered universally will be to reduce poverty (at least as measured by the poverty gap), there are plausible grounds for expecting beneficial secondary effects -- which over time will reinforce the primary effect. In particular it is possible that the rate of economic growth will be increased (at least for some period) and that job creation will result from the faster increase of national product and from a somewhat more labour-intensive growth path. The fact that we cannot say with any confidence what the probability is that the secondary effects will emerge, nor estimate what the size of such effects will be, are not grounds for dismissing the claims made -- but perhaps are grounds for regarding them with a certain caution.
The literature surveyed by Samson et al. (2002: 2-3; 17-26) conceives of B.I.G. as “supporting” economic growth and job creation through at least three effects or “transmission mechanisms”. They are listed now and then elaborated below. First, income transfers may promote the accumulation of human and social capital. Secondly, there are possible positive effects on both demand and supply sides of labour markets. Thirdly, demand effects may appear in goods markets – increasing the level of aggregate demand and shifting the composition of expenditure towards labour-intensive goods and services.

The first “transmission mechanism” is proposed by a body of research that reports a link between reducing poverty and increasing living standards and “consequent social capital development.” The variables providing the link are given in a quotation from Samson et al. (2002:17): they are “nutrition and health, education, and social stability.” While their effects may be discussed separately it is important to insist on the “important linkages and complementarities” between them. “Both nutrition and education support health, and health raises not only absorption of learning but also the total returns to education by extending lifespan. The expectation alone of imminent improvements in these social spheres can improve social stability”.

There is evidence from the South African October Household Survey (focusing on education) that an income grant improves the likelihood that a school-age child will attend school. The increased income helps pay the costs of school attendance, and potentially reduces the opportunity cost of school attendance (or makes the family more willing to forego the child’s possible contribution to household income). And improved access to education is likely to improve labour productivity and possibly innovativeness.

The role of social stability as an aspect of social capital with positive growth implications is suggested by the claim made by Samson et al: “The basic income grant provides a social stake for the economically disenfranchised, promoting social cohesiveness and investor confidence”. (2002:20). Given that poverty is usually associated with inequality it is relevant here that increasingly the view has come to be held that there is a link

There are theoretical and empirical grounds for expecting a basic income grant to increase both supply and demand (and hence employment) in labour markets. This is the second of the transmission mechanisms from a B.I.G. to growth and employment referred to above.

On the supply side higher living standards increase the ability of unemployed work seekers to find jobs -- or so Samson et al (2001:21-2: Graph 1) claim on the basis of data extracted from the 1997 October Household Survey. This claim is not altogether convincing, but it does not seem useful to pursue the matter -- given that the claim for positive demand effects is a good deal stronger.

The central argument advanced on the labour demand side is that large numbers of South African workers are poor and in a wage-range where increased income (financing increased consumption) will have positive productivity effects. “Better nutrition, health care, housing and transportation” are advanced as examples of such “productivity-bolstering consumption” (Samson et al, 2002:24). There is an overlap here with some versions of the “efficiency wage” hypothesis -- in particular those where the productivity improvement (human capital creation) is of a “general” variety and not “specific” to the firm.

An interesting feature of this argument applied to South Africa (and presumably some other Third World economies) is that a distinction can be made between the direct effects on productivity of improved consumption financed by an income grant, and the indirect effects. These latter have to do with the fact that in South Africa there is an informal “tax” on workers resulting from severe poverty. This takes the form of remittances, either regular or intermittent or both, to relatives -- often living at some geographical distance from where the wage income is earned. These remittances in effect keep in place a private social security net. It appears that public income grants to workers’ dependants
reduce private transfers (though they do not eliminate them) thus financing increased productivity-enhancing consumption by workers themselves. As Samson et al (ibid) write: “With a basic income grant in place, as employers increase the wages of workers, more of the wage increase goes to the employee’s own consumption. This magnifies the increase in labour productivity, increasing the profits of the business enterprise and potentially increasing employment”.

The final transmission mechanism from a BIG to economic growth depends on changes to the scale and composition of aggregate demand which may flow from a basic income grant. Transferring purchasing power via the tax-and-grant device from rich to poor involves a transfer from agents with lower to agents with higher marginal propensity to consume. It may well also involve an increase in spending on domestically-produced goods rather than on imports. Both of these may be seen as augmenting aggregate production and income.

4.3.3. **BIG is affordable**

4.3.1 and 4.3.2 provide reasons for believing BIG to be desirable. Here we consider whether it is fiscally feasible or (putting it another way) whether the trade-off involved in financing it is acceptable. Supporters of BIG will answer these questions affirmatively.

(a) **Alternative ways of financing a BIG**

Presumably before going further with this discussion we need to list alternative ways of financing a BIG. Possibilities are deficit financing, income taxation, sales tax or VAT, reduction in other government expenditure or a combination of these. There is no real consensus among supporters about what the best option is. For example, le Roux (2002) thinks that VAT is best, whereas Thurlow (2002) believes that a combination of the above methods is what should be investigated. The People’s Budget 2002 (supported by Cosatu, the South African Council of Churches and the South African NGO Coalition) proposes direct tax increases. The two ways of raising the required amount of revenue the People’s Budget suggested are a “solidarity levy” in the form of a 17,5% surcharge on income tax for the top two quintiles (40%) of earners and increased taxation of (some
more general) high income group 4. This proposal is in accordance with the resolution at Cosatu’s 7th National Congress that the cost of the BIG must “fall on the rich” (Nattrass, 2004:96).

(b) Increases in indirect taxes (VAT, excise duties and fuel tax) to finance BIG.

Pieter le Roux (2002:100) argues that a grant of R 100 per month can be affordable and well targeted if financed out of an increase in VAT, excise and other indirect taxes. But le Roux is quick to point out the fact that his proposal is likely to be opposed on the grounds that (1) increases in indirect taxes are regressive and (2) that gross costs of at least R52 billion make the grant unaffordable regardless of how it is financed.

In defence of his proposal le Roux calculates that the grant could be financed out of an increase in VAT of 7.3% (i.e. an increase of about 50% on the current rate of 14%) and a proportionate increase (i.e. of about 50%) in excise and fuel taxes. He then shows that (1) the combination of a basic income grant with an increase in indirect taxes is equivalent to a progressive direct expenditure tax and that (2) the net cost of the grant is far smaller than the gross cost.

Let us consider the second of these propositions first. The cost to the state of all additional benefits received by the poor must equal the total additional net indirect taxes paid by the well off. He estimates that the total in each case would have amounted to R15.2 billion in the 2000-01 financial year. This calculation is based on the fact of increased indirect taxes on all existing expenditure and the assumption that the grants are spent in full so that the state will recoup some of the grants through indirect taxes when they are spent. The resulting net cost of the grants (R 15.2 billion) is far less than the gross cost of R52 billion. (See Table 10 below)
Table 10 Annual expenditure and income with R100 p.m. BIG financed by increase of 7.3% in VAT, and proportionate increase in excise and fuel tax (rand billions).

<table>
<thead>
<tr>
<th>Decile</th>
<th>Total annual BIG grants (1)</th>
<th>Total new grants (after allowing for existing social security grants) (2)</th>
<th>Additional indirect tax paid at increased rates on existing expenditures (3)</th>
<th>Additional indirect tax paid when new grants spent (4)</th>
<th>Total additional indirect tax (5) = (3)+(4)</th>
<th>Total annual net benefit/cost (6)= (2)-(5)</th>
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<td><strong>6</strong></td>
<td><strong>45.3</strong></td>
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</tr>
</tbody>
</table>

Source: Le Roux 2002 table 2, p.16 (some alterations made)

* = rounding errors. (also present in total row)

Note: Deciles (of households) – numbered from lowest incomes (1) to highest (10)

Working through one of the rows of the above table will help to explain what it contains. Thus the table indicates that economic agents in the third income decile (third row) will receive total annual BIG grants of R6.7 billion, and total new grants (after reduction of existing social security grants) of R5.5b. Additional indirect tax paid at increased rates on existing expenditure is R1.66 billion and additional indirect tax paid when new grants are spent is R1.1b. Total additional indirect tax is R2.7b and finally the total annual net benefit they receive is R2.8b (R5.5b – R2.7b). It is perhaps surprising to see that the third-from-the bottom decile of households will lose almost half of their new gross grants (after adjustment for existing grants) through paying extra indirect taxes (R2.7b paid from R5.5b new grants).

The other point referred to above, and it is the one that Le Roux stresses in his paper, is that his recommended combination of universal income grant with an increase in indirect
taxes is “equivalent to a directly imposed progressive expenditure tax on individuals above the break-even point.” (le Roux, 2002: chart 1 on p.23 and chart 2 on p. 25). Such direct expenditure taxes have been recommended by economists such as Kaldor and Meade but proved impossible to administer. Le Roux is offering an indirect method of introducing progressive expenditure taxes (or an anti-poverty grant) which has a parallel with Friedman’s proposed negative income tax.

On the surface of things, it is not obvious that le Roux’s proposals amount to a progressive expenditure tax above the break-even point and a progressive anti-poverty grant below this level of expenditure. The statement of his proposal appears at first to involve a proportional structure to the grant/ expenditure tax. Thus he writes (2002: 2-3): “For the average consumer the net impact of a universal grant combined with an increase in indirect taxes is in effect the same as giving an anti-poverty grant which increases by about 9% for every Rand monthly expenditure is below a break even point of about R1080. Above this break-even point the net impact for this average consumer is the same as imposing an expenditure tax which increases by about 9-10% for every Rand a person’s expenditure rises”.

There is little apparent support for le Roux’s proposals. An increase of 50% standard VAT rate seems high and potentially unsettling. Moreover it spreads the burden of financing all the way to the bottom of the income distribution, or, looked at from the other side, reduces the net benefit received by everyone to levels below the formal grant level. This is likely to be opposed strongly by organized workers (at least).

(c) “Affordability”: international tax comparisons with South Africa

Can South Africa “afford” to raise taxes to cover the net cost of B.I.G.? There is some evidence suggesting that S.A taxes are lower by world standards than most South African taxpayers imagine. Relying on this claim and the research on which it is based Samson et al propose that increased direct taxes (including wealth taxes) and restructured indirect taxes should be raised to pay for B.I.G.
“Historical and international comparisons of income tax yields suggest that South Africa could generate higher revenue from increased reliance on corporate taxes and a more progressive tax structure. Restructuring the value added tax along progressive lines, primarily by increasing the rate on luxury goods, can generate additional revenue of several billion rand per year.” (Samson et al, 2002: 31).

Some of the evidence which is said to support these international comparisons is summarised in the following two graphs (figures 2 and 3) reproduced from Samson et al (2002: 29 and 30).
The graph shows that the average OECD country's ratio of government revenue to national income (i.e. 42.3%) exceeds South Africa's ratio which is 24.7% (data from the 1990s). Hence, say Samson and his co-authors (2002:28) it is demonstrated that "South Africa's tax structure is not unduly burdensome."
Why compare South Africa with countries with higher national incomes per head? One reason given is that OECD countries are those to which “unduly high tax rates” might induce emigration by high income South Africans. This point is somewhat weakened if one selects the U.K., Ireland, Canada, Australia and U.S.A. as the most likely destinations for South Africans seeking to escape higher taxes. All of these are in the bottom half of the table!

Are government revenue ratios to national income the relevant ratio for international comparisons? Is it not also relevant to ask what benefits governments provide with the revenue they receive (or what benefits are received in return for tax payments)? Proper answers to this and related questions would take the discussion too far afield for our present purposes, but it appears that these comparisons are not fully satisfactory.

Samson et al make another comparison with a sample of countries the national income per head of which are reasonably close to that of South Africa. (See figure 3)
The 12 countries in this sample all have per capita incomes within twenty percent of South Africa's level. The data illustrated show that South Africa's government revenue (as a percentage of national income) is below the average for these countries by four percentage points. But what if one removed Poland and Hungary, as former "planned economies"?²⁷.

We soon return to these questions about "affordability" and "fiscal feasibility" in section 4.4.1, where we record concerns by other researchers about the cost of a B.I.G.
4.4. The case against B.I.G.

In this part of the discussion doubts are raised about the feasibility and desirability of a B.I.G. These reservations do not amount to an outright and firm rejection of the B.I.G. proposal, but establish that more consideration should be given to obstacles and problems in the way before a definite commitment is made.

Since we have been considering in the previous section (4.3.3) claims that B.I.G. is affordable, we begin here by noting some doubts that have been expressed about this “affordability” (4.4.1). We then consider views which amount to the claim that the administrative complexity and expense of delivery, the serious risk of widespread corruption and theft, and the possibility of misappropriation within households (where power relations are not equal) reduce the scale, and the accurate targeting, of the anti-poverty benefits (4.4.2). Finally, we list some concerns about possible incentive/disincentive effects on the recipients of B.I.G. grants (4.4.3).

4.4.1 Doubts about affordability

The first research to be considered which points to macroeconomic problems which may be connected with alternative methods of financing a B.I.G. is by James Thurlow (2002:1-23). He argues that there should be a shift away from determining which individual financing option should be implemented to what he calls a balanced approach (i.e. he is saying that the individual financing methods originally suggested are not ‘reasonable’ or ‘possible’).

It is not easy to give an adequate account of Thurlow’s work. The major difficulty is that he works with a computable general equilibrium (C.G.E.) model of the South African economy which is very complex. There are 43 productive activities and commodities, and 4 factors of production (3 types of labour, and capital); the economy is open to international trade, with substitution between export and domestic markets and between imports and local goods; and various institutions are distinguished -- including enterprises, the government and 14 types of households (one type per income decile--except for the top decile which has 5 household types demarcated by income level).
Much other detail of the model is also reported, but not enough detail to be able to follow the comparative static equilibrium "experiments" that Thurlow reports for various B.I.G. financing options.

Despite this lack of full and detailed understanding of how his results are obtained in the model, it seems worthwhile to report some of the results -- especially those which do not coincide with the predictions of enthusiastic B.I.G. supporters.

The first Thurlow result we consider deals with the effect on GDP of a BIG financed in various ways. His five financing methods are deficit spending, sales taxes, direct taxes, reduction in other government expenditures, and a 'balanced' package (or combination of other methods). In three of these five cases viz. sales tax, reduction in other public expenditures, and a combination of all four methods, G.D.P falls by small percentages after the B.I.G. is introduced, and in the remaining two the increase is very small (of the order of 0,2%)\(^8\). As Thurlow comments in the deficit-financing case, a B.I.G financed in this way "does not translate into the real economic growth as predicted by the Taylor Commission......" (2002:15). However these results are only a partial test of the view that B.I.G. will promote growth, because Thurlow's model does not allow for the incorporation of productivity increases which are part of the explanation for growth in the Taylor Report view.

A second result reported by Thurlow is that if a B.I.G. is to be financed by tax increases (indirect or direct) they will need to be larger than initial estimates suggest:... "the current financing recommendations of the Taylor Report and the B.I.G. Coalition have underestimated the required increases in sales and income tax rates" (2002:22).

S. Duncan (2001), for instance, suggested that a 2 percentage points increase on the VAT book rate of 14% would be sufficient to finance the grant. Thurlow's result is a 3,8 percentage point increase on the current collection rate of 6.7% (or an increase of more than half) which is comparable with Le Roux's estimates. There is no similar straightforward comparison for the direct tax case. Here Thurlow reports a required increase of
the average direct tax rate by 4.4 percentage points above its current level of 12.7% (or an increase of a third).

Commenting on such large tax increases, Thurlow notes that (i) the policy trend has been, and still is, to reduce income taxes -- and so the proposed increase would represent a major policy switch (or turn around); (ii) tax increases of this kind would potentially affect “financial and human capital flight” and “incidence of tax avoidance” (2002:19)-issues which Samson et al partially tackled above (4.3.3(c)) but in ways which were not convincing. Unfortunately it is not easy to find certainty in this problem-area.

A third result reported by Thurlow concerns the productivity increases that it is claimed B.I.G. will make possible and which will promote economic growth. As noted above Thurlow’s model reviewed here does not incorporate this result. He does report parallel work however (Thurlow and van Seventer, 2002) which shows “that the productivity of unskilled labour would have to increase by approximately 11% in order to neutralize the negative impact of the grant on real G.D.P under the ‘balanced’ financing scenario”. (2002:21). Whether such a productivity increase is possible, he suggests, has not been adequately investigated.

Finally, the reference to the ‘balanced’ financing scenario is a reminder that Thurlow takes the view not that a B.I.G. cannot be afforded but that, in the face of serious difficulties with the individual proposed financing methods, and “if a universal grant is considered preferable to a targeted system of grants, then a balanced approach is likely to provide the only possible financing scenario”. (2002:23, emphasis added). Given time and space constraints we abstain from a detailed discussion of the balanced package of financing options that Thurlow tests, but repeat that he does see it as economically and politically feasible -- although it requires substantial (and uncertain) productivity improvements to offset its negative impact on real G.D.P. (a 0.4% decline).
4.4.2. Mistargeting of BIG

Since a large percentage of the poor whom in particular the BIG is aimed at is illiterate, innumerate and resident in rural areas far from urban amenities and pay points, the logistical problems of registering them, checking their permanent resident status or South African nationality, and then getting funds to them on a regular basis will be enormous.

The Minister for Welfare, Population and Development, Dr Zola Skweyiya admitted that financing a BIG is less of an obstacle than administering it:

\[\text{The system is not there, we need to create the system. I am not talking about the money part of it all, but the ability to be able to manage, that is not a small thing... We have problems now administering pensions to elderly only and children. The system is not up to date at the present moment. Can you imagine if we have to give this BIG to almost everybody?} \text{"} \text{(Matisonn and Seekings (2002): 16—17).} \]

Moreover the threat of considerable sums being siphoned off by corrupt officials and other criminals – either during transmission or once paid out – is substantial. Currently the South African government estimates that about R 1.5 billion per year is being illegally paid out in social security to those not entitled to it. Pension money has been withheld by officials or hijacked in transit.

If upwards of R 50 billion (gross) per year is being paid out it is difficult not to believe that criminals will batten on the flow of funds – in multiple ways many of which are yet to be invented. This is especially so because in the remote rural areas the aged and illiterate who are without bank accounts or non-cash ways of receiving payments, will be particularly vulnerable.

In these ways some BIG money will not reach anyone it was intended for either because the take-up rate will be lower than expected or because it will be mis-appropriated and will reach others it was not intended for.
Finally, within households – assuming funds have got through to eligible receivers – it seems possible that some percentage of parents (or caregivers) will misappropriate funds – using them for their own selfish (sometimes addictive) purposes rather than for children’s security, health, nutrition and so on. Black (2004) has recently reviewed this and related problems.

In many developing countries the control of all income in the households (no matter what its source) is exercised by the male head of household and is on average associated with lower levels of spending on food, child health care and education and higher levels of spending on alcohol and tobacco. As mentioned, these effects are more marked where behaviour is governed by addiction – the “rotten” parent syndrome. Black questions whether the conventional policy prescription that advocates cash grants rather than subsidies is appropriate in such a context, where the “rotten male heads have the power to appropriate government grants received by spouses”. He suggests: “subsidising food, education and health care may be the better option as it will benefit members of households most in need of such services.” (Black, 2004:432).

Is it possible by good organization and delivery systems to overcome these various forms of mistargeting? There are hi-tech optimists who say logistical problems and corruption can be overcome. For instance, the BIG Coalition (2002) takes the view that implementation of BIG ought not to create problems for government departments because computerized systems of grant payments are being upgraded. Registration will be handled at Multipurpose Centres which will be developed as one-stop-shops for various public services. Furthermore, electronic smart cards (with a fingerprint and identification system to prove eligibility) will be used. Loading a BIG into a smart card will benefit people from rural areas because it can be linked to spaza shops. The extension of Post Bank infrastructure is under consideration and will help in the way of facilitating delivery (Coalition 2002). Doubts remain, although economists such as le Roux are convinced and see here an opportunity for countries such as South Africa and Brazil to pioneer social advances: “South Africa is one of the few developing countries that has the communication infrastructure and the technical know-how to jump the digital
divide and put in place the systems needed to deliver electronic money effectively even in the deep rural areas.” (Le Roux, 2002:42)

Obviously quantitative evidence for South Africa would be required if one were to consider this a serious objection to a BIG. But it is difficult to escape the feeling that the impression of apparent simplicity and direct efficacy attaching to BIG is (at least somewhat) misleading.

4.4.3. **Disincentives, dependency culture and the loss of the developmental effect of work.**

Will a universal grant to the poor of R600/700 per family per month affect economic incentives in any serious ways (i.e. ways which may be seen as lowering work supply, work effort and enterprise, or increasing fertility and family size)?

(a) **Disincentive to work**

Critics of BIG take the view that BIG would induce laziness. That is, it would be a disincentive to labour (Standing, 2002:12). In defence of the BIG idea its proponents refer to the positive effects of similar pilot schemes experienced by both Brazil and Mexico. They argue that unlike means-tested selective schemes, BIG provides a greater incentive to search for and to take jobs, especially low wage jobs since there is no risk of losing the grant (or part of it) if work is found and earned income increased. (Standing, 2002: 12–13).

(b) **Dependency argument**

Critics of BIG argue that it will create a permanent dependency syndrome. This will in turn entrench a culture of entitlement, overburden the taxpayers with additional taxes and add another layer to the bureaucratic structure that is extremely expensive to taxpayers (Mahadea (2003)). However, the Taylor report (2002:61) and Kariuki (2003) say that the grant has no means test and therefore avoids many of the disincentives to work inherent in other social assistance systems. Further by providing this minimum level of income support people will be empowered to take the risks required to break out of the poverty cycle.  

100
According to Standing (2002: 42) this dependency criticism presumes a pessimistic interpretation of the human species. People work for many reasons: as is shown by many surveys most people want to work and would do so irrespective of the income they have from other sources to subsist. Furthermore, very few people are satisfied with basic subsistence, and most aspire to much more.

(c) Incentive to have children
Theories of fertility (and family size) which allow for optimizing behaviour in this field will attach significance to the net cost of rearing children – where these costs may actually be negative in environments where child labour is useful for subsistence purposes or is in demand in the labour market. Clearly a BIG will reduce the cost of child-rearing (with greater certainty than a means tested Child Support Grant). The effect is likely to be more marked in some poor households, where male budgetary control is strong and rates of time preference are high. Could it be that the effect would also be present in families where there is little adult male control but high rates of time preference by young woman (generating teenage or single pregnancies)?

There is hearsay evidence which is loosely consistent with this view. "My life has gotten better since I get R170 each for the three children" , a Transkeian women is reported as saying. "They [the ANC] care about us. I see more women having babies because they know they can get this [Child-Care] grant" (Deane, 2004). But as aspirations to "a better life" rise the explicit and implicit costs of raising children also rise. The net effect is not predictable on theoretical grounds.

4.5 The BIG in South Africa: some concluding remarks
Nattrass (2003: 123) writes that, "there is a strong social case for a BIG, and there are no compelling economic reasons against it." This seems a stronger conclusion than is justified by the review of arguments that is presented in this chapter; but there is no denying that the vision of South Africa’s pioneering a new electronic chapter of
poverty-reduction and the evolution of social citizenship in the developing world is tempting! This is especially so if these social gains were to feed through into faster economic growth via an increase in “social cohesiveness and investor confidence” (as Samson and his co-authors, and Natrass, suppose)

Notes to Chapter 4

1 There are aspects of the Universal Basic Income proposal which are not clear to me. It seems to be at the root of the BIG proposal but its primary focus is not poverty reduction.

2 Most of the discussion in this chapter will use R100 per month as the size of the proposed grant. This was proposed in March 2002 by the Committee of Inquiry into a Comprehensive System of Social Security for South Africa. The Democratic Alliances proposal was dated 10/01/2003 – and presumably adjusted the size of the grant slightly upwards.

3 See Samson et al. (2002: 12) for this aggregate take-up figure – and the individual grant figures following. Since 2001 the number of beneficiaries has increased substantially (from slightly over 4 million to slightly under 6 million in February 2003.) This has resulted from the extension of the Child Support Grant (to under 9 years in 2003) and “increased public awareness of eligibility for grants” (Woolard, 2003: 2). The C.S.G was to be extended further to under 14 years by 2005. Despite the increase in the C.S.G. uptake, it still remains fairly low.

4 The precise detail is not available – but the point is clear enough.

5 Column 6 in Table 10 gives figures for total net benefit/cost as income decile (and hence average expenditure) varies which are compatible with the claims that the combination amounts to a progressive expenditure tax/grant. The “9 – 10% increase for every Rand” claim is puzzling: one wonders if Le Roux means “9 – 10 cents” for every Rand.

One might conjecture that Soviet-type economies in process of transformation would still retain an unusually large role for government and perhaps a correspondingly high tax burden. If these two countries are removed a rough calculation suggests that SA will then be at the average level rather than below average.

There is no real point in attempting to identify the core reason(s) for Thurlow’s results. However it may be useful to note that one of the reasons to advocate expenditure taxes is their presumed encouragement of saving. Since the indirect tax method of financing a BIG is, as Le Roux says, equivalent to a progressive expenditure tax, this savings-effect may lie behind this short run GDP reduction.

There is some overlap and repetition between sections (a) and (b).

High rates of time preference imply that immediate benefits (the BIG grant) are valued highly, whereas extra future costs (of various kinds) attached to increasing numbers of child dependants are strongly discounted.
CHAPTER FIVE
CONCLUDING DISCUSSION

5.1 This dissertation was commenced some years ago. The research began with a pessimistic reading of the then-current information about the levels and trends of unemployment and poverty in South Africa – especially as these related to the African population. Specifically, it accepted that unemployment was high and growing, and that poverty was high and possibly deepening.

5.2 It also took as established the view that the main government policy strategy aimed at reducing unemployment (the GEAR programme) had succeeded in stabilizing the macro-economy but had failed to accelerate economic growth to the (6% p.a) level expected and had not been accompanied by job creation at desired rates.

5.3 In this apparent impasse, the investigation turned to consider less conventional policy options. After an empirical, conceptual and policy review in Chapters 1 and 2, in Chapter 3 and 4 it considered Public Works Programmes (which are certainly not a novel proposal but are not normally employed on a large scale in middle-income economies) and the Basic Income Grant proposal (which is so novel that it has not been implemented anywhere in a full-blown form).

5.4 There is no real point in attempting here to summarize the detailed findings of these two chapters. Suffice it to say that in general terms neither proposal (PWPs or BIG), perhaps unsurprisingly, is an unambiguous “solution” to South Africa’s problems.

5.4.1 The scale of proposed Public Works Programme to which government is committed is far below that required to make a substantial reduction in employment. Moreover there are grounds for conjecturing that conditions favourable to the success of such programmes may not be available in South Africa now. On the one hand, if PWPs are in general best suited to rural and agricultural conditions where there is much scope for capital projects of various kinds in a sector where infrastructural investment has been
neglected, and where the programmes will benefit from the supporting presence of a powerful class of relatively rich cultivators/landowners among a rurally-rooted but relatively poor peasantry, then South Africa is not a promising candidate at present. On the other hand, if PWP s can be adapted in principle for more general conditions (such as is intended by the Expanded PWP — where the plan is to switch the factor-intensity of government-financed infrastructure construction and maintenance at all levels by means of appropriate regulation and grant-conditionality) it is doubtful again that South Africa is a promising candidate because of the capital-,technology-,and skill-intensive norms prevailing in the economy (where even the primary sector — mining, agriculture, forestry, fishing — is large-scale, and capital-intensive). But such doubts are not grounds for refusing to experiment, and it is certainly possible to endorse the Expanded PWP as usefully experimental.

5.4.2 As regards the Basic Income Grant proposal, it is necessary to say that there are various uncertainties attached to it — both about its alleged positive side effects, and about its fiscal feasibility (involving among other issues the political acceptability and possible economic disincentive effects of substantially redistributive taxation). More generally, there are uncertainties about its incentive effects on behaviour in the fields of reproduction, household-formation, and migration. Again, a case can be made out for experimentation. The Taylor Commission recommended the expansion of the Child Support Grant to the age of 18 as a preliminary to introducing B.I.G. As we shall show in a moment there is some evidence that a major expansion of welfare payments (of which an extension of the C.S.G to the age of 14 has been a part) has in fact begun to make inroads into the poverty count. Are there other (marginal) extensions which can be identified, experimentally implemented and their effects studied?

5.5 Given that neither PWP s nor BIG can offer dramatic reductions in either unemployment nor poverty with any certainty, it is interesting to note that there is some evidence recently that the pessimistic reading of the trends in these variables was over-pessimistic.
5.5.1 In the first place there is some evidence that the economic growth-rate is edging upwards. Real GDP growth averaged 2.7% p.a. for the 1994-99 period and 3.9% pa for the 2000-2005 period—with a revised estimate of 4.9% for 2005 (the highest rate since 1981). Since population growth slowed a little in the more recent period the growth rate of real GDP per capita was somewhat more divergent for the 2 periods — 0.6% p.a for the 1990s (after 1993) and 2.1% p.a for the period after (and including) 2000. (Note that there have been further upward revisions announced this year).

Presumably on the basis of this recent positive growth experience government has consciously set itself (and the economy) a growth-target of 6% p.a. (and above) with a dedicated programme (Accelerated and Shared Growth Initiative-ASGISA), a commitment to heavy medium-term public infrastructural investment (and the Deputy President to preside over the undertaking!).

5.5.2 Is there any evidence that this improvement in the average growth rate is translating into better job-creation and decreasing unemployment rates? As reported in Chapter1 (section 1.2.3) there is disagreement among economists about how to interpret the employment figures. At one extreme is Schussler (2004) claiming that the employment figures for the September 2003 and March 2004 Labour Force Surveys show employment creation at 60 000 jobs per month (about 5% per annum) and that the June 2004 survey of Employment and Earnings shows employment creation for the previous 12 months to have been at a rate just over 3%-which he claims to have been the highest employment growth rate since March 1981 to March 1982. Van der Berg et al (2005:14) agree in general terms with the job-creation claims, writing that in 2003-4 the growth in Black per capita incomes has been “very rapid”, and they attribute this partly to “an acceleration in Black remuneration levels as a results of the improving performance of the economy in creating jobs”. (They do not provide any analysis of employment figures).

On the other hand Neva Makgetla (Robinson, 2004) the economist at COSATU, is reported to be sceptical about the survey results: “The claim that the country has the
The largest increase in employment in percentage terms since 1982 is worrying. The economy has not been performing like that—so something is wrong. Surveys are always unreliable. The issue for me is to find out how unreliable they are.

A reference back to Table 1 (in Chapter 1) confirms that the official unemployment figures have stabilized (speaking loosely) — with narrowly-defined unemployment returning to its 2000 level by 2004 (after increasing in 2001 and 2002 and declining in 2003 and 2004) and broadly-defined unemployment more-or-less constant during the 2001-2004 period.

There is no clear picture to be derived from the above employment and unemployment discussion, but at least no one seems to be claiming continued deterioration at present.

5.5.3. The latest research in poverty statistics (as was noted in section 1.3.4) presents a clearer and more optimistic picture. Although the findings may be challenged it is unlikely that they will be entirely overthrown, because there is supportive evidence that goes beyond survey-findings. Given the length that this dissertation has already reached it will not be possible to reconstruct the methodology and detail the data-sources that Van der Berg et al (2005) have employed in writing this important paper. (Sections 1.3.4 and 1.3.5 above however do give some information about these matters). The focus here will be on results.
Table 11: Poverty indicators in South Africa, 1993-2004 (according to Van der Berg et al., 2005)

<table>
<thead>
<tr>
<th>Per capita income: Quintile 1</th>
<th>1993</th>
<th>2000</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>R3 55</td>
<td>R866</td>
<td>R1 185</td>
<td></td>
</tr>
<tr>
<td>Per capita income: Quintile 2</td>
<td>R2 162</td>
<td>R2 086</td>
<td>R2 770</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Using poverty line of R3 371 per capita per year</th>
</tr>
</thead>
<tbody>
<tr>
<td>$P_0$ (Headcount ratio)</td>
</tr>
<tr>
<td>$P_1$ (Poverty gap ratio)</td>
</tr>
<tr>
<td>$P_2$ (Squared poverty gap/Poverty severity ratio)</td>
</tr>
<tr>
<td>Number of poor (million)</td>
</tr>
<tr>
<td>Number of non-poor (million)</td>
</tr>
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<table>
<thead>
<tr>
<th>Using poverty line of R3 000 per capita per year</th>
</tr>
</thead>
<tbody>
<tr>
<td>$P_0$ (Headcount ratio)</td>
</tr>
<tr>
<td>$P_1$ (Poverty gap ratio)</td>
</tr>
<tr>
<td>$P_2$ (Squared poverty gap/Poverty severity ratio)</td>
</tr>
<tr>
<td>Number of poor (million)</td>
</tr>
<tr>
<td>Number of non-poor (million)</td>
</tr>
</tbody>
</table>

The poverty trends shown above are not affected by choice of poverty line or by the poverty indicator used. Using both lines, all three measures “increased slightly over the first part of the period covered, and declined to well below their starting levels toward the end of the period covered”. The measures used include the headcount ratio which gives the proportion of poor people in the population. Why this proportion should have risen slightly and then “declined substantially” is explained by the authors as due (for the 90s) to “sluggish economic growth and poor labour market prospects” and (for post 2000) to “better labour prospects and large-scale expansion of the social grants system”. (Van der Berg et al 2005: 16, emphases added).

A similar trend applies to the poverty headcount (i.e. the absolute number of people living in poverty) although, because of population growth, the number of people living in...
poverty in 2004 was "roughly similar" to the number in poverty in 1993 (See two "number of poor" lines in the Table 11)

The Table also shows that "the per capita real incomes of individuals comprising the poorest two population quintiles rose by more than 30 per cent during 2000-2004". Here is where the effect of increased government social grants is most clearly seen. (Van der Berg et al 2005: 16) say that total income received by the two poorest quintiles in 2000 amounted to R27 billion. Subsequently Government increased its annual social grant payment bill by R22 billion (in constant 2000 Rand terms), this being driven by the expansion of the Child Support Grant and increased uptake of other grants (particularly disability grants) (Van der Berg et al 2005:14). Most of these payments will have been received by individuals in the bottom 40% of the income distribution.

It is worth noting finally that the last line of the Table shows that the number of non-poor South Africans has "increased steadily throughout the period" (Van der Berg et al 2005: 16).

5.5.4 What are the implications of this post-2000 experience and the research dealing with it (5.5.1 to 5.5.3) for the survey and argument which has been made in this dissertation? The answer seems to be that there are fewer substantial implications than one might have imagined. First, the improved growth-rate is too small and of too short a duration to change the picture. Clearly part of the explanation for faster growth has to do with a commodity-prices boom in the world economy. Whether the growth of China and India (and others) is creating a "long boom" in the world economy remains to be seen. Generally, one is advised to be cautious and prudent in the presence of commodity-price booms. Secondly, the unemployment figures are still high and there is no clear downward trend. Thirdly, the reduction in poverty is very recent and appears to be largely the result of increases in welfare payments -- both because of an expansion of eligibility and because of increased take-up. It is this third point which, because of the dramatic quick effects which has been achieved, seems to point a policy lesson. It tempts one to conclude that welfare (and that means B.I.G in the context of the argument) is the way forward.
However it is clear that some would resist the temptation to reach this conclusion. Van der Berg and his colleagues (2005:21-2) write that "grants... as poverty reduction strategy...is nearing the boundaries of its effective use, given fiscal constraints". They stress the need for "more rapid job creation" and so the argument has not been much (if at all) advanced.

5.6 Before concluding this long discussion it seems sensible to reflect on whether there are approaches to South Africa's poverty and unemployment problems which we have ignored. Three come to mind.

5.6.1 Some years ago Bowles (and a collaborator) raised the idea of a wage-subsidy financed by a tax on capital (Heintz and Bowls 1996).

5.6.2 Nattrass (2004) has raised the possibility of a "social accord". She looks to the experience of Australia, Ireland and the Netherlands – all of which had an employment crisis, as well as strong trade unions and a tradition of collective bargaining and tripartite negotiation. "In each case, the trade union movement made significant concession in order to restore profitability and employment growth" (2004:99).

5.6.4 Dani Rodrik (2006) has recently raised the need for an industrial policy focused on creating export-oriented manufacturing growth and employment. He draws parallels from the experience of Malaysia.

Notes to Chapter 5

1 Recently Stats South Africa announced upward revisions for G.D.P. growth for 2004 (from 4.5% to 4.8%) and 2005 (from 4.9% to 5.1%). The growth performance for 2006 appears again to be in the 4% to 5% range – with 5.5% in the second quarter. (reported in The Witness, 29/11/06).

2 We have not yet seen a discussion or critique of the Van der Berg et al (2005) paper.


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