Structural Inequality and Opportunities on the Margins

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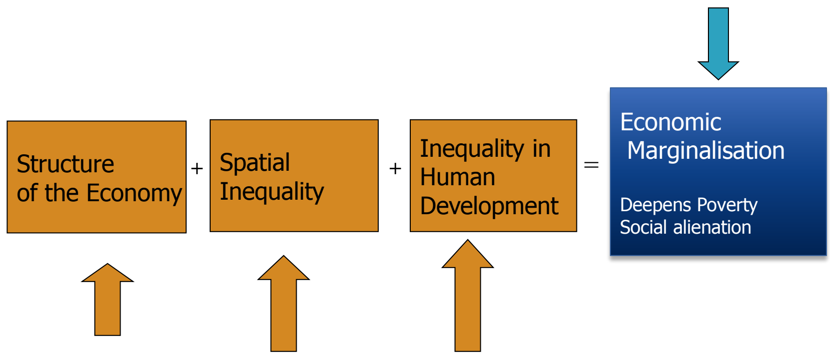
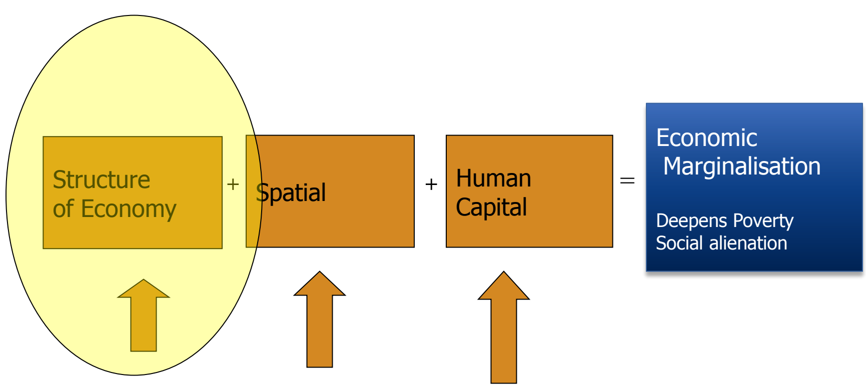
The Structural Roots of Inequality

- Inequality in South Africa is so extreme that the notion that South Africa has 'two economies' has resonated: because of what we see around us.
- What this masks, however, is the extent to which these unequal outcomes are consequences of common sets of processes within a single economy.
- Nor is economic marginalisation a function of 'disconnection'.
- An example: the 1913 Land Act was not about keeping bantustans 'separate' and disconnected from the mainstream economy; it was about forcing black people off the land and into urban labour markets: it was about connecting them to the core economy.
  - (And it worked).
- Instead, SA's high levels of economic marginalisation are a consequence of issues of power and distribution: and in particular, of key legacies of apartheid that make this inequality deeply structural.

Inequality frames economic marginalisation



- Strategies to address inequality need to frame strategies to address economic marginalisation
- SA is not a poor country. Poverty is in large part an outcome of how political power was used to impact on distribution.
- Addressing poverty – and inequality - includes the same challenge.



The focus here is on how the structure of economy impacts on opportunities on the margins.

Let's start with a key South African conundrum:

- Why is the informal sector so small (17.9%) when unemployment is so high?
- Why is the informal sector so dominated by retail? Where is small-scale manufacturing? Where are services?

- The lack of dynamic self-employment exacerbates labour market inequalities – where inequality is most manifest.

- The answers to this conundrum typically focus on these issues:
  - Skills
  - Levels of entrepreneurship
  - Access to credit, capital
  - Easy of entry, regulatory barriers

These do matter. But some of the answers ***also*** lie in understanding the impacts of structural inequality on economic opportunity on the margins

Structures of production, distribution and demand

- Markets in marginal areas are 'thin'
- Poor people buy a limited basket of consumer goods.
- Most of these are (still) mass-produced in the core economy, at a scale that makes it hard to compete on price, even taking into account the cost of distance;
- Distribution systems are efficient enough to reach even remote areas;
- Branded goods (and branded stores) provide quality assurance
- Advertising impacts on aspirations

Small scale producers have to compete in relation to price, quality and brand recognition.
It's very hard. It's not always possible.....

What about agriculture?

- There are local markets for agricultural produce: but markets are thin and returns are low here too; ‘
- The traditional approach to rural development and improving farm incomes in poor countries is to assist farmers to go up the value chain by supporting forms of agro-processing.

- But in SA: a highly-centralised, vertically-integrated agro-processing sector already exists in relation to every key staple you care to name:

  - Iwisa, Huletts, sunflower oil, tea, SASKO flour, Black Cat/ Yum Yum peanut butter, cigarettes, beer, bread, milk, cheese, mango/litchi/orange/ juice, canned goods etc.

- These value chains tend to exclude small/new/black producers – but there is still no point setting up parallel agro-processing initiatives as if these giants aren’t already occupying this market space;

- Such strategies implicitly assume a ‘dualism’ in the economy that sees first and second economies existing in parallel, rather than ‘as ‘asymmetrically interdependent’ or ‘adversely incorporated’.

A shift in focus to external markets

Many enterprise development strategies are trying to overcome the limits of local markets by targeting wider, external markets. This is happening in two main ways:

- A focus on niche/artisan products targeting higher value but relatively low volume external markets:
  - Designer craft, goats milk cheese, rooibos tea, mushrooms, essential oils, etc
- Strategies to enter high-volume low value commodity markets:
  - Timber, sugar, sunflower oil, beans, maize.

- But access into ‘external’ markets almost always entails participation in value chains….B2B transactions……
- This has much higher barriers to entry
  - And has to confront the issues of how profits and power are centralised in such chains….reproducing inequality…..

Causes of the conundrum

- There are <u>structural</u> limits on 'local production for local consumption': the classic LED model;
- There are opportunities for services (eg the taxi industry), but constraints on small scale manufacturing constrain <u>business services</u> in marginal areas.
- A 'Step-change' is required to enter into value chains: with high barriers to entry – and no ladder.
- The simplest entry point into markets involves moving cheap branded goods from the core to the margins
- But the returns are marginal.

- In sum: there is no easy entry into markets from below;
- Employment strategy cannot rely on the poor self-employing their way out of poverty.

SA faces an unusual set of challenges

Traditional strategies for developing countries usually assume:

(1) that the informal sector has the capacity to create employment at scale and formalise

(2) that the small farming sector remains a dynamic part of rural local economies, also able to supplement food security and provide a safety net function.

- However, in SA:
  - Employment creation 'from below' – through micro-enterprise or self employment – faces significant structural constraints and is a poverty trap for many;
  - SA's rural/ex-bantustan areas are deeply de-agrarianised and are unable to act as a 'shock-absorber'.

This leaves poor people in SA <u>unusually</u> dependent on wages, remittances and/or grants

But there's a social protection gap

- In a country with chronic structural unemployment – the unemployed have (almost) no social protection.
  - UIF doesn't really count
- Social grants are aimed at people who society does not expect to work: old, young, disabled.
- In the absence of alternatives, unemployed people are supported by indirect transfers from wage-earners – or social grant recipients.
  - = Dependence on 'goodwill transfers' – socially and economically disempowering.
- The cost of unemployment is a social cost: but it is mainly being carried by poor communities;
  - This has a further disequalising effect on society
  - It raises the cost of labour: not good for a labour absorptive growth path…..
  - It erodes the value of social grants in the hands of those meant to benefit.

Implications for strategy

- Strategies need to include a focus on addressing structural inequality;
  - Yes, the New Growth path starts to do so….
- What instruments are available to tackle concentration – and to change the distribution of power and profits in value chains?
- Structural change will take time – we don't have time.
- So: we need complementary strategies that enable economic participation even where markets don't……
- This requires innovation in public employment.
- Taken to scale:
  - Unlocking the economic agency of those excluded – with what effects on productivity and growth?
  - A necessary condition for structural change?
  - An instrument to address inequality?