# **SOUTH AFRICA:** ECONOMIC GROWTH, POVERTY AND INEQUALITY

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Typically, the pursuit of economic growth is associated with concomitant improvements in the living standards and welfare of the population. However, this link between growth and welfare gains is not always obvious. South Africa is a good example of a country where a record of economic growth has not necessarily translated into improvements in economic well-being for the majority of the population. South Africa has generally experienced economic growth since its transition to democracy in 1994, but has not seen the type of attendant gains in welfare one might have hoped for. These have been stifled, in large part, on account of the country's high and increasing inequality. How policymakers address this issue impacts a wide range of development outcomes. We suggest that an important priority for policymakers in 2012 is to focus on narrowing inequalities by expanding economic opportunities to all members of that society.

From 1995–2005, South Africa experienced an average, annualized growth rate of approximately 3.4 percent. This growth also coincided with improvements in poverty. The headcount poverty rate, calculated using a poverty line of South Africa rand R322 per month in 2000 prices, declined by five percentage points over the same time period. Importantly, this positive result is generally robust regarding poverty lines.

Yet, economic disparities have worsened. On the basis of per capita expenditure, data suggests that the country experienced a rise in income inequality, with its Gini coefficient increasing from 0.64 in 1995 to 0.69 in 2005. In other words, economic growth was enjoyed by a declining share of the population, making poverty reduction gains harder to realize. Had inequality remained constant since 1995, it is estimated that economic growth would have resulted in a 29 percentage point drop in household poverty, instead of a much more modest five point decrease. Viewed broadly, South Africa may be the most consistently unequal country in the world.

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This inequality brings with it tremendous societal problems. The Diagnostic Overview, released by the South Africa's National Planning Commission in June 2011, highlighted the potential threats associated with high levels of inequality including crime, corruption and social exclusion.

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Another, less mentioned cost, is the potential for political destabilization. One of the striking features of the inequality trend in South Africa is that, unlike in the past when the most notable character of inequality was the differences between ethnic groups, today inequality has been increasing within ethnic groups especially among black South Africans. In fact, increasingly, the recent rivalry within the ruling party African National Congress (ANC) reflects dissatisfaction amongst segments of the membership, especially youth, due to the few economic opportunities available. In 2012, these issues may be particularly contentious as in December the ANC holds its national conference to select a 2014 presidential candidate. More broadly, if unchecked this inequality could translate into instability as recently evidenced in Arab countries.

The country's inequality has risen in spite of increasing government redistribution. Arguably, the country now possesses one of the best developed social protection systems among all middle income economies. Its grant expenditures increased by 26 percent annually between 2001–2002 and 2005–2006 and, in 2005, it dispensed grants to some 9 million individuals. As a result of these government measures, poor households have witnessed an increase in their expenditures since 1995. Unfortunately, however, these gains have not been realized through sustainable employment.

In sum, we have the following story: Consistently positive levels of economic growth since 1994 contributed to a healthy revenue base for government. The state was able to utilize this revenue to redistribute income in the form of social security grants and benefit the poor. An analysis comparing per capita household income with and without income from social grants shows that the levels of income inequality would have been even higher in the absence of the government's social protection system. Yet, on the whole, the poor have not been the direct beneficiaries of economic growth.

Critically, it remains unclear whether this cycle, from growth to redistributive revenues, is sustainable—a question that the country's government should think deeply about. In 2012, changes to its current strategy might be in order, especially those which allow the gains from economic growth to become more intertwined with welfare improvements. In the absence of such policy changes, the risks and problems of continuing redistribution and rising inequality in 2012 are high. Policy makers must seek to reduce inequality in order to ensure that 2012 is a year that preserves South Africa's political and economic stability as well as improves the economic well-being of the majority of the population