



Focus Area 3: Inclusive Growth

Gaps in Research on the Pursuit of Inclusive Economic Growth in South Africa

I. Background

In June 2012, the Southern Africa Labour and Development Research Unit (SALDRU) at the University of Cape Town entered into a contract with the National Treasury to conduct a three year project, REDI3x3, that would encourage mutually beneficial research between the academic and policy making communities on employment and unemployment, income distribution and inclusive growth. The project aims to develop a national network of researchers, with financial assistance for both academic researchers and their graduate students. There are three focus areas: Employment/Unemployment, Income Distribution and Inclusive Growth, which are being coordinated by Prof. Frederick Fourie (UFS), Prof. Murray Leibbrandt (SALDRU/UCT) and Prof. Haroon Borat (DPRU/UCT) respectively.

It is clear that the three focus areas are strongly inter-related with considerable overlap. The objective of this document is thus to provide a framework that will help to guide researchers on the types of questions that fall under the Inclusive Growth focus area. The document follows from a workshop held at UCT on the 12th of September 2013, at which researchers from universities, research institutions and government departments presented their recent and on-going work on issues relating to inclusive growth in South Africa. This produced a set of additional insights into knowledge gaps in this area.

This document first summarises some data-related work that already is underway, and then articulates the relevant gaps in the current state of our knowledge, broadly within the area of *Inclusive Economic Growth* that were identified at the meeting, *inter alia*. Neither the summary nor the identification of the gaps is exhaustive. The document should be viewed a *guide* to potential research topics and a research agenda in this focus area.

II. Data infrastructure

In an attempt to underpin research by filling data gaps, REDI3x3 has already launched a number of data infrastructure projects that will result in new data becoming available to the research community. These are:

- Work being done by DataFirst on imputing values in various OHS/LFS surveys, harmonising earnings measures over time across the various national cross-sectional datasets, and creating a comparable time series of these cross-sectional datasets.
- SARS work on the infrastructure required for researchers to obtain managed access to tax data that will allow for more complete estimations of the distribution of income in South Africa.
- Work being done by the Development Policy Research Unit (DPRU), UCT, to prepare, align, and combine the various IES datasets into a single, unified and updated dataset that is harmonised for comparison over time.

The outputs of this work will become available in the form of publicly accessible databases.

III. Current knowledge gaps on inclusive growth in South Africa

As a point of departure for structuring thinking on the notion of inclusive growth, we find some resonance with the following definitional parameters laid out by the United Nations Development Programme (UNDP):

'Inclusive growth is both an outcome and a process. On the one hand, it ensures that everyone can participate in the growth process, both in terms of decision-making for organising the growth progression as well as in participating in the growth itself. On the other hand, it makes sure that everyone shares equitably the benefits of growth. Inclusive growth implies participation and benefit-sharing. Participation without benefit sharing will make growth unjust and sharing benefits without participation will make it a welfare outcome' (UNDP, 2013).¹

While there are competing and complementary definitions of inclusive growth, which include challenging the very label of 'inclusive growth', we utilise the UNDP definition as an organising framework within which to pursue a research programme within the focus area. The concepts of participation and benefit-sharing are useful to anchor, and focus, the formulation of knowledge gaps and subsequent research on inclusive growth.

Below we outline what we appears to be some of the major gaps in the research agenda on inclusive growth, broken down according to sub-themes. This list is intended to be used as a reference for abstracts and research proposals submitted to REDI3x3 in the focus area of inclusive growth.

¹ <http://www.ipc-undp.org/pages/newsite/menu/inclusive/whatisinclusivegrowth.jsp?active=1>

1. Micro-economic determinants of inclusive growth

It is often argued that the constraints on South Africa's economic growth are driven by micro-economic constraints. Other constraints relate to increasing the inclusiveness of growth. The gaps in the research agenda are driven by topics such as:

- a. Exploring in more detail, the importance of linkages between survivalist, informal and formal segments to enhance participation.
- b. A better appreciation of the links between education, training, labour market opportunities and economic participation.
- c. What is the role of small enterprise development and entrepreneurship in broadening economic participation in the formal and informal sectors?
- d. How can employment services, job search and work placement services improve inclusive economic growth?
- e. What is the estimated impact of infrastructure investment on employment and the distribution of economic growth opportunities?
- f. Do the relative prices of capital and labour, compared to comparator economies for example, impact on the inclusivity of growth?
- g. A better understanding of how wealth arrives at poorer households and then passes through those households as spending.
- h. What are the possible solutions to balancing existing comparative advantages against moving up the value chain in sectors outside of South Africa's current advantage?
- i. How can trade and industrial policy change to increase participation and benefit-sharing in the growth process?
- j. How do current tax incentives impact on labour intensity and participation? How can tax reform make a difference?

2. Spatial dimension of inclusive growth

Globally, more than half of the world's population currently lives in cities. This number will increase dramatically over the next decade. South Africa is no different in that 62 percent of the population lives in urban areas. Inward migratory patterns suggest that this number will rise steadily in the near future. Cities therefore, have become the locus for economic growth and development. Yet rural-urban spatial divides continue to constrain labour and product market access. Work in the urban planning and urban geography fields enhances understanding of the spatial dimension and its relevance to inclusive economic growth in the urban-rural context. The following are important gaps in the research programme:

- a. What is the connection between urban and rural areas in generating migration flows?
- b. How do rural-urban interactions impact on economic opportunities, transport, financial and other linkages?
- c. What are the most appropriate employment-intensive rural economic development strategies?
- d. How can agriculture, land reform and rural development serve as elements of an inclusive growth strategy?
- e. How can transport services be re-oriented to allow better access to work opportunities?

- f. What role can be played by housing development, maintenance and upgrading, housing finance and housing market opportunities in the pursuit of employment (participation) and broader inclusive economic growth (in both the formal and informal sectors)?
- g. Can regional development and trade serve the ends of a South African inclusive growth strategy?
- h. What is the relationship between infrastructure planning, service delivery and institutional upgrading, particularly in the informal sector?
- i. Are there potential benefits of creating special economic zones in townships to encourage economic activity?
- j. What are the spatial and regulatory elements that create potential barriers to entry for new firms?

3. Social Policy

Within the areas of both fiscal/budgetary and monetary policy and beyond, issues of inclusive growth also loom large. The following gaps in the research are evident:

- a. How should the social policy be fine-tuned to increase both participation and benefit-sharing?
- b. The nature of fiscal allocation since 1994, the role of social assistance, and other forms of social expenditure in contributing to inclusive growth, require more detailed micro-level analysis. For example, has the delivery of these assets managed to counter the 'inequality of opportunities' faced by most poor South African households?
- c. What is the role played by the quantity of delivery – as opposed to quality and pricing – in areas such as education and energy in ensuring the inclusivity of fiscal policy since 1994?
- d. Can monetary policy be a catalyst for an inclusive growth agenda, or are its instruments too limiting and South Africa's growth constraints too structural in nature, for such a role with regard to participation and benefit-sharing?
- e. The role of children, youth, women and the disabled: what has been the progress, or lack thereof, across these different cohorts, in the pursuit of participation and benefit-sharing in the economic growth process? What role is there for policy?
- f. What has been the impact of violence and property crime on inclusive economic growth in South Africa? Is it different for the formal and informal sectors?
- g. Is there any evidence on the long-term impact of state transfers in the form of social grants and financial assistance, and what is the potential effectiveness of conditional social assistance?
- h. How have poor health outcomes, through both socio-economic conditions and public health service delivery, impacted on participation and benefit-sharing of the growth process?
- i. What are the health determinants of economic growth (for example, what effect does ARV provision have on growth)?
- j. How do different tax burdens fall on poor households and (formal and informal) businesses?

4. Institutions and Governance

An essential component in the pursuit of inclusive economic growth is that political, judicial and economic institutions are capable, responsible and accountable. A well-functioning regulatory environment is also essential – in particular, an optimal set of domestic regulations can provide support to a more inclusive growth process. Gaps in the research include:

- a. What are some of the most important non-state institutions and how do these impact on inclusive growth (for example, the system of migrant labour can be conceived of as an institution)?
- b. What is the impact of the quality and effectiveness of state institutions on the pursuit of inclusive economic growth? For example, do the Competition Policy institutions, or the telecom institutions or those institutions concerned with credit provisions to microenterprises; function in a manner which is oriented toward inclusive economic growth processes and outcomes (in both the formal and informal sectors)?
- c. How effective are existing enforcement mechanisms here?
- d. What is the impact of corruption on economic growth processes and outcomes?
- e. How should factor and product market regulatory environments be changed to increase participation and benefit-sharing in economic growth (in both the formal and informal sectors)?
- f. What are the regulatory costs of doing business and how do they hinder (or not hinder) economic growth in general, and inclusive economic growth in particular?
- g. How effective are the existing frameworks for the recently unemployed and is there scope for more targeted re-employment and skills training programs?
- h. How can skills training and the role of Further Education and Training (FET) institutions link more closely to labour market demand and entrepreneurial opportunities?
- i. What are the crucial relationships between traditional authorities, democratic rights, land ownership and the development of rural economies, and how do these relate to more inclusive rural growth?
- j. How do existing social norms and patterns of intergenerational mobility affect inequality and economic participation?

5. Sustainable Development

It is in this area that perhaps the most obvious research gaps exist, in that the two streams of research – the one focusing on sustainability and the other on economic development and inclusive growth – have not really coalesced. Essentially the research gaps include:

- a. How can one conceive of an inclusive growth strategy and a sustainability agenda, which are inter-twined and inter-dependent?
- b. How can we link government's national economic development plans to one which builds in the protection of our natural resources?
- c. What is the economic gain and the economic contribution (including poverty reduction gains) of our natural resource environment?

- d. Can we provide a comprehensive measurement and understanding of the jobs and livelihoods linked to existing biodiversity assets?
- e. What are the mechanisms that facilitate investment in South Africa's ecological infrastructure, and how can arrangements be structured through partnerships at the local level?
- f. What are the regional elements of sustainable development in the Southern African region, and how can cooperation improve inclusive growth prospects?

IV. Conclusion

The above gaps list, as should be clear, has traversed a wide range of issues and topics. However, it is also evident that numerous gaps in the research agenda may have been omitted in the above. An engagement with researchers involved in this focus area is thus encouraged should there be a preference, and strong arguments/suggestions for additional topics, or gaps not covered in the above, will be encouraged.

Haroon Borat

Convenor: Focus Area 3

REDI3x3

14 October 2013