Integrated social development as the accelerator of shared growth

Focus on key economic issues, no. 55 – March 2007

Towards accelerating growth

A demand-fuelled approach
Status quo strategy

Socio-economic development ("well-being") as a by-product of growth

However,

Accelerated growth may not necessarily be sustainable and translate into accelerated employment (and shared well-being)
Demand-side Policy Intervention

Expansionary Monetary and/or Fiscal Policy

A poverty trap
South-Africa’s growth-poverty performance

a) Growth-employment divergence

b) Growth-development divergence
Lack of shared income and inequality

a) Household income share

b) Inequality: South Africa relative to other emerging economies
A supply-side phenomenon

- An unresponsive labour market

- Structural unemployment

Several explanations can be offered for this increasing trend, which, to a large extent is the inheritance of apartheid and relates to a lack of human capital investment:

- Mismatches between skills supplied and demanded;
- Insufficient access to effective education and skills development opportunities;
- Prolonged periods of unemployment may lead to a deterioration of skills and motivation of individual job seekers;
- Little opportunities for the unemployed to learn-by-doing or on-the-job-training;
- Lack of labour mobility, exacerbated by high and increasing transport costs on the back of the rising fuel prices and the lack of infrastructure maintenance and development;
- Lack of sufficient social support services, which increase the demand for social security grants etc.
Structural impediments: a socio-economic dimension

**Diagram a:** Income and expenditure on education trends: a country comparison

- **Public expenditure on Education (% of GDP)**

**Diagram b:** Pupil performance across different levels of socio-economic status

- **Percentage with mark above 600**
- **Reading**
- **Maths**

**Education**
Structural impediments: a socio-economic dimension

Figure 7: A socio-economic dimension: Health

a) Public health expenditure and the availability of doctors - a country comparison

<table>
<thead>
<tr>
<th>Country</th>
<th>Physicians / 100,000</th>
<th>Health expenditure as % of GDP (2002)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mexico</td>
<td>200</td>
<td>3%</td>
</tr>
<tr>
<td>Chile</td>
<td>250</td>
<td>2.5%</td>
</tr>
<tr>
<td>Argentina</td>
<td>150</td>
<td>2%</td>
</tr>
<tr>
<td>South Africa</td>
<td>300</td>
<td>3.5%</td>
</tr>
<tr>
<td>Brazil</td>
<td>200</td>
<td>2%</td>
</tr>
<tr>
<td>China</td>
<td>100</td>
<td>1%</td>
</tr>
<tr>
<td>Egypt</td>
<td>50</td>
<td>0.5%</td>
</tr>
<tr>
<td>Philippines</td>
<td>80</td>
<td>1%</td>
</tr>
<tr>
<td>Nigeria</td>
<td>100</td>
<td>0.5%</td>
</tr>
</tbody>
</table>

b) Growth in the number of medical practitioners and nurses per 100,000 of the population

<table>
<thead>
<tr>
<th>Year</th>
<th>Doctors</th>
<th>Dentists</th>
<th>Nurses</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>0.015</td>
<td>0.020</td>
<td>0.010</td>
</tr>
<tr>
<td>1992</td>
<td>0.014</td>
<td>0.018</td>
<td>0.009</td>
</tr>
<tr>
<td>1993</td>
<td>0.013</td>
<td>0.017</td>
<td>0.008</td>
</tr>
<tr>
<td>1994</td>
<td>0.012</td>
<td>0.016</td>
<td>0.007</td>
</tr>
<tr>
<td>1995</td>
<td>0.011</td>
<td>0.015</td>
<td>0.006</td>
</tr>
<tr>
<td>1996</td>
<td>0.010</td>
<td>0.014</td>
<td>0.005</td>
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<tr>
<td>1997</td>
<td>0.009</td>
<td>0.013</td>
<td>0.004</td>
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<td>1998</td>
<td>0.008</td>
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<td>0.003</td>
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<td>1999</td>
<td>0.007</td>
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<td>2000</td>
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<td>0.010</td>
<td>0.001</td>
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<td>0.009</td>
<td>0.000</td>
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<tr>
<td>2002</td>
<td>0.004</td>
<td>0.008</td>
<td>-0.001</td>
</tr>
<tr>
<td>2003</td>
<td>0.003</td>
<td>0.007</td>
<td>-0.002</td>
</tr>
</tbody>
</table>

Health
Crime

Structural impediments: a socio-economic dimension

Access to financial resources and markets
Structural impediments: a socio-economic dimension

b) Access to financial markets

Access to a bank account
Never banked before
Debit/cheque card
Savings/transactions accounts
Funeral coverage
Credit cards
Short term policies
Pension fund
Mortgage bond
Muarai account (low cost banking)

Percentage

 Infrastructure and support services
Structural impediments: a socio-economic dimension

b) Household access to piped water

Means of access

- Piped in dwelling
- Other sources

Percentage

Infrastructure and support services

Structural impediments: a socio-economic dimension

c) Energy: sources available to households

Type of energy source

- Electricity from mains
- Paraffin
- Wood
- All Other

Percentage

Infrastructure and support services
Structural impediments: a socio-economic dimension

a) Government socio-economic expenditure

Social security

Structural impediments: a socio-economic dimension

b) Growth in number of beneficiaries and real growth in social grants (2001-2005)

Social security
Poverty – a self-fulfilling prophesy

a) Growth potential constrained by lack of shared well-being

- Lack of shared well-being
- Limited growth potential
- Lack of shared income
- Under-utilisation of resources
- Not participating in economic activity

The flipside of the "growth-to-employment" coin

b) Current growth potential and consequences

- Excess capacity Actual < Potential
- Excess capacity Actual > Potential
- BOP deficit
- R/S depreciate
- Inflation
- Interest rates

Limited growth potential
Macro-econometric modelling results

Model evidence

a) Results from the Macro-econometric model

- Inflation
- GDP growth
- Productivity
- Employment
- Disposable Income

Percentage change

Period
1 2 3 4 5 6 7 8 9 10
-10% -8% -6% -4% -2% 0% 0% 2% 4% 6% 8% 10%

b) Status quo

Demand-side policy intervention

- No incomes
- Demand for goods and services
- Domestic production
- No exports
- Imports

No employment

Price and Interest Rates

Supply-side policy intervention

b) New paradigm

Spending

Income

Demand for goods and services

Domestic production

Exports
Imports

Employment

Neutral balance of payments
Demand = Supply

Neutral Price and Interest Rate effects
Investment in Human Capital and Socio-economic Conditions

Structural supply/capacity constraints
Model evidence

b) Results from the Computable General Equilibrium (CGE) model

CGE modelling results

GOVERNMENT

GROWTH

1. Community social package
2. Household social package
3. Social Development: Youth (0-15 years)
4. Social Development: Pensioners (60+ years)
5. Social Partners
6. Business (nominal + social wage)
7. Civil society (nominal + social wage)

Mobilize
Empower

Poverty stricken population (18-60 years)

Dependency

Poverty alleviation

Job creation

Growth engine

Social Partners

Social Partners

Social Partners

Social Partners

Social Partners
Realizing the ASGI-SA ideal

Thank you