

RBA/UNDP Regional Project for Economic Policies in Support of MDGs and Poverty Reduction

The Post-Apartheid South African Economy in Perspective: Growth, Poverty and Economic Policy

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1. Introduction

- ❖ South Africa = middle income country
- ❖ GDP in 2002 in US\$
 - PPP: 380 billion
 - Market e: 104 billion
- ❖ GDP per capita in 2002 in US\$
 - PPP: 9882
 - Market e: 2817
- ❖ GDP per capita PPP rank = 47
- ❖ HDI rank = 111 out of 175
 - GDP rank – HDI = -64 (3rd greatest difference)
- ❖ Paper: Policies – outcomes in the first 10 years of democracy

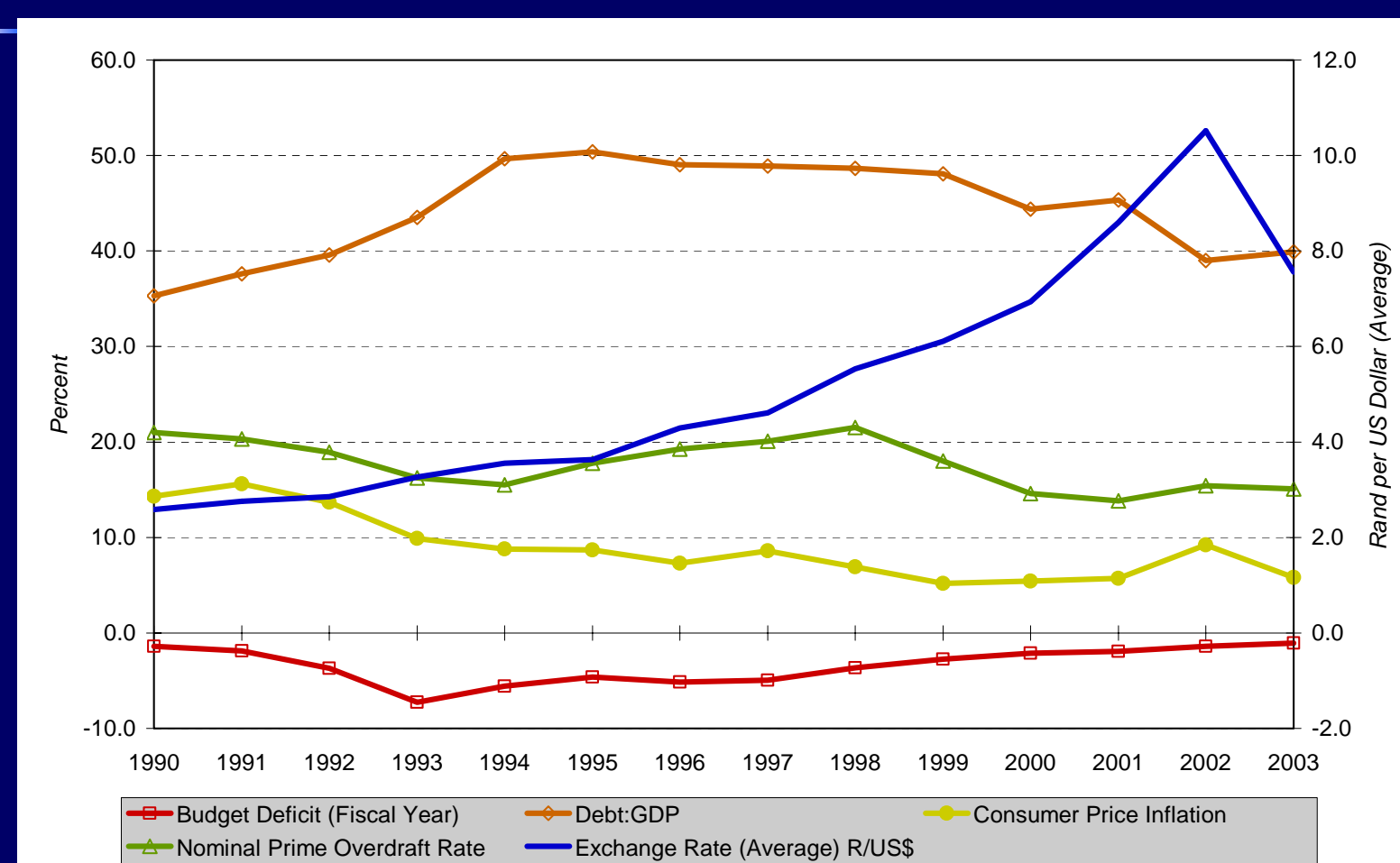
2. Macroeconomic Policy In Post-Apartheid South Africa

- ❖ 1994 first democratic elections
- ❖ 1994 - Reconstruction and Development Programme (RDP)
 - Growth through development
 - Government to invest heavily in the poor to increase productivity of resources
- ❖ 1996 – Growth Employment and Redistribution (GEAR)
 - Development through growth
 - Private sector investment to stimulate growth
- ❖ 2001- Post GEAR
 - Growth remains central but acknowledgement that public sector must play greater role
- ❖ Even though changing ideologies, similar macro-policies throughout the period

2. Macroeconomic Policy In Post-Apartheid South Africa ctd

- ❖ New government inherits an economy:
 - On the verge of the debt trap, inefficient public spending, closed to the rest of the world
- ❖ Initial focus: stabilise the fundamentals
 - budget deficit & debt: GDP ↓
 - Protect the value of the ZAR: Inflation ↓
- ❖ Fiscal side:
 - Change composition of Govt spending
 - Improvement in tax collection
 - but maintain G:GDP
- ❖ Monetary side:
 - 1994-1998: Focus on internal and external value of Rand
 - 1999 – Only focus on inflation
 - Interest rates kept high for extended period

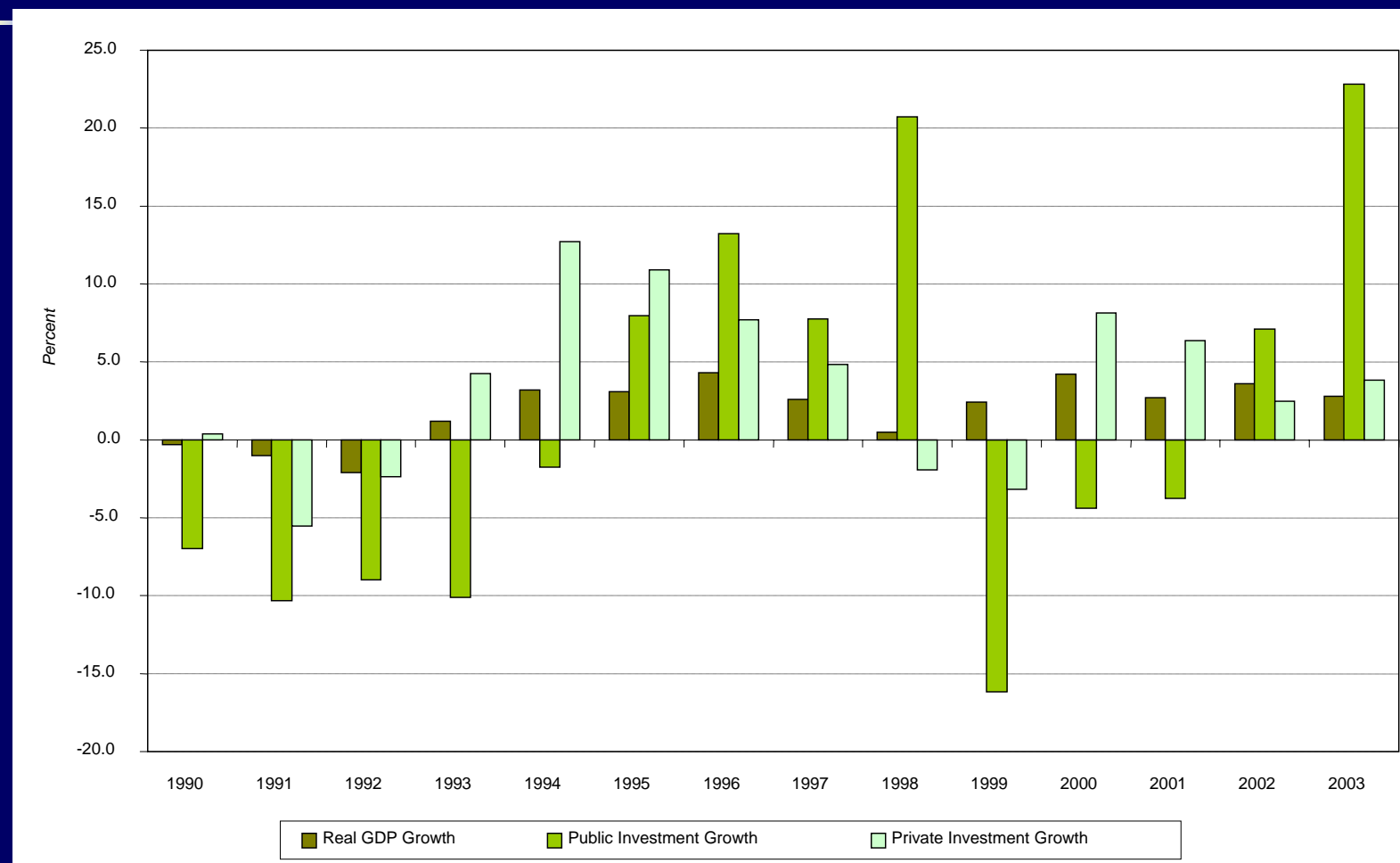
Selected South African Macroeconomic Indicators, 1990-2003



Source: SARB (2005)

3. Economic Performance

Growth and Investment, 1990-2003 (Real Percentage Change (2000 Prices))



Source: SARB (2005)

3. Economic Performance

- ❖ 1994 – 2003 growth in
 - Real GDP = 2.9% pa
 - Population = ±2% pa
 - Real GDP per capita = 0.86
- ❖ Insufficient investment
- ❖ Low savings
- ❖ Improving Consumption (largely M)
- ❖ ↑s in X and M : GDP
- ❖ Narrow Ue: 17.5% (1995) to 28.2% (2003)
- ❖ Broad Ue : 30.8% (1995) to 41.8% (2003)

3. Economic Performance ctd: Welfare shifts

Poverty line = R322 per person per month (2000 Rands)

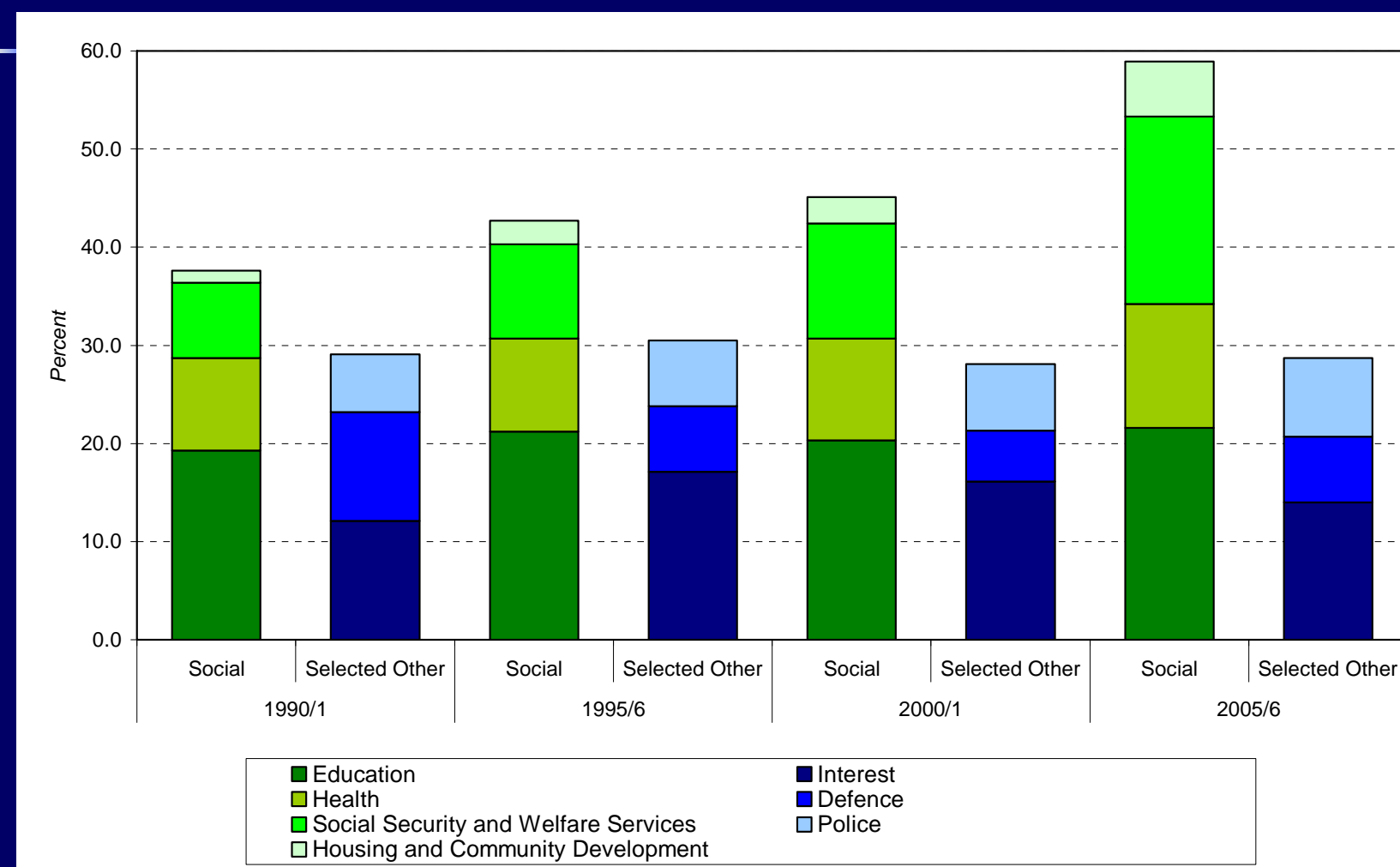
	Headcount			Poverty Gap Ratio			Gini	
	1995	2000		1995	2000		1995	2000
African	0.68 (0.01)	0.67 (0.01)		0.32 (0.00)	0.34 (0.01)	*	0.467 (0.007)	0.501 (0.005)
Coloured	0.50 (0.02)	0.35 (0.02)	*	0.19 (0.01)	0.13 (0.00)	*	0.439 (0.009)	0.453 (0.008)
Asian	0.08 (0.01)	0.07 (0.02)		0.02 (0.00)	0.02 (0.01)		0.398 (0.019)	0.374 (0.014)
White	0.01 (0.00)	0.01 (0.01)		0.00 (0.00)	0.00 (0.00)		0.344 (0.007)	0.319 (0.009)
Urban	0.36 (0.01)	0.40 (0.01)	*	0.14 (0.00)	0.16 (0.00)	*	0.527 (0.006)	0.533 (0.006)
Rural	0.75 (0.01)	0.80 (0.01)	*	0.37 (0.01)	0.44 (0.01)	*	0.493 (0.009)	0.502 (0.008)
South Africa	0.58 (0.01)	0.58 (0.01)		0.27 (0.01)	0.29 (0.01)	*	0.565 (0.005)	0.577 (0.005)

Source: Hoogeveen and Ozler (2004).

Government Expenditure

- Budget deficit ↓
- G:GDP = 28% in 1996, 24.5 in 2000-2002, now ↑ing again
- ↓s in real terms from R256 billion in 1997 to R245 billion in 2000 (2000)
- Procyclical
- Contractionary up to post-GEAR
- ❖ But: Composition changes
- ❖ Also: Fiscal incidence has improved:
 - ITO social spending (Van der Berg)
 - 1975: 55% on Whites, 28% on Africans
 - 1993: 15% on Whites, 70% on Africans
 - 1995-2000: Concentration index ↓s further from -0.057 to -0.120

Selected Components of Government Expenditure (Share of Total Expenditure)



Source: Statistics South Africa (various years)

Household Services Access by Income Quintile, 1996 and 2001

	Quintiles 1996				Quintiles 2001			
	1	2	3-5	Total	1	2	3-5	Total
DWELLING TYPES								
Formal	44	50	76	64	54	57	79	69
Informal	19	16	15	16	23	15	14	16
Traditional	35	33	7	18	23	28	7	15
WATER ACCESS								
Piped	64	66	90	80	74	72	89	82
Borehole/tank/vendor	8	10	4	6	5	6	3	4
Spring/river/dam/pool	26	22	5	12	15	17	4	9
ENERGY SOURCE: LIGHTING								
Electricity	33	37	74	58	54	57	80	69
Paraffin	21	19	8	13	10	9	5	7
Candles	45	43	18	29	35	33	14	23

Source: Census 1996 and Census 2001, 10% samples

Household Services Access by Income Quintile, 1996 and 2001

	Quintiles 1996				Quintiles 2001			
	1	2	3-5	Total	1	2	3-5	Total
SANITATION								
Flush/ chemical toilet	22	23	69	50	35	29	68	53
Pit latrine	47	50	21	32	38	43	20	28
Bucket latrine	6	7	4	5	5	5	3	4
None	24	20	6	12	21	22	8	14
TELEPHONE								
In this dwelling/cellular phone	8	8	43	29	21	23	58	42
At a public telephone nearby	42	39	33	36	54	47	29	38
At another location	17	23	15	17	17	20	9	13
No access to a telephone	33	30	9	18	9	10	4	6

Source: Census 1996 and Census 2001, 10% samples

Fiscal Incidence

- ❖ Education
 - 1/5 of national budget
 - Van der Berg estimates education cost index:
 - 1997: African=100, Whites = 171
 - 2002: African=100, Whites = 128.8 (better qualified teachers)
 - National norms and standards with poorer schools receiving proportionally higher funding (poorest 40% loaded)
- ❖ Health
 - Focus on Clinics (where the rural poor go)

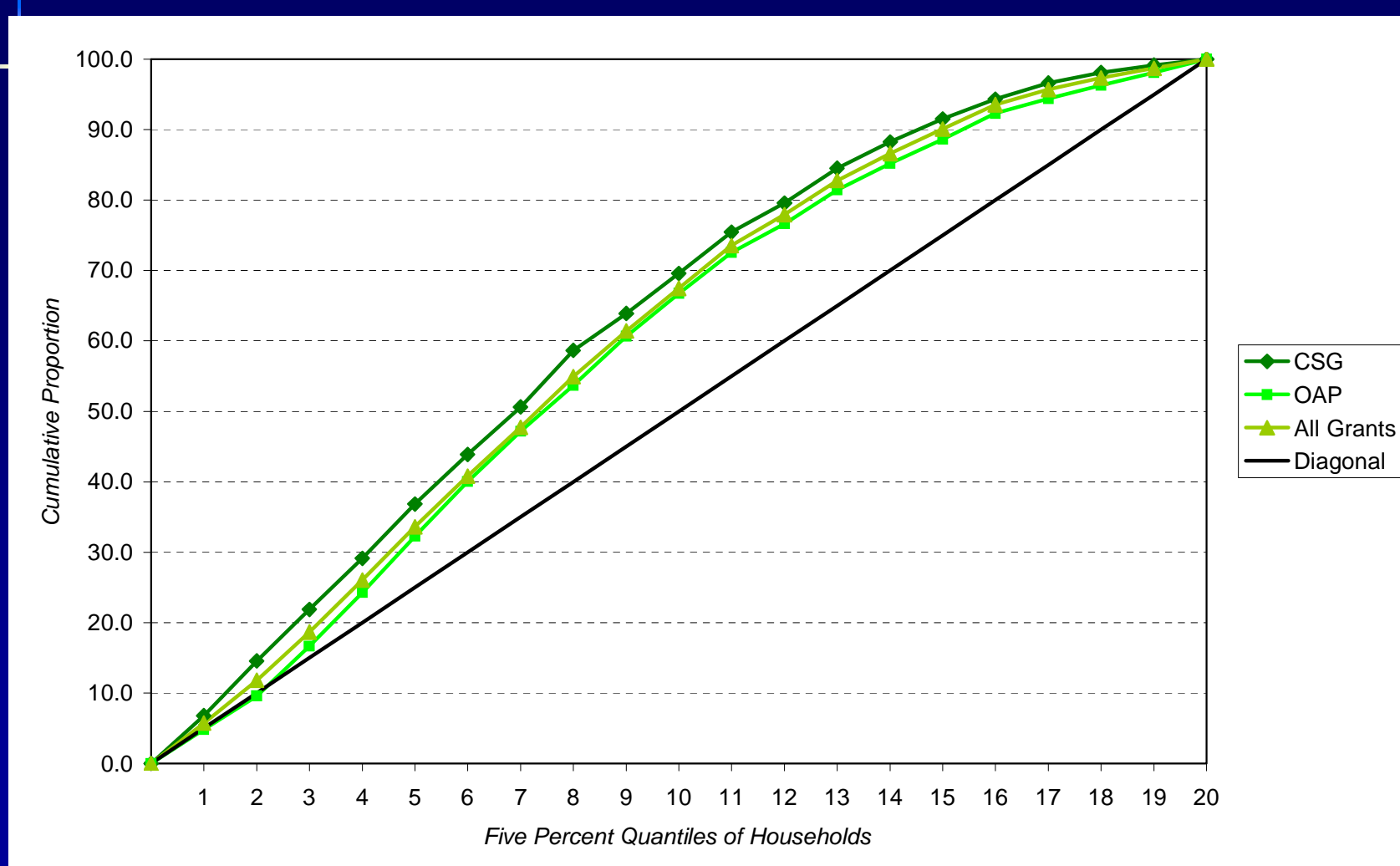
Fiscal Incidence ctd

❖ Social Grants

- ± 10 million recipients, > R2.5 billion (effecting about 50% of households)
- Many rural, women, elderly
- Means tested
- Woolard estimates:
- Grants > 2/3rds total income in poorest 20% of households, 13% in quint 2
- Substantial poverty alleviation impact: almost halves poverty for the elderly
- Additional positive effects – school attendance, employment rates

Social Grants: Concentration Curve

Concentration Curve of Grant Recipients by Household Per Capita Expenditure Quantile, 2003



Source: GHS 2003.

Social Spending by Income Decile, 1995-2000

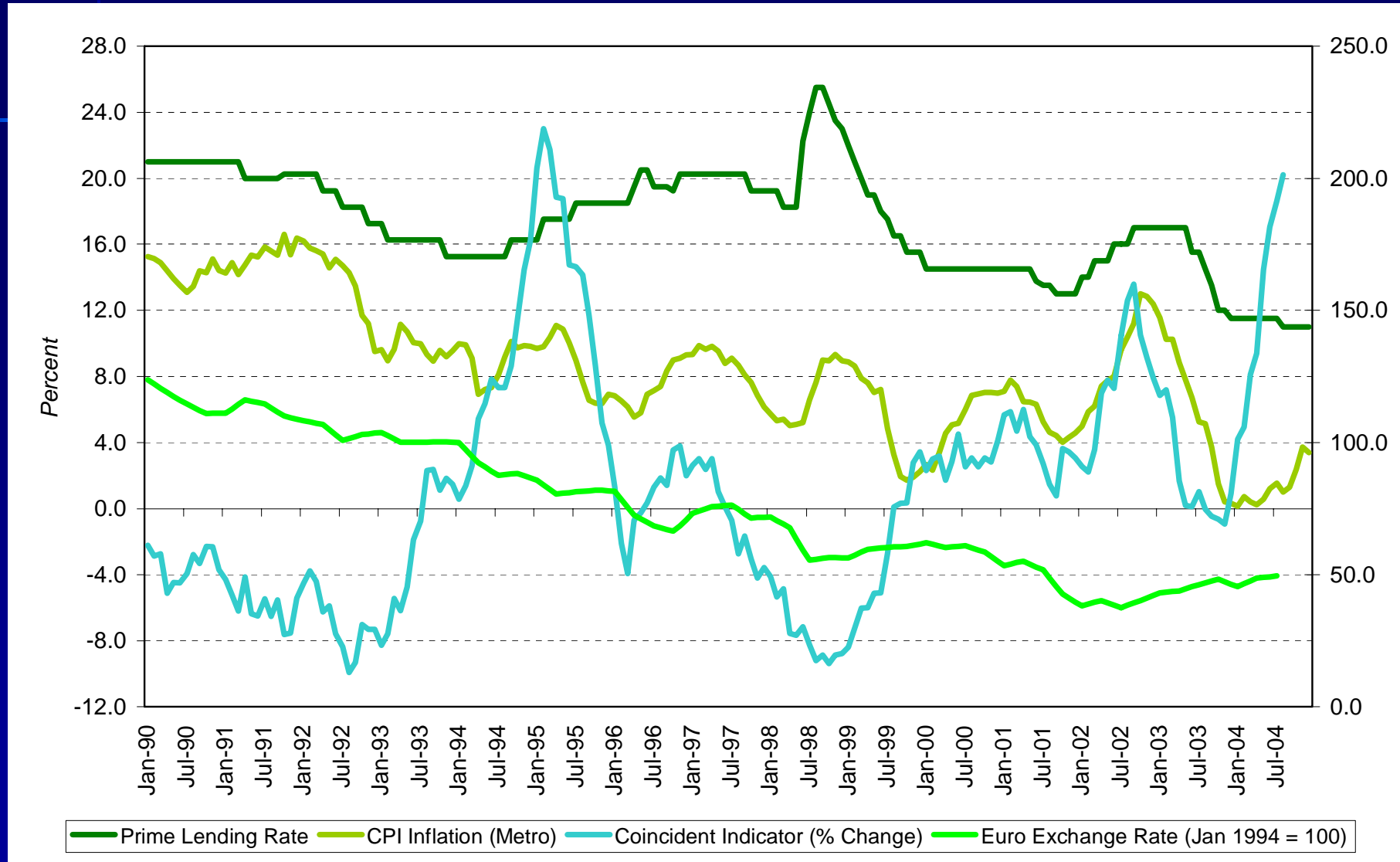
Category	Year	Decile 1	Decile 2	Decile 3	Decile 4	Decile 5-10	Total
School Education	1995	11.5	15.3	13.8	11.9	47.5	100.0
	2000	11.6	18.2	16.6	13.9	39.7	100.0
Tertiary Education	1995	3.7	3.9	2.8	4.0	85.6	100.0
	2000	4.7	2.4	3.0	4.0	85.9	100.0
Health	1995	13.3	12.8	12.2	13.3	48.4	100.0
	2000	12.5	16.0	14.7	13.3	43.5	100.0
Social Grants	1995	43.2	15.5	10.2	7.6	23.5	100.0
	2000	38.3	23.1	9.6	7.3	21.7	100.0
Total	1995	16.9	13.8	11.9	11.0	46.4	100.0
	2000	17.1	17.3	13.4	11.5	40.7	100.0
Spending per capita	1995	R2 611	R1 723	R1 597	R1 608	R1 655	R1 760
	2000	R3 147	R2 385	R1 993	R1 890	R1 670	R2 006
Per capita change (percent)	1995-2000	20.5	38.4	24.8	17.5	0.9 (7.3 to -5.9)	14.0

Source: Van der Berg (2005: 33-34) and own calculations.

Inequality

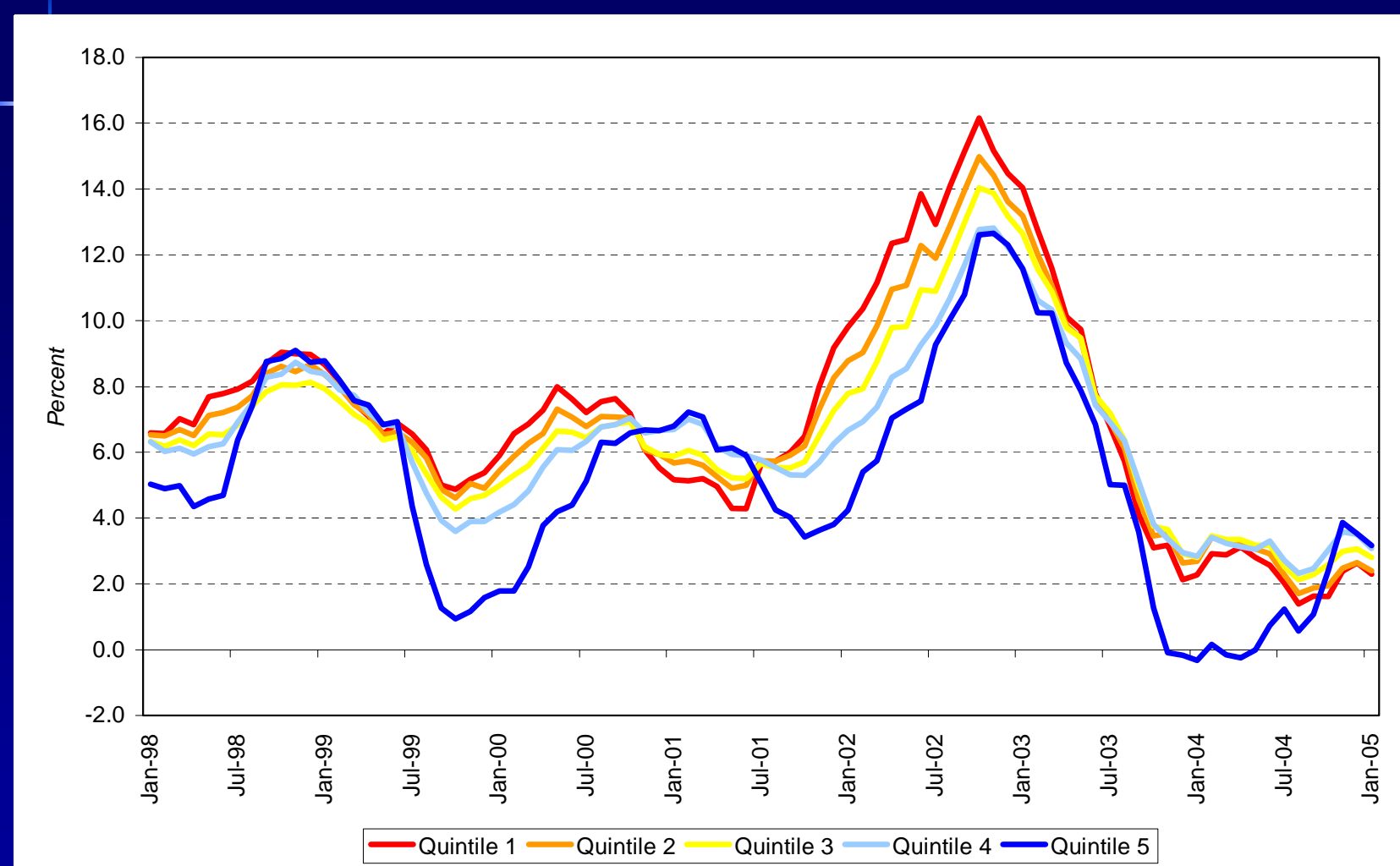
- ❖ Van der Berg estimates in 1995:
 - Pre-transfer income : Gini= 0.66
 - - taxes : Gini= 0.64
 - + social spending : Gini=0.44
 - but
 - ↑s in access vs outcomes
 - E.g. health and educational attainment
 - Now: ↑s in quality of services

South African Monetary Policy Since 1990



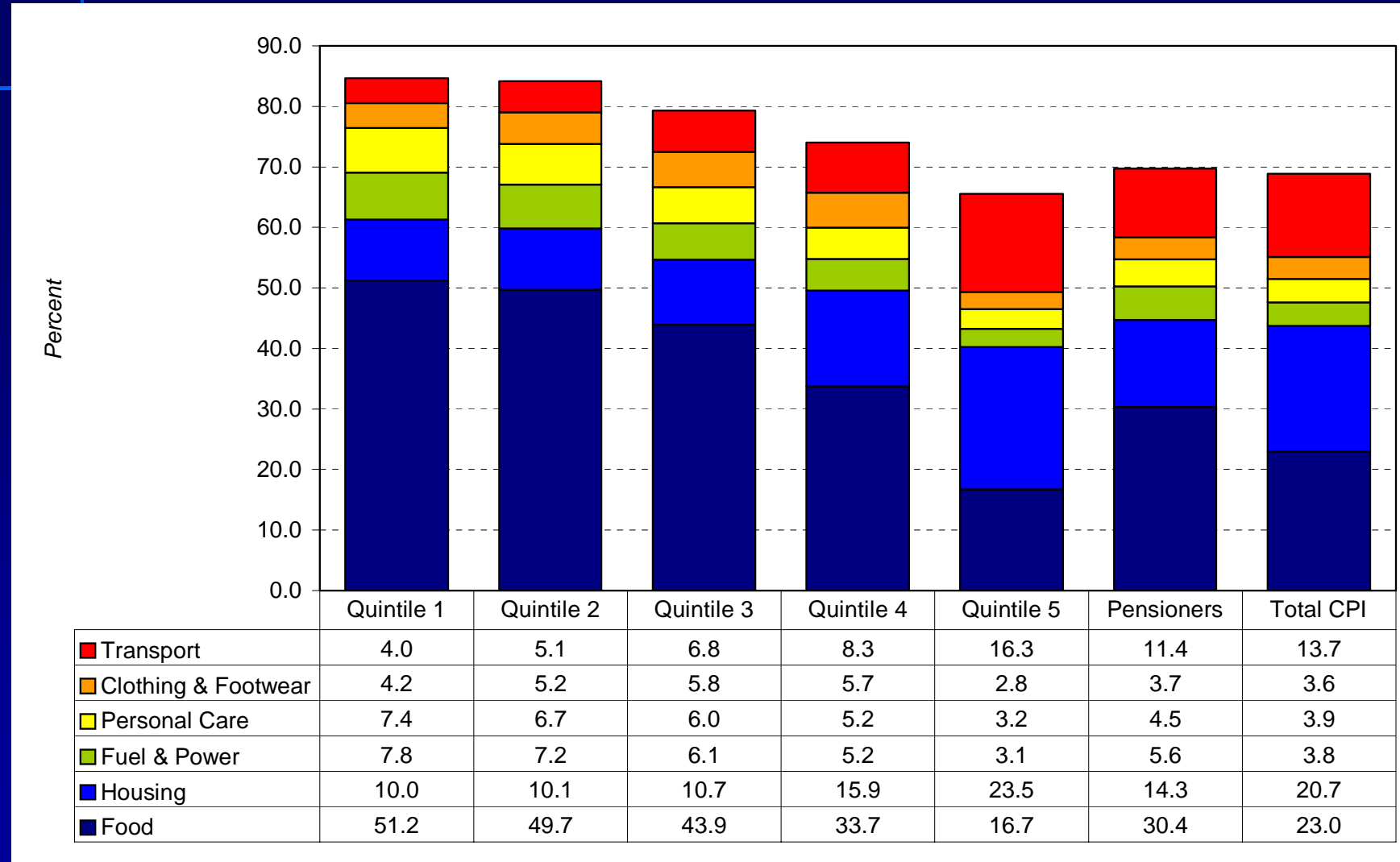
Source: SARB 2005; Statistics SA 2005.

Comparison of Inflation Rates for Expenditure Quintiles, 1998-2005



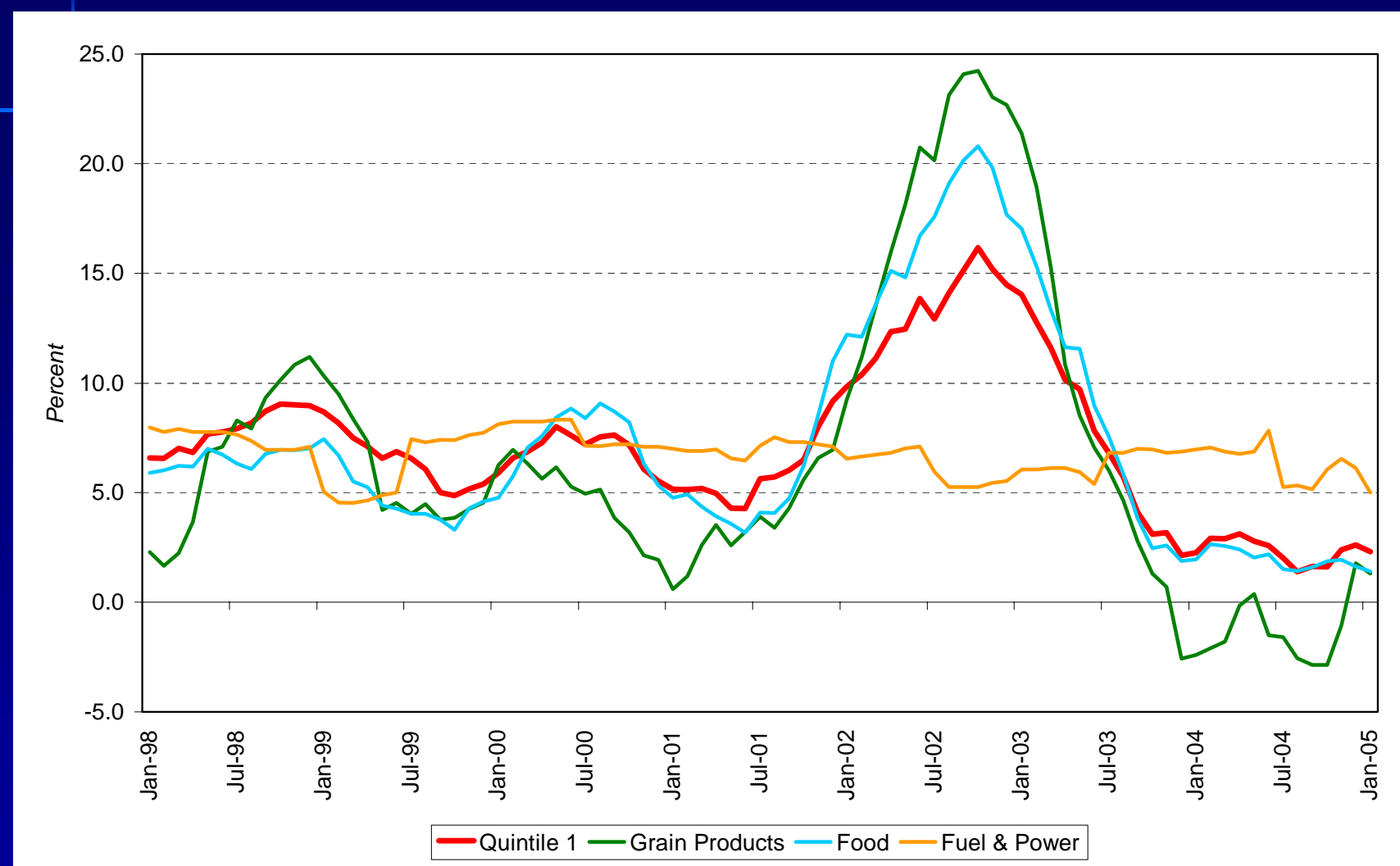
Source: Statistics SA 2005

Official Consumer Price Index Weights, 2000 Base-Year



Source: Statistics SA 2005

Quintile 1 Inflation



Source: Statistics SA 2005

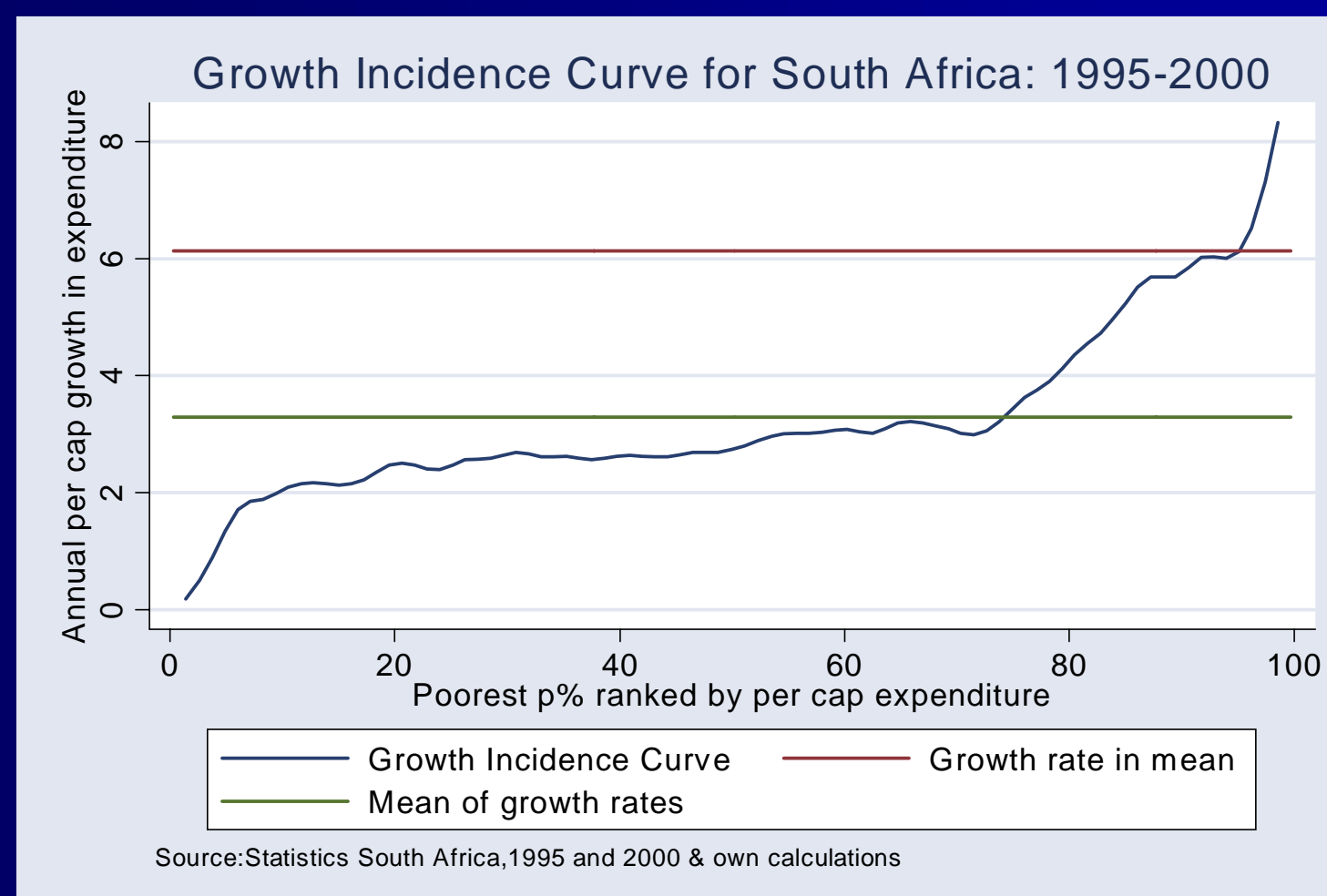
Percentage Share of Paraffin and Mealie Meal in Selected Deciles' Overall Inflation Rates

Product	Period	Decile 1	Decile 2	Decile 3	Decile 4	Decile 10
Paraffin	1998	1.1	0.6	0.4	0.3	0.0
	1999	6.2	3.3	2.3	1.4	0.0
	2000	10.3	5.8	4.2	2.6	0.0
	2001	6.9	3.7	2.6	1.6	0.0
	2002	1.9	1.1	0.8	0.5	0.0
	1998-2002	5.5	3.0	2.1	1.3	0.0
Mealie Meal	1998	5.5	3.6	2.7	2.1	0.2
	1999	3.6	2.4	1.8	1.4	0.1
	2000	3.4	2.4	1.8	1.4	0.1
	2001	1.3	0.9	0.7	0.5	0.0
	2002	7.3	5.1	4.0	3.1	0.3
	1998-2002	4.0	2.7	2.0	1.6	0.1

Source: Own calculations based on Borat and Oosthuizen (2003)

Measuring Pro-poor growth in SA

- ❖ Consider *growth* in expenditures of poor relative to the rich (growth across each centile)



Elasticities of Poverty Measures for South Africa, 1995-2000

Category	Poor		Ultra-Poor	
	1995	2000	1995	2000
P ₁ -Mean Income Elasticity	-1.00	-0.87	-1.58	-1.38
P ₂ -Mean Income Elasticity	-1.25	-1.10	-2.00	-1.56
P ₁ -Gini Elasticity	2.45	3.48	6.66	8.84
P ₂ -Gini Elasticity	4.36	6.10	10.77	13.73
MPRS: P ₁	2.45	3.99	4.21	6.43
MPRS: P ₂	3.49	5.55	5.38	8.83

Source: Statistics South Africa (1995 & 2000) and own calculations

MPRS-Marginal proportional rate of substitution betw income and income inequality:

In 2000, the economy needed a growth in mean incomes of 4%, to compensate for a 1% growth in the gini

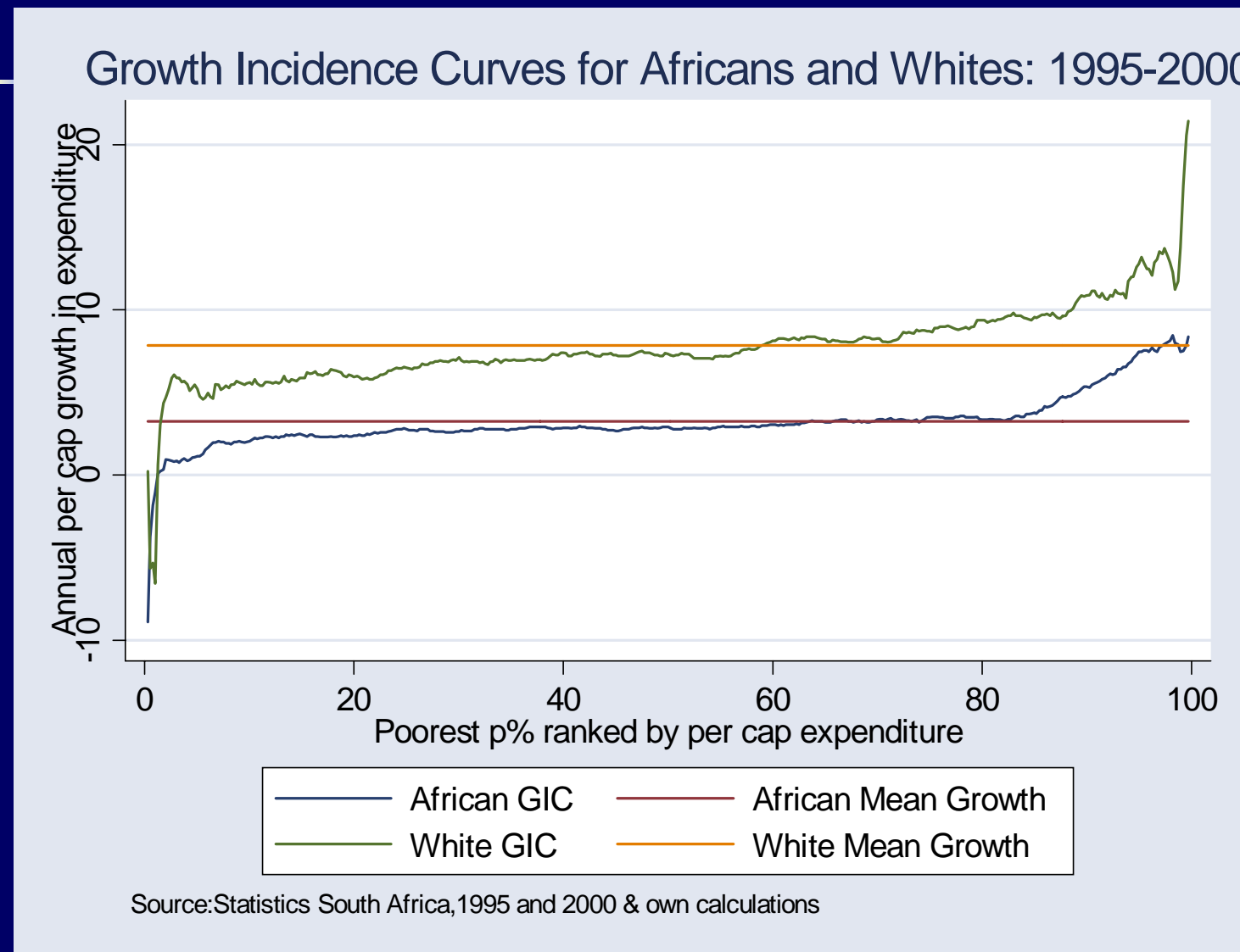
Datt-Ravallion Decompositions for South Africa, 1995-2000

- ❖ Measure relative contributions of changing inequality vs changing income growth to poverty changes

Category	Growth Component	Redistribution Component	Total Change In Poverty
Poverty Line: R322 per capita per month			
Total	-9.38	14.65	5.27
African	-8.84	14.21	5.37
Coloured	-21.27	18.39	-2.88
Asian	-4.31	8.72	4.41
White	-0.93	1.67	0.74
Urban	-8.79	17.69	8.89
Rural	-4.79	9.85	5.06
Male	-10.05	15.09	5.04
Female	-8.48	13.96	5.48

Source: Statistics South Africa (1995 & 2000) and own calculations

Measuring Pro-poor growth in SA



Constraints on Growth and Employment

- ❖ Higher growth path is essential if we are to reduce poverty
- ❖ Why has growth been so low?
 - High interest rates
 - Volatile exchange rates
 - Skills constraints
 - Crime
 - Highly regulated labour market

The Labour Market as a Constraint on Growth and Employment

Reported Response Results to Impact of Labour Regulations, by Category

<i>Category/Firm Size</i>	<i>50-99</i>	<i>100-199</i>	<i>200+</i>	<i>Total</i>
Hire Fewer workers	39.58	34.48	31.87	36.02
Labour Substitution	33.57	31.82	40.66	35.09
Casualisation	38.03	38.64	38.46	38.32
Sub-Contracting	23.08	35.23	36.67	30.22
Improved labour relations	23.24	26.44	22.47	23.9
Increase in Labour Productivity	10.56	12.5	4.55	9.43
Sample Size	143	88	99	322

Source: World Bank Firm Survey, 1999 and author's own calculations.

The Labour Market as a Constraint on Growth & Employment

Estimation of Retrenchment Costs, by Occupation

<i>Size Class/Occupation</i>	<i>50-99</i>	<i>100-199</i>	<i>200+</i>
<i>Mean Retrenchment Costs</i>			
Manager	8659	10939	35062
Professional & Technical	7169	6792	19994
Clerical	7154	6094	20473
Service	7165	5505	15980
Craft	6926	5065	6532
Operators	7025	6955	10693
Labourers	7555	10295	12580
Manager to Lab. Ratio	1.15	1.06	2.79
<i>Proportion of Monthly Mean Wage</i>			
Manager	0.91	1.02	0.82
Professional & Technical	0.89	0.42	0.64
Clerical	1.75	1.07	1.69
Service	1.20	0.84	1.24
Craft	1.57	0.87	1.18
Operators	2.48	2.11	2.39
Labourers	3.79	5.68	3.62

Source: World Bank Firm Survey, 1999 and author's own calculations.