

What Must be Done If the State is to be Capable of Poverty & Inequality Reduction?

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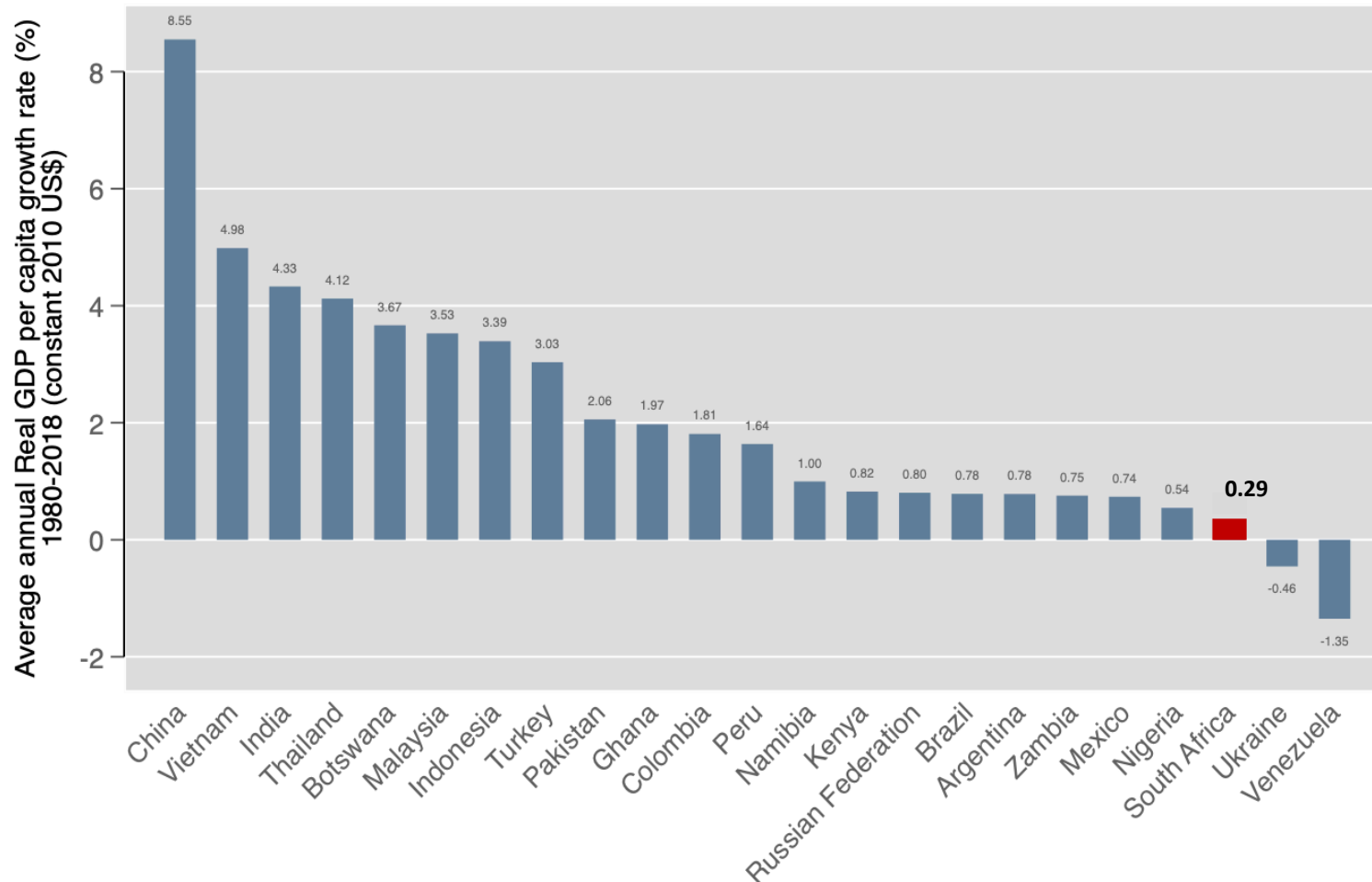
School of Economics | Development Policy Research Unit

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1. The Long-Run Economic Growth Trap
2. Poverty and Inequality Trends: An Anatomy of the Challenge
3. The Double-Edged Sword of Public Benevolence
4. Growth In Public Sector Employment
5. Building a Capable State: Final Thoughts

The Persistence of Poverty and Inequality: Low Economic Growth

Average Annual Real GDP Growth p.c.:1980-2018

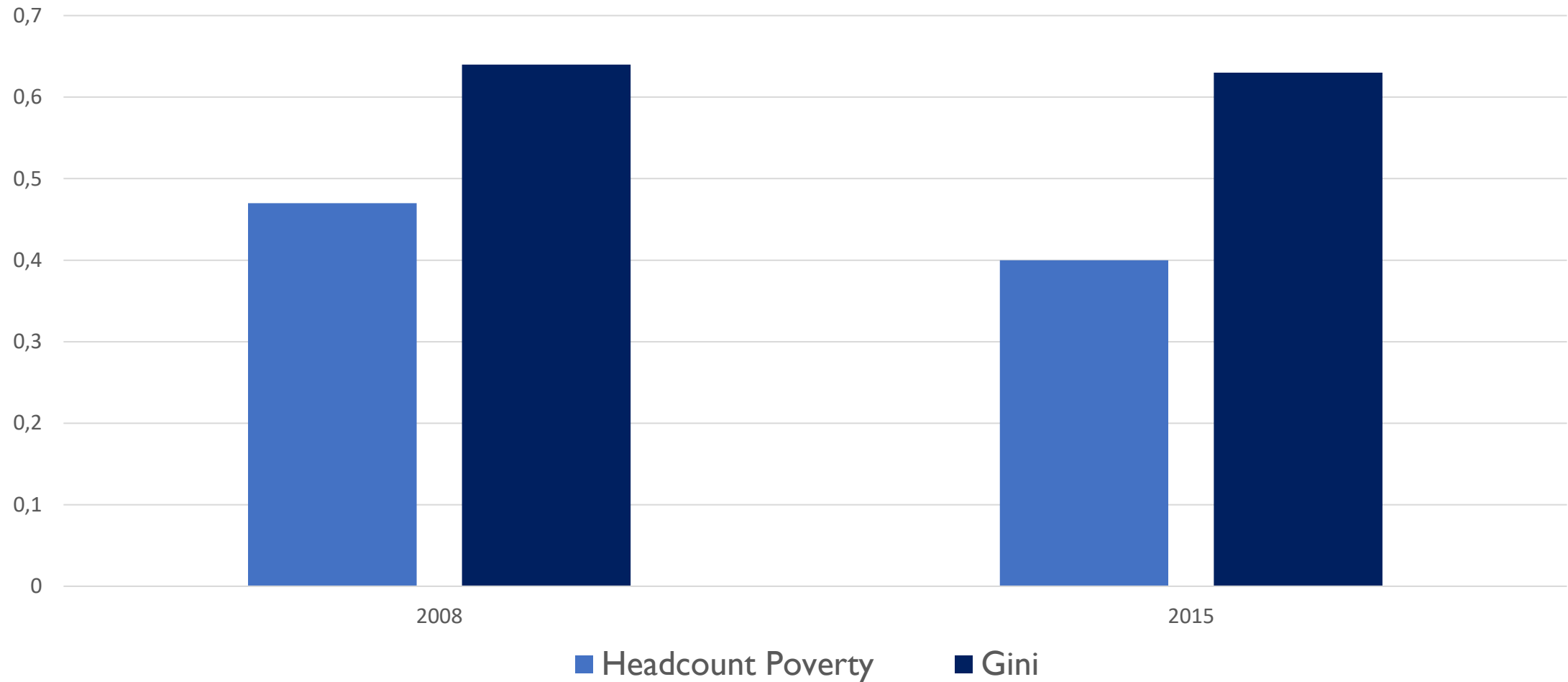


Own calculations. Source: World Bank's World Development Indicators.

- For a nearly 40-year period, South African economy has grown by an average of just 0.29% per year.
- Compared to middle-income country peers, economic growth has been pedestrian.
- Persistently low real GDP growth rates means that South Africa is in a long-run middle-income economic growth trap.
- In addition, growth has disproportionately benefited those households at the top of the income distribution, resulting in an uneven, non-inclusive economic growth trajectory.

The Poverty and Inequality Challenge In Numbers

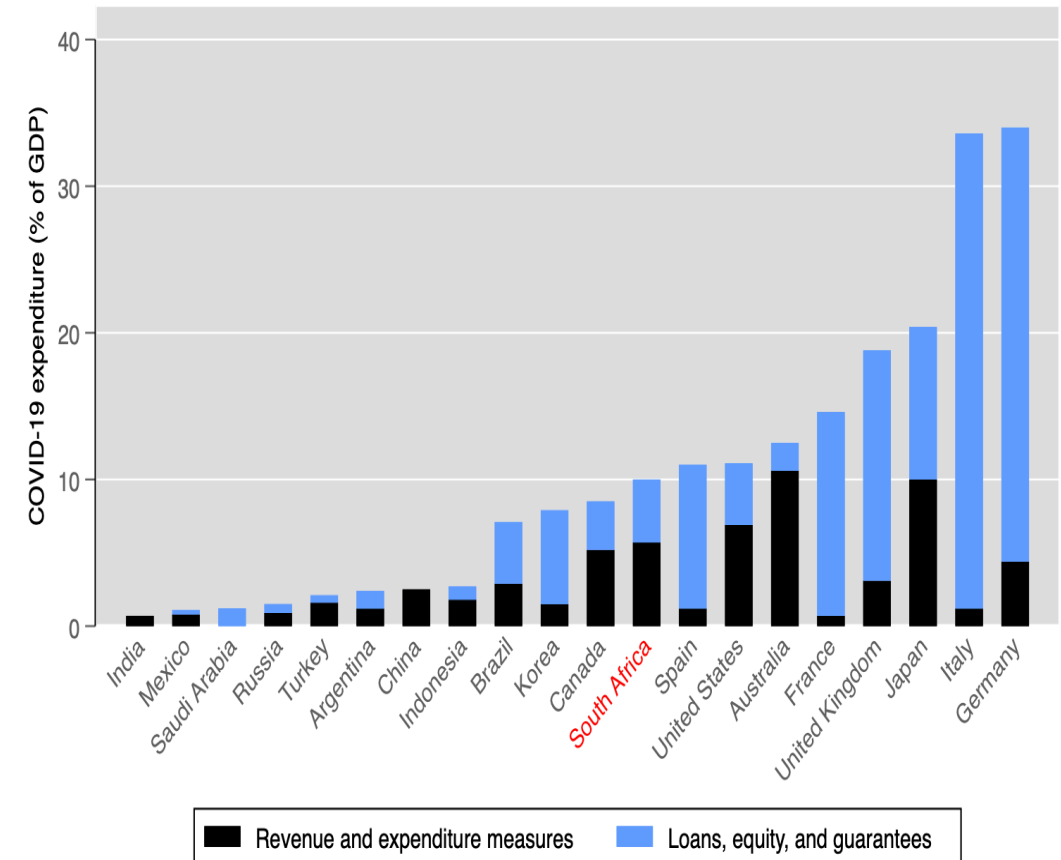
Incidence of Poverty and Gini Coefficient, South Africa: 2008 & 2015



The Ramaphosa Covid-19 Stimulus Plan: The Benevolent State

Intervention	R (bn)	% of Total
Expenditure & Tax Measures		
Additional Health Support	20	3.98
Municipal Assistance (water and sanitation)	20	3.98
Social Assistance (Grants)	50	9.96
Wage Protection (UIF)	40	7.97
Job Protection & Creation	100	19.92
SMME Support	2	0.40
Tax Relief	70	13.94
Loans		
Credit Guarantee Scheme	200	39.84
Total Allocation	502	100.00
(Less - Reprioritisation & Tax Deferrals)	174	34.66
Total Net Spend	328	65.34

Covid-19 Expenditure as Share of GDP, By Country



Source: <https://www.csis.org/analysis/breaking-down-g20-covid-19-fiscal-response> & own calculations

Covid-19 Social Assistance in Context

Covid-19 Social Relief Package, by Grant Type

Grant Type	Amount	Time Period	Coverage (Type)	Approx. Coverage (Size)	Approx. Cost
CSG	R300	May	Beneficiaries	13 million	R3.9 billion
	R500	June-October	Recipients	8 million	R20 billion
All Other Grants	R250	May-October	Beneficiaries	5 million	R7.5 billion
Covid-19 SRD Grant	R350	May-October	All Eligible Applicants*	Up to 10 million*	Up to R3.5 billion per month at 100% take-up
Totals	R250- R500	May-October		36 million (61%)	R62.4 billion

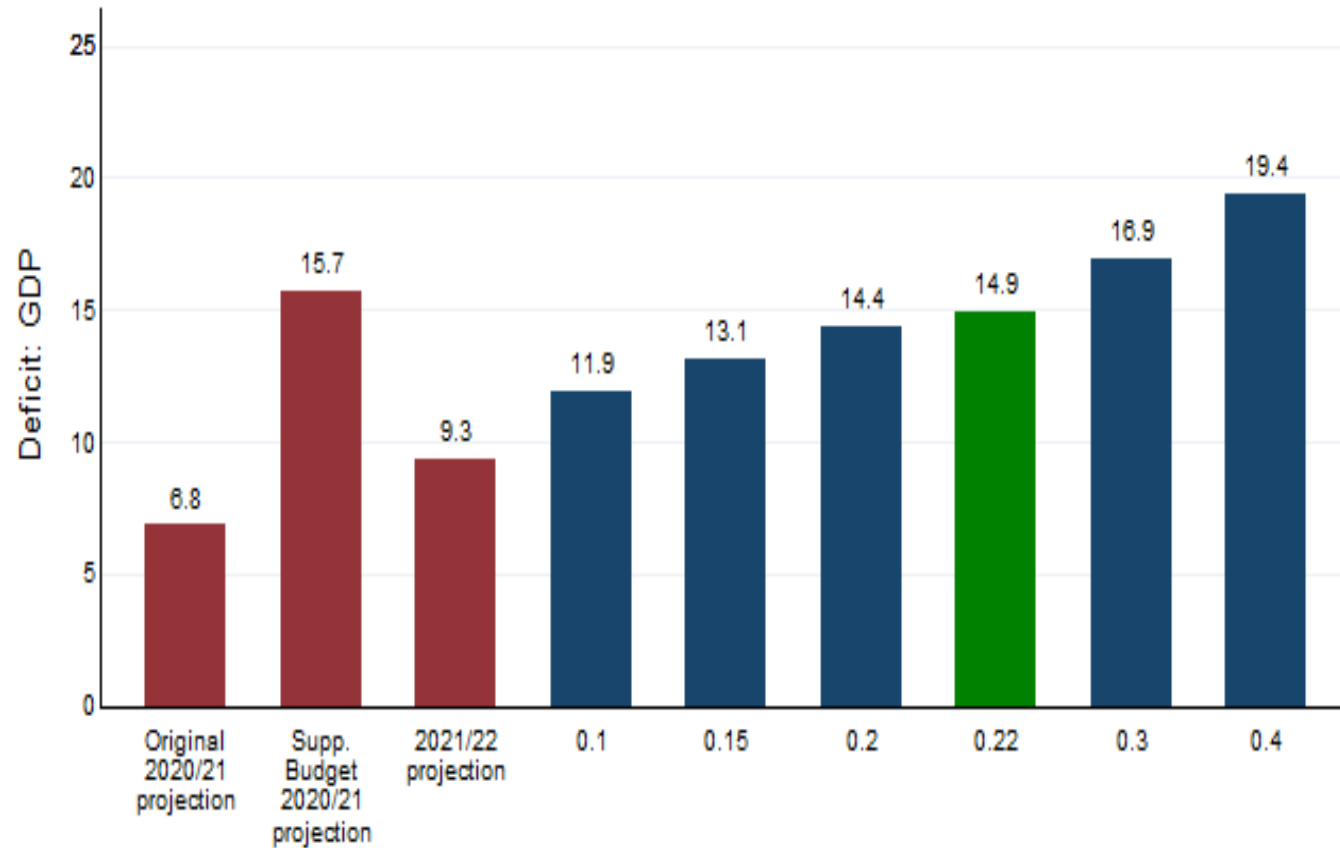
- President Ramaphosa's Covid-19 Grant has the capacity to reach 61% of the country's population.
- Total cost of Covid-19 Grant coverage of 10m would be R62.4billion.

Source: NIDS (2017), GHS (2018), Department of Social Development (2020).

Notes: * The assumptions around eligibility and take-up for the Covid grant are discussed in Borat, Oosthuizen & Stanwix, 2020.

The Macro-Economic Fallout: From Stimulus to Deficits and Debt

Deficit: GDP Projections, by Revenue Shortfall



Note: (1) Maroon bars are based on official Treasury projections of Revenue and GDP in each of the 2020/21 original, 2020/21 supplementary and 2021/22 original budgets.
(2) Navy bars represent the Deficit:GDP ratio for a given shortfall in revenue collection.
(3) Green bar represents the Deficit:GDP ratio in the event that revenue shortfall in 2021/22 is at the same level as projected in 2020/21 supplementary budget -i.e. 22%.

Source: National Treasury, 2020 and own calculations.

- Original Budgeted Deficit: 6.83%.
- No change in GDP or Revenue and with Covid-19 Stimulus Package: 8.53%.
- NT Projected deficit of 15.67% for 2020.
- Revenue windfall: New deficit at 9.3% of GDP.
- Revenue shortfall of 30% with GDP contraction of 6%, deficit: GDP rises to 16.9%.
- 2022 growth is critical for deficit reduction & fiscal consolidation path.

Expansion of Public Sector Employment: 2010-2019

Sector	Employment ('000)		Employment share		Absolute change ('000)	Share of change	Annual % change
	2010	2019	2010	2019			
Primary	974	1 267	0.07	0.08	293	0.09	6.31
Secondary	2 919	3 300	0.22	0.2	381	0.12	11.3
Trade	2 919	3 406	0.22	0.21	487	0.15	1.73
Transport	806	1 036	0.06	0.06	230	0.07	2.83
Finance	1 701	2 558	0.13	0.15	857	0.26	4.64
CPS	3 916	4 944	0.30	0.30	1 028	0.31	2.62
Tertiary	9 342	11 944	0.71	0.72	2602	0.79	11.82
Total	13 236	16 513	1.00	1.00	3 277	1.00	2.49

Building a Capable State: Final Thoughts

Figure 19 (a). PISA Score and Education Spending in 2015

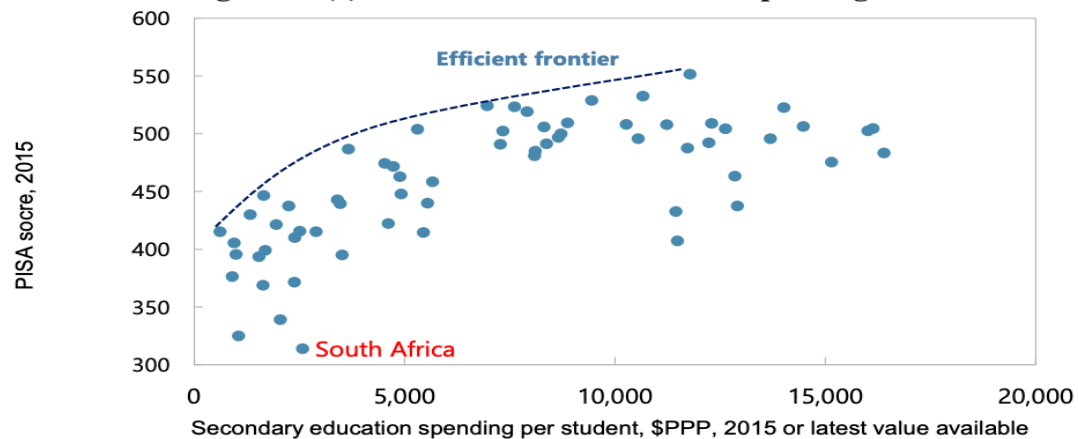
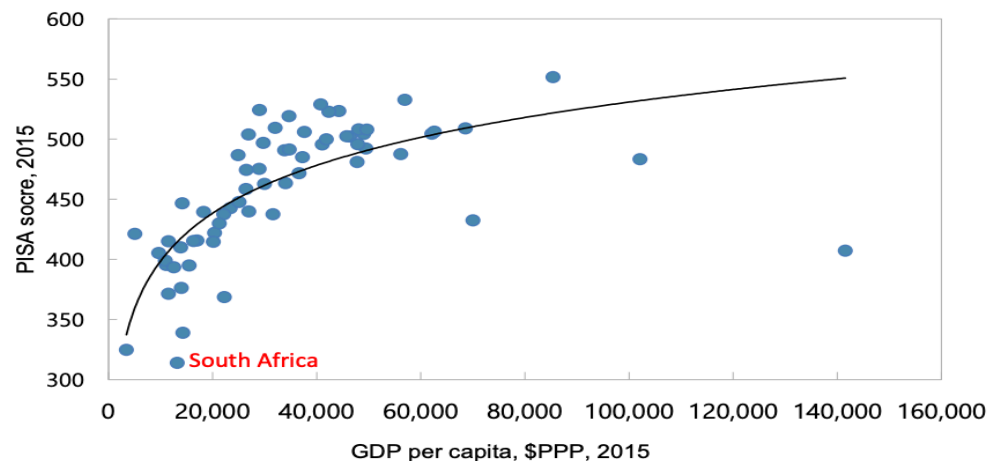


Figure 19 (b). PISA Score and GDP per capita \$PPP in 2015



Sources: OECD; World Bank; and IMF staff estimates. Note: PISA scores assess the competencies of 15-year-olds in reading, mathematics, and science. Education spending is measured in dollars at purchasing-power parity (PPP). The estimated South Africa PISA score is a mapping from the TIMSS score using the methodology of OECD, 2015, *Universal Basic Skills*.

Fiscal Challenges:

- Non-discretionary costs are crowding out complementary inputs to service delivery and infrastructure:
 - Transfer payments (35%), wage bill (34%), debt service costs (12%)
 - Only 18% left for goods and services and capital spending
- Generate more space for capital expenditure (reduction in transfers, wage bill and interest burden)
- Revenue Collection Efficiency
- Efficiency gains in current expenditure

State-Owned Enterprises

- Private sector participation (the state as a minority shareholder)
- 'Crowding In' SOEs vs. Privatisation of Other SOEs
- The Eskom Debt Solution

State Capacity and The Role of the Private Sector

- Employment Matching
- Infrastructure Provision
- Debt Markets

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I. Other

2021

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