

UNIVERSITY OF STELLENBOSCH
ECONOMICS 348: ECONOMIC POLICY
Course outline 2018
Economic development: Poverty and distribution

Lecturer: Prof. Servaas van der Berg

Economic development encompasses more than just economic growth. It is **a process of fundamental structural change that permits a sustained rise in the living standards of the population as a whole**; growth, distribution and structural change thus all play a role. Whilst macro-economic issues are usually analysed mainly from a short and medium term perspective, in this course the emphasis falls on economic development, which implies a longer term perspective. The focus is on poverty and distribution and their interaction with growth and structural change, and the implications for society and the composition of the consumer market. Such an analysis is useful for policy analysis and projections in both the public and the private sector. In addition, poverty and income distribution are central issues in South African debates.

In Section A, South Africa is placed in broad international development perspective. Section B investigates poverty and distribution and their relationship in South Africa to various other structural issues, in particular job creation, wage trends and fiscal redistribution. Section C deals with current policy interventions aimed at improving poverty and distribution.

A. ECONOMIC DEVELOPMENT

Economic growth versus economic development; the role of structural change; cyclical versus structural analysis; South Africa's development status; a brief perspective on the development of economic development thinking from the early exclusive focus on economic growth

B. POVERTY AND DISTRIBUTION

B1 Concepts

Income versus basic needs; primary distribution of (personal) incomes, mainly payments to the factors of production; secondary distribution of income

B2 South African poverty and distribution patterns

Poverty, basic needs and distribution in South Africa; distribution and race, location, education in South Africa [**Read Yu & Van der Berg 2018**]; rise of the black middle class

B3 Structural change and distribution in South Africa [Read Banerjee et al. 2008]

Three broad structural changes from the mid-seventies still influence distributional trends:

- A deteriorating economic performance – evident in slower growth and employment creation,
- A shift in the economic balance of power – evident in changing wage trends, and
- A political (paradigm) crisis – evident in fiscal and urbanisation policy.

B3.1 Job scarcity

Economic growth and employment creation; capital intensity and factor price distortions; effect of inadequate job creation on primary income distribution

B3.2 Wages

The narrowing wage gap; its effect on primary income distribution across race groups

(Primary (personal) income distribution is largely determined by B3.1 and B3.2.)

B3.3 Secondary income distribution and the role of the budget [Read Van der Berg & Moses 2012]

Fiscal implications of the new political order; conflicting demands and the budget; scarcity of fiscal resources and the limits to fiscal redistribution

(Secondary distribution is determined by B3.3 as well as by B3.1 and B3.2, as primary income is a component of secondary income).

C. POLICY AFFECTING POVERTY AND DISTRIBUTION

Three policy approaches:

- Affirmative action in the labour market
- Social spending, particularly education [**Read Van der Berg 2007**]
- Social grants

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Werkprogram 2018
Ekonomiese ontwikkeling: Armoede en verdeling

Dosent: Prof. Servaas van der Berg

Ekonomiese ontwikkeling is meer as net ekonomiese groei. Dit is 'n proses van diepgaande struktuurverandering wat 'n volgehoue styging in die lewenstandaard van die breë bevolking moontlik maak; groei, verdeling en struktuurverandering speel dus almal 'n rol. Terwyl makro-ekonomiese vraagstukke gewoonlik hoofsaaklik vanuit kort en medium termyn ontleed word, val die klem in hierdie kursus op ekonomiese ontwikkeling, wat 'n langer termyn perspektief behels. Die fokus is op armoede en verdeling en die wisselwerking daarvan met groei en struktuurverandering, sowel as die implikasies vir die samelewing en die samestelling van die verbruikersmark. So 'n analise is nuttig vir beleidsanalise en projeksies vir beide die openbare en die privaatsektor. Daarby is armoede en inkomsteverdeling 'n sentrale kwessie in die Suid-Afrikaanse debat.

In Afdeling A plaas Suid-Afrika in breë internasionale ontwikkelingsverbande. Afdeling B ondersoek armoede en verdeling in Suid-Afrika en hulle verband met verskeie ander struktuurvraagstukke, veral werkskepping, loontendense en fiskale herverdeling. Afdeling C behandel kortliks huidige beleidsintervensies wat armoede en verdeling probeer verbeter.

A. EKONOMIESE ONTWIKKELING

Ekonomiese groei teenoor ekonomiese ontwikkeling; die rol van struktuurverandering; sikliese teenoor strukturele ontleding; Suid-Afrika se ontwikkelingstatus; 'n kort perspektief op die ontwikkeling van ekonomiese ontwikkelingsdenke vanaf die vroeë klem op ekonomiese groei

B. ARMOEDE EN VERDELING

B1 Begrippe

Inkomste teenoor basiese behoeftes; primêre verdeling van (persoonlike) inkomste, hoofsaaklik betalings aan produksiefaktore; sekondêre inkomsteverdeling

B2 Suid-Afrikaanse verdelingspatrone

Armoede, basiese behoeftebevreëning en verdeling in Suid-Afrika; verdeling en ras, geografie, opvoeding in Suid-Afrika [Lees Yu & Van der Berg 2018]; opkoms van die swart middelklas

B3 Struktuurveranderings en verdeling in Suid-Afrika [Lees Banerjee et al. 2008]

Drie breë struktuurveranderings sedert die middel-sewentigerjare beïnvloed steeds verdelingstendense:

- Swakker ekonomiese prestasie – sigbaar in laer groei en werkskepping,
- 'n Verskuiwing in die ekonomiese magsbalans – sigbaar in veranderende lone, en
- 'n Politieke (paradigma) krisis – sigbaar in fiskale en verstedelingsbeleid.

B3.1 Werkskaarste

Ekonomiese groei en werkskepping; kapitaalintensiteit en faktorprysverwringing; uitwerking van traë werkskepping op primêre inkomsteverdeling

B3.2 Lone

Die krimpende loongaping; uitwerking daarvan op primêre inkomsteverdeling tussen rasse (*Primêre (persoonlike) inkomsteverdeling word grootliks deur B3.1 en B3.2 bepaal*).

B3.3 Sekondêre inkomsteverdeling en die rol van die begroting [Lees Van der Berg & Moses 2012]

Fiskale implikasies van die nuwe politieke bestel; botsende aansprake en die begroting; skaarsheid van fiskale bronne en perke op fiskale herverdeling

(Sekondêre verdeling word deur B3.3 sowel as deur B3.1 en B3.2 bepaal, want primêre inkomste is 'n komponent van sekondêre inkomste).

C. BELEID RAKENDE ARMOEDE EN VERDELING

Drie beleidsbenaderings:

- Regstellende aksie in arbeidsmark
- Sosiale besteding, veral aan onderwys [Lees Van der Berg 2007]
- Staatstoelaes

PRESCRIBED READING / VOORGESKREWE LEESWERK

Read the prescribed readings as soon as possible in the order listed below, preferably before the work is covered in class. For some of the readings it is indicated what you should pay attention to when reading it.

Lees die voorgeskrewe bronne so gou moontlik in die aangegewe orde, liefsvoordat die werk in die klas behandel word. In party gevalle word by die bron aangedui waaraan u aandag behoort te gee by die lees daarvan.

Note / Nota: You may find some of the Stellenbosch Economic Working Papers of interest as background reading for this course and for preparing essays. You can find them at: / *Sommige van die Stellenbosch Economic Working Papers mag u interesseer as agtergrond vir hierdie kursus of as u opstelle moet skryf. U kan dit find by:*

- <https://ideas.repec.org/s/sza/wpaper.html>, or by googling Ideas Stellenbosch and then selecting Working Papers.

Yu, Derek & Van der Berg, Servaas. 2018. *Poverty in South Africa 1993-2016: A profile and trends based on recent household censuses and surveys.* Unpublished paper. Dept. of Economics, University of Stellenbosch.

This unpublished document can be downloaded from SunLearn / Hierdie ongepubliseerde dokument kan afgelaai word van SunLearn

(What are the patterns and dimensions of poverty in SA? What are the trends in poverty? What factors determine who the poor are? What constrains them in their efforts to improve their living standards?)

(Wat is die patroon en dimensies van armoede in SA? Wat is die tendense rakende armoede? Watter faktore beïnvloed wie arm is? Wat beperk die armes se pogings om hulle lewenstandaarde te verbeter?)

Banerjee, Abhijit; Galiani, Sebastian; Levinsohn, Jim; McLaren, Zoë; & Woolard, Ingrid. 2008. Why has unemployment risen in the New South Africa? NBER Working Papers 13167. National Bureau of Economic Research

This working paper can be downloaded from <http://www.nber.org/papers/w13167> / Hierdie dokument kan afgelaai word van <http://www.nber.org/papers/w13167>

(What do we know about trends in unemployment in SA in the period after the political transition? What could be possible reasons for high unemployment?)

(Wat weet ons omtrent werkloosheidstendense in SA in die periode na die politieke oorgang? Wat sou moontlike redes vir die hoë werkloosheidskoerse kon wees?)

Van der Berg, Servaas & Moses, Eldridge. 2012. How better targeting of social spending affects social delivery in South Africa. *Development Southern Africa* 29(1): 127-139

(To what extent was there a shift in social spending since the political transition? How successful is government at targeting social spending on the poor? What was the impact of the shift in social spending on social outcomes?)

(In watter mate was daar seder die politieke oorgang 'n verskuiwing in openbare besteding? Hoe suksesvol is die regering daarin om besteding op armes te rig? Wat was die impak van verskuiwing in sosiale besteding op sosiale uitkomst?)

Van der Berg, Servaas. 2007. Apartheid's enduring legacy: Inequalities in education. *Journal for African Economies* 16(5), November 2007: 849-880

(What role does education play in income distribution? How large are the racial differences in education? Did shifts of resources have a large impact on educational outcomes? What is needed to improve educational quality?)

(Watter rol speel onderwys in inkomsteverdeling? Hoe groot is rasseverskille in onderwys? Het verskuiwings van hulpbronne 'n groot verskil aan onderwysuitkomst gemaak? Wat is nodig om onderwysgehalte te verbeter?)

RECOMMENDED READING / AANBEVOLE LEESWERK

World Bank. 2018. *South Africa - Systematic country diagnostic: an incomplete transition - overcoming the legacy of exclusion in South Africa.* Washington, D.C.: World Bank Group.

<http://documents.worldbank.org/curated/en/815401525706928690/South-Africa-Systematic-country-diagnostic-an-incomplete-transition-overcoming-the-legacy-of-exclusion-in-South-Africa>

Van der Berg, Servaas & Hofmeyr, Heleen. 2018. *Education in South Africa.* Background paper to the World Bank's South Africa Systematic Country Diagnostic. Stellenbosch.

<https://openknowledge.worldbank.org/handle/10986/30017>