

# **Poverty & Development**

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## **Context**

We meet today on the dark side of the moon. For many parts of the world, including South Africa, there was good news on the poverty front until very recently in that the numbers of people in poverty were dropping. In this country economic growth has been the critical factor, helping to drop the unemployment rate in the last few years and also helping to generate the tax revenues necessary to finance a major extension of the social security system.

The well-regulated South African banking system – thanks in part to exchange controls, a hangover from apartheid that many of us wanted to get rid of – has so far been more or less unscathed. But our stock market has crashed, along with our currency, and there is greater uncertainty now than at any time since the 1930s. The future looks much darker than it did only a few months ago. We will probably be lucky to grow at half the rate the National Treasury was predicting at the beginning of the year. Unemployment may well start rising again, while the tax revenues to finance redistributive programmes may shrink. So the declining poverty trend may be reversed.

## **Progress in South Africa**

For the purposes of measuring progress against poverty in this country in recent years, I will rely heavily on the Towards a Fifteen Year Review published earlier this month by the Presidency.

If a lower poverty line of R174 per person per month (in 2000 prices) is used, poverty has dropped from 31% of all races in 1995 to 23% in 2005. Translating these proportions into numbers shows a drop from 12.21 million people to 10.63 million. If a higher poverty line of R322 is used, the proportion drops from 53% to 48%, but the numbers rise from 20.74 million to 22.50 million (p18).

The review notes that the single most important driver of the decline in poverty is the government's social security programme, especially the extension of the child support grant from 34 000 beneficiaries in 1999 to 7.8 million last year (p19). By 2005, social grants (of all kinds) contributed up to 90% of the income of individuals in the first two deciles. The proportion of children going to bed hungry dropped from 31.2% in 2002 to 16% in 2006 (p75).

The increase in social grants has of course been made possible by the decline in the government's interest bill arising from lower interest rates and the elimination of the

budget deficit, along with buoyant tax revenues. So combating poverty via transfers depends heavily on the health of the economy.

### **Halving poverty and unemployment**

The Review reports that halving poverty and unemployment by 2014 necessitates growth averaging 5% a year until then (p30). Some years back President Thabo Mbeki said that halving poverty and unemployment necessitated an average growth rate of 8%. His figure was about double the sustainable rate of growth and also about double the achievement of the past few years. Even before the intervention of new factors such as the local Eskom debacle and the threat of global recession, a rate of 8% was unattainable, given factors such as our skills shortage, red tape, labour market rigidities, the low savings rate, and crime.

South Africa has no official poverty line, so what halving means in terms of numbers is uncertain. But in the absence of much lower unemployment, it seems inescapable that halving poverty will necessitate making welfare payment to millions more people, and not only children. On the grounds that they are unaffordable, the government has repeatedly rejected proposals from the Democratic Alliance and others for a Basic Income Grant. But perhaps it will now have to re-think its opposition – even though the result of a further extension to the social security system may undo all that has been achieved in reducing the budget deficit. If growth and tax revenues do not continue to increase, there might even be a risk that the ANC government will have to emulate its successor by using borrowing to finance current expenditure.

### **Human and social capital**

The Review then lists various improvements in access to electricity, water, and sanitation, some of these services being free for poorer households. Other improvements are also cited: among them the building of 1 600 clinics and healthcare centres so that 95% of South Africans now live within a 5 km radius of a health facility (p25), a drop in severe malnutrition, and the stabilisation of HIV prevalence among pregnant women attending public ante-natal clinics. On the other hand adult mortality has increased, while life expectancy has dropped from 56 years in 1996 to 50 last year (p26).

The Review also gives data on ‘asset poverty alleviation’. ‘Overall, since 1994, government transferred R61 billion worth of assets in the form of housing and land to the poor – excluding millions of deeds transfers of most township houses and grants to beneficiaries of restitution’. This section also says that the expanded public works programme has created one million temporary work opportunities with on-the-job training to improve participants’ chances of sustainable employment (p41).

The Review notes that expenditure on education in real terms was 20% higher in 2007/2008 than in 1996/1997 (p22). But maths, science, and reading performance in South African schools is worse than in several poorer neighbouring countries. ‘This performance of the schooling system [reduces chances] for the marginalised to break out of the cycle of reproduction of poverty and disadvantage’ (24).

It goes on to warn, ‘Low levels of education will continue to relegate the majority to low living standards and limit their capacity to generate decent income which will free them from dependency on state support’ (p24). Therefore ‘the key challenge is to ensure that schools in previously disadvantaged areas are improved to make them welcoming for young people’ (p24).

### **Unemployment**

To complete the picture, let us look at the recent Quarterly Labour Force Survey. It shows that unemployment stood at 4.08 million in March 2001, peaked at 4.84 million in March 2003, and had dropped to 4.19 million in March 2008. The unemployment rate (strict definition) over that same period rose from 24.6% to 29.3%, and then dropped to 23.5%.

What does halving unemployment mean in terms of numbers?

Looking at a longer period, and using earlier data, the economy generated an annual average of 395 000 jobs between 1996 and 2007. To halve the rate of unemployment on the strict definition, we would have to create an annual average of around 483 000 between last year and 2014. Even allowing for the fact that these numbers can only be estimates at best, that is a tall order. It was a tall order before the global crisis and it is now an even taller one.

### **Comment**

The Review is right to stress the vital role of education, but there is little reason to be optimistic about significant improvements in the quality – or even the quantity in the sense of hours actually taught – of education available to most poor people.

While the Review recognises the importance of enabling people to join the labour market as a means of escaping poverty, it is unable to point to any real success in this respect. The government’s most significant achievements have been redistributive, mostly via the tax system, in the form of direct transfer payments or in the form of housing financed by the fiscus. But only certain forms of redistribution have worked. There is no indication that redistribution of land has helped to alleviate income poverty in any way. Indeed, according to the former chief land claims commissioner, many land-reform projects have simply resulted in formerly productive assets dying in the hands of the poor.

### **Political minefields**

The Review has a fascinating sub-text. It recognises the need to enable the poor to enter the labour market and so reduce dependency on the state. This accords with Trevor Manuel’s remark some years ago with regard to the extension of the social security system that people should learn to work instead of living on what he termed handouts. South Africa has been more successful in extending social security (mainly to children, of course) than in enabling the poor and the unskilled to enter the labour market.

‘Breaking the cycle of poverty,’ says the Review, requires special attention to measures that improve human capabilities, such as education in particular and health, and expand

people's chance of entering the labour market' (pp85-86). Reducing unemployment, says the Review, is the 'key and most sustainable anti-poverty measure' (p117).

While the Review recognises this, the issue of how to how to remove barriers to market entry remains on the back-burner, partly because it is a political minefield. Education is also recognised as critical, but fixing the education system is impossible as long as militant trade unions have so much power. Another political minefield.

Governments do not want to step into minefields. But the global economic crisis has now greatly increased the fiscal risks of continuing to rely so heavily on welfare payments as the key means of combating poverty. Sooner or later the risks of continued high - and possibly now even rising - unemployment will outweigh those of tackling labour market liberalisation and stagnating education.

### **The family**

One thing missing from most studies and discussions about poverty is the family. Notoriously, the apartheid system with its infamous influx control laws was responsible for undermining family life. We do not know whether that damage has been repaired. But we do know that other destructive factors are now at work, notably AIDS. And the figures are horrifying:

- = Some 248 000 child-headed households were counted in the 2001 census.
- = There were 2.1 million AIDS orphans in 2003, a number which Unicef expects to rise to 3.1 million two years from now, accounting for 19% of all children up to the age of 17.
- = Some 43% of all urban parents are single parents, of whom 75% are women and of whom 21% have no income
- = Nearly one third of young women become pregnant in their teens.

I was struck by a comment some time ago by Stats SA: 'The conventional idea that two parents and their children live together as a household in a nuclear family does not apply in South Africa.' Yet, the education minister, Naledi Pandor, said recently, 'I urge parents to assume responsibility for the future of their children, to insist on teaching and learning...'

For many children, and parents, this seems a pipe dream. In the absence of parents, there is nobody to make children do their homework, nor anyone to teach them about values. Value are unlikely to be transmitted by most schools, which leaves perhaps churches, youth groups, and sports clubs. Poverty, unemployment, teenage pregnancy, abuse of women, crime, family breakdown, poor education moral and other, constitute a vicious circle in which each helps to perpetuate the others.

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