



Growing Apart and Falling Together: The Growing South African Story

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Key messages

1. Pro-economic growth policies that reduce inequality or at least stop its increase will mitigate poverty in south Africa.
2. Economic growth is necessary for poverty reduction in south Africa, but not enough to compensate for the poverty-raising effects of inequality.

1 This brief derives based on a study on whether the poor suffer more losses of welfare during economic recessions and depressions than they gain during expansions given inequality, and the factors that can help them to stay afloat in times of economic shocks.

3. Policies that provide the poor with quality education up to tertiary, as well as access to the labour market can sustainably keep them afloat.
4. Social grants, free healthcare and education services do help but do not go far enough in times of negative economic shocks.
5. The respite given by social programs can be improved for better assistance to the poor in times of economic crises and shocks like the covid-19 pandemic.



Source: https://cdn.cfr.org/sites/default/files/styles/open_graph/public/image/2019/05/South-Africa-Social-Statistics-Townships.jpg

What are the issues?

Persistently high poverty and inequality compounded by increasing episodes of economic shocks, have been identified as a significant development issue, jeopardizing future poverty reduction efforts in post-apartheid South Africa. Despite relatively robust economic growth, poverty reduction has been slow, prompting a debate about the relationship between economic growth and poverty reduction. While economic growth is often seen as a key driver of poverty reduction, the relationship is complex and multifaceted, requiring further investigations, especially in the current context of rampant economic shocks. Economic growth alone is insufficient to reduce poverty significantly. The poor are vulnerable during economic downturns

and require targeted policies. Existing social programs are helpful but insufficient. The South African government has undertaken various programs to cushion the burden of poverty on the poor. These are among others, social grants, free healthcare and education services.

Why are these issues important?

Addressing persistent poverty, inequality, and economic shocks is crucial to ensure South Africa's long-term sustainable development. As vulnerable populations face heightened risks during economic downturns, targeted policies are required to protect them. Comprehensive and integrated strategies addressing poverty and inequality are vital to promoting social cohesion, economic stability, and overall prosperity for all South Africans.

Summary of evidence and policy options

- (1) The ability of positive economic growth to reduce poverty and increase welfare for the poor is higher than the power of negative growth in increasing poverty in South Africa. Pro-positive economic growth policies will benefit the poor more than the ultra-rich in South Africa;
- (2) The poor bear a greater burden of negative economic shocks than the rich in South Africa. Policy measures should prioritize cushioning the poor from negative economic shocks;
- (3) Free health and education can raise incomes for the poor but does not go far enough in curbing the effects of negative economic shocks on them. Measures should prioritize improving the efficiency of health and educational policies;
- (4) Tertiary education can keep the poor afloat in times of economic shocks in South Africa. Access to tertiary education for the poor should be prioritised.
- (5) Social grants tend to help the marginally poor during negative economic shocks, with no effect on poverty intensity and severity. Policy measures should constantly review and improve the amount, the reach and the efficiency of social grants.
- (6) Labour incomes reduce all forms of poverty and raise the incomes of the poor, including times of negative economic shock. Increasing access to the labour market for the poor is encouraged.

Policy recommendations

1. In the short-run during shocks: social protections
 - expand, revise, target and improve efficiencies of social protection programs, such as cash transfers and food subsidies, to reduce poverty and inequality.
2. At all times: educate and improve labour supply and demand
 - Invest in education and health policies to increase human capital and productivity, which can help to reduce poverty and inequality.
 - Couple with skills development and insertion of the poor into employment programs,
 - Accompany with social protection programs tied to employment such as unemployment insurance, wage subsidies, and expanded public works programs.



Mission

To strengthen local capacity for conducting independent, rigorous inquiry into the problems facing the management of economies in sub-Saharan Africa.

The mission rests on two basic premises: that development is more likely to occur where there is sustained sound management of the economy, and that such management is more likely to happen where there is an active, well-informed group of locally based professional economists to conduct policy-relevant research.

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