

Missing middle of SA's economic ladder threatens stability

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1 Jun 2015

Unless South Africa's persistent inequality is addressed, the country risks sliding into an accelerating downward spiral of rent seeking, cronyism and corruption.



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Whether a downward spiral accelerates - or, alternatively whether a new burst of inclusive economic growth and political competition can unleash a revitalised virtuous circle - will depend on both the choices of political elites and the levels and quality of civic engagement.

While there have been [significant gains](#) in the past 21 years of democracy, including a decline in absolute poverty from 28% of the population in 1996 to 11% today, there has been [little change in the economic power balance](#) of the country.

In comparison to other [middle-income countries](#), South Africa's [inequality levels](#) are stark. The rich are super rich, the poor very poor and there's a gaping hole in the middle. This is the greatest threat to stability.

Comparisons with peer countries

In many instances, such as government efficiency and control over corruption, South Africa is on par or performing better than its [middle income](#) peers. South Africa's performance is on a declining trend though in both government efficiency and control of corruption.

For our [working paper](#) we chose Brazil, Mexico, Thailand and Turkey as comparators. They have similar average incomes, medium-to-large population sizes, similar developmental challenges and resources to address them.

Where South Africa's performance falls short of its comparators is in the gaping hole between those who are wealthy or just comfortably off on the one hand, and the working poor on the other hand.

Skewed economic strata

A comparison of the share of expenditure within each of the economic strata in South African reveals a missing middle of the economy.

The top 15% of the population has a much higher share of expenditure in South Africa than those in peer countries. But below that we see a massive drop in spending capability. Below the top 25% of earners the share of expenditure of South Africans is sharply below that of any countries in the peer group.

Relative to other middle-income countries, South Africa's households are thus either (relatively) affluent or poor - with relatively few positions which provide a stepladder for moving incrementally from one economic stratum to another.

The sustainability of the democratic miracle of 1994 becomes worryingly uncertain if South Africa does not rectify this unbalanced combination of high earnings for highly skilled workers and owners of wealth, and high unemployment plus the very poor quality of jobs in the middle range of incomes.

Inclusive economic growth is key to ensuring South Africa's democracy remains on track. This is not an impossible dream.

The problem with a social compact

There are a number of possible steps forward for South Africa. But none will be easy.

The current economic blueprint, the [National Development Plan](#), is a coherent enough framework within which to build a more inclusive economy.

The challenge is translating the plan and policies stemming from it into vision and action.

The plan strikes a sensible balance between how the country can grow its economy while meeting development outcomes. A pre-requisite to implementing its proposals would be securing agreement between the main players on concrete next steps.

A social compact would most almost certainly deliver this outcome. But we doubt that a social compact is possible in the near future given the fractious relationship between key players in the country. Government and the ruling African National Congress are neither tightly organised nor decisively led. The business community is fragmented, and the trade union movement drifts from one crisis to another.

It will be some time before we are ready to think seriously about a broad [social compact](#) as the basis for sustained growth and development.

Inspired coalition building

What is clear is that the successful implementation of the NDP as well as achieving [inclusive economic growth](#) and sustaining democratic institutions should not be left in the hands of the political elite alone.

But there may be another way. Lessons can be drawn from a number of successes achieved by various levels of the state, often in partnership with civil society and the private sector.

These include:

- improvements in high-school performance in Free State province;
- new investment commitments of upwards of 3,500 MW of new capacity in [renewable](#) electricity generation;
- public-private-community partnerships in forestry development in the Eastern Cape province;
- quite successful scaling up of training in some (but certainly not all) of the [Sectoral Training Authorities](#);
- successful roll out in many provinces, even in difficult settings such as Limpopo, of labour-intensive [public works programs](#) which both provide employment and support the provision of local infrastructure and services;
- pro-active local development strategies in the Western Cape province; and
- provision of basic infrastructure to low-income settlements in [Ethekeweni](#), a large metropole on the east coast of the country.

The key is to direct attention to islands of effectiveness. Progress can be achieved through collective action by government, private sector and civil society even where the broader governance environment is difficult.

These localised successes, while still small, have the potential to inspire coalition building and experimentation to build momentum for inclusive growth. This could help build virtuous circles of hope and possibility.

This article is based on the [working paper](#) by the authors and Ingrid Woolard. The paper was funded by DFID as part of the Effective States and Inclusive Development (ESID) research program which is led by the University of Manchester.

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