

## **Radical economic transformation and inclusive growth: A provincial perspective**

The notion of radical economic transformation gained prominence with the announcement by Pres Zuma in the January 8 speech of the ANC that South Africa needs radical economic transformation. The notion has since been repeated in various forums, including the national budget speech.

The challenge is that no general understanding of the concept radical economic transformation exists as it was never defined officially. Statements on radical economic transformation included growth being more inclusive, the redistribution of land and addressing the use of the “monopoly capital”.

The same challenges exist with the definition of inclusive growth. It is often confused with pro-poor growth or broad-based growth. (Fourie, 2014). According to Fourie the UNDP has included issues like employment, inequality and poverty in their definition of inclusive growth.

In the first part of the paper an overview will be provided of the different definitions of inclusive growth. Other issues that will also be considered is the prerequisites for inclusive growth as well as the benefits of implementing inclusive growth. It is also important that the social policy to promote more inclusive growth should not hamper the level of economic growth in South Africa.

In the second part of the paper the results of the calculation of the derivative Inclusiveness Index for Limpopo and South Africa will be reported on. The methodology that will be employed is that of Ramos *et al* (2013). The three key variables that will be used is poverty, inequality and the absorption rate. The results will be verified against the GDP per capita.

In conclusion the paper will express itself on the usefulness and limitations of inclusive growth as a possible first formulation of the meaning of radical economic transformation.

### **Measuring the level of inclusive growth in an economy**

Ramos again highlights the fact that no common definition for inclusive growth managed to be agreed on since the rise in prominence after the turn of the century. This debate on the definition of inclusive growth has led to another challenge and that is to measure the level of inclusive growth in a specific country. Since the measurement of inclusive growth is also link to the conceptualization of inclusive growth the results of the measurement will also depend on the definition that is used. The different variables that will be measured also depends on the definition of inclusive growth.

Despite these differences in terms of defining inclusive growth, it a generally agreed that certain measures of poverty, inequality and income forms part of the variables that should be measured to determine the level of inclusive growth in an economy.

According to studies of the patterns of growth studied the poverty elasticity of growth. A big debate is on whether it is more beneficial to use a single measure for growth or a multidimensional measure for growth. **The concern with contemplating multiple dimensions explicitly or implicitly embeds the notion that inclusiveness involves both participation in and benefitting from growth, as conceptualised by Kakwani and Pernia (2000). Benefits refer to outcomes, whereas participation refers to process.** On the other hand income poverty and inequality refers to the distribution of the benefits of growth.

Ramos quotes various studies that also investigated the societal implications on the way growth takes place. These studies highlight productive employment as a meaning full way to participate in the growth process.

Based on these debates Ramos used an analysis that included three core aspects of inclusiveness namely poverty and inequality as outcome dimensions and employment as a dimension pertaining more centrally to process but also accounting for outcome. Ramos used these measures to indicate the changes in inclusive growth in 43 developing countries from the mid 1990's until ten year later.

In the next section an overview will be provided on the results of Ramos. South Africa was one of the 43 countries evaluated that showed limited progress on the level of inclusive growth.

The level of inclusive growth will then be calculated for the 9 provinces in South Africa. These calculations will be evaluated against the overall performance of South Africa.

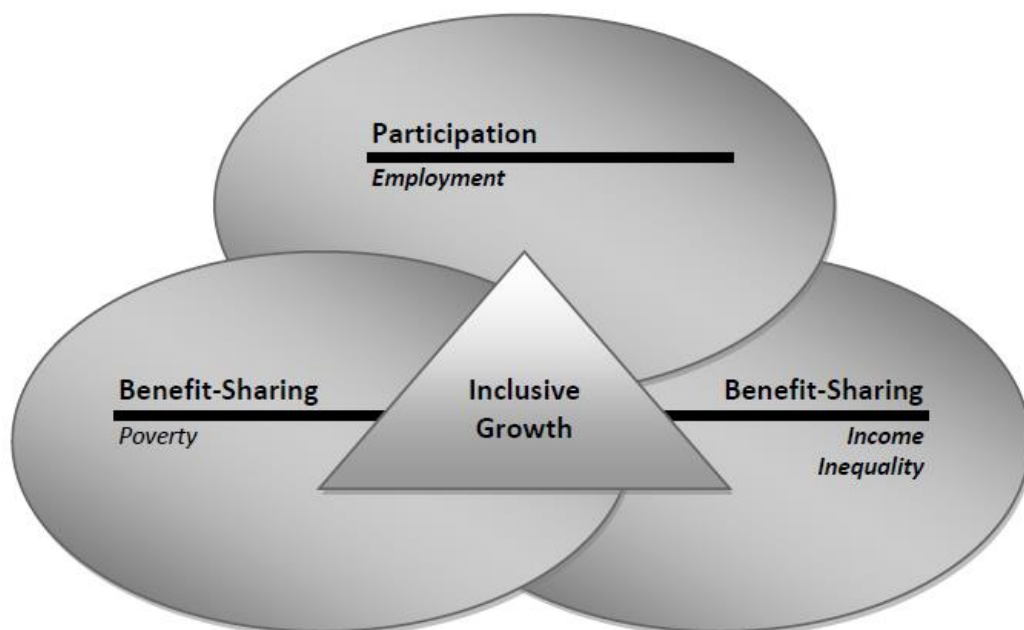
### **Overview of the results of the Ramos study.**

The Ramos analysis of inclusive growth is investigating the level of inclusiveness that was created by economic growth and not only the level of economic growth on its own.

The analysis was conducted on two dimensions of inclusive growth namely participation and benefit sharing.

The two dimensions and corresponding variables that was used to measure it is indicated in Fig 1

Fig 1 The two dimensions of inclusive growth



Source Ramos

In fig 1 it can be seen that inclusive growth was measured by two measures of benefit-sharing namely the level of poverty and the level of inequality. The level of poverty that was used in the study is the dollar a day measure of the World Bank. The level of inequality was measured

by utilizing the Gini coefficient. The level of participation is measured by means of an employment measure. In the study the absorption rate was used.

The benefit-sharing dimension looks into whether the process led to a decrease in poverty and in income inequality. This segment of the analysis is aligned with the concept of 'relative pro-poor growth', which differs from 'absolute pro-poor growth' due to the understanding that, for growth to be pro-poor, poor people's income must grow faster than that of wealthier people, resulting in a decrease in inequality (Grosse et al., 2008).<sup>2</sup>

The participation dimension is the second significant dimension in conceptualising inclusive growth and in differentiating it from pro-poor growth. The participation dimension looks into how the society is involved in the process, given that such involvement is essential for promoting social coherence and for capacity-building, which are crucial for the sustainability of an inclusive growth process. Analysed in the economic sphere, a participatory process can be thought of as characterised by generating employment for a significant part of a country's population

The methodology that was followed by Ramos was to critically evaluate the state of inclusive growth in a particular country in 1996 and then to evaluate the change in the period up to 2006. The analysis on the notion of inclusive growth as a process that produces changes in levels of inclusiveness (Ramos, 7).

### **Data Sources**

The data used in terms of poverty is the World Bank Measure of \$2 per day

In terms of inequality Ramos (:5) used the the Standardized World Income Database (SWIID) Version 3.1. The SWIID Gini coefficient is considered a useful starting point for looking at inequality; however, it is inadequate. The Gini coefficient gives a summary for the whole distribution without providing direct information about the nature of changes within the entire range. Mostert (2015) did some research on the Gini coefficient in the Limpopo province and came to the conclusion that although a low Gini coefficient is an indicator of a more equal distribution of income, that it is often also an indication of low levels of economic development and growth. The towns in the province that experienced increases in their Gini coefficient,

where the towns where more development actually took place than in towns with lower of declining Gini coefficients.

In terms of employment the absorption rate<sup>1</sup> of the ILO was used a benchmark. A value of less than 60% was determined to be a sign a dysfunctional labour market.

### **Countries analysed**

Due to data limitations Ramos used imputation techniques to generate the missing data. Even after this process there were still countries that needed to be excluded from the study due to data deficiencies. The following 43 countries were included in the study:

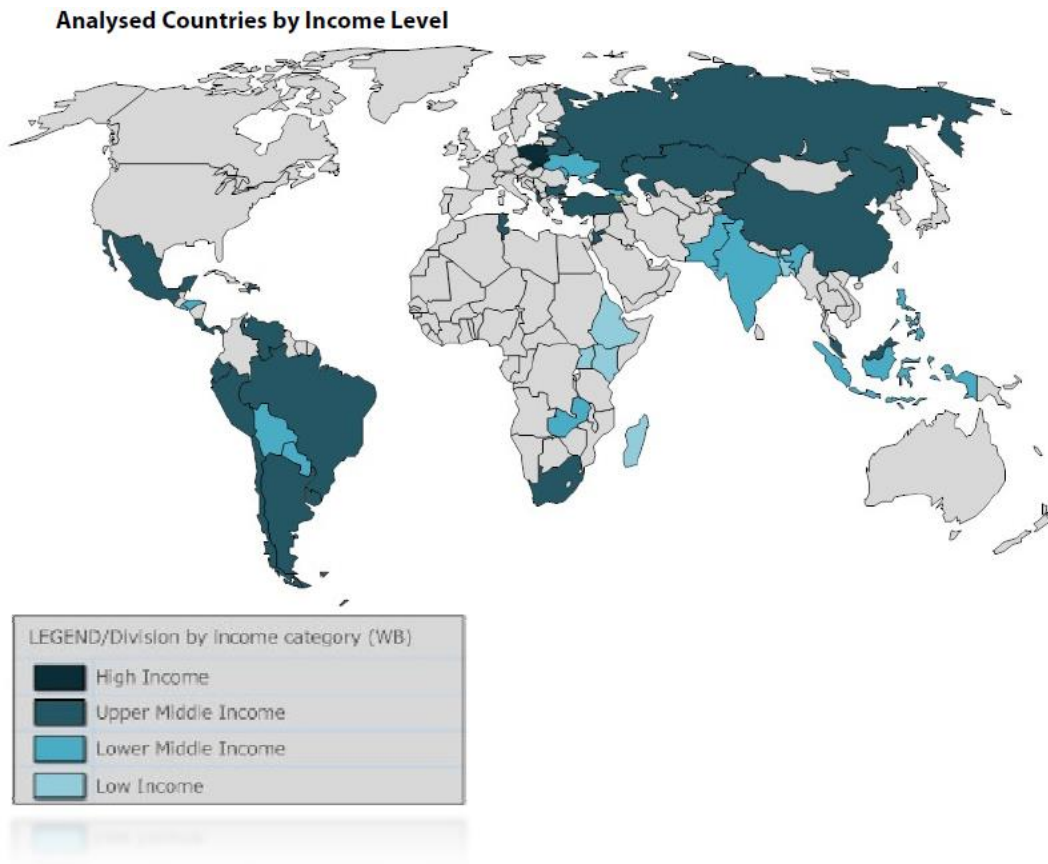
Albania, Argentina, Armenia, Bangladesh, Belarus, Bolivia, Brazil, Bulgaria, Chile, China, Colombia, Costa Rica, Dominican Rep., Ecuador, El Salvador, Ethiopia, Georgia, Honduras, India, Indonesia, Jordan, Kazakhstan, Kenya, Latvia, Madagascar, Malaysia, Mexico, Moldova, Pakistan, Panama, Paraguay, Peru, Philippines, Poland, Russia, Slovak Rep, South Africa, Tunisia, Turkey, Uganda, Ukraine, Uruguay, Zambia.

The relative income levels of the different countries is indicated in Fig 1

Fig 1 The different countries according to income level.

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<sup>1</sup> The absorption rate is the ration between the number of employed persons and the number persons that are economically active



Source Ramos (2014:6)

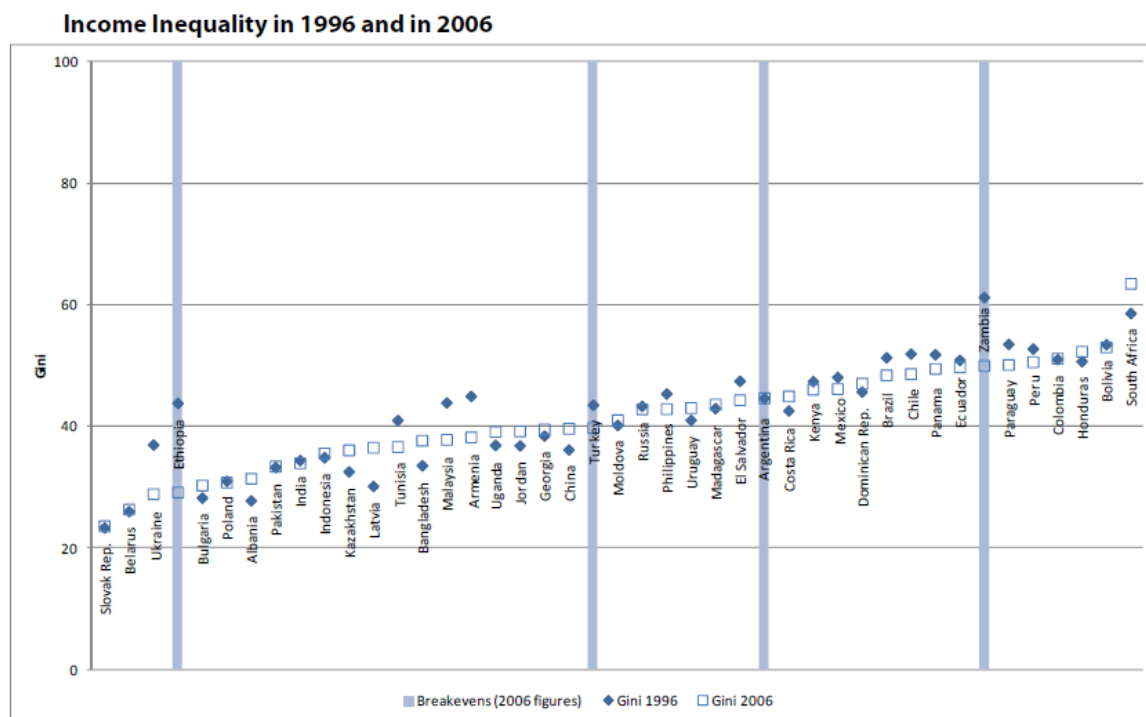
Despite the fact that South Africa is seen as a developing country it is indicated as a high income country, because the average income per capita is much more than \$2 (R27) per day.

Benefit sharing

The first measure that was evaluated was inequality in terms of the Gini Coefficient.

The relative performance of the 43 countries in 1996 and 2006 is indicated in Fig 2.

Fig 2. Inequality in different countries in 1996 and 2006



Source: Ramos (2014:7)

Ramos (2014) provides a detailed discussion of the results. For the purposes of this paper on some of the outliers will be highlighted. According to Ramos (2014:7) the average reduction was 3,8 percentage points. The biggest reduction was seen in Ethiopia, where the Gini coefficient reduced by 33 per cent, from 44 to 29. The reduction in the Ukraine was also notable: 22 per cent, from 37 to 29. Most of these biggest deductions was with countries that already had a relative lower Gini of approximately 45 (Ramos, 2014:7). An exception to this general trend was Zambia that managed to decrease from 61 in 1996 to 50 in 2006.

South Africa on the other hand was one of the worst performers in the group of 43 countries with a Gini that started at a relatively high 59 and increased by 8 percentage points.

## Poverty

A great number of the countries in the study managed to reduce their level of poverty significantly. China was one the of the countries able to lift it populations out of poverty. The level of poverty declined by 42% during the period under discussion (Ramos, 2014:10)

Ramos (2014) also highlighted different geographical trends in terms of poverty and noted that Sub Saharan Africa is characterised by countries with relatively high poverty rates. Between 1996 and 2006 South Africa managed to reduce its average poverty rate from 40 to 35. This is still much higher than the acceptable level of 20% of the persons in a country living in poverty (Ramos, 2014:10)



### Poverty in the 1990s

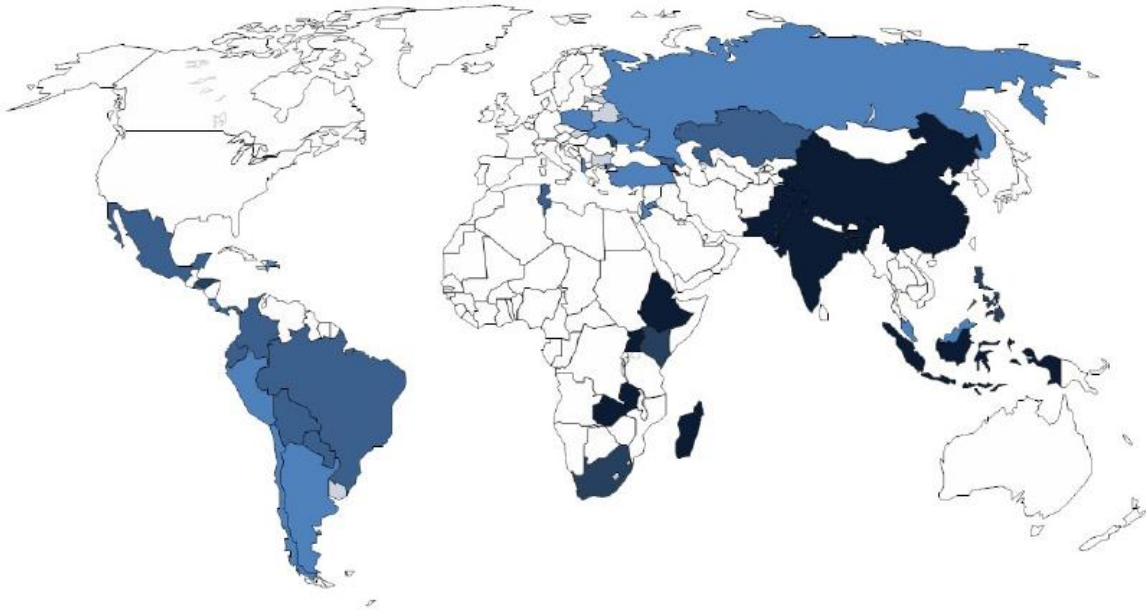
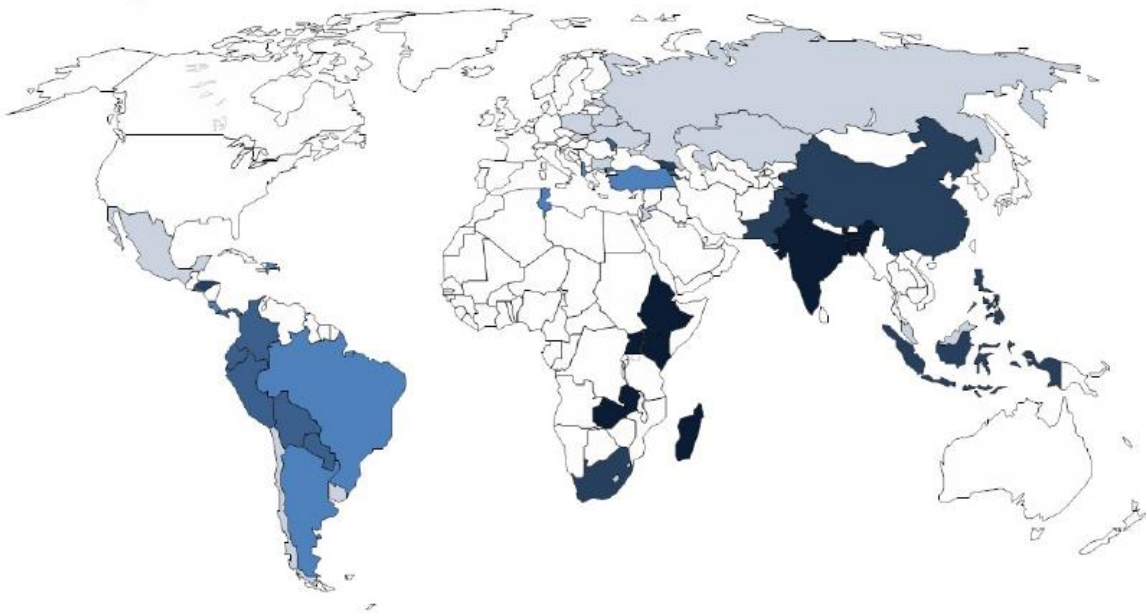







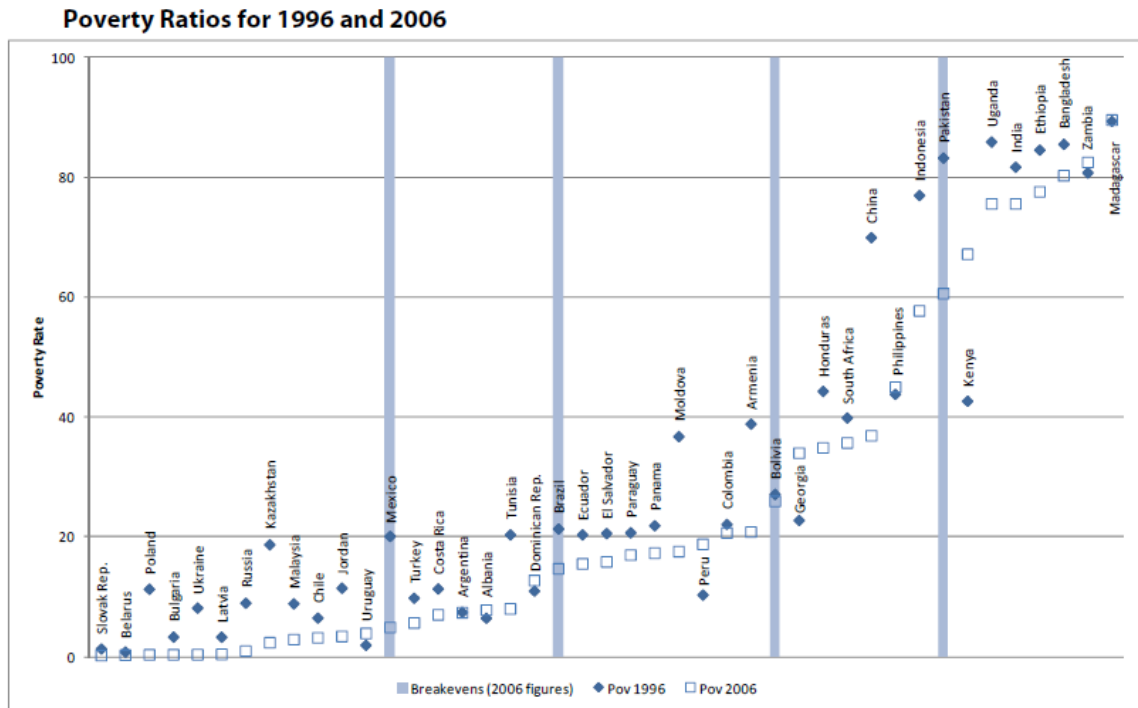
FIGURE 8

### Poverty in the 2000s



LEGEND/ LEVELS OF POVERTY (HEADCOUNT POVERTY RATIO)	
	LOW
	MEDIUM-LOW
	MEDIUM
	MEDIUM-HIGH
	HIGH

The relative levels of poverty is also indicated graphically in fig xx



Source Ramos (2014:10)

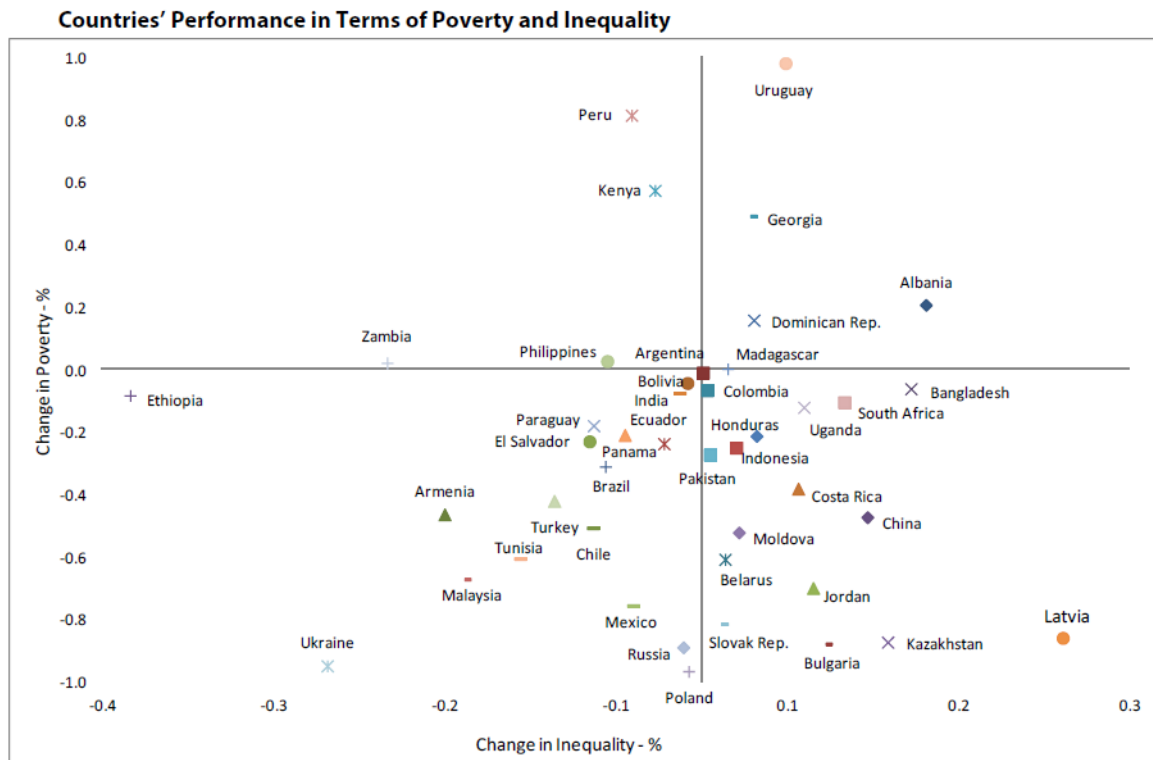
## Benefit sharing

The results of the poverty and inequality analysis can now be combined in one analysis.

Figure 9 presents the changes seen in terms of poverty and inequality. Although the graph informs us about the direction of the changes, the intensity of that change cannot be deduced from this graph without first considering the starting levels. As the starting levels matter for assessing the true meaning of changes, they are taken into consideration later.

Countries in the upper-right and lower-right quadrants have faced an increase in inequality, and countries in the upper-left quadrant have faced an increase in poverty. The graph clearly reaffirms that the results in terms of poverty reduction were much more significant than those regarding inequality.

Countries in the lower-left quadrant reduced both poverty and inequality, having had the desired economic process in terms of inclusiveness as regards the benefit-sharing dimension. In light of the pro-poor analysis, the process seen in these countries in this period could be classified as pro-poor according to both the absolute and the relative interpretations



Source Ramos 2014:14

Figures 10 and 11 present a snapshot of the situation of the inclusiveness of the growth process with regards to its benefit sharing-dimension in the two periods, circa 1996 and circa 2006, respectively. The colours refer to the countries' 'level of inclusiveness' in each period. In the lower-right area are the countries with low (less than 5 per cent) or mid-low (5 to 15 per cent) poverty and low (less than 30 per cent) or mid-low (30 to 40 per cent) inequality. These countries, shown in green, can be regarded as more inclusive than the others, as they have achieved a better pattern of distribution of the outcomes of growth.

These countries were, in 1996: Belarus, Bulgaria, Slovak Republic, Albania, Latvia, Ukraine, Jordan and Poland.

In the upper-left area are the countries with high (over 65 per cent) or mid-high (30 to 65 per cent) poverty and high (over 50 per cent) or mid-high (45 to 50 per cent) income inequality. These countries, in red colours, should urgently rethink their policy framework considering how the benefits of growth could be better distributed among the population.

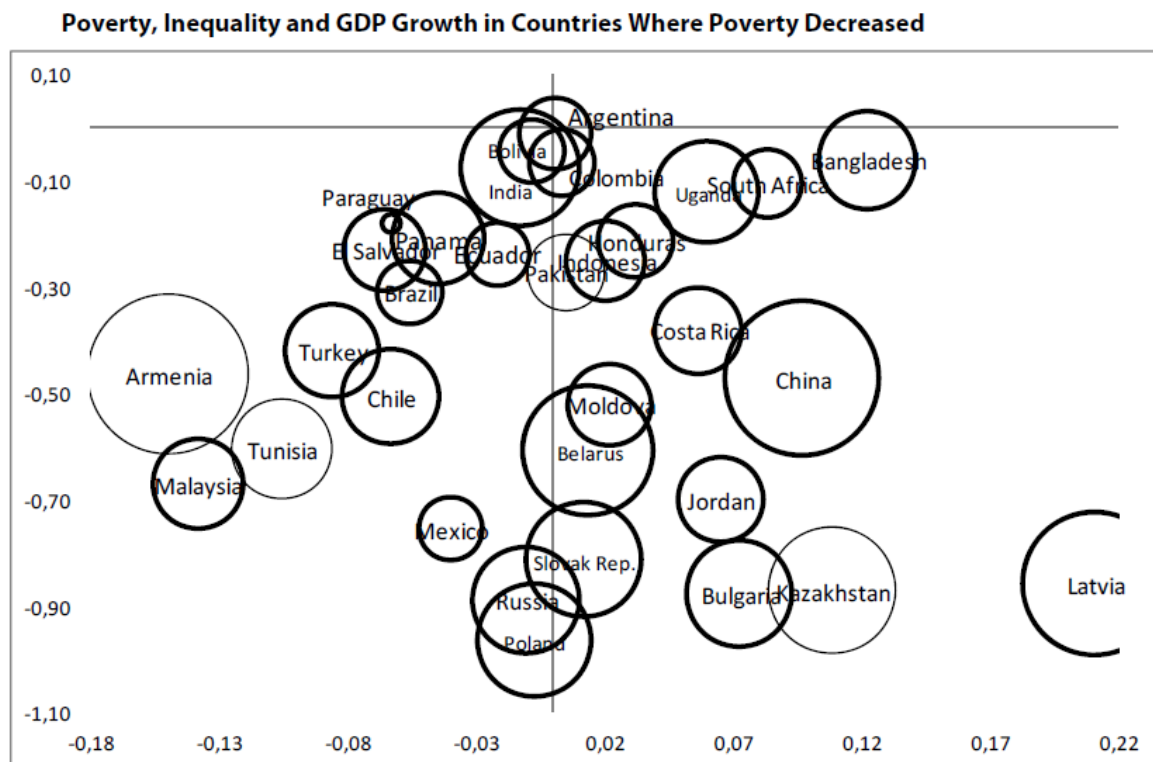
These countries were, in 1996: Zambia, Honduras, South Africa, Kenya and the Philippines (see Figure 10).

### Poverty and Inequality in 1996

		1990's Poverty				
		65%+	30% - 65%	15% - 30%	5% - 15%	< 5%
Inequality	50%+	Zambia	Honduras South Africa	Bolivia Brazil Colombia Ecuador Panama Paraguay	Chile Peru	
	45% - 50%		Kenya Philippines	El Salvador Mexico	Dominican Republic	
	40% - 45%	Ethiopia Madagascar	Armenia Moldova	Tunisia	Argentina Costa Rica Russia Malaysia Turkey	Uruguay
	30% - 40%	Bangladesh China India Indonesia Pakistan Uganda		Georgia Kazakhstan	Ukraine Jordan Poland	Latvia
	< 30%				Albania	Belarus Bulgaria Slovak Repu

Source Ramos

The relative situation in 2006 is shown. Despite some improvement South Africa is still indicated in red as a country that faces both a challenge in terms of inequality and poverty and can be deemed not to have experienced inclusive growth.



The data presented in this section do not support a correlation between economic growth and poverty or inequality reduction. Indeed, in terms of benefit-sharing, the inclusiveness of economic growth seems to depend on factors other than the rate of growth of economic output. This reaffirms fundamental flaws in theories assuming trickle-down effects—most notably promulgated by the (post-)Washington Consensus. On the other hand, inequality reduction has been shown to have played an important role in poverty reduction, especially in middle-income economies; these have reduced both poverty and inequality with lower than average economic growth.

In the next section the issue of participation in terms of the absorption rate is added to the analysis

## Participation

According to Ramos(2014:20) the participation dimension is an important indicator for the sustainability of the process of inclusive growth. It emphasises the aim of involving and keeping workers involved as a goal.

Since the absorption rate is based on the fundamental in a country, Ramos (2014) indicated that it has not changed dramatically in the sample of countries. Only six of the countries experienced changes of more than 10%. The average absorption rate for the sample was 57%.

The changes in the absorption rate between 1996 and 2006 is indicated in fig 1

Fig xx Changes in the absorption rate between 1996 and 2006

Source: Ramos (2014:22)

In Fig xx it can be seen that South Africa's labour force participation rate did not change between 1996 and 2006. It was below the average level of 57%. Another challenge is the fact that South Africa is also a country with a very high unemployment rate.

The level of unemployment and the absorption rate is indicated in table 1

Table 1 The level of unemployment and absorption

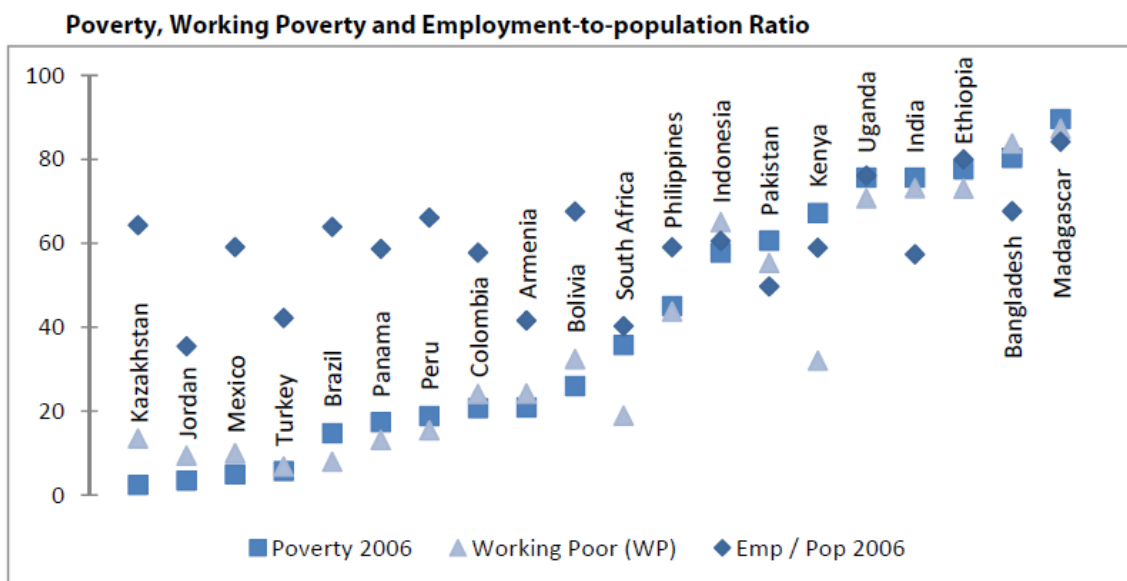
**Countries with the Lowest Employment-to-population Ratios in 1996**

	Employment-to- Population Ratio		Unemployment Rate	
	1996	2006	1996	2006
Argentina	48	56	17%	10%
Armenia	47	42	-	29%
Bulgaria	47	48	14%	9%
Jordan	36	35	-	-
Pakistan	47	50	6%	6%
South Africa	41	40	-	25%
Tunisia	41	40	16%	13%

Source Ramos (2014:23)

South Africa experienced an increase in its unemployment rate in the 1990's after democracy. This was explained by some as jobless growth but it was more due to an increased labour force participation rate amongst black women (Check Fourie). One other reason for the low absorption rate in South Africa is the employment elasticity of growth which is only 0,5. If the economy is growing at 1% the level of unemployment will only decrease by 0,5%. The problem has also been aggravated due to the relative low levels of economic growth experienced in South Africa.

A very high absorption rate is also not necessarily a positive indicator, because it often correlates with a high level of poverty and poor working conditions. This is clear from Fig 1

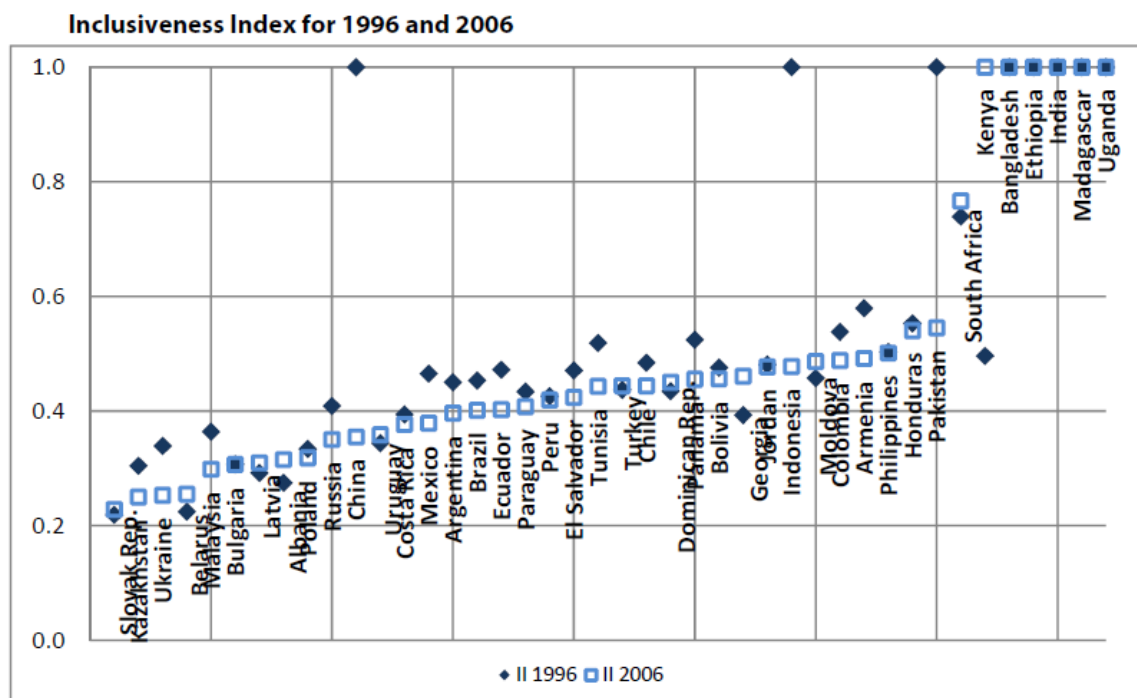


Source Ramos (2014: 28)

From Fig 1 is clear that in countries like Ethiopia and Bangladesh have high absorption rates but also fairly high levels of poverty and a high level of working poor.<sup>2</sup> The very high absorption rate in these countries can therefore not be interpreted as an indication of a higher level of inclusiveness.

### Inclusiveness index

Ramos used the inverse of the absorption rate and a min-max normalisation of data on poverty and inequality. Countries with a poverty rate of higher than 65% is given a rate of 1 automatically



From Fig ?? it can be seen that South Africa is not doing well in terms of inclusive growth.

### Inclusive growth in nine provinces in South Africa

<sup>2</sup> Ramos (2014) is providing an extensive discussion on the topic for those interested.



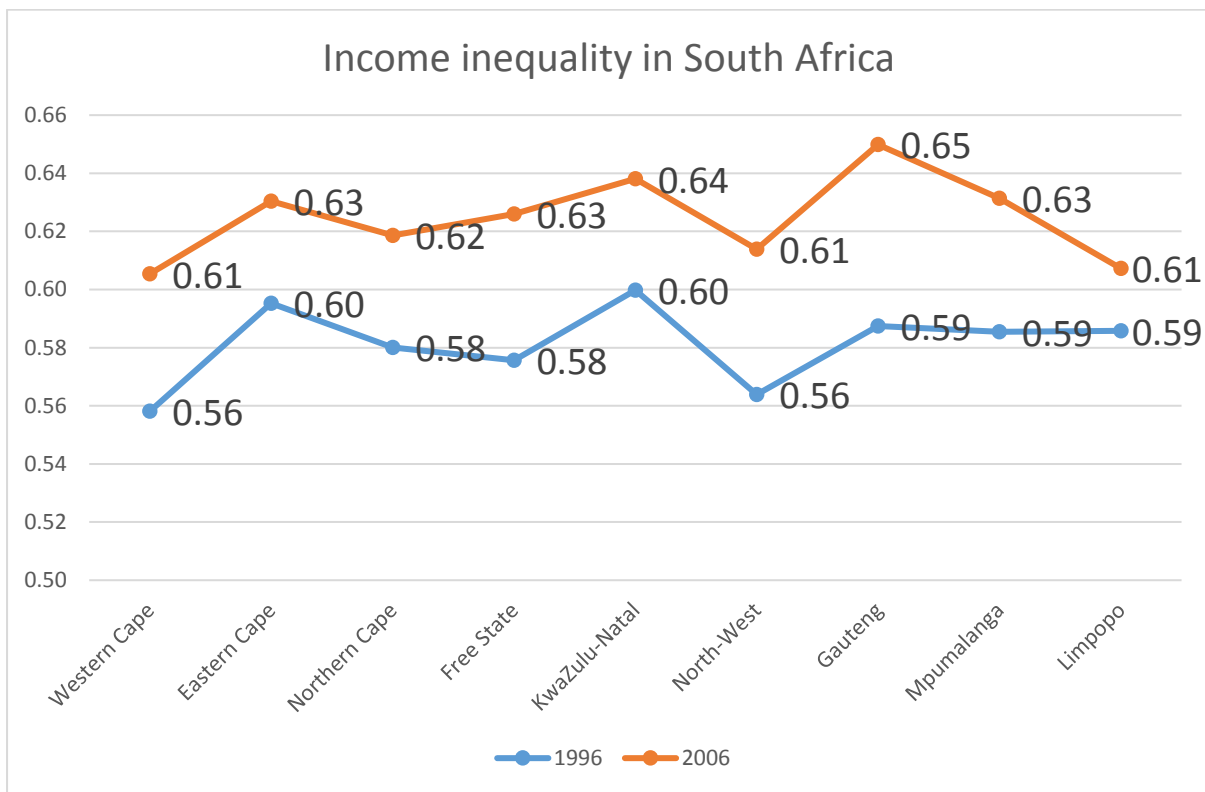
The same methodology as Ramos( 2014) will be followed to determine the relative level of inclusive growth in the different provinces.

The first indicator that will be measured in income inequality as measured by the Gini Coefficient. Since Ramos used 1996 and 2006 the same years will be used in the provincial analysis.

### Inequality

The relative income inequality as measured by the Gini coefficient is indicated in Fig xx

Fig xx Income inequality in South Africa



Source: Global Insight

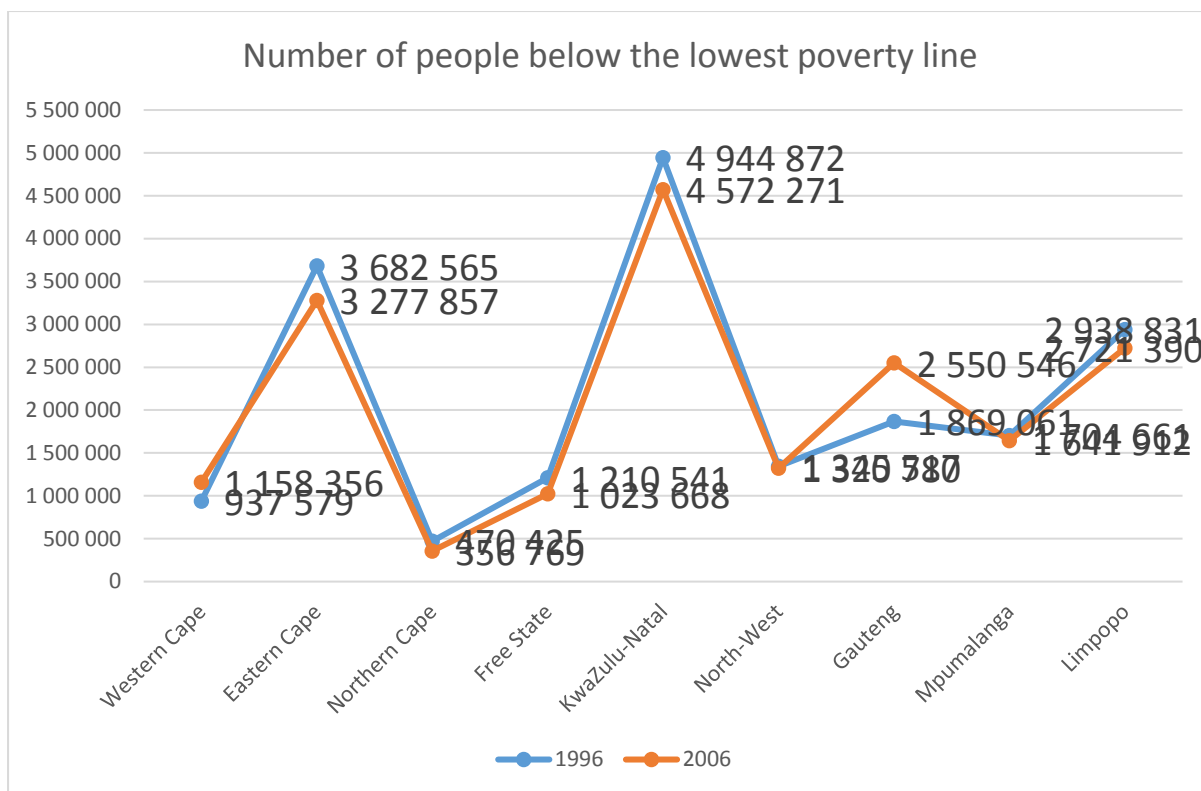
In Fig xx it can be observed that the income equality worsened in all the provinces between 1996 and 2006. Limpopo is the province that showed the lowest relative increase between 1996 and 2006.

## Poverty

Data on the \$2 per day poverty measure could not be obtained. It was calculated that \$2 a day is in Rand between the upper and lower poverty lines of Statistics SA. Since the measure is closer to the lower poverty of Statistics SA, it was decided to use the lower poverty line in the analysis.

	1996	2006	
Western Cape	937 579	1 158 356	23.55%
Eastern Cape	3 682 565	3 277 857	-10.99%
Northern Cape	470 425	356 769	-24.16%
Free State	1 210 541	1 023 668	-15.44%
KwaZulu-Natal	4 944 872	4 572 271	-7.54%
North-West	1 345 517	1 320 780	-1.84%
Gauteng	1 869 061	2 550 546	36.46%
Mpumalanga	1 704 661	1 641 912	-3.68%
Limpopo	2 938 831	2 721 390	-7.40%

The number of people living under the lower poverty line is indicated in Fig xx



Source: Global Insight

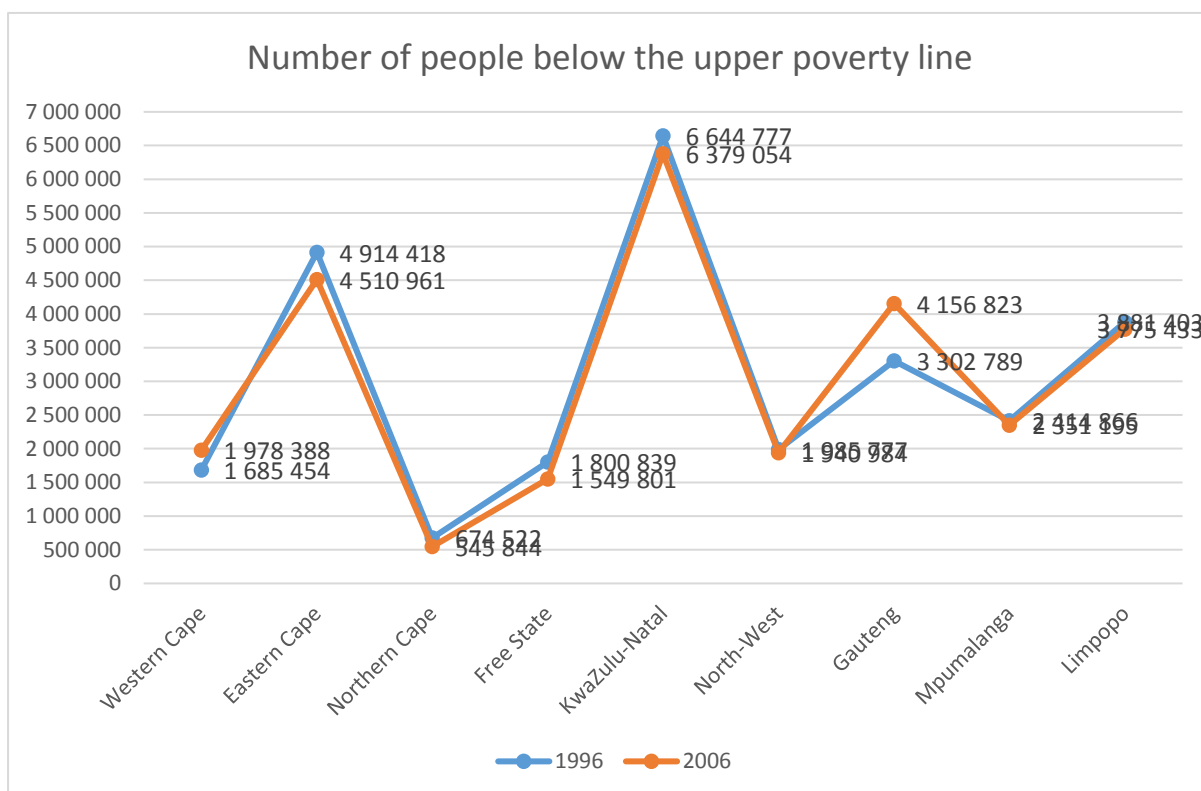
The province that showed the biggest improvement in terms of the number of people living under the lowest poverty line of Statistics SA is Northern Cape. It is also important to note the increases in the number of people below the lower poverty line in both Gauteng and Western Cape, both metropolitan areas. Limpopo is fifth in rank in terms of the percentage decline of the people living below the lower poverty line.

Due to the relative small changes between 1996 and 2006 it was decided to also investigate the changes below the upper poverty line.

The data is shown in Table 2

	1996	2006	% Change
Western Cape	1 685 454	1 978 388	17.38%
Eastern Cape	4 914 418	4 510 961	-8.21%

Northern Cape	674 522	545 844	-19.08%
Free State	1 800 839	1 549 801	-13.94%
KwaZulu-Natal	6 644 777	6 379 054	-4.00%
North-West	1 985 777	1 940 984	-2.26%
Gauteng	3 302 789	4 156 823	25.86%
Mpumalanga	2 414 866	2 351 195	-2.64%
Limpopo	3 881 403	3 775 433	-2.73%



In terms of the upper poverty line both Western Cape and Gauteng showed increases in the number of the poor. The rest of the provinces, including Limpopo showed a relatively limited change in the number of people living under the upper poverty line.

