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South African Institute of Race Relations

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Poverty

A CHALLENGE TO LOCAL GOVERNMENT TOO

All levels of government have a role to play in the fight against poverty in South Africa.

This issue of the Institute's new publication, *Fast Facts for Local Government* (F3LG), carries an in-depth assessment of the challenge faced by South Africa in combating poverty. Poverty is broadly defined, to include not only income poverty but also its consequences, such as malnutrition and illiteracy. Other dimensions of poverty include lack of access to clean water, or healthy sanitation, or cheap transport.

Unemployment is probably the single most important cause of poverty — although it is remarkable how often discussions of poverty omit any mention of jobs.

Citing statistics published by the Presidency, our article suggests that the incidence of poverty has been declining, although this trend may now be reversed thanks to the likely impact of the global economic recession on South Africa. The recession is also likely to cause unemployment to start rising again.

With funding from the European Union routed via the Friedrich Naumann Foundation for Liberty, the Institute has launched a project to assist local government combat poverty in South Africa. Part of the project involves supplying information to local councillors and officials that they can use to fight poverty. F3LG will be one of the vehicles for the supply of such information.

This issue of F3LG is essentially a scene-setter. Apart from giving some of the basic statistical information, it reports some of the strategies against poverty being pursued or planned by the Government. It also identifies some of the possible weaknesses in policy and government capacity.

In South Africa's highly centralised political system, most of the policies affecting poverty levels are determined by the central government. Provincial and local government have lesser roles to play in overall policy. But local government has specific responsibilities in the provision of services (in particular electricity and gas reticulation, municipal health, public transport, water, and sewerage). In terms of the Constitution, it must also 'promote social and economic development' and a 'safe and healthy environment'. Another task is to 'give priority to basic needs'.

F3LG will obtain, collate, analyse, and publish information in all these fields. It will also supply relevant provincial, national, and international information to enable local councillors and officials to monitor the environment in which they operate. Policy and governance issues will also be discussed. Like provincial and local government, local authorities have severe capacity problems that handicap their ability to fulfill their functions. But local authorities have something of a democratic advantage in that some of their members are directly elected at ward level, whereas the other two levels of government have no equivalent constituency system.

— John Kane-Berman

"This document has been produced with the financial assistance of the European Union as well as the Friedrich Naumann Foundation for Liberty. The contents of this document are the sole responsibility of the South African Institute of Race Relations and can under no circumstances be regarded as reflecting the position of the European Union."

Climbing out of the poverty trap

At the end of October 2008 the Office of the Deputy President published a 'Discussion Document' entitled *Towards an Anti-Poverty Strategy for South Africa*. Earlier in the same month the Presidency published a report entitled *Towards a Fifteen Year Review*. Although the *Review* did not focus only on poverty, it contained plenty of useful information about it. Using these documents as his primary source of information, John Kane-Berman assesses progress made in combating poverty in South Africa. He discusses the role of social grants and the 'social wage', along with changes in the level of unemployment. He looks also at the transfers of assets to poor people, rural development, and the question of labour market access. Finally, he reports on some of what these documents say about social cohesion. The article rounds off with some data on vulnerable groups and the state of family life.

For many parts of the world, including South Africa, there was good news on the poverty front until very recently in that the numbers of the poor were dropping. In this country economic growth has been the critical factor, helping to drop the unemployment rate in the last few years but also helping to generate enough tax revenues to finance a major extension of the social security system.

Now our stock market has crashed, along with our currency, and we cannot know how severely or for how long global recession will affect us. The chances are that unemployment will start rising again, while the tax revenues to finance redistributive programmes may shrink. So the declining poverty trend may be reversed.

PROGRESS TO DATE

Measuring poverty

Measuring poverty requires defining it. 'For most households,' says the *Discussion Document*, 'the immediate cause of poverty is inadequate earned income'. Some studies suggest households without adequate physical security should be classified as poor, along with sick or elderly people who cannot afford some sort of home-based assistance. Poverty could also be defined to include such things as the inability of children on farms to get to school, since their resulting lack of education may ensure that they inherit the poverty of their parents. A full appreciation of poverty should consider the family circumstances of the poor as well (see below).

Measuring poverty also depends on the yardstick used. Here the Presidency's *Fifteen-Year Review* gives a mixed picture. If a lower poverty line of R174 per person per month (in 2000 prices) is used, poverty has dropped from 31% of all races in 1995 to 23% in 2005. Translating these proportions into numbers shows a drop from 12.21 million people to 10.63 million.

If a higher poverty line of R322 is used, the proportion drops from 53% to 48%, but the numbers rise from 20.74 million to 22.50 million.

Social security

The *Review* notes that the single most important driver of the decline in poverty has been the government's social security programme, especially the extension of the child support grant from 34 000 beneficiaries in 1999 to 7.8 million last year. By 2005, social grants (of all kinds) contributed up to 90% of the income of individuals in the first two deciles. The proportion of children going to bed hungry dropped from 31.2% in 2002 to 16% in 2006.

The *Discussion Document* notes that the share of households who reported that pensions and social grants formed their main source of income rose from 23% to 34% between 2002 and 2005.

The increase in social grants has been made possible by the decline in the Government's interest bill arising from lower interest rates and the elimination of the budget deficit, along with buoyant tax revenues. So combating poverty via transfers depends heavily on the health of the economy.

However, as the *Discussion Document* points out, social transfers to the poor 'cannot compensate for the fact that most households face very limited economic opportunities'. The document also expresses 'concern that unemployed household members are depending on grants that are meant to target children, the aged, or disabled. This causes the grant to spread very thinly, dramatically reducing its contribution to the intended beneficiary'.

An article in March 2008 in *Africa Insight*, published by the Africa Institute of South Africa, had the following to say: 'The social grant system has become less of a net designed to catch an unfortunate few in terms of temporary distress, and more of a major commitment to help a large fraction of the population over sustained periods.'

The *Discussion Document* notes that most of the four million unemployed are not eligible for social grants nor, since they have never worked before, for unemployment insurance payouts. They are eligible only for public employment programmes, 'which are currently too limited to reach the vast majority'.

Such programmes have so far provided the equivalent of 100 000 full-time employment opportunities spread over a million people, but 'plans in the social sector would expand this number to more than 300 000 full-time employment equivalents'. These temporary work opportunities are designed to provide on-the-job training to improve participants' chances of sustainable employment.

Human and social capital

Referring to inequality — although the point applies to poverty as well — the *Review* says that 'lasting improvement requires interventions to improve the human capital of those who are currently disadvantaged or marginalized from economic activity and the labour market'. It then lists various improvements in access to electricity, water, and sanitation, some of these services being free for poorer households.

Other improvements are also cited: among them the building of 1 600 clinics and healthcare centres so that 95% of South Africans now live within a 5km radius of a health facility, a drop in severe malnutrition, and the stabilisation of HIV prevalence among pregnant women attending public ante-natal clinics.

On the other hand adult mortality has increased, while life expectancy has dropped from 56 years in 1996 to 50 last year.

POVERTY LEVELS AND NUMBERS

Source: The Presidency, *Towards a fifteen-year review*

Education

The *Review* notes that expenditure on education in real terms was 20% higher in 2007/2008 than in 1996/1997. Further, South Africa's expenditure on education (5.6% of GNP in 2005) was 'within the norm of developed countries' expenditure of 5%-6%'. The *Review* also gives data on improvements in school enrolment, and observes that the 'principal challenge is to improve the quality of school education'.

Citing studies showing that maths, science, and reading performance in South African schools is worse than in several poorer neighbouring countries, the *Review* says: 'This performance of the schooling system affects in turn the secondary phase, higher education results, and ultimately people's access to the labour market and the possibility for the marginalised to break out of the cycle of reproduction of poverty and disadvantage'.

It goes on to warn, 'Low levels of education will continue to relegate the majority to low living standards and limit their capacity to generate decent income which will free them from dependency on state support'. Therefore 'the key challenge is to ensure that schools in previously disadvantaged areas are improved to make them welcoming for young people'.

'Those who drop out of school before completing their senior secondary education pose the most problems. They are unable to participate in the economy. There are few educational institutions to cater for them. They cannot make it in self-employment as evidence shows that success in this sector is associated with high levels of education and work experience.'

The *Review* further warns that marginalised young people will tend to see violence, crime, and substance abuse as their only recourse, with criminality becoming engraved in their behavioural patterns. 'They are initiated and hardened into adult-hood by the criminal world.'

The *Review* is right to stress the vital role of education, but there is little reason to be optimistic about significant improvements in the quality — or even the quantity, in the sense of hours actually taught — of education available to most poor people.

Perhaps the most hopeful sign on the education front is that the minister of education recognises that there is a major problem. She admitted recently that the quality of education was far too low for the amount of money spent and that education in South Africa was poor even in comparison with other African countries.

However, fixing the education system is likely to be impeded by militant trade unions. This means that fixing public schooling is as much a political as an educational battle.

Asset redistribution

The *Review* also gives data on 'asset poverty alleviation'. Some 2.36 million housing units were completed between 1994 and 2008, while 4.8 million hectares of land have been transferred from white ownership. 'Overall, since 1994, government transferred R61 billion worth of assets in the form of housing and land to the poor — excluding millions of deeds transfers of most township houses and grants to beneficiaries of restitution.'

In a section on the second economy, the *Review* notes that some 1.3 million households have access to land for farming.

Unemployment

The recent *Quarterly Labour Force Survey* shows that unemployment stood at 4.08 million in March 2001, peaked at 4.84 million in March 2003, and had dropped to 4.19 million in March 2008 (*Fast Facts*, November 2008). The unemployment rate (strict definition) over that same period rose from 24.6% to 29.3%, and then dropped to 23.5%.

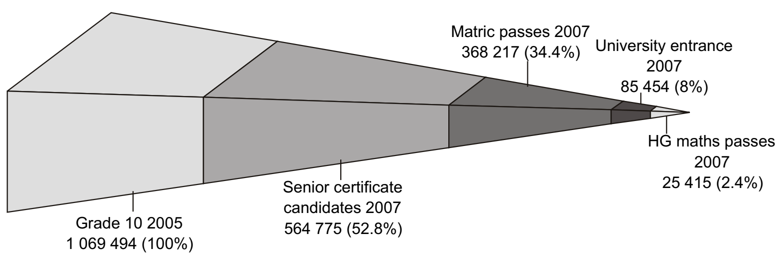
More than half the unemployed have been looking for work or trying to start a business for a year or longer. The *Review* notes that unemployment falls especially heavily on the young, on women, and on Africans. And the *Discussion Document* notes that 'the major cause of poverty for the majority is the lack of earned income due to unemployment'.

What does halving unemployment — a government objective — mean in terms of numbers?

Looking at a longer period, and using earlier data, the economy generated an annual average of 395 000 jobs between 1996 and 2007. To halve the rate of unemployment on the strict definition, we would have to create an annual average of around 483 000 between last year and 2014.

Even allowing for the fact that these numbers can only be estimates

THE GRADE 10 CLASS OF 2005



Source: South African Institute of Race Relations, November 2008 at best, that is a tall order. It was a tall order before the global crisis and it is now an even taller one.

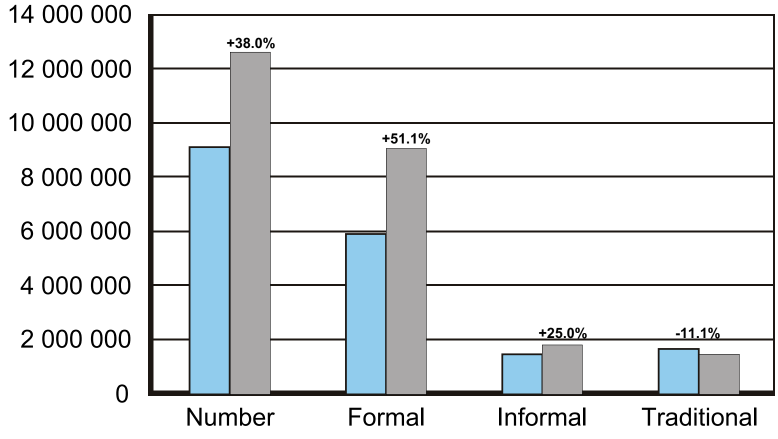
Structural change in the demand for labour

The *Discussion Document* notes that virtually all new jobs in recent years have emerged in the construction and retail sectors. Between March 2003 and March 2007 these sectors accounted for 80% of formal job growth.

Ricardo Hausmann of Harvard, chairman of the International Panel on Growth convened by the Government, said in his set of final recommendations in May 2008 that the first decade of democracy saw a 'structural change in the economy away from low-skilled jobs' at the same time as there was a 'significant increase in the proportion of South Africans looking for jobs.'

Hausmann also showed that there had been very large declines in the absolute numbers of jobs in agriculture and mining since 1994. In contrast with other high growth countries, however, the decline in these private sector jobs was not compensated with increased employment in manufacturing. By 2004, in fact, manufacturing jobs had fallen by 21% below their 1982 peak.

HOUSEHOLDS AND HOUSES 1996-2007



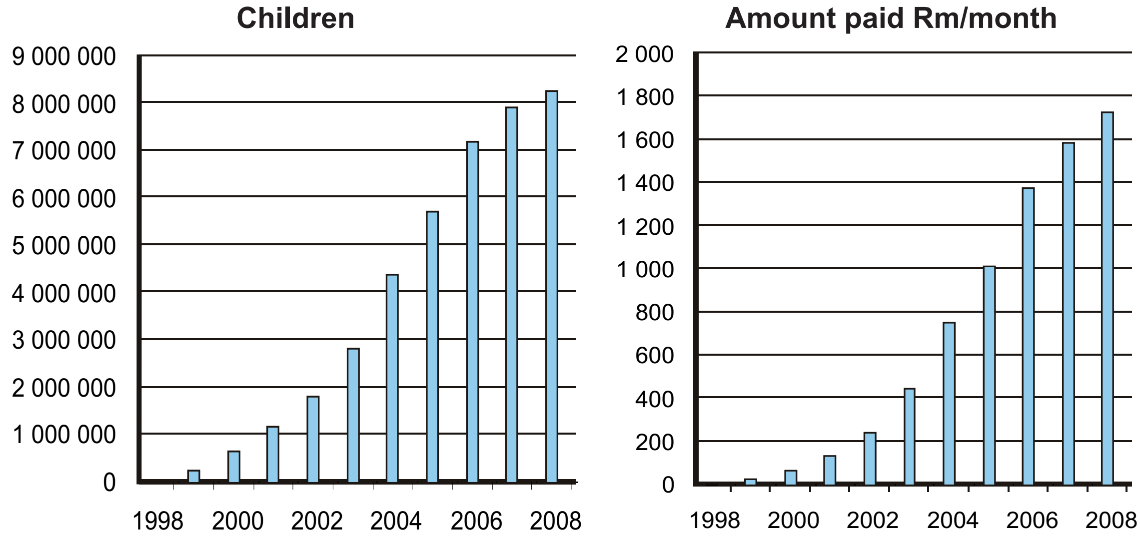
Source: Statistics South Africa, *Community Survey 2007*

'It is important to note,' wrote Hausmann, 'that in South Africa, agriculture, mining, and manufacturing have been the activities most intensive in unskilled labour. Their relative decline has affected principally the opportunities faced by South Africans with lower educational attainment'. By contrast, 'the sectors that grow are the ones that are most intensive in what is most scarce' — such as finance and business, which tend to be 'the most skill-intensive'.

Hausmann also noted that if South Africa had a rate of employment similar to those of countries in Latin America, Eastern Europe, and East Asia at similar levels of development, more than six million more South Africans would be working. 'They would be predominantly African, women, young, and with no post-matric education'.

Hausmann proposed that South Africa should expand the tradeable sector, which would mean more low-skilled jobs and the need to 'export for jobs'. We therefore need a more competitive exchange rate and lower import tariffs (to reduce the costs of imported inputs).

GROWTH IN CHILD SUPPORT GRANTS, 1998-2008



Source: *South Africa Survey 2007/2008*

Inefficiencies in transport logistics have to be removed, and high levels of skilled immigration encouraged. There should also be a wage subsidy to ease the absorption of 18-year-olds to encourage employers to experiment with younger workers (whom they could dismiss without difficulty during the subsidised trial period).

'Hausmann noted to maintain overall growth and employment, the country will need to rapidly increase its exports. This is a major challenge, as South Africa's exports have exhibited remarkably little dynamism over the long run. In the 44 years between 1960 and 2004, the real value of exports grew by only 34 percent (about 0,7 percent per year). By contrast, export growth was 169 percent in Argentina, 238 percent in Australia, 1 887 percent in Botswana, 385 percent in Brazil, 387 percent in Canada, 390 percent in Chile, 730 percent in Israel, 1 192 percent in Italy, 4 392 percent in Malaysia, 1 277 percent in Mexico and 120 percent in New Zealand, to name a few relevant comparators.'

Stocktake

Where does all this leave us?

- Poverty has dropped, but mainly as a result of welfare payments
- There has been a structural change in the type of labour required by the economy, from unskilled to skilled
- Unemployment is dropping, but this trend may be reversed as the rate of economic growth slows down
- The living conditions of poor people have improved thanks to the provision of housing and related infrastructure
- Healthcare is more widely available, and some health indic-ators have improved (though not life expectancy), but we cannot be confident that the quality of public healthcare has improved since 1994
- The poor public education system helps to perpetuate poverty, which in turn helps to perpetuate criminal behaviour
- We know that houses have been transferred to the poor, but not how many of them have been able to use these assets to obtain finance to start businesses
- We know that 4.8 million hectares of land have been transferred, but not how many of these are being used for commercial or even subsistence agriculture.
- The government's most significant achievements have been redistributive, mostly via the tax system, in the form of direct transfer payments or in the form of housing financed by the fiscus. But only certain forms of redistribution have worked. There is no indication that redistribution of land has helped to alleviate income poverty in any way. Indeed, according to a former chief land claims commissioner, many land-reform projects have simply resulted in formerly productive assets dying in the hands of the poor.

GROWTH IN REAL VALUE OF EXPORTS, 1960-2004

Country	*Percentage growth*
Malaysia	4 392
Botswana	1 887
Mexico	1 277
Italy	1 192
Israel	730
Chile	390
Canada	387
Brazil	385
Australia	238
Argentina	169
New Zealand	120
South Africa	34

Source: Hausmann, *Final recommendations of the International Panel on Growth,* May 2008

THE OBJECTIVE: Halving poverty and unemployment

The *Review* reports that halving poverty and unemployment by 2014 necessitates growth averaging 5% a year until then. Some years back President Thabo Mbeki said that halving poverty and unemployment necessitated an average growth rate of 8%. His figure was about double the rate achieved over the past few years and also double the sustainable rate of growth — ie the rate of growth that can be maintained without generating inflationary pressures and too big a deficit on the current account of the balance of payments.

Even before the intervention of new factors such as the Eskom debacle and the threat of global recession, a rate of 8% was unattainable, given factors such as our skills shortage, red tape, labour market rigidities, the low savings rate, and crime (see *Fast Facts*, June 2008).

South Africa has no official poverty line, so what halving means in terms of numbers is uncertain. But in the absence of much lower unemployment, it seems inescapable that halving poverty will necessitate making welfare payments to millions more people, and not only children. On the grounds that they are unaffordable, the government has repeatedly rejected proposals from the Democratic Alliance and others for a 'basic income grant'.

But there is certain to be an increase in pressures for it to rethink its opposition — even though such a drastic extension to the social security system may undo all that has been achieved in reducing the budget deficit. If growth and tax revenues do not continue to increase, there might even be a risk that the ANC Government will have to emulate its predecessor by using borrowing to finance current expenditure. Given that Parliament will now have the power to amend the budget, there may be a greater risk of such borrowing than under the prudent policies hitherto pursued by the National Treasury.

WHAT NOW?

The anti-poverty framework

The *Discussion Document* stated that the anti-poverty framework was 'anchored on the nine pillars' listed below:

- Jobs and opportunities for self-employment
- Investment in human capital (healthcare, education, and training)
- Safety nets (income security via social grants to prevent poor households from plunging into destitution)
- The social wage (basic services and other non-financial transfers such as subsidised housing, and expanded access to water, electricity, refuse removal and sanitation, plus free basic services for the poorest)
- Improved preventive and curative healthcare (inter alia, to ensure that poor children grow up healthy)
- Access to assets (such as housing, land, capital, and public infrastructure)
- Social cohesion (such as community solidarity and greater access for the poor to information)
- Environmental sustainability
- Good governance (including proper use of public funds, efficient delivery of public services, and consolidating the rule of law).

The list above is based on that given by the then deputy president in reply to a parliamentary question in February 2008 about the anti-poverty strategy announced by President Mbeki in his state-of-the-nation address. That earlier list said investment in human capital included mass literacy, fewer school drop-outs, and vocational and tertiary education. It also said that improved social cohesion necessitated building community structures that inculcated values and promote national identity.

The strategy against poverty also involves:

- Leadership by the state to initiate or encourage various interventions, including by the private sector
- Building capacity to participate in the labour market and to take advantage of economic opportunities
- Increasing employment opportunities and reducing barriers to employment
- Enhancing the State's capacity to provide services (eg health and training) that enhance the capacity of individuals to participate in economic and social life.

As explained by Masiphula Mbongwa, the person in charge of it, the government's latest anti-poverty programme seems to revolve around monitoring whether households get what is due to them and making sure that they do get it. (For example, up to two million people who qualify for government services are not getting them.) Household activities will be monitored, along with school drop-out rates.

'You identify the area [and] the families, you monitor each as you implement and report against it on a regular basis. We will not leave the family until it has reached the minimum point where we can say it has qualified to be out of poverty.'

According to Alan Hirsch, also an official in the Presidency, this is a short-term initiative to ensure that poor communities are aware of social grants and training opportunities provided by the State. In the medium term, the State will evidently expand the expanded public works programme (see above).

Economic policy

The *Discussion Document* says the key focus of the anti-poverty strategy is to influence the level of economic growth and to ensure that this translates into increased employment opportunities for the poor.

Firstly, it says, the strategy should target activities that can contribute significantly to employment creation. Industrial policy should therefore prioritise the promotion of opportunities in 'value chains' that include agriculture and 'agroprocessing' centered on land reform and biofuels; forestry, especially smallholder production; retail, both formal and informal; construction; tourism; business process outsourcing; community and personal services; cultural services; and light industry. Strangely, no mention is made of mining or big manufacturing.

However, 'despite our best efforts to stimulate employment creation, South Africa's unemployment challenge will remain massive into the medium term at least. Markets will take time to create jobs at the scale required, and will still tend to exclude some of the poorest areas and the poorest people'.

The case for a 'massive programme of public employment in South Africa' is therefore strong. The following targets have accordingly been set for the economics cluster:

+*'Quick hits'*

- Public and community work programmes for one million full-time employment equivalents a year by 2010

- Interventions (improved access to transport and storage, establishment of co-ops to buy inputs, and better financial services) to assist street/informal traders to reach 200 000 by 2010
- Assisting 300 000 very poor households to improve agricultural production
- Support for farmworkers' organisation.

+ More sustainable and quality employment

- Some 200 000 new employment opportunities annually in addition to anticipated expansion in retail and construction employment
- Smallholder schemes, environmental services, government services, agro-processing, and tourism for 100 000 rural jobs a year.

Secondly, the State should develop a more efficient economy overall, inter alia by reducing inefficient or onerous regulation, improving the quality of economic infrastructure, and supporting more competitive production and pricing. Strategies to increase efficiency in the economy include reducing current levels of concentration, and 'reducing what it costs a worker to be employed' (notably, by lowering transport costs).

The developmental state

The *Review* contains only a short section on 'building a developmental state'. Compared to some of the ideas put forward about a developmental state, the *Review* is in fact quite modest — with good reason — though it does refer to the 'need to master long-term planning'. This is one of the things that the Left within the tripartite alliance favours (and which it has in common with the previous government, although the previous government began to have doubts about the efficacy of such planning). By contrast, Finance Minister Trevor Manuel recently told the *Financial Times*, 'We need to disabuse people of the notion that we will have a mighty powerful developmental state capable of planning and creating all manner of employment'.

One of the resolutions passed at the conference of the African National Congress (ANC) in Polokwane in December 2007 was that 'the State must play a central and strategic role by directly investing in underdeveloped areas and directing private sector investment'.

This resolution is worth juxtaposing with a quote from Mr Jacob Maroga, chief executive of Eskom, the following month: 'I think we need to be circumspect about our expectations of what government can do'.

Echoing a former minister, Alec Erwin, people such as Jeremy Cronin, deputy general secretary of the South African Communist Party, still believe that 'strategic state-owned enterprises' are important to 'drive transformation'. This despite the fact that the director general of the National Treasury, Lesetja Kganyago, expressed concern more than a year ago about the extent to which state-owned enterprises were asking for recapitalisation in the middle of an economic boom.

The State has been successful in some respects, including the provision of housing and other amenities referred to above. But these successes are outweighed by failures. For years now we have been slipping down the human development index. The State's efforts at human development via education have been inadequate at best. If land reform is a type of development, that too is characterised by extensive failure.

Under pressure for several years to provide more low-cost housing, the major banks came up with the money but local authorities cannot process the necessary land zonings fast enough. The debacle over electricity suggests that the State does not have the capacity to make timeous decisions about infrastructural development. If cheap telecommunications are necessary to development, the State is not a facilitator but a hindrance. There is no sign that the various state-run small business development agencies have had any discernible impact. The State cannot even protect small businesses from crime and xenophobic attack.

If capital investment is necessary for development, the private sector has been far more active than the State for the past two decades. We would probably have had more private local and foreign investment, and therefore more jobs and less poverty, had the State opted for less regulation. Decaying roads and power lines reveal that the State cannot even maintain the infrastructure it owns.

Rural development

The *Discussion Document* speaks of active promotion by the Government of smallholder farm schemes, and helping families to develop these into productive small farms. It also notes that South Africa has a very high rural population in relation to employment in agriculture. Whereas more than 40% of our population lives in rural areas, less then 10% is engaged in agriculture. In developing countries as a whole, both figures are above 50%.

It is 'critical' says the document, that land reform should be 'linked more coherently to the creation of livelihoods for the poor'. Yet, according to the director general of land affairs, 'Only 49% of projects (delivered so far) are able to claim tangible results with regard to agricultural production and beneficiary livelihoods.'

Though the Government has vowed to accelerate the pace of land reform, there is no reason to believe it will be more successful than it has been up to now. Whether land reform can make any dent in the incidence of poverty and unemployment is not clear. It is not even clear whether land redistribution is being carried out for its own sake or as a means of assisting the poor to generate income from farming.

Still less is it clear how the greater expropriation powers the State was seeking last year (in draft legislation now temporarily shelved) will improve the livelihoods of the poor.

'Changing the trajectory'

The *Discussion Document* notes the need to create economic opportunities 'that match the current pool of the unemployed'. Such opportunities should include 'employment and self-employment supplemented by a substantial expansion in public employment schemes'. Reference is made to 'directing sustainable investment to poor areas' but no detail is given as to how this will be done.

The document also notes that 'education and training are not short-term solutions'. That is why economic policy has to encourage the creation of lower levels of employment, matched to the educational levels of the current labour force.

Improving access to the labour market

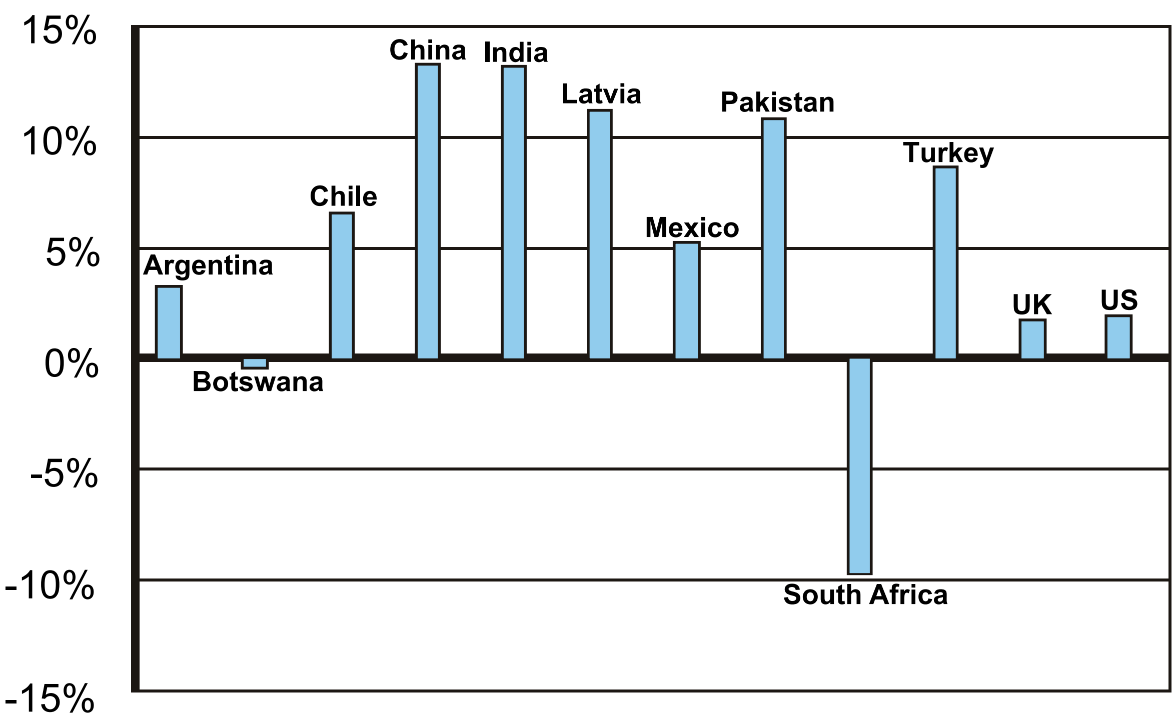
Four items are listed here in the *Discussion Document*:

- Employment programmes that enable the unemployed to enter the labour market
- Initiatives to support recruitment of the long-term unemployed, increasing the pool of employment through economic development policies and developing partnerships with the expanded public works programme, national youth service, etc
- Large-scale public-employment programmes, especially in social, community, and environmental services
- An investigation of 'the potential of subsidies to encourage private employers to expand unemployment especially for new workers'. (This last item is the only one mentioning the private sector.)

While the *Review* recognises the importance of enabling people to join the labour market as a means of escaping poverty, it is unable to point to any real success in this respect.

The *Review* has a fascinating subtext. It recognises the need to enable the poor to enter the labour market and so reduce dependency on the State. This accords with Finance Minister Trevor Manuel's remark some years ago with regard to the extension of the social security system that people should learn to work instead of living on what he termed handouts. South Africa has been more successful in extending social security (mainly to

CHANGE IN HUMAN DEVELOPMENT, 1995-2005



Source: UNDP, *Human Development Report 2007/2008*

UNIVERSITY MATRICS PUBLIC SCHOOLS

	1994	*2007*
African senior certificate candidates	392 434	458 836
Africans getting university matric	51 016	49 950
Proportion	13%	10.9%
All races	88 497	89 378

Source: *South Africa Survey 2007/2008*

children, of course) than in enabling the poor and the unskilled to enter the labour market.

'Breaking the cycle of poverty,' says the *Review*, requires special attention to measures that improve human capabilities, such as education in particular and health, and expand people's chance of entering the labour market'. Reducing unemployment, it says, is the 'key and most sustainable anti-poverty measure'.

The *Review* also notes, 'Distribution of the benefits of growth is affected by existing disparities in wealth and social capital and in particular by access to the labour market... Lasting and sustainable reduction of income inequality requires greater access by the poor to the labour market… What is required is therefore both a restructuring of the economy and improvement in the quality of education, especially in poorer areas'.

The *Review* says, 'Increasing employment and opening economic opportunities are critical to promoting independence from social grants and to sustained economic growth. South Africa needs to remove systemic barriers responsible for the country having a comparatively small informal sector and a large body of "discouraged" able people.'

While the *Review* recognises the vital importance of improving access to the labour market, the issue of how to remove barriers to market entry is not really addressed, presumably because it is a political minefield.

Governments seldom want to step into minefields. But the global economic crisis has now greatly increased the fiscal risks of continuing to rely so heavily on welfare payments as the key means of combating poverty. Sooner or later the risks of continued high — and possibly now even rising — unemployment will outweigh those of tackling labour market liberalisation and stagnating education.

SOCIAL ISSUES

Dependency

According to the *Discussion Document*, the current service-delivery model has unintended consequences in that it builds an unhealthy dependence on the State and disarms greater own action with better self-mobilising efforts'.

Social cohesion

The *Discussion Document* refers to 'social fragmentation' manifested in high levels of domestic violence, substance abuse, criminality, xenophobia, and teenage pregnancy, low levels of mutual respect and common decency, along with a 'culture of irresponsibility'. Discussing social cohesion, it sees this mainly in terms nation-building, national identity, national unity, and the absence of racial discrimination. Initiatives aimed at building social cohesion to which it refers include constitutional guarantees of rights, annual commemoration of national days, name changes, and access to the arts.

The document talks of 'implementing family policy to strengthen the role of the family (in its multiple forms) as a significant entry point of nation-building interventions, a hub for installing values, and a site of socially beneficial socialisation.'

Social policy

The document also says children who grow up in poverty are at risk of a wide range of adverse experiences and that they 'also show signs of a high level of behaviour problems', especially boys. Many children in poverty live with single parents without financial maintenance from the other parent. 'Schools serving poor communities should mediate the socio-economic backgrounds of their learners. The decimation of parents and adults by the HIV and AIDS pandemic, the rise of child-headed and grandparent-headed households, and increasing levels of youth-headed households living in poverty leads to poor performance and premature school-leaving.

Vulnerable groups

The *Discussion Document* notes that groups likely to find themselves in poverty include women (especially those single parents), children, the youth, the aged, and families where one or more family members had a disability.

The document says that in 2005, in poor households, only one woman in five had work. In the former homelands, that figure was one in seven. Half of poor households have no employed people in them. A 'substantial minority' do not have any working-age adults able to work, thanks to HIV/AIDS and the migrant labour system. These households would require state assistance even if employment levels rose, the document says.

The family

One thing missing from most studies and discussions about poverty is the family. Notoriously, the apartheid system with its infamous influx control laws helped to undermine family life. We do not know whether that damage has been repaired. But we do know that other destructive factors are now at work, notably AIDS. And the figures are horrifying:

- Some 248 000 child-headed house-holds were counted in the 2001 census
- There were 2.1 million AIDS orphans in 2003, a number which the United Nations Children's Fund (Unicef) expects to rise to 3.1 million two years from now, accounting for 19% of all child-ren up to the age of 17
- Some 43% of all urban parents are single parents, of whom 75% are women and of whom 21% have no income
- Nearly one third of young women become pregnant in their teens
- In 2005, more than 2 million poor children, mostly in former homelands, did not live with a father or a mother but with grandparents

To recite these figures is not to deny the fact that many poor households take in orphans in addition to their own children and battle valiantly to stretch social grants over the whole household. Some old age pensions probably help to pay for grandchildren's schooling. As more and more children are orphaned, more and more extended families will no doubt take in extra dependants.

The sense of responsibility and compassion involved is something to be admired, and it should also be supported both by the State and by civil society. But there can be no doubt that family life is under threat. Indeed, some time ago Statistics South Africa made this striking comment: 'The conventional idea that two parents and their children live together as a household in a nuclear family does not apply in South Africa.' The proportion of households comprising nuclear families decreased from 27% in 1996 to just over 24% in 2006.

Yet the education minister, Naledi Pandor, said recently, 'I urge parents to assume responsibility for the future of their children, to insist on teaching and learning…'

For many children, and parents, this seems a pipe dream. In the absence of parents, there is often nobody to make children do their homework, nor anyone to teach them about values. Values are unlikely to be transmitted by most schools, which leaves perhaps churches, youth groups, and sports clubs. Poverty, unemployment, teenage pregnancy, abuse of women, crime, family breakdown, poor education moral and other, constitute a vicious circle in which each helps to perpetuate the others.

CONCLUSION

Like Hausmann, the two most recent government documents identify South Africa's fundamental unemployment problem as arising from the scarcity of jobs for the unskilled. If even our poor education system could be fixed, this will be of little help to unskilled people in the short term. Consequently, the major remedies for poverty and unemployment contemplated by the Government in its two most recent documents are social security and expanding the public works programme. Lip service is paid to enabling more people to enter the labour market, but little attention given to the need to liberalise labour law to drop the price of unskilled workers and make dismissals easier.

Labour market reform is a political minefield into which neither the African National Congress nor the new Congress of the People is likely to step during the election campaign later this year, given the trade union votes for which they will be competing.

It is encouraging though that the government's anti-poverty docu-ment traces some of the links between poverty and family circumstances. Plenty more thought and research needs to be dedicated to the state of family life in South Africa.

Some of the consequences of HIV/AIDS are apparent, but we are rolling out a major social security programme without very much regard for what impact it have might have — positive or negative — on family life, or on the demand for jobs.

Some time ago a judge remarked that he had yet to try a criminal who had had a sound relationship with his father.

The links between family life and the transmission of values, between family stability and crime, and between family circumstances and education all need to be explored.

Though it is clear from the figures quoted above that family life simply does not exist for an uncomfortably large number of South Africans, we need much greater insight into the conse-quences of this fact. We need also to start a debate about the role of the family, along with the policy and moral issues involved.

It is worth recalling a remark by a former Vodaphone chief execu-tive: 'I started out as a very thin cat, a bank clerk on 500 pounds a year, with no advantages in life except the support of loving parents.'

Fast stats

PROPERTY PAGE

House Price Index (nominal) Oct	up 1.2%	compared to Oct 2007	Absa
House Price Index (real) Oct	down 10.1%	compared to Oct 2007	Absa
Mortgage advances Sept	up 16.6%	compared to Sept 2007	SARB
House price trends (nominal) (average) 3Q 2008			
Affordable houses (40–79m² priced at under R400 000)	up 7.3%	compared to 3Q 2007	Absa
Small houses (80–140m²/R684 164) (average price)	up 4.1%		Absa
Medium houses (141–220m²/R949 409)	up 2.4%		Absa
Large houses (221–400m²/R1 380 259)	up 2.1%		Absa
All houses (80–400m²/R966 148)	up 2.1%		Absa
Luxury housing (costing more than R2.9m)	up 10.4%		Absa
Greater Johannesburg (80–400m²/R1 013 279)	down 0.5%		Absa
Cape Town metro (80–400m²/R1 101 700)	up 1.2%		Absa
Durban metro (80–400m²/R1 000 049)	down 1.5%		Absa
PE/Uitenhage metro (80–400m²/R942 192)	up 7.0%		Absa
Cost of building a new house (average)	up 7.9%		Absa
CBD office vacancy rate 3Q 2008			
Johannesburg	8.1%	nine months before: 15.1%	SAPOA[a]
Sandton	5.6%	3.2%	SAPOA
Cape Town	4.6%	5.5%	SAPOA
Durban	14.9%	16.7%	SAPOA
Pretoria	2.5%	1.4%	SAPOA
CBD office rental rate (A-grade) R/m² 3Q 2008			
Johannesburg	up 20.0%	compared to 3Q 2007	R&A[b]
Sandton	up 17.0%		R&A
Cape Town	up 10.0%		R&A
Durban	up 8.0%		R&A
Pretoria	up 26.0%		R&A
Industrial rental rates R/m² for 1 000m² 3Q 2008			
Central Wits	up 14.0%	compared to 3Q 2007	R&A
Durban	up 21.0%		R&A
Cape Peninsula	up 12.0%		R&A
Port Elizabeth	up 7.0%		R&A
Shopping centre rental index 2008			
Regional	up 8.0%	compared to 2007	R&A

a South African Property Owners' Association

b Rode and Associates

Fast stats

BUSINESS INDICATORS

Use of manufacturing production capacity Aug	85.0%	Aug 2007: 85.6%	Stats SA
Manufacturing production (volume) (this year to Sept)	up 3.2%	on same period last year	Stats SA
Total vehicles sold (this year to Nov): 500 617	down 20.7%	on same period last year	NAAMSA
Vehicles exported (this year to Nov): 268 170	up 73.1%	on same period last year	NAAMSA
Tractors sold (this year to Oct): 6 371	up 44.6%	on same period last year	SAAMA
Electricity consumed (this year to Sept)	down 1.1%	on same period last year	Stats SA
Total building plans passed (value) (this year to Sept)	down 14.9%	on same period last year	Stats SA
Total buildings completed (value) (this year to Sept)	down 3.4%	on same period last year	Stats SA
All building costs (average) 3Q 2008 (revised)	up 12.0%	compared to 3Q 2007	BER
Mining production (volume) (this year to Sept)	down 8.3%	on same period last year	Stats SA
Cement sales (tonnes) (this year to Oct)	down 2.9%	on same period last year	CCI
Retail sales (value) (this year to Sept)	down 2.1%	on same period last year	Stats SA
Current adspend (this year to Sept): R17.6bn	up 5.2%	on same period last year	A C Nielsen
Number of liquidations (this year to Oct): 2 713	down 1.4%	on same period last year	Stats SA
Judgements for debt (this year to Sept): 501 076	down 11.4%	on same period last year	Stats SA
Tourism accommodation occupancy rate 3Q 2008	49.4%	3Q 2007: 48.3%	Stats SA
Arrival foreign travellers (this year to Sept): 8 395 762	up 4.1%	on same period last year	Stats SA

SOCIO-ECONOMIC AND LABOUR INDICATORS

Total population (mid 2008 estimates) (average)	48.69m	2007: 47.85m	Stats SA
GDP per head (2Q annualised, adjusted)	R46 543	current prices	SAIRR/SARB
Real growth in GDP per head 2007	3.9%	2006: 4.0%	SARB
Household saving to disposable income 2Q 2008	-0.5%	2Q 2007: -0.6%	SARB
Household debt to disposable income 2Q 2008	76.7%	2Q 2007: 75.8%	SARB
Average wage settlements (this year to Sept)[a]	9.6%	Jan–Sept 2007: 7.3%	ALEP
Number of strike mandays lost (this year to Sept)	607 000	Jan–Sept 2007: 12.6m	ALEP
Unemployment rate 3Q 2008 (strict definition)[b]	23.2%	2Q 2008: 23.1%	Number: 4.1 million
Unemployment rate 3Q 2008 (wide definition)[b]	27.6%	2Q 2008: 27.4%	Number: 5.2 million
Increase in total employment[b]	106 000	1Q 2008 vs 2Q 2008	Stats SA/QLFS
Employees in enterprises registered for income tax[c]	up 2.2%	June 2007 vs June 2008	Stats SA/QES
Number of such employees[c]	up 50 000	to 8 467 000 (revised)	Stats SA/QES
Nominal wages per worker 1Q 2008[c]	up 12.3%	compared to 1Q 2007	SARB
Real wages per worker 1Q 2008[c]	up 3.1%	compared to 1Q 2007	SARB
Labour productivity 1Q 2008[c]	up 1.8%	compared to 1Q 2007	SARB
Nominal unit labour costs 1Q 2008[c]	up 10.2%	compared to 1Q 2007	SARB
Average monthly earnings May 2008[c]	R9 133	May 2007: R8 093	Stats SA/QES
Houses built smaller than 81m^2 (this year to Sept)	down 18.5%	on same period last year	Stats SA
Houses built/being built (government subsidy)[d]	2 568 062	Apr 1994–Mar 2008	up 10.7% from Apr 2007
Government housing delivery (Apr 2007–Mar 2008)[d]	248 850	down 8.2%	on same period previous year

a Excluding farms and homes b Stats SA. All sectors. *Quarterly Labour Force Survey* c Non Agricultural formal sector. *Quarterly Employment Statistics* d Housing Dept.

Fast stats

INVESTMENT INDEX

Real gross fixed capital formation (GFCF) 2Q 2008	R69.54bn	up 13.3% compared to 2Q 2007	
GFCF ÷ GDP 2Q 2008 (annualised, adjusted)	22.4%	2Q 2007: 20.4%	(Target: 25%)
Gross domestic saving ÷ GDP 2Q 2008	14.9%	2Q 2007: 15.0%	
Real GFCF by public authorities	up 4.9%	2Q 2008 vs 2Q 2007	
by public corporations	up 27.9%		
by private business	up 12.1%		
Real GFCF in mining and quarrying	up 20.0%		
in manufacturing	up 10.0%		
in electricity, gas and water	up 32.0%		
in transport and communication	up 19.9%		
in finance etc	up 6.6%		
in community, social and personal services	up 1.3%		
Real GFCF in residential buildings	up 3.8%		
in non-residential buildings	up 12.8%		
in construction works	up 28.5%		
in transport equipment	up 17.0%		
in machinery and equipment	up 9.5%		
Foreign investment into SA 2Q 2008			
direct (FDI)	R6.51bn	2Q 2007: R11.17bn	
portfolio	R27.26bn	R42.02bn	
other	R3.78bn	R19.77bn	
SA investment abroad 2Q 2008			
direct	-R5.53bn	-R14.44bn	
portfolio	-R4.71bn	-R6.37bn	
other	R15.37bn	-R7.36bn	
Balance on financial account 2Q 2008	R42.68bn	R44.78bn	

CONFIDENCE COUNT

RMB/BER business confidence index 4Q 2008	down 1 point	to 33 since 3Q 2008	(scale 0–100)
BER/DTI manufacturing confidence index 4Q 2008	up 1 point	to 31 since 3Q 2008	(scale 0–100)
BER building contractors confidence index 3Q 2008	down 6 points	to 41 since 2Q 2008	(scale 0–100)
FNB/BER consumer confidence index 3Q 2008	up 5 points	to -1 since 2Q 2008	(scale minus 100–100)
— black consumer confidence index 3Q 2008	up 5 points	to 3 since 2Q 2008	(scale minus 100–100)
— white consumer confidence index 3Q 2008	up 9 points	to -4 since 2Q 2008	(scale minus 100–100)
— high-income household confidence index 3Q 2008	up 11 points	to 6 since 2Q 2008	(scale minus 100–100)
— low-income household confidence index 3Q 2008	up 4 points	to -6 since 2Q 2008	(scale minus 100–100)
Investec purchasing managers index (PMI) (Nov)	down 6.7 points	to 39.5 since Oct	(2000 = 100) BER
Sacci business confidence index (Oct)	down 5.7 points	to 84.2 since Sept	(2005 = 100) Sacci
Vehicle sales confidence indicator 3Q 2008	no change	from 4.7 since 2Q 2008	(scale 1–10) WesBank
Agricultural business confidence index 3Q 2008	up 0.37 points	to 106.69 from 3Q 2007	(2001=100) ABC/IDC

Fast stats

ECONOMIC BAROMETER

GDP 3Q 2008 (basic prices)	R535.25bn		
GDP growth at market prices (3Q annualised, adjusted)	0.2%	3Q 2007: 4.5%	
GDP growth (3Q 2008 vs 3Q 2007)	2.9%		

Agriculture (4.0% of GDP)	13.8%	*Trade etc (12.0%)*	-1.6%
Mining (10.1%)	-6.5%	*Transport and communication (7.9%)*	3.9%
Manufacturing (19.0%)	3.2%	*Finance etc (21.1%)*	4.3%
Electricity and water (2.5%)	0.0%	*Community services (5.7%)*	4.4%
Construction (3.1%)	13.9%	*Government (14.7%)*	3.8%

Exports (this year to Oct)	R555.09bn	up 39.5% on same period in 2007	
Imports (this year to Oct)	R627.44bn	up 33.9% on same period in 2007	
Trade balance (this year to Oct)	-R72.35bn	Jan–Oct 2007: -R70.05bn	
Gold and forex reserves (Nov)	R336.34bn	Nov 2007: R217.93bn	
Reserves/imports (Oct)	4.4 to 1	Oct 2007: 3.2 to 1	
Current account deficit 2Q 2008	R39.13bn	2Q 2007: R34.55bn	
— as proportion of GDP	7.3%	2Q 2007: 6.4%	
Capital account surplus 2Q 2008	R44.79bn	2Q 2007: R47.87bn	
Gold price per ounce (average)(Nov)	$759.36	Nov 2007: $807.51	
Crude oil price (dated brent/barrel) 5/12/08	$41.06	year ago: $90.66	(Decrease: 54.7%)
Petrol (premium pump price per litre Gauteng) 5/12/08	R7.35	year ago: R7.47	(Decrease: 1.6%)
Prime overdraft rate (average) 5/12/08	15.5%	year ago: 14.0%	
Real prime overdraft rate (average) (Oct)	3.03%	Oct 2007: 5.65%	(based on headline inflation)
Repo rate (average) 5/12/08	12.0%	year ago: 10.5%	

€/R 0.0765	*£/R 0.0663*	*$/R 0.0971*	*¥/R 9.00*	*€/$ 0.7885*	*¥/$ 92.68*	at 5/12/08
R/€ 13.065	*R/£ 15.086*	*R/$ 10.301*	*R/¥ 0.1111*	*$/€ 1.2683*	*$/¥ 0.0108*	at 5/12/08

Depreciation of rand against euro last 12 months	50.39%	(Lowest: R/€ 14.65	Highest: R/€ 1.80)
Depreciation of rand against dollar last 12 months	29.47%	(Lowest: R/$ 13.00	Highest: R/$ 0.67)
Depreciation of rand against basket last 12 months	26.25%		

INFLATION INDEX

Headline inflation rate 2007 (Oct 2008 vs Oct 2007)	12.1%	same period previous year	7.9%
Food price rise	16.7%		12.3%
Education	8.8%		8.0%
Clothing and footwear	18.8%		-8.7%
Housing	7.9%		10.0%
Medical and health care	6.7%		5.4%
Transport	17.5%		6.8%
Rise in administered (non-market) prices	19.8%		9.0%
CPIX (CPI less mortgages)	12.4%	(Target: 3%–6%)	7.3%
Producer price rise (PPI)	14.5%		9.5%
Imported producer inflation	10.3%		7.5%

Fast stats

LATEST FORECASTS

GDP growth 2009	2.7%	Standard Bank: revised downwards from 3.2%
	0.8%	Nedcor: revised downwards from 2.6%
Headline inflation rate (CPI) 2009 (average)	7.7%	Standard Bank: revised downwards from 7.8%
	5.6%	Barnard Jacobs Mellet: revised downwards from 6.4%
Expected CPI (business) 2009 (average)	9.4%	BER: revised upwards from 9.3%
(trade unions)	9.2%	BER: revised upwards from 8.9%
CPIX (CPI less mortgages) 2009 (average)	7.9%	Nedcor: revised upwards from 7.7%
	5.5%	Barnard Jacobs Mellet: revised downwards from 6.2%
Expected CPIX (business) 2009 (average)	8.8%	BER: revised upwards from 8.7%
(trade unions)	8.2%	BER: revised upwards from 8.1%
Producer price inflation 2009 (average)	10.3%	Standard Bank: revised downwards from 15%
	8.7%	Absa: revised downwards from 10.4%
Imported producer inflation 2009 (average)	9.5%	Absa: revised upwards from 5.6%
Gross fixed capital formation 2009	up 8.3%	Standard Bank: revised downwards from 9.5%
	up 0.4%	Absa: revised downwards from 10.2%
Final consumption expenditure by households 2009	up 2.0%	FNB: revised downwards from 2.7%
	up 0.8%	Nedcor: revised downwards from 1.6%
Government consumption expenditure 2009	up 4.5%	FNB: no change
Gross domestic expenditure 2009	up 1.6%	Absa: revised downwards from 4.3%
Exports 2009	up 5.9%	Absa: revised downwards from 6.5%
	up 0.0%	FNB: revised downwards from 1%
Imports 2009	up 3.9%	Barnard Jacobs Mellet: revised downwards from 4.4%
	up 3.0%	FNB: no change
Current account deficit 2009	R182.6bn	Nedcor: revised upwards from R168.7bn
	R87.9bn	Absa: revised downwards from R193.7bn
— as proportion of GDP 2009	7.3%	Nedcor: revised downwards from 7.2%
	6.4%	Barnard Jacobs Mellet: no change
Capital account surplus 2009	R190.0bn	Nedcor: no change
Prime overdraft rate 2009 (year end)	13.5%	Standard Bank: no change
	12.5%	Barnard Jacobs Mellet: revised downwards from 13%
R/€ exchange rate 2009 (average)	13.00	FNB: no change
	11.92	Barnard Jacobs Mellet: revised from 11.70
R/$ exchange rate 2009 (average)	10.43	Absa: revised from 8.37
	8.40	Standard Bank: revised from 7.97
Gold price per ounce 2009 (average)	$847	Barnard Jacobs Mellet: revised downwards from $915
	$700	FNB: no change
Nominal wage rise 2009	9.7%	BER: revised upwards from 8.5%

These forecasts contain the highest and lowest estimates available to us.

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