

# THE MANDELA INITIATIVE

*Dialogue and action to overcome poverty and inequality*

A summary of research undertaken for the Mandela Initiative, May 2017  
Supported by the Department of Science and Technology and National Research Foundation

## Overcoming inequality in South Africa: Thinking “outside of the box”

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### About the project:

It has been generally recognised within the deliberations of this Community of Practice (CoP) that the key organising concept of our work is has been to make an aggregate contribution to tackling South Africa’s inequality issues. This project is directed at consolidating international evidence on strategies to overcome inequality for the CoP, working with the community to fashion our own framework and to consolidating the detailed work of the CoP within this framework.

### Context:

From three centuries of colonialism and then more than a half a century of apartheid, South Africa inherited a pernicious inequality legacy from policies that intentionally created extreme inequality in every dimension of human wellbeing. Hence, inequality – alongside poverty – has always been a policy priority of the post-apartheid state. Yet, it is not clear that the commitment to dealing with inequality has translated into specific policy interventions beyond those directed at overcoming poverty. Our post-apartheid record is clear: We have not made progress in bringing down inequality and we have not been successful in breaking the structural legacy.

This unsystematic approach to dealing with inequality is somewhat understandable. International policy literature about the key prongs of an anti-inequality project was sparse until very recently – in sharp contrast to the well-developed literature on anti-poverty policies that we have leaned on in post-apartheid policy making. Even today, the international literature has made some theoretical progress but is still very unsettled on key policies. Our thinking and our post-apartheid policies are very much in line with the international corpus. No obvious gaps emerge, even with regard to Brazil and Latin America. Indeed, we seem to be doing many things right, but without the same results.

Against the context of our lack of success in reducing inequality in South Africa, and the lack of clear guidance from the international literature, we find in the final work of Anthony Atkinson a potentially useful framework for taking us forward.



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## Findings to date: Thinking outside the box – the Atkinson framework

After a lifetime of engaging with policies to address inequality, Anthony Atkinson realised that the international research and policy community had not really come to grips with addressing inequality. It seemed to him that the focus of policy thinking was mostly on a standard set of policies that target earned income, capital income, and disposable income:

- **Earned income** inequality is targeted by promoting and protecting employment, and the promotion of *minimum wages* to improve earnings for those in the labour market.
- **Capital income** is traditionally managed with *savings incentives* and *taxation on inheritance*.
- **Disposable income** inequality is managed with progressive *income taxation*, *social insurance* and *means-tested transfers*.

There is a huge literature on each of these prongs and the best policy options within them. They are each important and, in South Africa, it should be possible to design good and effective versions of each, and configurations of all three. Indeed, we already have a very good set of policies in place to deal with earned income and disposable income. Nonetheless, in South Africa and elsewhere the evidence suggests that this established matrix has not shifted the dial on inequality.

Atkinson labels these standard policies as being “inside the box”. By drawing on his huge experience, he tabled a less conventional and established set of areas/policies that are not part of the standard menu but that seem to require serious consideration to tackle contemporary inequality. These policies are “outside of the box”, and we briefly summarise them in relation to the diagram on the next page.

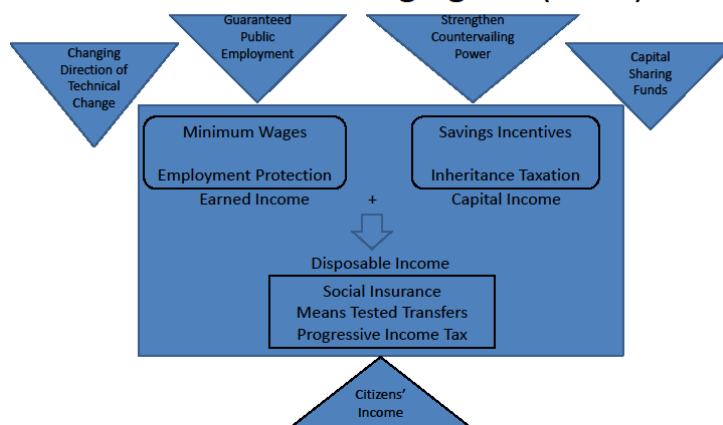


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## Thinking Outside the Box Atkinson and Bourguignon (2016)



(BOURGUIGNON & ATKINSON, 2015), (Atkinson 2015)

**Labour for technical change:** Participation in the globalised world puts a country in an environment of labour-replacing and skill-intensive technology. Staying linked to the international economy, however, does not mean giving up on promoting employment-intensive growth. For example, public investment and industrial policy can be used to encourage technical progress which favours labour rather than capital, and an employment-intensive growth path. Atkinson points out that countries are making choices, sometimes implicitly and often in favour of capital, even if they argue for neutrality or that there is nothing that they can do in the globalised world.

**Guaranteed public employment:** The contemporary world is one with a skills twist that favours skilled over unskilled labour. This has changed the nature of unemployment in many countries, including South Africa, and policies directed at frictional unemployment seem old-worldly and misplaced. *Guaranteed public employment for all job-seekers at the minimum wage* has to be up for discussion on the South African policy menu. The state could, and arguably should, act as an employer of last resort, analogous to being a lender of last resort in financial markets. Such policies are already carried out in India and the United States.

**Strengthening countervailing power:** Internationally, behavioural models of employment have suggested that wages paid at equilibrium are partially determined by social norms as well as by bargaining power. *Social partners who influence norms and strengthen bargaining power can be used to counteract the one-sided power of large capital holders.* This should improve equity for



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wages and can be coupled with efforts to dismantle monopolistic pricing regimes. It is about institutions that mediate economic power. In South Africa, the Competition Commission and NEDLAC would be institutions operating in this space.

**Capital sharing funds:** This idea addresses the nature of contemporary unemployment, and in particular the burden that is placed on youth, who need to be able to transition successfully out of basic education into adult citizenship or higher education or the labour market. Thus, the proposal is for a *state-guaranteed minimum endowment payable to youth* at age 18 or 21. This could be funded through methods like sovereign wealth funds, helping to reduce inequality arising from the returns to capital. This guaranteed income can be seen as a floor income to launch youth into active participation as citizens – and so is a societal intervention to damp persistent intergenerational inequality. Atkinson suggests that revenue from inheritance tax is used to (part) fund this income.

**Citizen's income:** At the bottom of the diagram, underneath the standard social protection measures, is the suggestion that contemporary society needs to guarantee a *citizen's income or a participation income*. This is a guaranteed minimum paid out on the condition of some sort of economic participation, past or present, which includes caring for dependants and being available to work if the government requires. It is an unconditional transfer to all and resonates closely with South African discussion around a Basic Income Grant.

## Significance of the framework and wider policy application for South Africa

There is much that is of use in this “thinking-outside-the-box” framework:

**The labour market:** By building some outside-of-the-box thinking into our current policy matrix, two important examples need to be flagged:

- Piloting employment guarantee schemes acknowledge that, given the disastrous consequences of youth unemployment, we cannot allow our labour market to fail. We need to innovate beyond public works programmes. *Our policy experience with variants of public works programmes can be placed alongside our piloting of guaranteed employment programmes to craft substantive, impactful sets of interventions.* One option from international experience in which there has only been preliminary thinking in South Africa is a national youth service programme.
- Our formal sector inherited and remains characterised by ossified and uncompetitive value chains in spite of active competition policy This situation is a key blockage for new entrants,



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inclusivity and innovation. It requires *promoting an inclusive labour market which includes an integrated approach to formal–informal sector interactions* as the informal sector is part of the value chain and needs to be conceptualised as such.

**A balanced menu of policies:** The country is busy putting in place a balanced menu of policies that seek to cheapen labour to employers through wage subsidies whilst putting a floor on the wages for workers through a national minimum wage. Our policy review endorses these policies and this balance. *Other prongs of labour market entry, such as internship policies, need to be harmonised within this approach* to ensure clarity and coherence.

**Structural issues:** Some harder structural issues of inequality in South Africa revolve around *access to land, housing and infrastructure such as public transport*. The distribution of these private assets and access to public goods like transport still perpetuate inequality, severely constrain people’s livelihoods and, as a result, distort our potential and limit the effectiveness of other policies. Policy discussions need to acknowledge these normative dimensions and the need to *tackle redistribution by focusing, at a minimum, on interventions to increase access to land, housing and transport of adequate quantity and quality* to collectively break the persistence of inequality.

**Complementarity:** There is no doubt that a virtuous dynamic to turn the tide on inequality requires a *complementary mix of inside-the-box and outside-the-box interventions*. In recognising this, the notion of ‘binding policy constraints’, such as the well-documented failures of education and some health policies, needs to be exchanged for the notion of ‘limiting constraints’. This means *acting on the urgent imperative to hone and implement social expenditure policies at the same time as we are tackling the failures of education, health and other social policies*.

Tackling inequality is complicated and politically contentious. The art is to table well-motivated redistributory policies that are designed to empower and break constraints, alongside a commitment to strengthening the effectiveness of what we already have in place.

For more on the Mandela Initiative research projects, see:

[www.mandelainitiative.org.za/research/research-areas-themes.html](http://www.mandelainitiative.org.za/research/research-areas-themes.html)

