Overview of the Social Partners Dialogue with Professor Thomas Piketty

Held 2 October 2015

Written by Monitor Deloitte, an international strategy consultancy, on behalf of the Nelson Mandela Foundation
Introduction

Thus far in 2015 South Africa has experienced an electricity supply crisis, labour unrest, a slump in commodity prices, a substantial depreciation of the rand, significantly low producer and consumer confidence ratings, increased crime\(^1\), and a downward revision of gross domestic product (GDP) growth forecasts from an already low 3% to 2%. On various levels such a bleak outlook does not bode well for South Africa, who after 21 years of democracy still fights extreme poverty and unemployment, and remains characterised by some of the highest levels of income inequality\(^2\) in the world\(^3\). The low level of economic growth is unlikely to bring rapid relief to an increasingly impatient society, and there is an urgent need to explore new paradigms of thinking and solutions for South Africa’s challenges.

Against this backdrop the Nelson Mandela Foundation (NMF) invited Professor Thomas Piketty, a well-known French economist, to present the annual Nelson Mandela lecture and participate in a Social Partners Dialogue with business, government and labour on inequality and poverty in South Africa. The Dialogue aimed to explore issues that underpin inequality and strategies to address this deep seated problem. The NMF is in the process of launching an inter-sectoral project which aims to explore ways to shift societal patterns through four dimensions: mitigating strategies against poverty and growing inequality; a dynamic state, society and private sector; understanding the education sector through deep analyses supported by data; and a commitment to community level dialogue. It is keen to not only work with the academic community and civil organisations, but also with labour and government to address South Africa’s difficult issues.

This document aims to provide an overview of The Dialogue that took place on Friday the 2\(^{nd}\) of October. The document is not meant to be an exhaustive account of the factors that underpin the issues that were discussed, instead it focuses on contextualising key issues and themes within Professor Piketty’s work, highlights key strategies and solutions proffered by panellists and participants; and highlights areas for further research.

A New Paradigm

Professor Piketty came to the fore with his book *Capital in the Twenty-First Century* that counters the key premise of the Theory of the Kuznet’s Curve. The theory holds that there is a natural reduction of inequality in advanced stages of economic development, or a free market system produces what is known as ‘trickle down benefits’ to the poor over time. Piketty’s research contradicts the belief that pursuing economic growth leads to higher income for all participants in the economy, and lower levels of income inequality. He cites violent shocks such as World War I, the

---

\(^1\) [www.crimestatssa.com](http://www.crimestatssa.com), accessed on 8 October 2015


\(^3\) Two years later, *JP Landman, August 2015*
Great Depression and World War II as having a greater impact on the reduction of inequality in North America, Europe and Asia through new social and fiscal policies and progressive taxation than natural, process-based market forces⁴.

The core of Piketty’s work lies not in the fact that he refutes the widely accepted theory, but rather in his conclusion that the converse is true -- the unrestrained pursuit of growth in a free market system will result in increasing levels of income inequality. This implies that some form of intervention is required to prevent the inequality gap from widening further, and Piketty makes several recommendations based on his understanding of the drivers and dynamics of inequality.

If nothing else, Thomas Piketty has succeeded in putting the questions of income distribution and equity back in the forefront of political economy discourse. Those who subscribe to collectivist ideologies see Piketty’s work as justification for the nationalisation and redistribution policies they propose. Ironically, despite his views contra to traditional economic inequality theory, Piketty does not appear to be calling for radical change to the free market system, but instead focuses his recommendations on addressing deficiencies identified in the system to improve social outcomes rather than replace the system altogether.⁵

Relevance to South Africa

Whilst Piketty’s work is of consequence to the field of economics and the global economic and political arena, it has particular significance for South Africa. The former apartheid system epitomises the very definition of structural inequality in that way that it manipulated the basis of the economy, instituted spatial inequality and undermined the development of human capital through varying education opportunities.⁶

South Africa dismantled apartheid in the early 1990s and implemented a series of reforms, which inter alia sought to liberalise the economy through the pursuit of growth objectives. Traditional economic theory would suggest that South Africa’s overall income inequality should be decreasing, yet evidence suggests the opposite is true despite extended periods of sustained growth⁷.

More specifically, research by Professor Piketty shows a disconcerting increase in income inequality levels – today 60% to 65% of South Africa’s total income is earned by the top 10% income earners⁸, a higher ratio than twenty years ago⁹. By comparison this share of income stands at 50% to 55% for

---

⁵ Thomas Piketty Undermines the Hallowed Tenets of the Capitalist Catechism, Jeff Faux, The Nation, April 2014
⁶ Income and non-income inequality in post-apartheid South Africa, Bhorat, van der Westhuizen, Jacobs, 2009
⁷ As above
⁸ The top 1% to 5% of income earners are 80% white
Brazil’s top 10% earners; 45% to 50% for the United States and on average 30% to 35% in Europe. Many cite high levels of unemployment as the reason for this uneven distribution of income in South Africa, yet in Spain, with average unemployment levels of 25% and exceptional high youth unemployment, the income earned by the top 10% mirrors the European average of 30% to 35%. Piketty thereby confirms that the pursuit of economic growth in and of itself does not lead to a reduction in inequality.

**Social Partners Dialogue – Progress and Challenges**

In an open discussion, collaborating with Professor Piketty, prominent business leaders, government officials and representatives of labour explored the issue South Africa’s inequality, and its close relationship to poverty; which many believe to be ‘two sides of the same coin’. Many participants agreed that South Africa still has a lot of work to do, yet at the same time also highlighted several accomplishments, which should serve as a valuable foundation for future initiatives.

From a tax perspective South Africa implemented a progressive system after 1994, and introduced wealth taxes to include estate tax, capital gains tax and property tax. There are different views on the extent to which another wealth tax would bring a significant amount of additional revenue. Many tax payers have limited trust in government’s ability to administer revenue collected effectively and efficiently, and avoid spending for the sake of spending by focusing on quality and impact.

Education remains a burning issue for business and labour, and the sector is in dire need of more quality spending by government. Though a significant portion of national budget is allocated to education, developed countries such as the United States of America spend approximately four times more on education per child than South Africa.

On the university front South Africa counts its one million black university students as a key social mobility achievement. Nevertheless much remains to be done – though South Africa’s student population has doubled since 1995, the number of graduates have not increase in similar rapid fashion. Whilst apprenticeships for graduates work well, an equivalent programme that focuses on non-university skilled young workers does not exist.

Despite the inroads in university education, many of South Africa’s youth remains unemployed. South Africa still faces debilitating high levels of unemployment, a symptom of inequality. The humiliating experience of unemployment is amplified by unequal skills, limited access to the right skills and unequal spatial distribution where people are unable to move to where jobs are.

Quality employment opportunities remain limited, and notwithstanding labour market reforms and the introduction of employment equity legislation and targets; the workplace remains untransformed in many instances and remuneration too often still reflects apartheid area wage
structure. The raising level of income inequality is especially visible in the high levels of executive pay, with limited evidence that it correlates with an increase in productivity, and variable remuneration systems increase successful outcomes for companies and society.

Efforts to transfer wealth and build black owned assets reached limited levels of success. Black Economic Empowerment (BEE) initiatives were voluntary and at market prices, and BEE should focus on balancing existing access with new access. Land reforms have been limited and seldom successful when implemented due to skills shortages.

Generally poverty has declined, falling fastest during South Africa’s economic boom period between 2001 and 2008. Using the poverty line of R620 per month (in 2011 rands) the percentage of poor South Africans have decreased from 57% in 2006 to 45.5%. The number of South Africans living in extreme poverty, using a poverty line of R 321 per month (2011 rands), is currently approximately 20%, down from nearly 27% in 2006\(^\text{10}\). The most significant impact came from social grants and a child support grant, which currently provides a level of support to some 16 million South Africans. Nevertheless too many South Africans remain mired in poverty, and inequality, and fully dependent on public services. The end of the commodities boom and its impact on the economy signal that more will have to be done in the near future to buffer South Africans against further poverty.

The Social Partners Dialogue participants agreed that the majority of existing initiatives and reforms were top-down and failed to empower people on a community level; many also questioned if comprises made in the early 1990s during negotiations on political and economic reforms have led to further inequality; and there is a sentiment that compacting by the economic elite may have eroded the impact of policies intended to reduce inequality.

Social Partners Dialogue – Potential Solutions

What then are potential solutions to reduce inequality and poverty? Several strategies and recommendations were proffered by Dialogue participants, and in some instances these strategies and solutions correlate with initiatives outlined in the NDP (these links are included in the discussion below where applicable).

Introduction to a minimum wage

The introduction of a minimum wage featured strongly in the debate. A minimum wage would avoid the exploitation of low skilled workers, particularly in areas where workers have a limited opportunity to move or access jobs far away. Nevertheless different sectors of the economy would have a different level of affordability for a minimum wage, and further work will be required to replicate the success of the introduction of minimum wages for domestic workers, and avoid the displacement effect that a minimum wage brought in the agricultural sector. Many believe that

\(^{10}\) Gaps in South Africa’s anti-poverty strategy, a concept paper for the Nelson Mandela Foundation
Brazil’s introduction of a minimum wage provides a valuable example for South Africa (see comment at end of document).

Though the NDP explicitly sets out the need to address the working poor’s low wages, it recommends a social wage and raising rural incomes with no mention of a minimum wage – a key solution to inequality and iterated by many Dialogue participants.

Additional wealth tax

A solution emphasised in Professor Piketty’s public lecture, an additional wealth tax linked to assets, rather than income, could over time provide a relief to inequality. Such a tax would not only garner additional revenue but also provide greater transparency on the ownership and distribution of ownership of wealth in South Africa; Piketty emphasis that such a tax would shed light on the true owners of South Africa’s wealth and provide more accurate data – currently a shortcoming in South Africa.

Quality education

South Africa needs quality public primary and secondary education with equal access and affordability for all, and a well-functioning public education system. Strategies to improve the quality of public education should be informed by data and analyses – an aspect that the NMF strongly advocates in its inter-sectorial project.

Remuneration and employee participation

The mandate of the board of directors should be re-looked in instances where board committees only examine executive pay. The board should extend its the remuneration philosophy to consider all levels of pay, seek to reduce the ratio between highest paid executives and lowest paid workers, and ensure decent, fair wages for all. An interesting example in this regard is PPC, a publicly listed South African company, which reduced the ratio between highest and lowest pay from 140:1 to 40:1 by ‘freezing’ salary increases on senior levels and rapidly increasing lowest wage levels quickest.

Another strategy entails employee participation on company boards and corporate governance. Research demonstrates that the participation of workers on boards transform the way an organisation thinks about its long-term strategy versus short-term profits, and increases productivity. In Sweden a third of board seats are made available to workers, and in Germany half of board seats go to workers. South Africa’s new Companies Act No. 71 of 2008 and subsequent amendments introduced an ethics board committee, which may provide an interim platform to house worker participation on board level.
Government accountability

The public sector should be held accountable, and government should seek to improve its efficiency. South Africa should strive to build strong inclusive institutions that fight corruption, and both public and private sector should also be held accountable for corruption. It destroys faith in the system and further amplifies inequality. The NDP recognises that the South African public has a low level of trust in government and perceive the public and private sector to be corrupt. It highlights that corruption frustrates society's ability to operate fairly and efficiently, and negates government's ability to deliver on its development objectives.

Increasing quality employment

The number of decent jobs and employment opportunities should be increased; employment remains one of the key instruments to reduce inequality. To reduce the effects of poverty over the short term, the NDP’s Direct and Immediate Measures outline the introduction of active labour market policies and incentives to grow employment, particularly for the youth and in sectors that employ relatively low skills. The NDP advocates strengthening of youth service programmes and introducing community-based programmes that offer young people life skills training. Students from poor families should be supported through full funding assistance that covers tuition, books, accommodation and living allowances. Other recommendations include a formalised graduate recruitment scheme for the public sector, expanding the role of state-owned enterprises in training artisans and technical professionals and providing the private sector with incentives to set up mentoring programmes. From a policy perspective, the NDP proposes a tax incentive to employers to reduce the initial cost of hiring young labour market entrants and subsidy to the placement sector to prepare and place matric graduates into work.

The NDP also expounds on the role of education, vocational training, work experience, public employment programmes, public transport and access to information in creating sustainable employment. It mirrors Professor Piketty’s view that unemployment originates not only in lack of skills due to poor quality education, but spatial settlement impediments; which should be removed. Short-term plans include promoting mixed housing strategies and more compact urban development to help individuals access public spaces and facilities, state agencies, work and business opportunities. Investment in public transport is also required to assist low income households gain mobility.

---

12 As above
These solutions relate directly to the four effective rights that Professor Piketty urges South Africa to secure: “the right to work for a decent wage; the right to good quality education; the right to have access to property; and...most importantly, the right to real economic and political democracy”\textsuperscript{13}.

The NDP emphasises that these aspects are interrelated and will not bring success on their own; rather that the combination and synergy of solutions for these will reduce poverty and inequality over time.

**Future research**

One topic not explored during the Social Dialogue, nor in Professor Piketty’s public lecture held on the 3\textsuperscript{rd} of October, is the question of nationalisation vs privatisation – a topic that often comes to the fore in economic discourse by South Africa’s largest political parties. The proponents of privatisation believe that large, complex state-owned entities such as Eskom would perform better under the private sector ownership and management, and enable a stronger contribution to economic growth. The proponents of nationalisation believe that current government ownership of key state owned entities is not sufficient to redress inequality and poverty, and advocate for the nationalisation of key sectors such as mining to reduce income inequality and create an equal playing field for workers.

Many of South Africa’s large state owned enterprises have performed below expectations, and government may need to prove its capability in driving and achieving greater results and accountability in these enterprises, before garnering support for a broader nationalisation agenda that seeks to counter inequality. On the other hand, some of the world’s largest and most influential companies are state owned enterprises\textsuperscript{14}; the example of Britain’s rail vs French Rail provides evidence that privatisation does not necessarily equate to more effective management of assets; and in light of Professor Piketty’s work further privatisation may not necessarily lead to a reduction in inequality and poverty. The role of the state in the economy, and the impact of nationalisation or privatisation on inequality, lies beyond the scope of this document. Nevertheless future research could provide an important contribution to understanding and solving the complexity of inequality and poverty.

**In closing**

The Bill of Rights, the cornerstone of democracy in South Africa, affirms the democratic values of human dignity, equality and freedom. South Africa’s constitution mandates equality, and to fulfil this human right many Dialogue participants emphasised that equality should be prioritised over other

\textsuperscript{13} Transcript of Nelson Mandela Lecture 2015, www.nelsonmandela.org, accessed on 9 October 2015

\textsuperscript{14} The Problematic Politics of Eskom, Jeff Rudin, The Daily Maverick 25 May 2014, www.dailymaverick.co.za, accessed on 19 October 2015
demands, and that a more inclusive society should be built. Policies need to be aligned and harmonised to support the achievement of the much desired, and important goal of equality for all.

**Brazil – Minimum Wage vs Social Grants**

Despite being one of the richest countries in the world measured by per capita income, Brazil has one of the highest rates of inequality (Gini of 54.2) and also suffers from high levels of poverty\(^{15}\).

Brazil has managed to reduce its high inequality rate since 1990, which brought positive impacts on poverty. During the period between 1993 and 2008 Brazil’s Gini coefficient fell from 59.4 to a level of 54.2. In addition, during a period of moderate growth between 2001 and 2004, Brazil experienced a reduction in poverty from 33.3% to 31.5% and in extreme poverty from 14.3% to 12.0%\(^{16}\)\(^ {17}\).

A large portion of these results have been attributed to significant investment in social protection, which include quality spend in education and health, and economic policies such as the minimum wage. Studies have however shown that despite making a positive contribution to the reduction in inequality, the minimum wage was not as efficient or as effective as other social protection tools, including direct transfers or social grants. Whilst a national minimum wage will likely benefit many in South Africa, social protection policies also have an important role to play based on their likely ability to generate the greatest reduction in inequality in the most efficient manner.

\(^{15}\) Social protection in Brazil: Impacts on poverty, inequality and growth, Holmes, Hagen-Zanker, Vandemoortele, Overseas Development Institute, 2011

\(^{16}\) Income Inequality and Labor Market Dynamics in Brazil”, Filho, de Holanda, 2012

\(^{17}\) Markets, the State and the Dynamics of Inequality: Brazil’s Case Study, Barros et al, UNDP, 2009