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## Reducing Poverty and Eliminating Inequalities: The Effectiveness of Macro-economic Policies<sup>1</sup>

Krishna K Govender

University of KwaZulu-Natal, E-mail: govenderkrishna@gmail.com

**Abstract:** Poverty, unemployment and inequality as reiterated by the World Bank have existed together for many years, both in developed and developing countries. This study demonstrated that despite several interventions, the triple challenges of poverty, unemployment and inequality still persist in South Africa.

**Keywords:** poverty; unemployment; developing country; inequality

### INTRODUCTION

In spite of good progress being made since the foundation of a democratic government in 1994, the South Africa society continues to be depicted by unequal wages and imbalanced distribution of wealth (De Klerk 2013: 1). Despite the progressive steps taken politically in socio-economic standards, the negative history of the previous dispensation, which promoted inequality, still remains and is evident. As a result the Historically Disadvantaged South Africans (HDSA) still do not enjoy the rights of land ownership and capital; the levels of employment have also not increased significantly to close the inequality gap, leading to the current situation where wealth is concentrated in the hands of the minority (Bhorat & Van der Westhuizen, 2012: 20). Altbeker, Hay, Bernstein and Schlemmer (2010: 6) found that the inequality gaps are overwhelming and continue to break the nation into separate and divergent camps, which in turn has the potential of destabilising the country. Economists and psychologists as cited by Demombynes, and Ozler, in Bhorat, and Kanbur (2006: 288) and again by authors such as Bhorat and Van der Westhuizen (2012: 2), have alluded that inequality may incite elements of criminality that is associated with high inequalities amongst society members. On the second decade of democracy, StatsSA (2015) reported the unemployment rate to be as high as 25% when using a narrow definition.

As part of social transformation in South Africa, the challenge is to move away from the legacy brought about by the apartheid system which legacy propagated income poverty and exacerbated income

inequality, through the uneven distribution of wealth. This in turn resulted in a lack of noticeable increase in the income of the poor (Seekings, 2007: 6).

In light of the above, this study on which the paper is written, explores economic policies of the South African government in an attempt to find out if they are producing the desired results of poverty eradication and reducing inequality.

## RESEARCH METHODOLOGY

A qualitative historic literature study was conducted to systematically collect and evaluate data in order to describe, explain, and understand actions or events that occurred sometime in the past from 1994 to 2015. This information was used to investigate how effective are the South African macroeconomic policies in reducing poverty and eliminating inequalities. The data used on poverty, unemployment and inequality was collected from Statistics South Africa (StatsSA, 2015) surveys and the country's developmental indicators (2009) for the years under review. More specifically, the October Household Surveys (OHS), the Income and Expenditure Survey (IES) and the Labour Force Survey (LFS), were considered.

## LITERATURE REVIEW<sup>2</sup>

### Unemployment 1994 – 2015

Figure 1 reflects the unemployment trends (World Employment and Social Outlook – Trends, 2015).

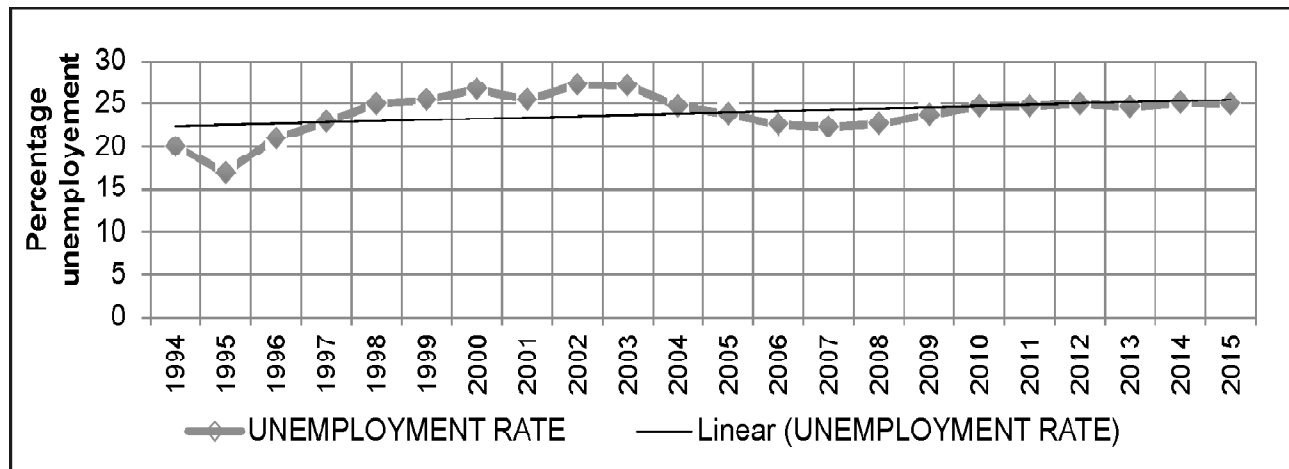


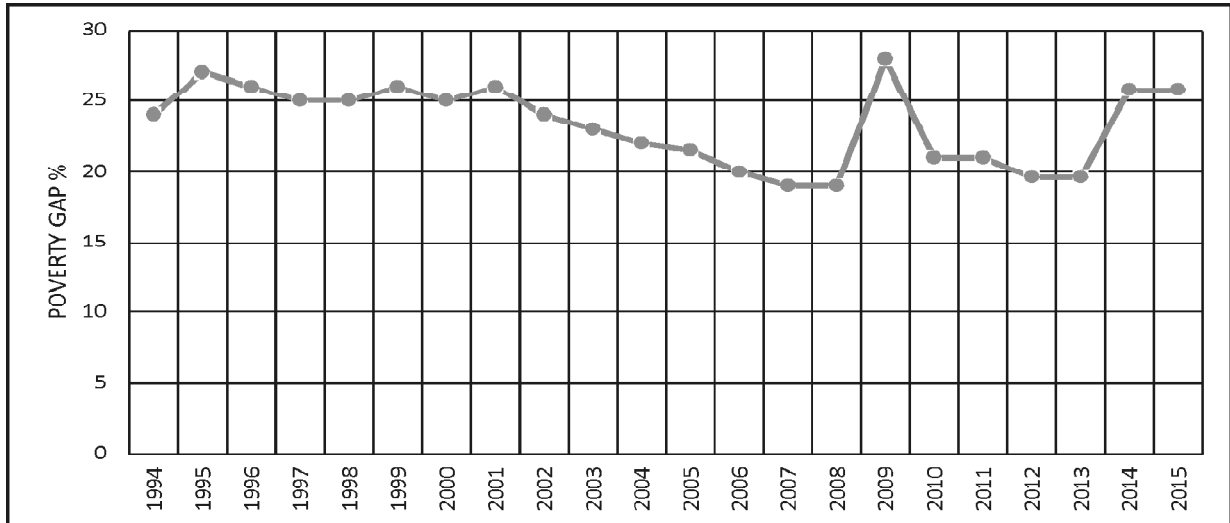
Figure 1: Unemployment Levels

Source: ILO- The World Employment and Social Outlook Trends, 2015

Figure 1 shows that the South African historical unemployment level peaked during 2002 – 2003 by reaching 27 percentages. The trend line relative to the growth in population has increased over the period under review. The official unemployment rate as reported by (StatsSA, 2015) increased from a level of 20% in 1994 to 25% in 2015.

### Levels of poverty

Figure 2 which reflects the poverty lines 1994-2015 (StatsSA 2015) reveals that on a linear trend poverty would indicate a decline though with variations for the indicated period. The figure highlights that the rate of the decline in income poverty is slow.

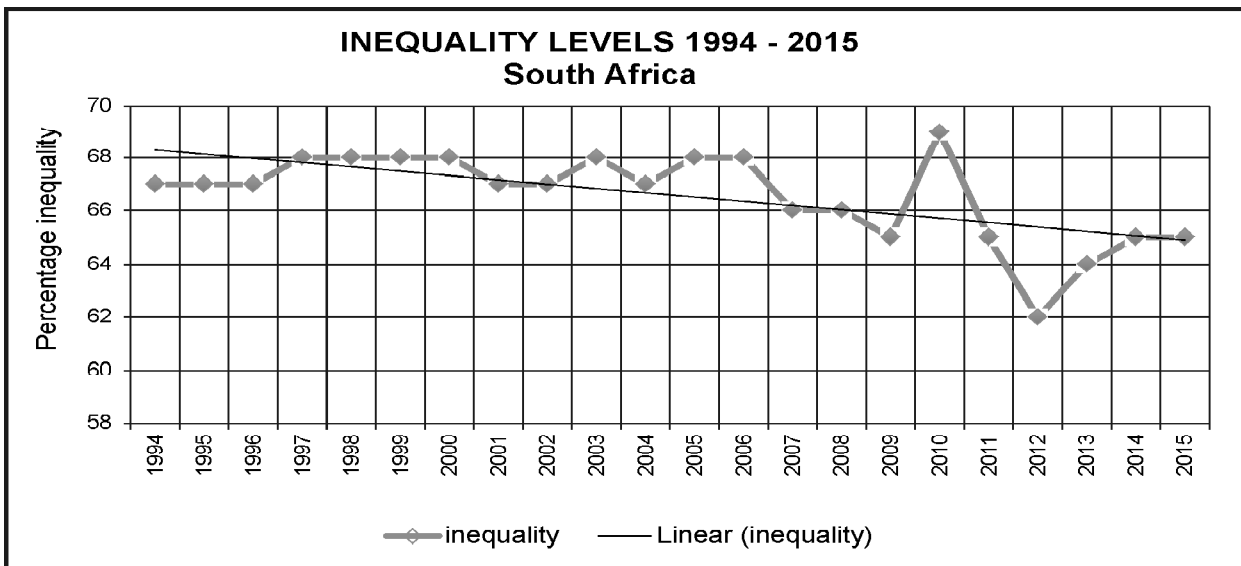


**Figure 2: Percentage of population living below lower bound poverty lines 1994 – 2015**

Source: StatsSA, Poverty Trends 2015

### Historic levels of inequality<sup>3</sup>

Figure 3 which is the inequality levels from (StatsSA 2015) due to income distribution among the poor grew between 1994 and 2015. Several researchers (Hoogeveen & Özler 2006; Yu 2010) as cited in Van der



**Figure 3: The inequality levels from 1994-2015**

Source: StatsSA (2014)

Berg (2011: 121) agree that “though the levels vary widely, depending on the data sets used and the techniques employed to deal with some data and measurement issues the values all show an increase in the average levels of inequality”. The significant spike in inequality in 2010 was as a result of the recession in 2009 whereas from 2011 to 2014 there was a decline in the level of inequality, (StatsSA 2014).

### **Macro-economic Policies**

South Africa committed to halving poverty levels by the year 2015 as per the Millennium Development Goals (MDG) because it is also a signatory to the MDG.

### **The Reconstruction and Development Programme (RDP)**

The above policy aimed at addressing social and economic challenges inherited from the previous dispensation. The RDP is a transformation tool that the government aimed to use in order to achieve strong and stable democratic institutions and economic growth that is driven by sustainable and environmental development (RDP, 1994: 5). The following principles underpinned the RDP, namely, inclusiveness and sustainability; people driven; peace and security; nation building; reconstruction and development; human resource development; and economic restructuring.

### **Growth, Employment and Redistribution (GEAR)**

GEAR macroeconomic policy was a plan to reengineer the economy in line with the RDP goals. Whilst the RDP was more focused on the demand side of the economy and developing the human resource capacity in order to address the challenges of poverty, unemployment and inequality, GEAR was more focused on stimulating and growing the economy in order to meet those very same demands by placing more focus on production/supply (Pillay *et al.*, 2013: 77). In essence GEAR was intended to stimulate growth by creating jobs (Hoogeveen and Ozler, 2005: 2), and had a growth projection of 2.4 to 4.2% from 1996 – 2000 with a median value of 3% of GDP.

### **Accelerated and Shared Growth-South Africa (AsgiSA)**

AsgiSA emerged as a tool to deal with the constraints to growth which included currency instability, limited new investment ventures and opportunities, high labour costs and shortage of skilled workers (Pillay *et al.*, 2013: 78). Through AsgiSA, the South African government aimed to reach its pledge to halve unemployment and poverty by 2014 (AsgiSA, 2006: 2).

### **The New Growth Path**

The development of The New Growth Path came as a result of the failures of the RDP, GEAR and AsgiSA macroeconomic policies, and it aimed at combating the high unemployment rate.

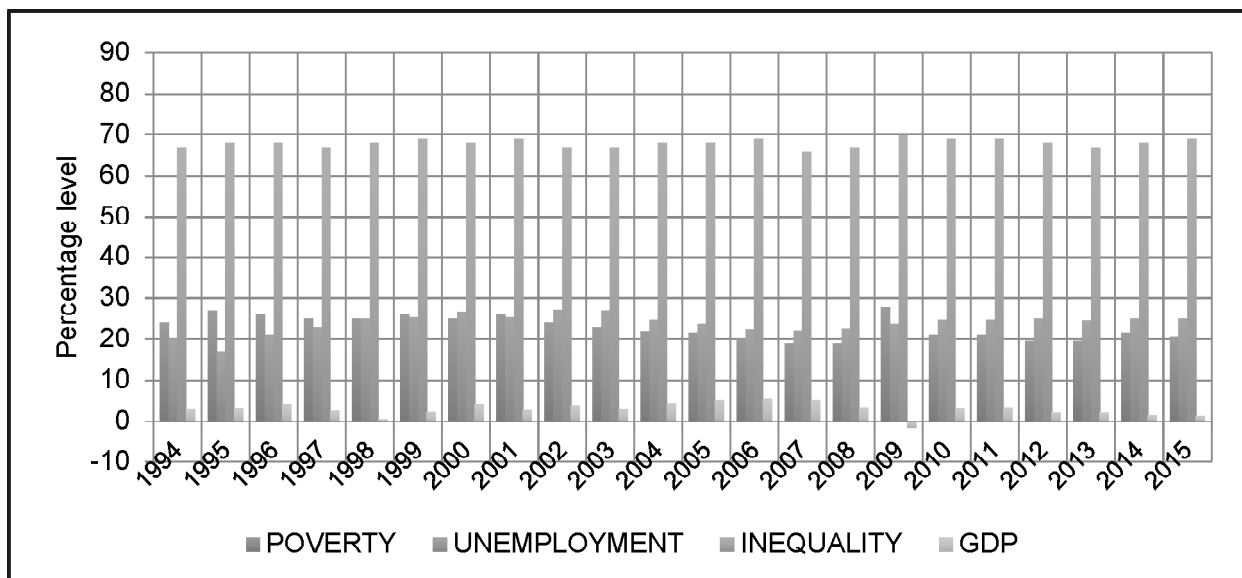
### **The National Development Plan – Vision 2030**

In 2011, the National Planning Commission (NPC) was tasked with developing a Diagnostic Report to highlighted how well the country is doing including the successes and challenges still faced. This report highlighted nine main problems facing South Africa, one being that too few South Africans were employed,

and the main reasons for this unemployment were a lack of skills and no job opportunities. The NPC was tasked to use the results gathered from the Diagnostic Report to come up with a vision plan for the 2030. The NPC (2011: 3) reaffirmed its commitment to the RDP and acknowledged that even though the growth in the economy has produced jobs over the past years, this is was not enough to solve the prevalent problems of unemployment currently faced in South Africa.

## FINDINGS AND CONCLUSIONS

Having considered the details of each of the macro-economic policies, the poverty, unemployment and inequality statistics were compiled. Figure 4 shows that there was no significant change in poverty, unemployment and inequality, which reveals the various macro-economic policies have not fully addressed the above mentioned socio-economic problems twenty years after democracy.



**Figure 4: Poverty, Unemployment, Inequality and Economic Growth Trends 1994 – 2015**

*Source:* Developed from Stats SA, Poverty Trends 2014, and The World Employment and Social Outlook: Trends, 2015.

The average figures for poverty as outlined in Figure 4 shows that despite numerous policies and strategies that South African government has implemented, the rate of recurrence of poverty that is associated with the lack of wages has not changed significant enough to liberate the majority of South Africans from poverty. This is indicated by an increase in poverty levels from 24% in 1994 to an average of 25.67% between 1995 and 2000. Studies by Tregenna and Tsela (2008: 70) which analysed the relationships between labour force earnings and inequality, and also came to the same conclusion as Leibbrandt and Woolard (2001) that there is a relationship between the two. StatsSA (2015) recently released GDP economic growth figures for the second quarter of 2015 which further showed a decline from 1.4 % in previous quarter to 1.3% in the current quarter. Thus, at the rate, South Africa is unlikely to meet its MGD commitment of reducing inequality and increasing economic growth.

The year 1994 is used as a point of reference because it marked the start of the new democracy in South Africa. Utilising the data obtained from StatsSA the study concluded that there was an insignificant

one percentage drop in poverty levels from 24% in 1994 to an average of 23% for the period of the study (1994 – 2015).

This study could assist in developing a strategy that would strengthen corporations at all spheres of government. The strategy could complement the current government initiatives on poverty eradication and reduction of inequality. The study highlights the misalignment of policy implementation and coordination. The SA government has to involve other intuitions whilst providing direction and utilising its capacity and resources to influence role players to in the preferred path.

## NOTES

1. This paper has been written solely by the author, based on the MBA dissertation of his Regenesys Business School student L Nomeva.
- 2,3 The literature review consisted of establishing what strategies have been implement to reduce poverty and inequality, report on and critique the policies by identifying the limitations of the macro-economic policies in reducing poverty and inequality.
4. Inequality is the differing shares of wages or prosperity within a population group of a country and has to do with the distribution of fortune within that population group (Lok-Desallien 1999: 5).

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