development dialogues

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THE ACCELERATED SHARED GROWTH INITIATIVE FOR SOUTH AFRICA (ASGISA): SHIFTING GEAR TOWARDS THE POOR?

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About Development Dialogues

Development Dialogues is a joint initiative of Isandla Institute and the Open Society Foundation for South Africa. The aim of the public dialogue series is to create a space for critical reflection and dialogue among key development stakeholders in South Africa. In doing this, the organisers seek to make a (rather modest) contribution to enhancing the quality of debate in the development sector. Through *Development Dialogues*, Isandla Institute and the Open Society Foundation intend to bring about creative and constructive multi-stakeholder meeting opportunities that push stakeholders to think beyond the confines of their immediate interests and theoretical paradigms.

This monograph captures the speakers' inputs and discussions at the Development Dialogue on *'The Accelerated Shared Growth Initiative for South Africa (ASGISA): Shifting Gear Towards the Poor?*, which took place on 18 May 2006 at the Centre for the Book in Cape Town.

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REFLECTIONS BY PROF HAROON BHORAT

As is now well-known, government recently released its economic policy programme captured formally as the *Accelerated and Shared Growth Initiative for South Africa* (ASGISA). ASGISA is distinguished, relative to its two predecessors, GEAR and the RDP, by its strong emphasis on defined, and very specific growth-enhancing projects. The delivery of physical infrastructure and a detailed programme for the provision of skills are just two examples of such interventions. It is important to note, however, that in many senses ASGISA is a continuation of the GEAR strategy. Having achieved the critical need for macroeconomic stability – arguably the core of GEAR – the emphasis has now shifted within ASGISA to a more detailed programme of activities designed to deliver the holy grail of 6% growth per annum.

There is very little debate, if any, amongst economists around the notion that a high level of economic growth is essential for poverty reduction. Indeed, increased growth rates, effectively measured by rising *per capita* incomes, would appear to make this link clear and simple: if you increase economic growth, poverty levels will fall in the society. However, a more detailed assessment of experiences around the world indicates that there are two very important caveats to this generalised view that 'growth is good for the poor'. Firstly, the impact of economic growth on poverty differs significantly across countries. Hence, research from the World Bank indicates that a 2% increase in growth rates will result in a reduction in poverty ranging from 1 to 7%, depending on the country. Secondly, as incomes grow, there is a high likelihood that this will also affect the *distribution* of that income. Put differently, economic growth often brings with it some change in the levels of income inequality. When this occurs, however, and if the result is an increase in inequality, the gains from growth to the poor may in fact be reduced. Higher inequality levels from growth 'stretch' the distribution of income and in so doing dilute the impact of economic growth on poverty. Given these two caveats to the growth-poverty nexus then, the critical insight is that economic growth may be necessary, but it is certainly not a sufficient condition for poverty reduction in a society.

In many senses ASGISA is a continuation of the GEAR strategy. Having achieved the critical need for macroeconomic stability, the emphasis has now shifted to a more detailed programme of activities designed to deliver the holy grail of 6% growth per annum.

Within the above context then, it is important to determine what the experience in South Africa has been thus far. Put differently, has the positive economic growth recorded since democracy yielded a sufficient reduction in income poverty levels? Analysis of data for the period 1995-2000 (an admittedly very short and inadequate time period) suggests firstly that nominal household expenditure grew by 6.14% over this period. However, the growth in expenditure of those households living below the poverty line was only 2.29%. Hence, the growth in incomes of poor households has been significantly less than the growth for non-poor households. Ultimately, South Africa's aggregate growth in incomes has in fact been driven by households in the upper part of the distribution. This result can be more simply translated into the following: that while South Africa did experience a growth in incomes for all households, rich households gained more than poor households, resulting in a growth path that was not *pro-poor* in nature.

Closer inspection of this empirical result indicates furthermore that over this 1995-2000 period, while the increase in household incomes did in fact reduce poverty levels, it also had the simultaneous effect of increasing income inequality. This is of course implicit in the notion that the incomes of the rich have been rising faster than those of the poor. However, the undesired effect of this rising income inequality was to erode any growth benefits to the poor and ultimately yielded no change in national poverty levels. Rising income inequality therefore can result in a high growth rate delivering deleterious welfare outcomes. For South Africa, with already high levels of income inequality, this is a key, early lesson that it is not only the 6% growth target that matters, but also the *nature* of this growth path that gets us to 6%.

While South Africa has experienced a growth in incomes for all households, rich households have gained more than poor households, resulting in a growth path that is not *pro-poor* in nature.

South Africa has a deep social security system that ensures a high level of protection to those individuals and households excluded from the growth process.

While the challenge for government remains in terms of delivering a shared growth path, it is true that a large part of their programme is already in place. In particular, two key elements of welfare enhancement are existent. The first of these is government's – by all reasonable and careful accounts – spectacular delivery of assets and services to the poor since 1994. This alone has assisted in dramatically reducing non-income poverty and inequality. Secondly, one of the key elements of a shared growth vision, and indeed one that will assist in ameliorating the consequences of a biased growth path, is the provision of an adequate social safety net. For a middle income country, South Africa has a very deep social security system that ensures a high level of protection to those individuals and households excluded from the growth process.

Ultimately though, government's impact on the nature of South Africa's growth path, on its own, has significant limitations. A carefully crafted compact in a variety of different arenas with business and labour may get us closer to the vision of a 6% shared growth path.

REFLECTIONS BY MOHAU PHEKO

The Minister of Trade and Industry Alec Erwin, speaking to business leaders last week, was at great pains to explain that those who want to benefit from the infrastructural programmes that are going to come out of ASGISA need to be competitive internationally. He went out of his way to say that we, black business people in particular, should not expect any concessions whatsoever. We must become smart, we must come up to international standards and be competitive and not use our PDI (previously disadvantaged individual) status and BEE (black economic empowerment) ticket to take advantage of these wonderful infrastructural programmes.

In the State of the Nation Address this year the President told the nation that ASGISA succeeds in its purpose which includes the reduction of unemployment levels. He went on to say in the same speech that ASGISA is not intended to cover all elements of a development plan. Rather, it consists of a limited set of interventions that are intended to serve as a catalyst to accelerated and shared growth and development. Now I am a little bit confused. Is ASGISA supposed to reduce unemployment? Is ASGISA for previously disadvantaged people? Are they supposed to live up to an international level of competitiveness in order to engage with this process?

ASGISA means different things to different people.

Clearly, ASGISA means different things to different people. Some say the private sector will solve all the unemployment problems. Minister Erwin says we need to become more internationally competitive, while the President says that ASGISA will reduce unemployment and that it is a catalyst.

In August 2003 President Mbeki characterised South Africa as having a first economy and a second economy that operate side by side. I believe that ASGISA is drawn from the perspective of this first and second economy dichotomy. The President argued that the second economy, or the marginalised economy, is characterised by underdevelopment; it contributes little to the Gross Domestic Product (which I think is a myth); it contains a big percentage of our population and incorporates the poorest of our rural and urban poor; it is structurally disconnected from both the first and the global economy (which is another myth) and is incapable of self-generated growth and development.

This idea of a 'second economy' has become the new mantra of policy rhetoric and it is very worrisome. The debate about South Africa's dual economy is an old one dating back to the early 1970s. It is not a new debate that the President is offering. The apartheid state liberals argued that capitalism would eventually undermine apartheid as more Africans would come in from the periphery to be integrated into the mainstream economy. Marxists like Wolpe argued that the relationship between the mainstream economy and the Africans on the periphery was exploitative. Now why would the President resuscitate this debate now? Why would he speak of this concept of a second and first economy, instead of the dichotomy of the formal and informal economy? I think these are critical questions, because they may help us understand the underlying reason for ASGISA and the manner in which government is trying to refocus economic policy in South Africa.

I offer the following and I hope that we can debate some of the issues. I think that ASGISA as a programme reflects government's inability to face up to the flawed structural distortions of the South African economy in its entirety. I also believe that the current patterns of growth and ownership of the means of production, such as land, capital and assets, contribute to poverty and unemployment, and that the government is unable to acknowledge this. I think that interventions like ASGISA will continue to force government to perform contortions to accommodate both this 'first world economy', which is somehow integrated into the global economy, while applying an interventionist developmental state to the 'second economy', but in the same country. I do not know how one juggles these two notions – in my view, it is rather schizophrenic. I am a bit confused about which one precedes the other and which one takes priority.

If government continues to believe its well-oiled propaganda machinery around accommodating a dual economy, I do not think we will see accelerated shared growth. I actually think we will see deeper poverty as the formal economy fails to be labour absorbing and squeezes out those whom it considers to be surplus. They say we have too many workers in the country, we cannot regulate them, they are asking for too much money and we have got to squeeze them out so that the first economy can survive.

ASGISA as a programme reflects government's inability to face up to the flawed structural distortions of the South African economy in its entirety.

But ASGISA must also serve as a bridge that helps those from the 'second economy' to walk across to the 'first economy'. This dualism has in fact given government a way to congratulate itself by arguing that the economic policies it has put in place are very successful – and indeed they have been for the 'first economy' – and that, as a result, government is now able to address issues of poverty and unemployment in the 'second economy'.

The government refers to the 'second economy' without really defining it very well. I looked up what the second economy is, and there are people with a long history of looking at these issues who may be able to give us a better definition. I discovered the term was actually coined by a Hungarian social scientist, referring to part-time work that people did outside their regular work. In other words, people who had a full-time job, but who worked elsewhere to earn some extra money. This was not considered illegal, which is the way it has been put in the current discourse of policy making in this country.

I think the critical weakness of government policy is one of perception. It has wrong perceptions about what this 'second economy' is and it creates very serious problems, because what comes out are very wrong policies on how to resolve the problems of this 'second economy'.

ASGISA starts from a premise that millions of people are locked out of this excellent 'first world economy' and they need to be brought on board. And, in order to do this, the state needs to provide public works programmes that will guarantee these

We are supposed to be beguiled and seduced by ASGISA into believing that capitalism can be made to work for the poor.

huge infrastructural projects that unlock the door so that those in the 'second economy' can start at least taking a small peek into the 'first economy' and eventually land in this 'first economy'. I think that it is also using some of the notions of Peruvian economist Hernando de Soto's very influential book "The Mystery of Capital", and that we are supposed to be beguiled and seduced by ASGISA into believing that capitalism can be made to work for the poor. In my view, this is the underlying message of ASGISA: If you want to participate in this liberal economy from the 'second economy', here is a new ASGISA bridge that you can cross that lands you in the 'first economy'.

It also attempts to formalise small business by saying that if you can get the markets to be a little bit friendly to these small business people, then you can begin to stimulate the way that they do business and they can begin to become more competitive and can participate in the 'first economy'. But we never define what we meant by markets – what type of market, for example, the informal sector might need in order to participate effectively. There are so many schemes for formalising credit in order for women to participate in tourism and set up these marvellous bed and breakfasts across the country and compete for tourists. They need skills that will enable them to participate in this first economy, but these skills are not identified according to a very clearly stated industrial strategy that tells us how we are going to grow this country and where we are going in terms of a vision of industrialisation.

In that sense ASGISA is a catalyst that can bring the big money and capital and potential alive in this 'second economy', which is considered bad and somehow needs to be resuscitated out of the grave. If only we can get them working and plough them back into the 'first economy' by stimulating this 'second economy', the country can then begin to enjoy accelerated and shared growth of 6%.

But the formal economy – the President's first economy – operates in manner that exploits workers, the poor, and actually exacerbates unemployment. We need to look at the structural nature of that particular economy in order to transform it and ensure that it works as a bridge between formal and informal, and not dichotomise it as two countries with two different economies that we need to somehow economically manage. I think that the first economy, with ASGISA as the bridge, will not create any jobs, because the first economy is not about labour-intensive absorbing work. Rather, it is about job shedding.

I am left with the sense that we can now somehow sort out the 'second economy' so that these policies that we have put in place begin to work. Somehow the 'second economy' is considered a scar on South Africa's economy and we cannot keep shovelling out special grants to make people survive – almost as if it is terrible, a sin, to assist people who are falling out of the social security safety net in this country.

The 'second economy' is considered a scar on South Africa's economy.

I would argue that we need to have a debate about new ways of creating growth. We need to discuss what type of growth we need that actually produces jobs, not growth that produces joblessness. What kind of growth pattern does South Africa need? What type of markets what distribution mechanisms to distribute wealth in this country do we need? And how do we ensure the means of production that build solidarity and patriotism? I think that if we continue to go along the lines of this accelerated growth, we will certainly have growth, but I certainly doubt that it will be shared by all.

DISCUSSION

AFTER THE INPUTS, THE FLOOR WAS OPEN FOR QUESTIONS AND COMMENTS. ISSUES THAT WERE RAISED INCLUDED:

- If one assumes that economic growth comes from the private sector, what would be the role of government, and what redistributive mechanisms have made a difference to reduce levels of poverty?
- Whether there is a shortage of skills is debatable, given the high levels of unemployed people with skills and educational qualifications in the country. We need to be more explicit where the supposed skills shortage is.
- Not enough attention is given to the role of taxation in reducing income inequality and poverty.
- Spatial inequality is often not recognised as a factor contributing to poverty, yet spatial location and access to opportunities clearly have direct relevance to poverty.
- Giving people access to capital through housing is not providing the hoped for stimulus for entrepreneurial activity.
- Why have we not seen a second revolution given the fact that the current economic path is not working for the majority of South Africans?
- If there is a gap between the second economy and the kind of major infrastructural projects supported by ASGISA, it is important to identify what can be done to fill that gap, especially at local government level.
- In critically reflecting on initiatives like ASGISA and on GEAR, it is important to present credible alternatives, not just to critique.

IN RESPONSE THE SPEAKERS MADE SOME CONCLUDING COMMENTS:

Haroon Bhorat

The government has adopted redistributive measures like investments in the health and education sectors, housing and free basic services. Income transfers have been the most effective in addressing poverty. Since 2000 the Child Support Grant has been established, which has had a marked effect on reducing poverty. In comparison to some middle-income countries, South Africa has quite a deep social security net, which possibly helps to explain why there has not been a second revolution, despite such high levels of unemployment.

On the issue of a skills deficit, research for the Joint Initiative on Priority Skills and Acquisition (JIPSA) has revealed that there are about 80,000 unemployed graduates in the country. But the skills and qualifications of these graduates do not match the needs in various sectors and industries. The skills requirements vary, depending on the sector involved, but in general there is a very real skills deficit in middle to senior levels in both management and technical areas. In other words, there is no question that there is a skills shortage in the country.

There is also no doubt that spatial inequality has a negative impact on poverty and on the nature of livelihoods. For example, spatial location directly influences the percentage of income spent on transport to work and on sending children to better schools in other areas.

Mohau Pheko

Alternatives to the current economic path are not sufficiently explored and in general people buy into a way of thinking to the exclusion of other ideas. A key problem is that we have not begun to untangle the structural nature of our economy, which is not conducive to anyone who is deemed not to fit. There is also no open discussion about cartels in the market. Instead, the question posed is how people can be allowed to participate in these cartels, rather than how these cartels can be dismantled.

The rise of social movements, with over 900 protests against lack of service delivery last year, shows that things are not working. But clearly there is a need for civil society to move beyond protest to putting forward alternatives that can be debated. The current piecemeal approach offered by the government is not the kind of clear development plan that is needed to tackle social and economic exclusion over the next two to three decades.

In terms of the impact of taxation on poverty, issues like land distribution and alternatives to VAT, which weigh much more heavily on the poor as a percentage of income, are not taken seriously enough.

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CENTRE FOR THE BOOK, CAPE TOWN

ABOUT THE PANEL:

PROFESSOR HAROON BHORAT is an Associate Professor of Economics and Director of the Development Policy Research Unit at the University of Cape Town, he has published extensively both here and abroad on poverty, income distribution and global market issues. He's done extensive work for numerous South African organisations as well as government departments, particularly the South African Department of Labour, the Presidency and the National Treasury. He is a member of the Technical Working Group of JIPSA, the Joint Initiative on Priority Skills and Acquisition, an initiative of the Deputy President, which is a working project in support of ASGISA. Since March 2006, he has served on the Presidential Economic Advisory Panel.

MS MOHAU PHEKO is the Coordinator of the Gender & Trade Network in Africa.

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