

Institutionalising the pursuit of inclusive growth

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Introduction

- TOR: The way forward
 - Towards and effective and efficient economic and structural transformation of the country for sustainable and inclusive development
 - A framework for operationalizing and institutionalizing policy proposals to accelerate the achievement of economic transformation and inclusive development in the country.



Key question as I understood it:

Are we able to institutionalise the quest
for inclusive growth?

Introduction

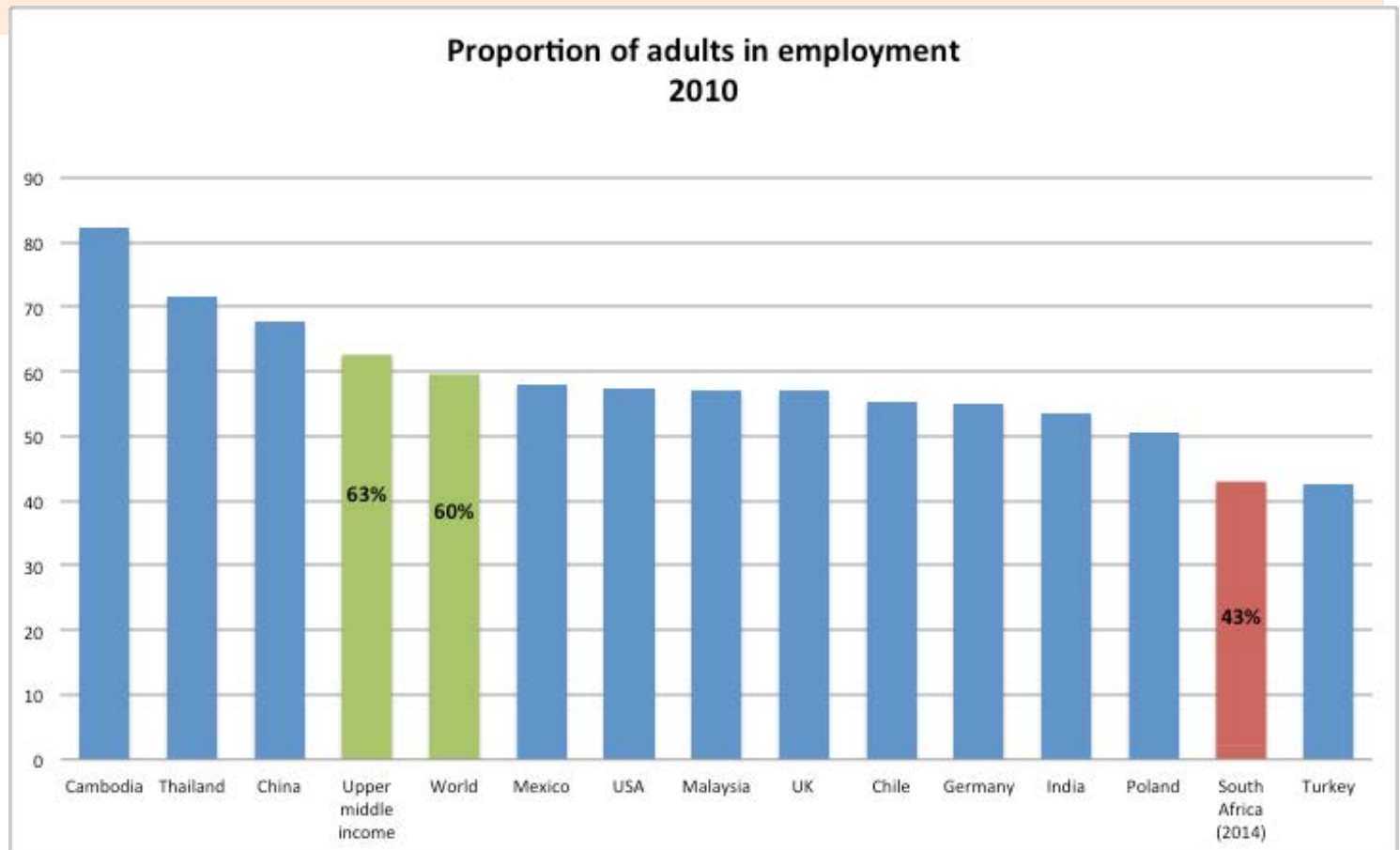
- Two versions of “inclusive growth”
 - Growth happens and inclusion is “purchased” afterwards by redistributing the fruits of growth
and/or
 - Growth includes people in the growth process itself
 - People participate in new economic activities or economic activities that become more productive
- Both have merit and each is necessary, but latter is superior along many dimensions

Introduction

- Basic conclusion:
 - Distinguish between *deepening inclusion* (improving the terms of inclusion) and *broadening inclusion* (widening the reach of inclusion)
 - SA policy is better at *deepening* inclusion than *broadening*
 - Although we have developed elaborate system of redistribution to moderate this
 - Plausible case that some institutions actively narrow the inclusivity of economic activity

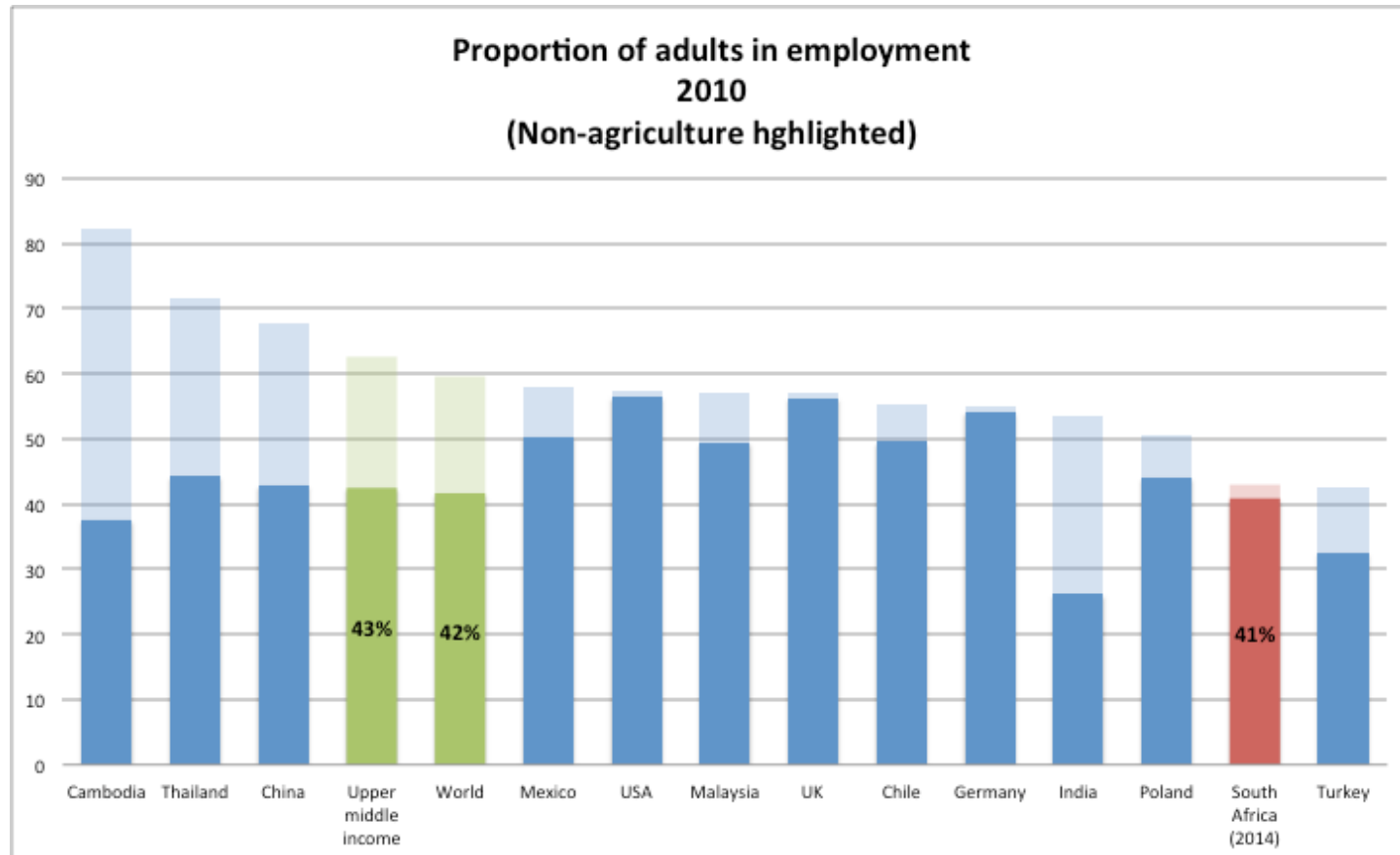
Inclusive growth in SA is all about jobs

Employment rates is among lowest in the world.



Inclusive growth in SA is all about jobs

... the key gap in the labour market is the absence of agricultural employment (much of which is low productivity)



SA's three options for inclusive growth

- Build a much larger agricultural sector
- Build an exceptionally large non-agricultural economy
- Build a social safety net

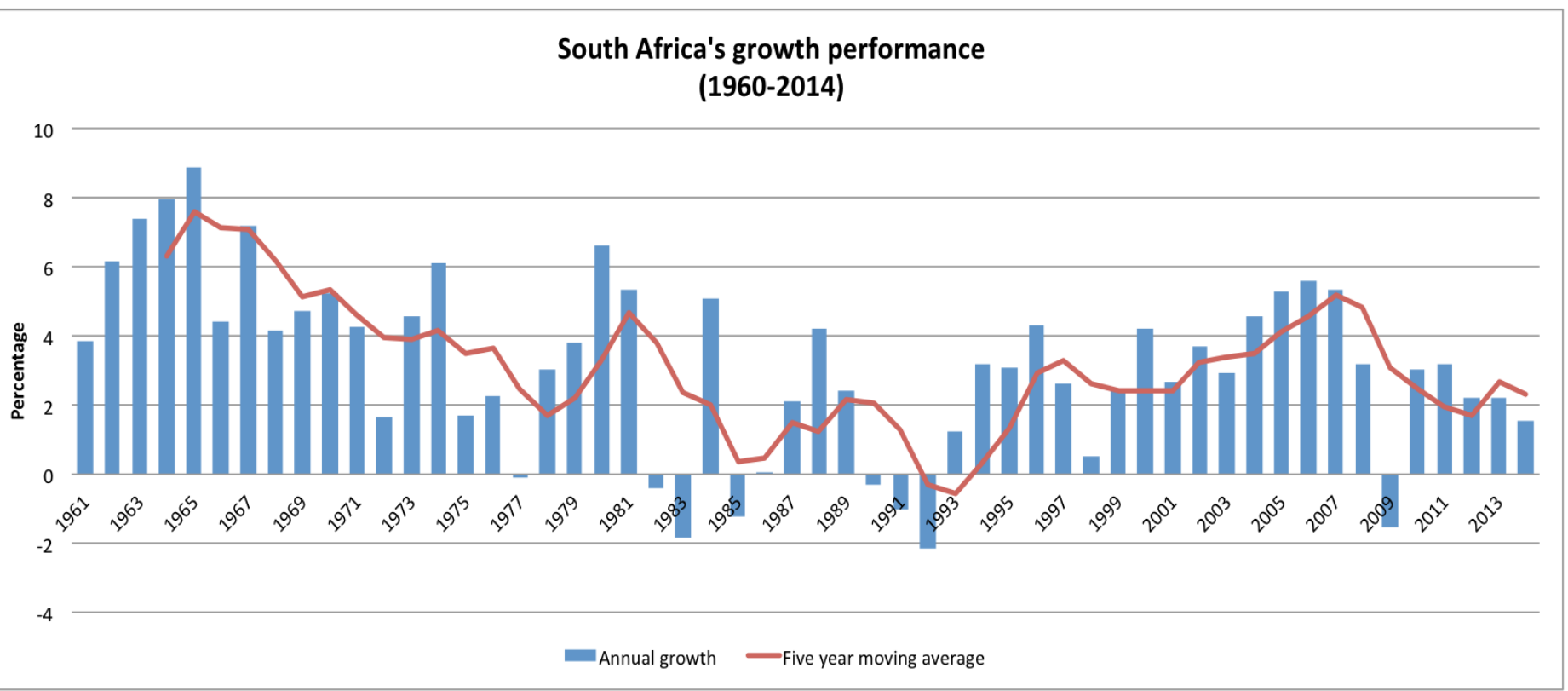
The NDP's approach

- Inclusion through strengthened social safety net, but, mostly...
- Inclusion through employment creation
 - 11 million jobs by 2030
 - 3.5%pa growth
 - Employment elasticity of growth = 0.6
 - Growth of 5.4% pa
- What kind of jobs? Non-agricultural

“In the short to medium term, most jobs are likely to be created in small, often service-oriented businesses aimed at a market of larger firms and households with income.”

Two problems with the NDP's approach

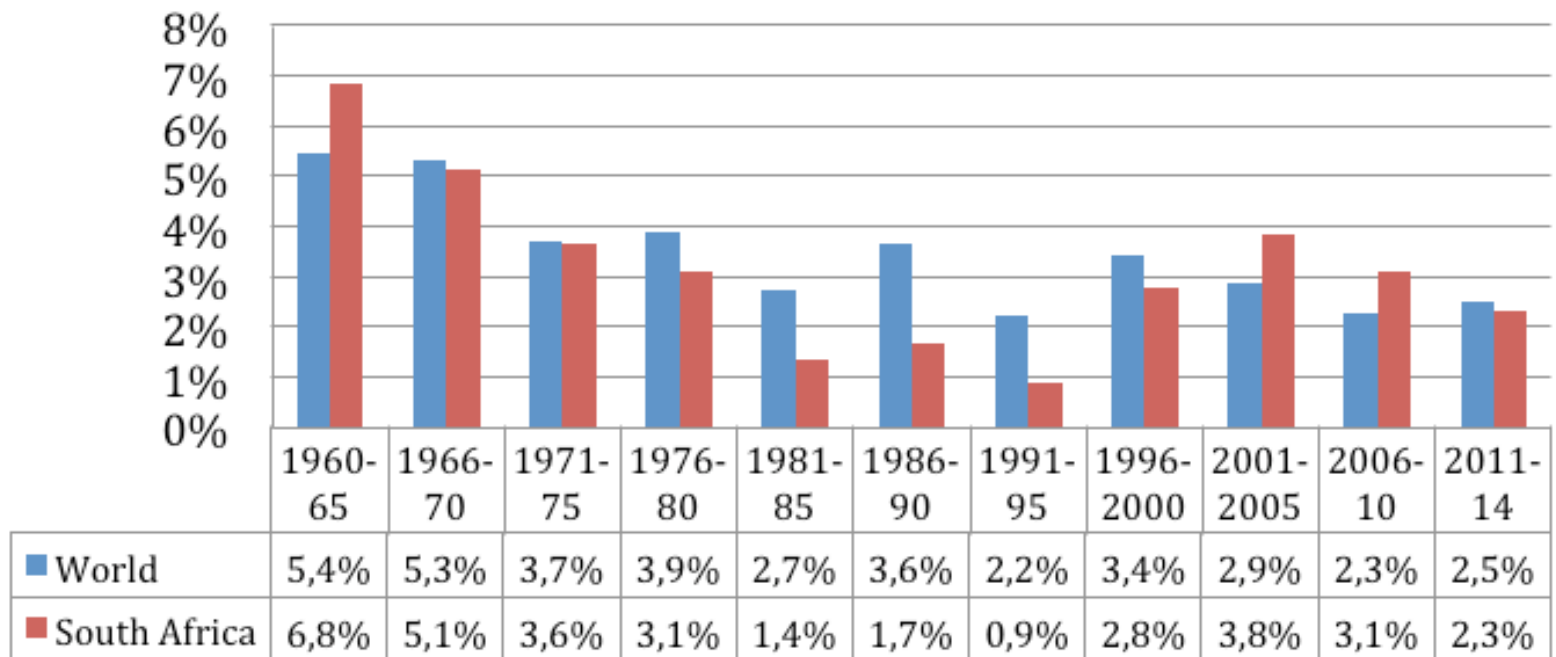
- Is the growth assumption realistic (1)?



Two problems with the NDP's approach

- Is the growth assumption realistic (2)?

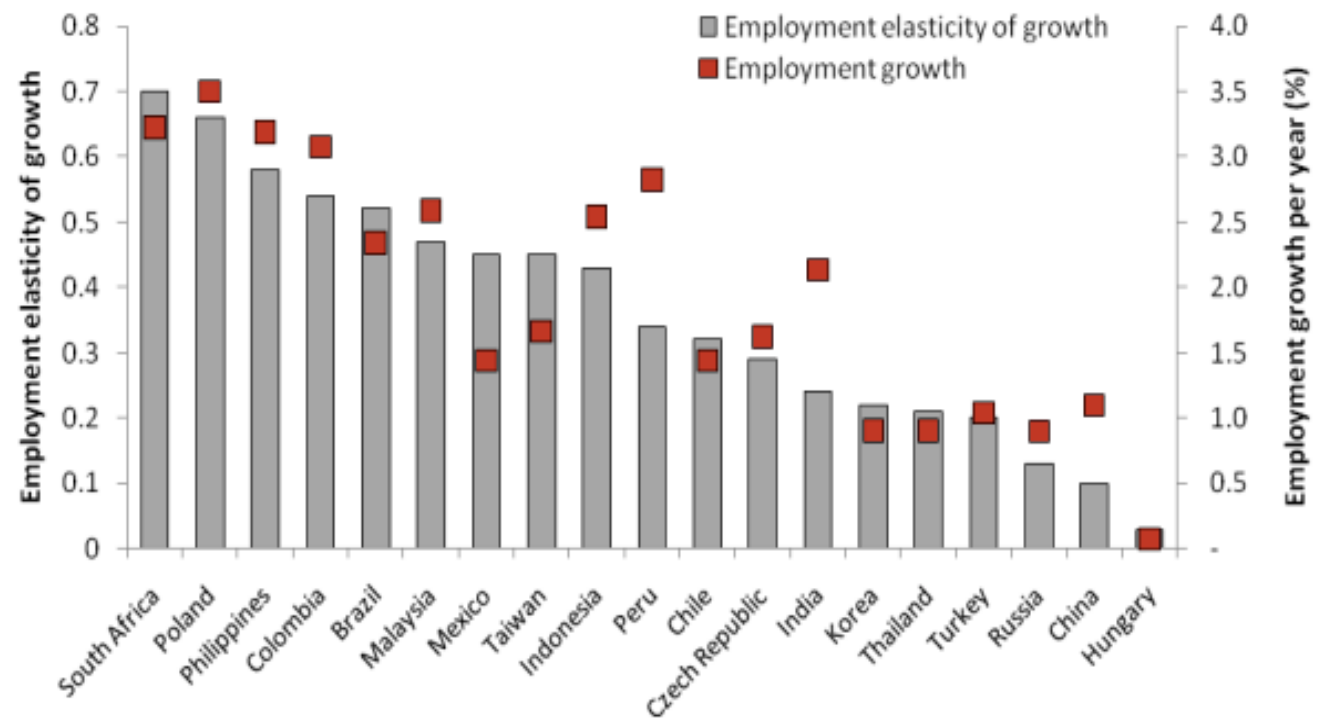
**Growth: South Africa v World
(1960 to 2014)**



Two problems with the NDP's approach

- Is the employment elasticity of growth assumption realistic?

Figure 7: Employment growth and the employment elasticity of growth, 2004-08



Source: ILO (Key Indicators of the Labour Market, 6th Ed.), Statistics South Africa

Problems with the NDP's approach

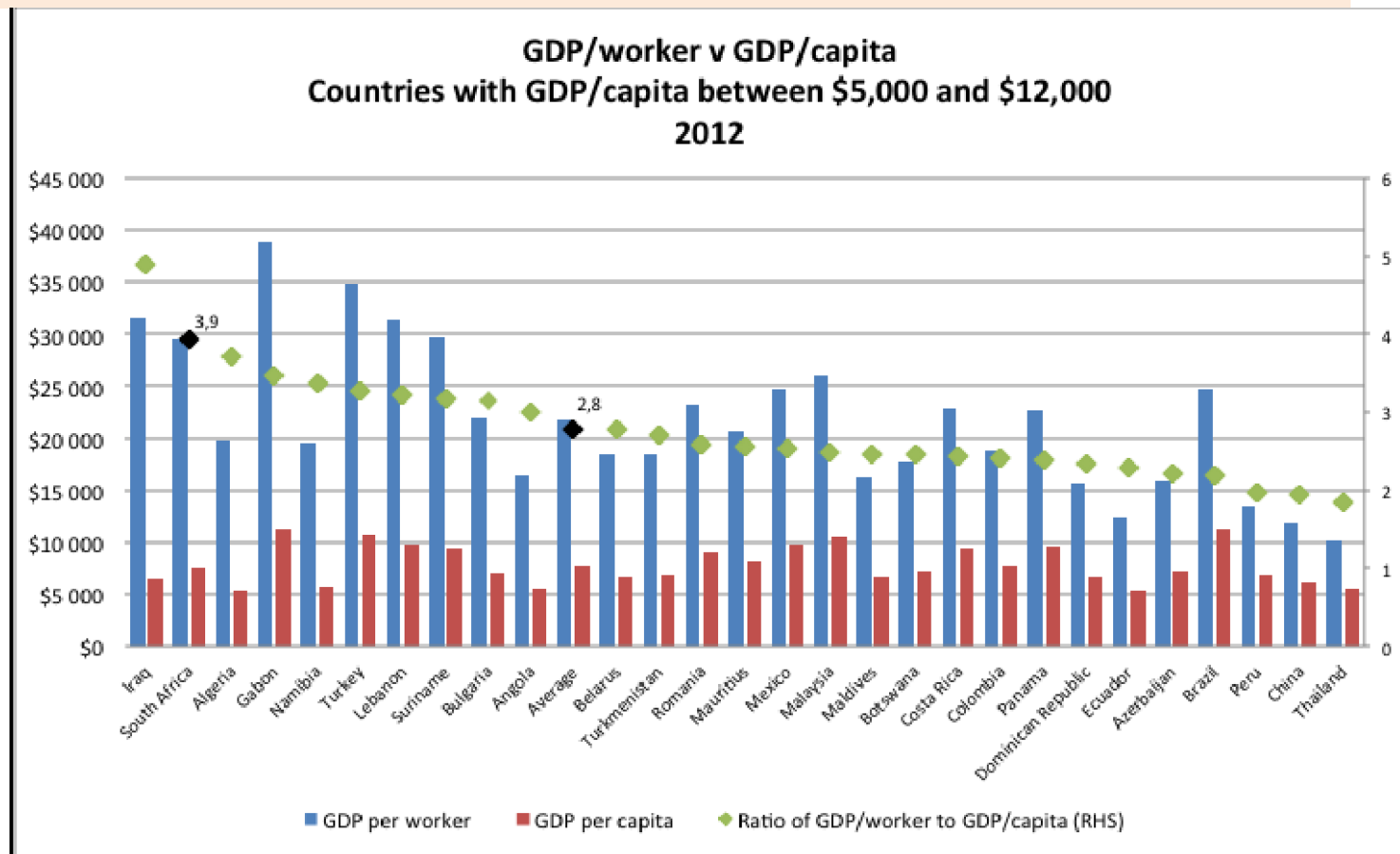
- Bottom line
 - Growth assumption is unrealistic
 - And even if we achieved it, we wouldn't get 11 million jobs



What does this mean for institutionalising inclusive growth?

Why the NDP goes wrong

- SA jobs have unusually high ave. productivity



Why the NDP goes wrong

- High average productivity:
 - Endowments and comparative advantages
 - Apartheid shapes conventions and expectations re income
 - Absence of low-productivity agricultural activities
 - Policy choices re labour market and IP

Labour market outcomes

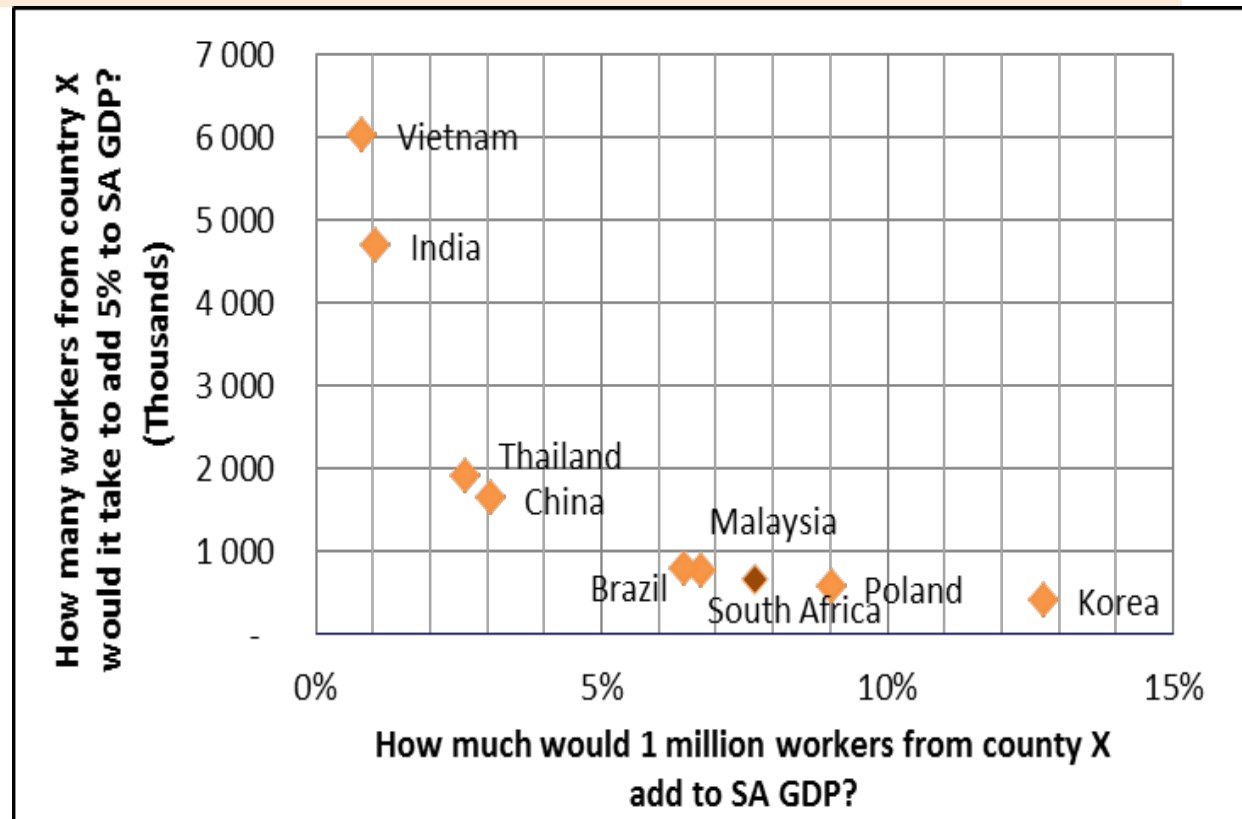
- Effect: Profile of economic activity shifts towards more capital- and skill-intensive sectors and (within sectors) firms
- Effect: Tight market for skilled workers
 - Low unemployment
 - High and rising wages
- Effect: Loss of jobs at the bottom
 - Agriculture, mining, labour-intensive manufacturing

Hence...

- SA has deepened inclusion of the skilled/employed but narrowed the base
 - This is both about endowments/history and policy
- Partially offset by expansion of safety net
 - BUT: Poverty rate makes this implausible strategy for inclusion
 - BUT: How much of measured redistribution is actually redistribution to the poor?

So what must we do?

- Including people in the process of growth means expanding low-productivity jobs
- Which means less growth, but more labour-intensity



Is this really plausible?

- SA has no revealed comparative advantage in low-productivity tradables
- To the extent SA had low-wage growth path in past, it relied on apartheid to make it possible
- Global shifts in comparative advantage have worsened our position
- We should definitely stop making things worse!

Conclusion

- No real strategy for inclusive growth
 - Our redistributive strategies face challenges of plausibility (and this is second best anyway)
 - Approach to economic development (and lab mkt) deepens rather than broadens inclusion
- So, to answer the question:
 - We can't institutionalise the pursuit of inclusive growth without a plausible strategy to achieve it