Building blocks for equitable growth: lessons from the BRICS

Milo Vandemoortele, Kate Bird, Andries Du Toit, Minquan Liu, Kunal Sen and Fábio Veras Soares

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ODI
203 Blackfriars Road,
London
SE1 8NJ
www.odi.org.uk

and

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Contents

Tables and figures

Abstract

Five key emerging market economies, commonly termed the BRICS (Brazil, Russia, India, China and South Africa), have been lauded for their stellar economic growth and resilience through the 2008/09 financial crisis. They are becoming models of development for development practitioners, researchers and other emerging economies. Scratch beneath the surface, however, and you will notice that not all people in these countries have benefited equally from growth. Some countries have seen enormous increases in income inequality – specifically China, India and South Africa; Brazil has enjoyed a reduction. What can be learnt, in terms of the challenges and successes of reconciling growth and equity, from the BRICS' recent growth? This paper examines the experiences of four of the BRICS – Brazil, China, India and South Africa – and identifies four key factors shaping the countries' pattern of growth: people having access to assets; investment in productive activities; social transfers; and a political economic context where inclusion is a priority.

Keywords: growth, equity, poverty, inequality, BRICS, Brazil, India, China, South Africa

Milo Vandemoortele is a PhD student at the London School of Economics (LSE), and was previously a Research Officer in the Growth, Poverty and Inequality Programme at the Overseas Development Institute (ODI).

Kate Bird is Research Associate with ODI and was formerly Head of ODI's Growth and Equity Programme. She is a micro-economist with a particular interest in poverty and chronic poverty, economic growth and equity.

Andries Du Toit, author of the South Africa case study, is Director of the Institute for Poverty, Land and Agrarian Studies (PLAAS) and Professor at the University of the Western Cape in Cape Town.

Minquan Liu, author of the China case study, has been Senior Research Fellow at the Asian Development Bank Institute (ADBI) since July 2011. Previously, he was Professor and Chair of the Department of Development Economics at Peking University, and Founding Director of the Center for Human and Economic Development Studies.

Kunal Sen, author of the India case study, is Professor of Development Economics and Policy at the Institute for Development Policy and Management (IDPM) at the University of Manchester.

Fábio Veras Soares, author of the Brazil case study, is Research Coordinator on Cash Transfers at the International Policy Centre for Inclusive Growth (IPC-IG) in Brasilia.

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Acronyms

ADBI	Asian Development Bank Institute
AIDS	Acquired Immune Deficiency Syndrome
BPC	Continuous Benefit (Brazil)
BRICS	Brazil, Russia, India, China and South Africa
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GIGA	German Institute of Global and Area Studies
HIV	Human Immunodeficiency Virus
IDPM	Institute for Development Policy and Management (UK)
IPC-IG	International Policy Centre for Inclusive Growth
IPEA	Institute for Applied Economic Research (Brazil)
LSE	London School of Economics
MDG	Millennium Development Goal
ODI	Overseas Development Institute
PEGNet	Poverty Reduction, Equity and Growth Network
PLAAS	Institute for Poverty, Land and Agrarian Studies (South Africa)
PRC	People’s Republic of China
RMV	Lifelong Monthly Income (Brazil)
SMMEs	Small, Medium and Micro Enterprises
SUS	Unified Health System (Brazil)
UN	United Nations
UNODC	UN Office on Drugs and Crime
US	United States
WHO	World Health Organization

Executive summary

Five key emerging market economies, commonly termed the BRICS (Brazil, Russia, India, China and South Africa) have been lauded for their stellar economic growth and resilience through the 2008/09 financial crisis and ensuing economic downturn. They are becoming models of development for development practitioners, researchers and other emerging economies. Scratch beneath the surface, however, and you will notice that not all people in these countries have benefited equally from growth. Some countries have seen enormous increases in income inequality – specifically China, India and South Africa; Brazil has enjoyed a reduction.

What can be learnt in terms of the challenges and successes of reconciling growth and equity, from the BRICS' recent growth? This paper examines the experiences of four of the BRICS – Brazil, China, India and South Africa – and attempts to draw conclusions from a cross-country comparison.

Case studies

Pre-1978 institutional reforms set China on the growth path it is on today

China has seen unprecedented rates of economic growth over the past three decades and longer, when compared with both its own past record and that of most other countries, developing and developed, over the same period. Income poverty has fallen. At the same time, inequality (as measured by the Gini coefficient) in China has risen steadily, implying a worsening trend in income distribution both for the rural and urban sectors separately, and for the country as a whole. The China case study argues that at the origin of this pattern are institutional reforms from before 1978 – specifically those related to land and social sector investments. Ignoring these would make it difficult to understand the sheer pace of economic growth and the trend of increased inequality following the adoption of a market-oriented and export-led development strategy in 1978.

India: growth, yes, but jobless

By 2011, India was one of the fastest-growing economies in the world, having experienced strong economic growth since the 1980s of above 5% per annum in gross domestic product (GDP) on average. However, this rapid economic growth has not been accompanied by corresponding rates of job creation or poverty reduction (Deaton and Drèze, 2008). At the same time, there has been an increase in income inequality in both rural and urban areas, and between regions. Sharp differences in poverty rates among socially excluded groups still remain. Therefore, the growth process in India has not been particularly inclusive. This case study outlines the three most important factors explaining the current state of equity and economic development: growth-enhancing institutional reform; a lack of structural transformation; and the persistence of manufacturing dualism.

Brazil: equitable growth

Brazil's growth performance has been impressive, in per capita terms: whereas in China the increase in per capita household income has been two percentage points lower than the GDP growth rate, in Brazil it has been two percentage points higher (Neri, 2011). Moreover, the distribution of increases in per capita household income across income deciles reveals a decrease in income inequality in Brazil over the past decade, whereas other BRICS have seen increased income inequality. In Brazil, the poorest households have experienced a much faster increase in their income than the richest; the increase in the real income of the poor has been higher than the GDP growth rate for India and just below that of China (Neri, 2011). This case study argues that the three key factors underpinning these per capita growth rates and the country's fall in income inequality are economic stability; expansion of social protection and social services; and institutional reforms that guaranteed this economic stability and expansion of social protection and social services.

South Africa: stuck on a path of jobless de-agrarianisation

South Africa's economic growth has been coupled with worsening inequality and the creation of a 'surplus' population that has exited agricultural employment but finds itself unable to find employment in the non-farm sector. The South Africa case study contends that the four most important factors shaping the distribution of the economic benefits of growth are the legacy of colonial and Apartheid dispossession, the unsustainable spatial geography that resulted, the development of a vertically integrated and highly concentrated capital-intensive core economy and skewed distribution of human capital created by the country's Verwoerdian education policy and a failure to transform the education system. These dynamics have created a process of 'jobless de-agrarianisation' that has mired millions of people in marginalised livelihoods, unable to participate to their own benefit in the formal or informal economy. In South Africa, growth, contrary to Kraay and Dollar (2001), has not been 'good for the poor:' rather, it has perpetuated their marginality.

Lessons learnt

Based on these case studies, a model for equitable growth includes a combination of four key factors:

1. Access to assets, above all skills, enables people to participate in activities that generate income; in agrarian societies, access to land is critical

There is a clear contrast between China and South Africa's approaches to providing people with access to assets, in terms of both human capital and land. In China, growth in the post-1978 period can be explained by relatively equitable access to assets, particularly people's skills and the rural physical infrastructure investment built up in the pre-1978 collective period. In South Africa, on the other hand, distribution of land and human capital was severely skewed, setting the country on a path towards inequitable growth if disparities were not addressed. They were not.

In India, banking reforms in 1969 enabled people access to assets by increasing access to credit. However, the country has not enabled people to apply their skills to income generation. Its growth and trade policy has perpetuated a dual economy, limiting people's opportunities to use their skills and participate in income-generating activities. Contrary to India, Brazil has aimed to increase people's access to assets, including their skills, through conditional cash transfer programmes that incentivise improvements in maternal and child health and education. Building these assets, while also formalising the economy, has enabled people to use their skills to participate in activities that generate income.

2. Investment in productive activities that generate jobs and opportunities for the majority

While China has been able to invest successfully in infrastructure capable of supporting employment generation, investments in South Africa and India have not done born such fruit; on the contrary, they have contributed to widening inequality.

Investment in India, similar to South Africa, has been capital intensive and has resulted in a dual economy – a recipe for inequitable growth. In South Africa, productive investments have been unequal and have worsened inequalities in society. A capital-intensive, concentrated and vertically integrated formal economy has also meant investment in the formal sector has created few opportunities for the poor to participate in the country's economic growth, and has led to their adverse incorporation into the economy.

China's investments in human capital and rural infrastructure in its pre-1978 reform period generated jobs and opportunities for a majority of people when the 1978 reforms were implemented. With agrarian reforms in 1978, pent-up productive capacity was released and China witnessed a sharp rise in agricultural production.

3. Social transfers to guarantee minimum incomes to those who cannot work or cannot find work

While in Brazil social transfers have proved effective at reducing inequality, in South Africa their design has not been able to achieve the desired aims. The India case study does not explicitly discuss social transfers, but the China case study highlights the value of land as a social safety net.

There are many differences between the Brazilian and South African social transfer programmes, but a key distinction relates to the principles and assumptions on which they are based. Despite significant social spending in South Africa, social insurance and welfare policies are founded on the principle that social entitlements should go to able-bodied workers, and on the assumption of full employment. This excludes those too young, too old or too ill – and, most importantly, the unemployed. Programmes do not reach large vulnerable groups of society. The Brazilian approach, conversely, does not assume full employment, and entails social entitlements that reach the elderly and children (through household targeting). Its reach is thus wider and deeper.

4. A political economic context that has inclusion as a priority

Brazil and China in the pre-1978 period had inclusivity as a priority. Unfortunately, South Africa, post-1978 China and India did not.

In Brazil, the political economic context has inclusion as a priority. Indeed, principles of social inclusion are embedded in the Constitution, but are also protected by a series of checks and balances. Large social transfer programmes have been implemented to promote social inclusion. Transparency and scrutiny have curbed corruption and other malpractices in these programmes. In India, some institutional reforms have been inclusive (e.g. bank nationalisation in 1969). However, other institutional reforms inhibit inclusive growth, including tight labour laws; a trade regime that is biased towards capital-intensive instead of labour-intensive goods; and reforms that perpetuate and potentially worsen a manufacturing dualism that limits job creation opportunities. The pre-1978 political economic context in China appears to have prioritised equity. However, post-1978, China has prioritised aggregate growth. This has had implications for equality and for the sustainability of the country's growth. In South Africa, processes of exclusion and marginalisation are not merely the result of racial discrimination but are part of a broader, often violently enforced, economic relations of power that has unequally structured the distribution of opportunity and risk in the economy as a whole.

1 Introduction

Five key emerging market economies, commonly termed the BRICS (Brazil, Russia, India, China and South Africa) have been lauded for their stellar economic growth and resilience, through the 2008/09 financial crisis. These countries are becoming models of development for development practitioners, researchers and other emerging economies. Scratch beneath the surface, however, and you will notice not all people in these countries have benefited equally from growth. Some countries have seen enormous increases in income inequality, specifically China, India and South Africa; Brazil has enjoyed a reduction.

What can be learnt, in terms of the challenges and successes of reconciling growth and equity, from the BRICS' recent growth? Most literature examining the growth–equity relationship focuses on cross-country analyses or individual case studies. Analysis of the BRICS' experiences of squaring growth and equity is sparse. This paper aims to contribute to the debate by focusing on the experiences and lessons learnt from four BRICS – specifically Brazil, China, India and South Africa.

The paper is structured as follows: Section 2 discusses why equitable growth matters; it defines equitable growth and outlines instrumental and intrinsic arguments for it. Section 3 offers four experts' perspectives on the challenges and successes of reconciling growth and equity in Brazil, China, India and South Africa. Section 4 discusses key themes for inclusive growth drawn from the case studies:

1. Access to assets, above all skills, enabling people to participate in activities that generate income; in agrarian societies, access to land is critical;
2. Investment in productive activities that generate jobs and opportunities for the majority;
3. Social transfers to guarantee minimum incomes to those who cannot work or cannot find work; and
4. A political economic context that has inclusion as a priority.

Section 5 concludes.

2 Why equitable growth matters

Economic growth is not an end in itself. Instead, it is a means to an end, whereby the goal in mind is the enhanced wellbeing of all members of society. We know economic growth can generate increases in incomes and raise levels of consumption and wellbeing, but it does not always benefit all socioeconomic groups equally. Rising inequalities in countries undermine the sustainability of progress in wellbeing. The distribution of benefits depends on the nature of an economy and a society and on the pace and pattern of growth.

2.1 What is equitable growth?

Growth is widely recognised as important for poverty reduction; however, the level of inequality plays a critical role in this relationship. Inequality matters because evidence from around the world shows the pattern of growth matters for both poverty reduction and equity. Although economic growth correlates with poverty reduction, the link is not always strong. Ravallion (2004), for example, finds that a 1% increase in per capita incomes may reduce income poverty by as much as 4% or by less than 1%, depending on the country as well as the time period. This suggests the pattern of growth matters as well as the pace. Growth does not always transmit benefits to poor people where they have inadequate access to key markets, or where they engage with those markets on unfavourable terms. Wiggins and Higgins (2008) break this down into the following elements:

- Physical access: some people are effectively unable to take advantage of opportunities owing to the costs of reaching the market.
- Market failures – particularly in the cases of finance, land and labour – mean the poor cannot obtain the resources needed to invest and innovate.
- Lack of human capital of the poor: low levels of basic education and vocational skills, as well as bouts of ill health, often leave poor people in no position to get better-paid jobs.
- Exclusion: discrimination on the grounds of race and ethnicity, language, religion, caste and gender see people excluded from jobs and public services.

Poor people are also vulnerable to a range of hazards that make it too risky for them to invest, innovate, specialise and otherwise take up economic opportunities (Wiggins and Higgins, 2008). Indeed, shocks to the vulnerable poor are a major reason for poverty, depriving them of assets and preventing them from working. Where growth is not inclusive and does not benefit poor people, society is likely to become increasingly inequitable.

2.2 Instrumental arguments

A number of instrumental arguments exist as to why equity matters for growth. First, high levels of crime, including violent crime, have been found to be associated with inequality (Downes, 1998; Fajnzylber et al., 2002), and several studies have found that a small reduction in income inequality is associated with large reductions in the murder rate (The Equality Trust, 2011). Some believe there is a similar association between conflict and insecurity (Stewart, 2001; Tsikata and Seini, 2004), but evidence on this is inconsistent (Cramer, 2005). Where crime rates are high and there is a risk of instability or insecurity, this can affect investor confidence, reducing foreign direct investment (FDI) levels (UNODC, 2005). High inequality also limits aggregate demand in a country

(Stiglitz et al., 2009). This hinders the industry sector, which must focus on export strategy to survive and grow, and constrains government options regarding the national growth strategy. High concentrations of poverty, rather than a solid middle class, are also associated with low geographic capital, which is in turn associated with lower returns to both labour and capital. In other words, inequality is bad for business.

High levels of inequality within a country are associated with poor governance. For example, high levels of corruption are correlated positively with income inequality (Gyimah-Brempong, 2002) and the quality of governance and institutions with inequality (Zhuang et al., 2010)

Recent evidence finds that inequality is associated with higher rates of teenage pregnancy, obesity, violence, imprisonment and addiction. However, it has an impact not only on the wellbeing of poor people but also on all members of society – who exhibit unhealthier, shorter and unhappier lives (Wilkinson and Pickett, 2009).

High levels of income inequality often go hand in hand with low per capita investments in public education and public health services, and poor access by low-income and other excluded groups, leading to low and uneven levels of human capital formation. In addition, people with low levels of human capital are less able to lobby government for improved services, meaning the situation is likely to become entrenched. For many countries, continuing to grow depends on moving up the value chain, but where human capital is low this option may be constrained. So, not only do low levels of investment in human capital formation reduce the wellbeing of poor service users, limiting life expectancy and education levels, but also they constrain the productivity of existing industries and hamper further development and the sustainability of existing growth trajectories.

2.3 Intrinsic arguments

There are also a number of intrinsic arguments as to why equity matters for growth.

Economists used to believe inequality increased automatically from a low base as a country moved through progressive stages of development, before reaching a peak and then declining as the country reached latter industrial and post-industrial phases. However, empirical evidence has shown not only that development does not occur in this linear fashion but also that the relationship between growth and inequality maps poorly onto the Kuznets curve. So, inequality is not the automatic companion of economic growth and development. Instead, policymakers can make choices about the kind of society they wish to create, and a country's social compact determines the degree to which poor and vulnerable groups are included and supported or left to fend for themselves. Equity is important for a just society, and progress towards an equitable society is a noble aim for development.

Inequality is associated with exclusion, discrimination and exploitation. These are of intrinsic concern in the development sector. For example, exclusion can be associated with reduced life expectancy and lower levels of wellbeing; discrimination can be linked to below-average income levels; and exploitation often involves significant human rights violations. Understanding the processes by which people are excluded, discriminated against or exploited in key markets and services is crucial if governments and other actors are to create the conditions for inclusive growth.

However, inclusion is not straightforward. We should be concerned with the manner in which the poorest and most vulnerable engage in and benefit from the services and markets they can access. In some countries and in some value chains, high degrees of poverty and inequality accompany inclusion, with individuals and groups in employment, but under adverse conditions that do not enable them to save, accumulate and exit poverty, and where they are socially incorporated, but in relationships where the asymmetries do not allow them to express themselves freely and with full agency.

Evidence from around the world shows the importance of history. Policy decisions taken many decades ago can influence the shape of an economy now, suggesting that a country's development is strongly path determined (Vandemoortele with Bird, 2010a; 2010b; 2010c). It is also difficult to reverse inequality once it becomes established, as the struggles to achieve the Millennium Development Goals (MDGs) and interrupt the intergenerational transmission of poverty in the US and developing nations illustrates (Bird and Higgins, 2011).

3 Evidence from the BRICS[1]

To gain a better understanding of how the BRICS have grappled with growth and inequality, country experts carried out case studies.

3.1 India

India is now one of the fastest-growing economies in the world, with strong economic growth since the 1980s, averaging more than 5% per annum. This has been accompanied by a rapid increase in India's integration with the world economy and has been driven mostly by total factor productivity growth rather than capital accumulation (Bosworth and Collins, 2008).

However, rapid economic growth has not been accompanied by corresponding rates of job creation. The employment elasticity of output – the percentage increase in employment for a 1% increase in gross domestic product (GDP) – has fallen from 0.40 in 1983-1993 to 0.29 in 1993-2004. Employment growth was 1.79% per annum in 1993-2004 as compared with 1.99% per annum in 1983-1993. A great part of the fall in the employment elasticity of output can be attributed to strong growth in labour productivity since the early 1980s, but it may also owe to a pattern of growth that has not been particularly employment intensive.

Notwithstanding weak job creation in the economy in the 1980s and 1990s, poverty rates seem to have fallen steadily since the late 1970s, after showing no clear trend in the first two decades after independence. This poverty reduction has occurred in both rural and urban areas. However, the rate of decline in poverty is not as high as might be expected, given high rates of economic growth in the 1980s and 1990s (Deaton and Drèze, 2008). At the same time, there has been an increase in income inequality in both rural and urban areas, and between regions. Much higher rates of poverty are still found among socially excluded groups, suggesting the growth process in India has not been particularly inclusive.

We argue the three most important factors explaining the current state of equity and economic development are 1) growth-enhancing institutional reform; 2) lack of structural transformation; and 3) persistence of manufacturing dualism.

3.1.1 Growth-enhancing institutional reform

The first key factor that has contributed to the current state of equity and economic development, and, in particular, to the rapid economic growth India has observed since the early 1980s, relates to growth-enhancing institutional reform in the early 1980s. Institutional reform led to a surge in private investment in machinery all through the 1980s and 1990s, which was the causal variable explaining India's growth acceleration (Sen, 2007; 2009). The first major institutional reform was bank nationalisation – a large transfer of property rights from the private to the public sector – that led to significant financial deepening. In 1969, the government of the day, which was headed by Indira Gandhi in her first stint as Prime Minister, nationalised 14 of India's largest commercial banks. As commercial banks came under 'social control', these newly nationalised banks were asked to mobilise resources on a massive scale by opening branches in rural and semi-urban areas, as the Reserve Bank of India enforced a strict branch licensing policy (Sen and Vaidya,

1. The India case study was written by Professor Kunal Sen, the Brazilian case study by Dr Fábio Veras Soares, the South African case study by Professor Andries Du Toit and the Chinese case study by Dr Minquan Liu.

1997). This objective was largely realised. Deposits as a percentage of national income increased from 15.2% in 1969 to 37.9% in 1984, while population per bank office – a measure of bank density – fell from 65,000 in 1969 to 15,000 in 1984.

The increase in bank density had a significant positive effect on private saving (Athukorala and Sen, 2002). This substantial resource in the Indian banking sector made its way to firms and producer households as loanable funds for investment in two ways. The first was a direct route. With the introduction of 'priority sector lending requirements' as commercial banks came under social control, banks had to lend a large proportion of this increased level of deposits to producer households in the industry and agriculture sectors for both working and fixed capital purposes. Household machinery investment increased in the 1970s, as the agricultural Green Revolution began to have its effect on rural areas of northern states such as Haryana and Punjab. The second route was an indirect one. As commercial banks found their deposit base increase, they invested in bonds and debentures of term-lending institutions and state-owned insurance and mutual fund companies. These resources then made their way to the private corporate sector via loans from term-lending institutions and investment in shares and bonds of corporate firms by the state-owned insurance and mutual fund companies. Thus, the net result of bank nationalisation was a significant increase in financial deepening, particularly from the mid-1970s, which contributed to the increased investment rate.

The second institutional reform was a change in the rules of the game to do with the external environment brought about by trade reforms in the capital and intermediate goods sectors. By the late 1970s, as a result of a strong protectionist regime that prevailed for the capital goods sector from independence, and ubiquitous state involvement in the production of capital and intermediate goods, India had among the most expensive machinery in the world. There is little doubt that the high price of machinery was one of the most important factors in why investment in mechanisation in India was so low in the 1960s and 1970s as compared with in many other developing nations. The relaxation of import controls, which had started with the export–import policy of 1977/78, gained momentum in the 1980s, with a steady increase in the availability of capital and intermediate goods as imports. The resultant competitive pressure on the domestic capital and intermediate goods sectors explains to a large extent why the price of machinery started falling steadily from the 1980s. The fall in the relative price of machinery was an important reason behind the spectacular increase in private equipment investment in the 1980s.

These institutional reforms were complemented by the rise in public fixed investment in the 1980s. This was mostly in the infrastructure industries: petroleum, electricity and railways. The private sector responded strongly to the higher volume of funds available to it for investment purposes, by investing more. Along with this was a change in the attitude in the early 1980s of the national government under Indira Gandhi towards the private sector, from being anti-business to being pro-business. Informal institutional change in the form of changes in attitudes of the political elite towards the national business elite was complementary to formal institutional change in India, and this complementarity goes a long way to explaining why India's economic growth accelerated from the early 1980s onwards (Rodrik and Subramanian, 2004).

3.1.2 Lack of structural transformation

A second key factor behind the current pattern of equity and economic development in India, and, in particular, the jobless growth phenomenon, has been the lack of productive structural transformation in the country. India's pattern of growth has been atypical, and has not followed the standard path we have seen in other economies, especially those with large supplies of mostly unskilled labour. All the major Asian economies, starting with Japan, then Korea, Singapore and Taiwan, and now, more recently, China and Vietnam, have moved from the import-substituting phases of their economic development to an export-oriented development strategy, which in its initial years witnessed strong growth in the labour-intensive segment of the manufacturing sector. In all these countries, as their economies integrated more closely with world markets, economic growth and structural transformation from an agriculture-based to a manufacturing-based economy went hand in hand, one driving the other. Surplus labour was pulled, sometimes in massive quantities, from less productive agriculture to the more productive manufacturing sector; economic growth was driven in its early stages by a rapid expansion in labour-intensive manufacturing, mostly producing for export markets (Haggard, 1996; Krueger, 1997).

This was not the case in India, where the labour–intensive manufacturing sector did not become the engine of growth. In fact, it was the knowledge-intensive services sector that, along with some segments of capital-intensive manufacturing, was the engine of growth. Although some domains within the services sector can be labour intensive, the areas developed in India by their nature were not employment intensive. Whatever jobs were created outside agriculture were mostly in the low-productivity, low-wage informal services sector (comprising mostly trade, hotels and restaurants). The informal services sector depends on the growth of other sectors, and therefore could not be the leading sector of growth. By virtue of its 'follower' status in sectoral growth, it is constrained in its capacity to absorb any more agricultural labour than it has in recent years.

Such a development pattern has been neither efficient nor equitable, as it has not been built on the foundation of the innate comparative advantage India possesses in unskilled labour-intensive manufacturing and it has limited the poverty-reducing impact of economic growth.

Several factors explain the lack of structural transformation. First, the nature of the trade regime in India is still biased towards capital-intensive manufacturing, in spite of reforms that have reduced protection towards the capital goods and intermediate goods sectors. Tariffs in India still remain high in comparison with the regional average. In addition, until very recently, a large proportion of intermediate inputs and consumer goods were subject to non-tariff barriers (Sen, 2008). Second, stringent employment protection legislation – among the most protective of formal workers in the world – has reduced the incentive of firms to hire workers than would otherwise have been the case, and has pushed them towards more capital-intensive modes of production. Third, there have been significant infrastructural bottlenecks (especially in access to electricity) and other impediments to entrepreneurial growth in small firms (such as high costs of formalisation), along with a long history of small-scale reservation policy, which prohibited the entry of large-scale units in labour-intensive industries. Finally, the opening-up of the economy has increased the availability of cheap capital goods from abroad, and economic reforms that have increased competition have led firms, even those in the informal sector, to increase their skills and capital intensity, in order to compete with imports.

3.1.3 **Persistence of manufacturing dualism**

The third key factor explaining the current pattern of equity and economic development has been persistent manufacturing dualism – the existence of a relatively small set of formal sector firms with a largely protected workforce alongside a large number of firms in the informal sector, where workers have little access to social security, employment protection or other benefits. Formal sector firms are very different from informal sector firms, in terms of both labour productivity and wages paid to their employees: labour productivity in formal sector firms was 28 times higher than that in informal sector firms, and wages 5 times higher in 2005/06. More strikingly, productivity differences have been widening over time: labour productivity in formal sector firms was only five times that of informal sector firms in 1984/85. Along with this, the share of informal manufacturing in GDP has remained remarkably constant over the 60 years since independence, at around 5% of GDP, whereas that of formal manufacturing in GDP has increased, especially since 1980. In contrast with its declining importance in total manufacturing output, the informal sector has remained as important in providing employment. The proportion of workers in the informal sector in total manufacturing was 83% in 1984-1995; it had declined marginally, to 80%, by 2005/06. The persistence of dualism in Indian manufacturing, and the presence of a large, low-productivity (and low-wage) informal sector in the face of significant and rapid economic change, has remained a matter of policy concern, and the evidence suggests that economic reforms in the early 1990s may have exacerbated manufacturing dualism in India. The persistence of manufacturing dualism is an important contributory factor to the relatively weak effect of economic growth on poverty in India.

The key implications of the current trajectory for sustained human, political and economic development is that, in contrast with previous growth success stories of the developing world, especially those originating from Asia, India's pattern of growth is following a non-standard and what one might call perverse route. Such a growth pattern that privileges knowledge-intensive services and capital-intensive manufacturing over labour-intensive manufacturing is not in India's long-term interests, from the viewpoint of either efficiency or equity. Clearly, whether India can maintain strong economic growth into the future, and at the same time have a more equitable development strategy, is related intimately to its ability to reclaim its 'lost transformation' from an agriculture-based to a manufacturing-based economy.

3.2 China

In discussing the current pattern of economic growth and equity in China, its causes and its implications for sustained human and economic development, we must first look at the time before the economic reforms and opening-up, that is, before 1978, or, as it is called in China, the first 30 years of the People's Republic of China (PRC). Despite significant ruptures between the first and second 30 years of the PRC in terms of development strategy, there have also been important complementarities between the policies pursued during the two periods. In particular, without institutional reforms in the first 30 years, especially those related to land and social sector investments, it is difficult to explain the sheer pace of economic growth and China's concomitant record on equity following the adoption of a market-oriented and export-led development strategy in 1978. The sheer size of the Chinese economy vis-à-vis the rest of the world has also played an important role in shaping the recent pattern and trajectory of economic growth and equity in China.

3.2.1 Recent pattern of economic growth and equity

China has seen unprecedented rates of economic growth over the past three decades and longer, compared with both its own past record and that of most other countries, developing and developed, over the same period. China's annual GDP growth rates for 1978-2009 averaged well above average global growth rates, and income poverty levels have fallen. However, at the same time, the Gini coefficient for China has risen steadily (Table 1), implying a worsening trend in income distribution for both the rural and urban sectors separately and for the country as a whole.

Table 1: Income inequality in China, 1980-2004 (Gini coefficient)

Year	Rural	Urban	Country	Year	Rural	Urban	Country
1980	0.25	n.a.	n.a.	1992	0.32	0.24	0.39
1981	0.25	0.18	0.31	1993	0.34	0.27	0.42
1982	0.24	0.16	0.29	1994	0.34	0.29	0.43
1983	0.26	0.17	0.28	1995	0.34	0.28	0.42
1984	0.27	0.18	0.29	1996	0.33	0.29	0.4
1985	0.27	0.17	0.29	1997	0.33	0.29	0.4
1986	0.28	0.21	0.32	1998	0.33	0.3	0.4
1987	0.29	0.2	0.32	1999	0.34	0.3	0.42
1988	0.3	0.21	0.33	2000	0.36	0.32	0.44
1989	0.31	0.24	0.35	2001	0.36	0.32	0.45
1990	0.3	0.23	0.35	2004	-	-	0.47
1991	0.31	0.23	0.37				

Source: 1980-2001 = Ravallion and Chen (2007); 2004 = World Bank databank.

3.2.2 Pre-1978 origins

History matters, but often in ways that are more intricate and subtle than one might think. An important case in point has to do with land reform in China. Immediately after (and in many regions even before) the founding of the PRC, the new government pushed through a nationwide land reform programme, whereby all private holdings of land above a certain ceiling were confiscated and turned over to the landless or those who had little land. While the ethical basis for such outright confiscation itself may be open to debate, the incentives and distributional consequences of the move should be obvious: self-ownership of land typically gives farmers greater incentives to cultivate, and this should have had a productivity-boosting effect, with farmers experiencing income gains on their wages as labourers, tenants or sharecroppers.[2]

However, such incentive effects were severely moderated starting in the mid-1950s, when the new government then tried to collectivise the land. As a collective farm member, a farmer would receive a smaller share of the output than under sharecropping (in which the historical and international norm is to receive around half of the output). And, of course, the owner would not be a residual claimant[3] (as under a fixed rent) either, even though members of the collective would share all of the produce according to a measure of each individual's labour inputs (see Liu, 1994).

From this description of the pre-1978 rural collective system, it might be concluded that the system was poorly designed and likely to have a negative effect on rural and agricultural development and thus the development of China as a whole. However, although the system had serious drawbacks, it also made an important contribution through its role in facilitating social sector and rural physical infrastructural investments.

The key to this perspective lies in understanding the payment system of the collective, whereby each member would be paid (or their share of the collective income would be determined) according to their labour contribution vis-à-vis that of other members. A person's labour contribution was measured in 'workpoints', and their income from the collective would simply be the number of workpoints earned multiplied by the monetary worth of each workpoint, the latter generated by the total collective income divided by the aggregate number of workpoints earned by all the members in the collective.

2. Working on land you own yourself entitles you to all of the produce of your labour (after deductions for tax, if any). However, self-ownership and full entitlement to the product of your labour (and, concomitantly with this, full responsibility for cost bearing) may also bring with it the increased burden of risk bearing for any crop or output failure.
3. A residual claimant in this case is one who collects all remaining income after paying all production costs, a fixed rent and tax, if any.

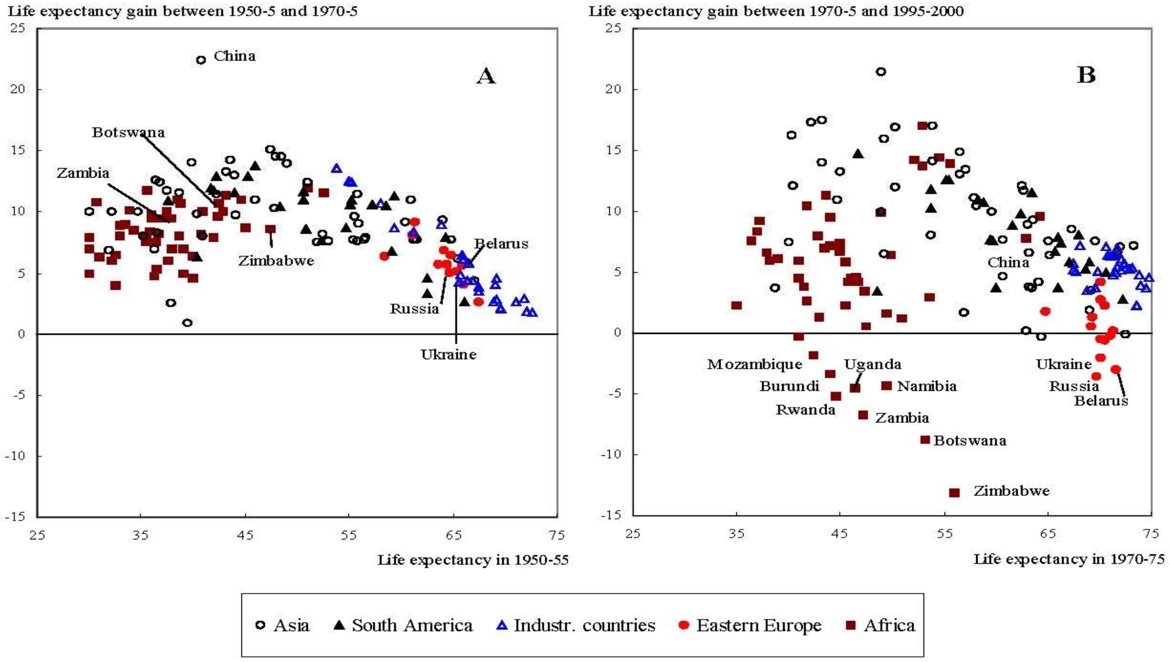
Such a payment system had two important properties that turned out to be highly beneficial in terms of facilitating social sector and agricultural physical infrastructural investments. First, not all collective income had to be distributed to members; part of it could be set aside for social welfare and other purposes. As it happened, two such set-asides were regularly made, called the ‘accumulation fund’ and the ‘welfare fund’, respectively. The former was used for ‘expanded production’, the latter for social sector investments such as in education and health. Indeed, it was collective funds such as this, rather than government funding, that were principally responsible for the rapid development of rural health services and rural primary and secondary education in China during the period.

The system also enabled collectives to finance such investments in another crucial way. For any labour inputs related to these investments, for example the hours contributed by paramedic professionals (e.g. barefoot doctors) or certain categories of teachers (e.g. the so-called *minban* teachers), or those contributed by others to public health projects and the building of local schools and clinics, could similarly be paid in workpoints, with the effect of increasing the aggregate number of workpoints in a collective and hence reducing the dividend rate of each workpoint.

As well as social sector investments, the collective also facilitated rural physical infrastructural investments in a huge way. Typically, this included constructing or improving irrigation and drainage systems and rural roads, and standardising the size and shape of plots. These improvements in basic agricultural infrastructure facilitated crop management and mechanisation and improved productivity, and were important for subsequent patterns of equity and growth.

It is not possible to estimate the monetary value of these social sector (education, health, and other) or in rural physical infrastructural investments. No systematic data were collected to allow for such analysis. The extent of improvements in certain health and education indicators should nonetheless give us an idea of the scale of social investments during the period. The story of health care improvement was well known at the time: the World Health Organization (WHO) regarded the Chinese rural health care system as a shining example for other developing countries to follow. Figure 1 compares the China’s achievements in life expectancy over two periods (before and after 1978) with both developed and developing countries. The contrast is striking. While China outperformed all other countries in the pre-1978 period, its performance in the subsequent period is, at best, lackluster.

Figure 1: Relationship between initial level and life expectancy gains during two periods: A from 1950- 55 to 1970-75; B from 1970-75 to 1995-2000



Source: Caselli, Meslé, and Vallin (2002).

With regards to education, Table 2 provides the China's 1990 National Census findings on achievements of each age cohort, measured by the proportion of the population in that age cohort achieving or not achieving particular levels of education. There is a 16 percentage point decline in the illiteracy and semi-illiteracy levels for the 1946–1949 cohort, compared with the level of the 1941-1945 cohort (data highlighted in bold). This coincided with the founding of the People's Republic of China in 1949.

Other aspects of the table are also of interest. There is an 11 percentage point rise in junior secondary education for the 1961–1965 cohort, and a 12 percentage point increase in senior secondary education for the 1956–1960 cohort when compared with the their respective previous cohorts. In the latter case, though, this sharp rise was followed by an equally sharp fall (10 percentage points) for the cohort 1966–1970.[4]

With respect to physical infrastructural investments, Liu et al. (1998) provide a detailed study of the scale and the contributions these made to rural and agricultural development in China during the period and thereafter.

4 Note that under the Chinese education system, senior secondary education is completed at the age of 18, and that the Cultural Revolution began in 1966 and officially went on until 1976. Its influences continued until the early 1980s. Thus, with some careful scrutiny of the data presented in the table, it would appear that in spite of its apparent negative impacts in other respects, education (and health) did not appear to do perform badly in those years at all. In fact, it would appear that the opposite may even have been true.

Table 2: Educational achievements by age cohort, China 1990 National Census (%)

Age cohorts	Age in 1990	Illiteracy and semi-illiteracy	Primary	Junior Secondary	Senior Secondary	Higher Education
1981–1984	6–9		100.00			
1976–1980	10–14		83.50	16.50		0.05
1971–1975	15–19	5.50	35.91	46.78	11.25	0.40
1966–1970	20–24	6.00	34.31	44.65	**12.27**	2.82
1961–1965	25–29	7.00	25.11	**43.71**	**21.95**	3.07
1956–1960	30–34	12.00	32.56	**32.56**	**20.77**	1.89
1951–1955	35–39	17.25	44.69	27.72	**8.61**	1.74
1946–1949	40–44	**20.50**	50.28	21.07	6.24	1.87
1941–1945	45–49	**36.50**	37.31	17.46	6.19	1.94
1936–1940	50–54	41.00	39.24	11.80	5.58	2.45
1931–1935	55–59	54.50	33.22	7.51	3.39	1.46
1926–1930	60–64	62.50	28.22	5.91	2.40	0.94
1925 & earlier	65+	73.50	21.07	3.84	1.30	0.53

Note: The figures given in the Table are based on corresponding charts from the source book. While every effort is made to ensure an accurate rendering of the original bars into numbers, no accuracy of the numbers provided is assured.
Source: National Center for Education Development Research of the PRC, 1995.

3.2.3 The Post-1978 reforms

Beginning in 1978 and in the ensuing years, China embarked on a series of economic reforms. These began in agriculture with the dismantling of the collective system, but without returning land to full-scale private ownership. Land in theory was (and even now still is) collectively owned, although under the new system it is allocated, on a more or less egalitarian basis, to private use.[5] This reform released the pent-up productive capacity made possible by the collective system but also denied an outlet by it, as witnessed by the sharp rise in agricultural production immediately following the system's demise. Shortly thereafter, reforms spread to industry and urban areas, accompanied by major export and FDI promotion drives. Together, these reforms ushered in a period of rapid and sustained economic growth, but not without worsening income distribution.

Just how did the pre-1978 developments outlined above contribute to the post-1978 process of development and enable the pattern of growth and equity we see today? First, much of the growth in the post-1978 period can be thought of as a process of sustained expansion of the industry and service sectors. This drew on an extensive pool of rural surplus labour and was helped by expanding export markets and FDI inflows. Of crucial importance was the presence of a literate and reasonably educated workforce, made possible by social investments in health and education in the earlier period. The importance of this latent labour force only waiting to be mobilised and employed cannot be overemphasised. Without it, growth would have stalled, despite market opportunities. While this labour force may not have been highly educated or skilled, the level of literacy and education, and generally good health, of workers nevertheless enabled them to gain the requisite skills rapidly, and to have the physical stamina to work very long hours.[6]

5. Specifically, farmers can use the land they are given to cultivate whatever they like and receive full fruits from their labour, but they cannot sell or buy additional land (as they have no ownership claims over their land cannot establish such ownership over any additional land through land purchase).
6. For more on the importance of good health and nutrition to workers' physical (and mental) stamina to perform long hours of work and contribute to the economic growth and development of a country, see Dasgupta (1997).

Second, much of the post-1978 economic growth process has been one of rural–urban migration. However, this process has progressed at a more moderate pace than in other economies going through similar processes of change. This is because farmers are still entitled to land in rural areas through the farmland entitlement system (or the 'responsibility system'). That is, farmers are by no means landless, and their entitlement to land generates a source of income and provides for them what is, in effect, a form of safety net. This has constrained excessive migration, preventing the emergence of a dispossessed and impoverished class on the margins of cities. Albeit reworked by post-1978 rural reforms, such a farmland entitlement system owed its origins to pre-1978 land-related institutional reforms.

Third, while some surplus farm labourers moved away from their villages for jobs in cities, many remained behind – but even they did not engage solely in farming. Diversification, or simultaneously engaging in both farming and non-farming activities, has been essential. Had certain conditions not been met, this diversification would have been difficult. The importance of the rural physical infrastructural investments carried out during the pre-1978 collective period was that they not only raised farm yields and increased labour productivity, but also changed farming infrastructure in such a way that part-time farming became both possible and viable;[7] indeed, part-time farming has become a widespread phenomenon in rural China.

Thus, whether migrating to cities but still with entitlement to a piece of land in their home village, or remaining behind in their village but diversifying to other non-farming activities, Chinese farmers have enjoyed much better income opportunities than they might have otherwise, thanks to the institutional arrangements put in place and social sector investments made before the reforms. The role of these pre-1978 inputs has generally been downplayed in analysis of the underlying roots of post-1978 growth and equity. In a full examination of the factors contributing to the current pattern of growth and equity in the country, however, they are too important to be ignored.

3.2.4 The burden of 'size'

On the whole, China's large size has offered rather mixed blessings. On the one hand, it has clearly made a significant positive contribution to the country's export expansions and FDI inflows. First, of China's total exports, processing trade has accounted for a significant share, especially in the early years of the reform period. The availability of a large pool of cheap, literate and semi-skilled labour was one of the factors making this possible. Without it, for example, the development of the Pearl River Delta region into one of the world's leading locations of processing trade would have been unthinkable. Second, China's potential as the world's largest consumer market has helped attract much of the FDI inflows to the country. Indeed, as well as contributing to China's GDP, FDI may even have played a role in pushing forward labour market and other economic reforms in the country.[8] In total, the effects of FDI on China's economic reforms and growth are many and major.

On the other hand, although China's size has contributed significantly to the success of its export-led development strategy, it has also imposed important limitations. First, in terms of growth: after the initial phase of rapid growth in exports and the economy in general, China has now reached a point where it has become the source of a high proportion of total world exports in particular goods

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7. First, improved farm road systems both improves transportation conditions and reduced travel time to plots. Together with improved plot configurations, this made mechanisation of a wide range of farming operations possible and viable (a good road system enabled farm machinery to reach each plot more easily; larger plot size and better plot configurations also facilitates such mechanisation). Overall, this reduced the amount of time farmers needed to spend on farming, allowing them plenty of time to pursue other activities, and to do both in a viable manner.
8. See, for example, Liu et al. (2006) on FDI and its role in Chinese labour market reforms.

and services, and this has had the effect of driving down export prices.[9] For China, the prolonged pursuit of export expansion, by driving down export prices and keeping wages low, has had a severe negative effect on growth in domestic demand for goods and services. Second, in terms of equity, downward pressure on export prices and workers' incomes has implications for income distribution. When prices of exports go down, the loss of revenue is unlikely to be shared by all in the value chain (workers, managers, creditors and owners) in proportion to their existing incomes. Typically, the squeeze will be felt particularly by workers, especially in labour-surplus economies like China, where finding replacement workers is not difficult. But these are precisely the people who are already in the low-income brackets. So, for a large country, overdependence on export expansion can have a detrimental impact not only on growth but also on income distribution.

There are still other important ways in which the size of a country may negatively affect its pattern of income distribution, but space constraints here prevent expanded discussion.

What implications does this reading of the events in China have for the future?

3.2.5 Implications: growth and equity

Reliance on export-led growth is unsustainable for China over the long run, because it has a detrimental impact on growth and equity in the country. Indeed, because of its size, China may have to tackle issues of growth and equity simultaneously. Indeed, China may already have reached a point where growth cannot be sustained unless it simultaneously addresses issues of distribution and equity.

Growth in domestic demand has been widely recognised as important by researchers and policymakers in China for some time. However, understandings of its role have been rather limited. Our view is that household demand will need to be increased, and this will require increased household disposable incomes. Wage increases can help achieve this, especially if they are for low-wage earners. Increased transfer incomes through better social protection programmes can also raise domestic demand.

However, there has been great reluctance on the part of the government to support either wage increases or increases in social protection. In the first case, it is feared that a rise in wages could reduce firms' competitiveness and adversely affect exports and inward investment. This may be true, but it needs to be recognised that continued reliance on the current strategy of export expansion cannot be an option. Indeed, it may even cause China to be 'trapped' in dependence on cheap and low-tech exports and, by doing so, to fall into the so-called 'middle-income trap'.

Second, there appears to be much reluctance on the part of the government to commit to anything like long-term obligations of income transfers (in cash or in kind) to households, through various social insurance and protection programmes. The need for increased social protection has to be recognised, Quite a few studies have been carried out recently to look into the possible scope and level of such programmes. However, thus far no major concrete steps have been taken.[10]

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9. Chinese exports in certain goods and services in particular have accounted for a significant market share in some destination markets (US, European Union, Japan, etc.). Consumers in those markets have benefited – the large volumes of exports from China and other developing countries have helped keep the prices of a wide range of final consumer goods in those markets low (sometimes very low), thereby keeping down the living costs of an average consumer in those markets and raising his/her real income and wellbeing.

10. At the heart of the matter is the fact that many policymakers in China appear to see such transfers principally in a negative light. Perceived failures of such attempts in some countries (e.g. some Latin American countries), where social protection sometimes appears to have outpaced economic growth, are often cited.

3.2.6 Implications: social sector investments and the middle-income trap

There is nothing more important for development than human capital accumulation. The human capital accumulation achieved in the pre-1978 era enabled China to complete the first phase of its arduous transformation process, namely, learning to use available technologies and to join in international production networks. The country may right now have reached the second phase of the process, namely, imitation and adaptation. But to enable China to move into the third phase, of own innovation, and into the high value-adding segments of value chains requires a great deal more human capital stock than is currently available. This means a lot more public investment in education, training and other processes of knowledge and skills development. As well as increased levels of financial inputs, this may require appropriate institutional changes to the existing formal, and informal, education and training systems.

While directly targeting education and training is important, effective human capital accumulation often also requires a comprehensive range of other measures, including health and social protection programmes. Meanwhile, notwithstanding the need for increased public investment in education, the role of private investment should not be disregarded. Private investments in education and health have been extensive in China but they benefit only those who can afford access.

3.2.7 Implications: land and urbanisation

The current rural land system in China has been subject to considerable debate. A major defence for the system is that it provides some minimum level of social protection to farmers, in terms of not only income but also employment. Critics of the system have pointed to the widespread underutilisation of agricultural land (in some cases complete abandonment of it for any productive use) by absentee entitlement holders working and living away. Given the sheer number of rural migrants, in aggregate terms the problem may indeed be serious. Land privatisation has been proposed.

In our view, however, China does not need nor is it ready for land privatisation. Under the current system, a farmer can in fact lease out land for a fee (rent). This system has been poorly regulated and institutionalised, but improvements could be made. An active agricultural land leasing market may well solve underutilisation. More importantly, however, private land ownership may enable distress sales by some farmers and, historically, such sales of land appear to have driven the bulk of China’s land concentrations and linked economic polarisations, which it can be argued have contributed to violent dynastic changes and social upheavals.

However, we do not suggest that China retain its current agricultural land entitlement system forever, and a case for change may well exist. But change should happen only after China has resolved the matter that motivated the current rural land system in the first place, namely, its role as a substitute system for social protection for rural residents. Provisions for such protection in rural areas may start at a modest level, then be increased and eventually be fully integrated with the existing urban system with respect to both level and coverage. Unless and until this is implemented, no fundamental change should be made to the current rural land entitlement system.

3.2.8 Conclusion

Many factors have contributed to China’s present pattern of growth and equity. This case study highlights factors that have received little prominence in the current literature and makes the case that, without a proper understanding of their role, it will be hard to fully understand recent Chinese economic history, or to advise on appropriate future strategies for economic growth and development.

Among the critical factors are the foundations laid in the pre-1978 era, especially with respect to land institutional reforms and social sector investments. These legacies successfully complemented the export and FDI promotion strategies the country subsequently followed in the post-1978 period. However, while these new era strategies have helped kick-start China's economic take-off, its long-run growth can hardly depend on them. As we have argued, in both the short and the long run, it will be important for China to expand its own domestic demand to its vastly expanded production capacities, and this means improving on current income distribution patterns as well. In particular, as well as wage increases, it will be important for the country to expand its social protection programmes, with a view to both expanding domestic demand and, perhaps even more importantly, renewing and expanding its investment in human capital. Renewed human capital accumulation is vital for China, if the country is to continue to develop, modernise and catch up with today's developed countries. To this end, increased investments by the government, through direct spending and increased levels of social protection, may well prove to be of special importance.

3.3 Brazil

3.3.1 Introduction

Brazil's recent average growth rate has not been impressive when compared with that of other BRICS countries: it is actually at the bottom of the BRICS league table for growth. Nevertheless, the average growth rate of 4.4% observed between 2004 and 2010 represents a major upward shift when compared with the 1981-2003 period (2.0%). It is, however, insufficient to put the country back on the growth path of the heydays of the import substitution industrialisation period (1947-1980), when the country grew 7.5% per year, a figure similar to that exhibited by India over the past few years.

A better picture of Brazil's growth performance can be observed by looking at growth in per capita household income based on household survey data, instead of looking only at GDP growth rates. In China, the increase in per capita household income has been two percentage points lower than the GDP growth rate, whereas in Brazil it has been two percentage points higher (Neri, 2011). Moreover, the distribution of increases in per capita household income across income deciles reveals a decrease in income inequality in Brazil over the past decade, whereas other BRICS have seen increased income inequality (or it has remained constant). In Brazil, the poorest households have experienced a much faster increase in their income than the richest; the increase in the real income of the poor has been higher than the GDP growth rates for India and just below China's, which illustrates the highly pro-poor nature of the recent growth process in Brazil (ibid.).

What are the key factors behind these moderate growth rates – after two decades of stagnation – and the fall in income inequality seen in Brazil in recent years? Are the lower GDP growth rates the inevitable price paid for a more balanced (equitable) growth path? How has Brazilian society chosen this more equitable path? What are the implications for long-run growth? This case study summarises some of the evidence on these issues. It also highlights the changes that have occurred over the past 22 years, since the enactment of the new Brazilian Constitution in 1988, and identifies the challenges and bottlenecks that need to be overcome to ensure Brazil's equitable growth process is sustainable.

We argue that the most important factors to explain the current growth pattern are 1) economic stability; 2) expansion of social protection and social services; and 3) and institutional reforms that guaranteed this economic stability and expansion of social protection and social services.

3.3.2 Economic stability

In Brazil, the 1980s and early 1990s were marked by low and volatile growth rates. This occurred alongside persistent inflation combined with the failure of successive stabilisation plans. Widespread indexation of contracts (prices, wages and rents) added an inertial component to the inflation spiral, which was halted only after the monetary reform carried out through Plano Real in 1994.

Plano Real marked a first step towards economic stability, but it was not a response to all economic imbalances. Tight monetary policy combined with an overvalued exchange rate in an international scenario characterised by successive crises in emerging economies did not make an ideal springboard for a robust growth process. Moreover, several micro-level reforms were still needed to make economic stability a credible feature of the Brazilian economy. Important institutional innovations that contributed to greater economic stability included the adoption of inflation targeting, as far as monetary policy is concerned; fiscal surplus targets, in the realm of fiscal policy in 1999; and enactment of the Law of Fiscal Responsibility in 2000, which outlined parameters the different levels of governments should adopt.

The transition between the Cardoso and Lula administrations did not undo any of these new policy instruments that had been carved out to improve economic stability. In the second term of Lula's administration, there have been some doubts about the degree of commitment of the government to this 'macroeconomic framework'. In particular, counter-cyclical measures,[11] implemented to fight the financial crisis of 1998/99, were seen as putting at risk some of the fiscal policy targets and signalling complacency towards inflation. However, most of the debates that were ongoing at the time (and still are) did not question the importance of keeping inflation under control. Instead, they focused on what instruments should be used to keep inflation within the range targeted by the Central Bank and, more recently, in President Dilma Roussef's term, the pace and timeframe in which it should be brought to the midpoint of this range, taking into account the rebound of the economic crisis. The recent discussion around macro prudential monetary measures versus increases in interest rates in the context of a recent spark in inflation is a good example of this debate.

3.3.3 Expansion of social protection programmes

Following the Latin American tradition, contributory social insurance has been the dominant feature of social protection in Brazil since its inception in the 1930s. The system was designed to protect workers in the formal sector as well as public sector employees through a pay-as-you-go system with contributions from employers, employees and the government. Contributory social insurance covers retirement and survivor pensions, sickness benefit, maternity leave and family/child allowance. It also included access to health, but this has been made redundant with the introduction of the Unified Health System (SUS), which guarantees access to health care for all citizens regardless of previous contribution to social insurance.[12] More recent additions to the rights of formal sector workers in Brazil have been the adoption of severance payments (1966), unemployment insurance (1986 and 1998, as a constitutional right) and also an extra month's

11. See Barbosa (2010) for a comprehensive review of the counter-cyclical measures the Brazilian government adopted.
12. A private health insurance system coexists with the public one. Most upper- and middle-class families have private health insurance, in part because of problems with quality in the public system.

salary per year (*abono salarial*) for formal sector workers who earn less than two times the minimum wage (1988, as a constitutional right).

As summarised above, formal sector workers had many social insurance benefits and social rights legally guaranteed. The situation was quite different in the field of social assistance, understood as non-contributory benefits and the provision of social assistance services. Non-contributory benefits were almost non-existent throughout the high growth period of import substitution industrialisation (1940-1960) and were based mostly on in-kind transfers of a philanthropic nature (Jaccoud et al., 2010). Such non-contributory benefits started being implemented on a reasonable scale only with the introduction of two programmes, Funrural – a benefit to elderly heads of households in rural areas, implemented in 1971 – and the Lifelong Monthly Income (RMV) – a benefit paid to the extreme-poor elderly and the disabled, implemented in 1974 during the authoritarian regime.

The 1988 Constitution broadened and upgraded these programmes and the value of their benefits. Both the rural pension and the Continuous Benefit (BPC), which that replaced the RMV, pay a minimum wage to their beneficiaries. These two programmes are responsible for the negligible poverty rate among the elderly in Brazil. The focus of these two major non-contributory cash transfer programmes – whose individual budgets are much larger than that of the social protection scheme, Bolsa Família – was on the economically inactive, who could not work owing to disability or old age and whose relatives could not help them (in the case of the means-tested BPC).

The innovation that came with the emergence of conditional cash transfers for the poor in the mid-1990s, and which was later merged under the Bolsa Família programme, was threefold: 1) the focus on the family unit (and not on individual/workers') entitlements; 2) the existence of co-responsibilities/conditionalities with a focus on the wellbeing of children; and 3) the possibility of having 'able-bodied' beneficiaries of social assistance. The latter feature may explain why, unlike the other two cash transfer programmes, Bolsa Família aimed to complement the family income rather than to replace it.[13]

The introduction of cash benefits for poor families that have working-age heads of household enabled the social protection system to cover large segments of the informal sector that were completely unprotected. Rural pensions and the BPC were also important in this process, but they offer protection only later in life. Families without an elderly person would not benefit even indirectly from these transfers.

Not surprisingly, social assistance expenditure (non-contributory) was the budget line that showed the largest increase of all federal government social expenditures between 1995 and 2009, increasing from 0.7% in 1995 to 6.8% in 2009. It also increased as a proportion of GDP, from 0.08% to 1.09% during the same period. This owed mostly to the expansion of the BPC and Bolsa Família (IPEA, 2011). Similarly, over the same years, expenditures on social security (contributory social security plus the rural pension) increased from 5% of the GDP to 7.28%, as a result of the increase in both the number of beneficiaries and the value of the minimum wage, which corresponds to the Brazil's minimum pension figure (ibid.).[14]

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13. The highest value a family can receive is just below 50% of the current minimum wage. To obtain the highest value possible, a family has to have at least five children (0-15 years) and two teenagers (16-17 years) and be classified as extreme poor (monthly per capita income net of the transfer below R$70 ($44), this amount is clearly insufficient to cover all their needs without other sources of income.
14. The minimum wage increased by 100% between 1995 and 2009 in real terms and approximately two-thirds of the beneficiaries of the pensioners received exactly one minimum wage or less (less only in the case a survivor pension is split among different beneficiaries) (IPEA, 2011).

Such increases allowed some positive results in terms of reduced poverty and inequality. According to Soares et al. (2010), income inequality as measured by the Gini coefficient fell from 0.591 in 1999 to 0.538 in 2009. The authors also show that Bolsa Família was responsible for 16% of this fall, despite representing only 0.8% of the families' income. Pensions indexed to the minimum wage (including the rural pension and the BPC) were responsible for 15% of the fall and represented 6.4% of household incomes.

The major factor driving the fall in income inequality has been labour income, since it represents 76.2% of household income; this large share was responsible for 59% of the fall in inequality. A combination of several factors has triggered the labour market's inequality-decreasing performance: increases in the minimum wage, expansion in the number of formal sector jobs, a reduction in the returns to education as the supply of more educated workers increases and, finally, a reduction in unemployment.

As for poverty reduction, Bolsa Família was responsible for one-third of the reduction in extreme poverty (which fell from 10% to less than 5% of the population between 1999 and 2009) and for 16% of the fall in poverty (which fell from 26% to 14% between 1999 and 2009). Without Bolsa Família, extreme poverty would have increased by 32% (almost 2 percentage points higher) in 2009, during the crisis.

Given this pattern of expansion in federal government social expenditure, from 11.24% to 15.80% of GDP between 1999 and 2009, in a context of fiscal consolidation, it is clear that these expenditures had to be financed through increases in the tax burden. The latter grew from 26% of GDP in 1998 to 35% of GDP in 2008.

3.3.4 Institutional reforms

Institutional reforms were crucial to guarantee the sustainability of the economic stabilisation process as well as the expansion of both social protection and social policies. The Constitution of 1988 not only strongly supports a process of social inclusion but also has established a series of checks and balances with a strong anti-authoritarian effect (Alston and Mueller, 2011). A higher level of transparency and scrutiny in policy curbs malpractices such as corruption, nepotism and undemocratic processes that both hinder the growth process, owing to the weakness of the institutions, and jeopardise the consolidation of democracy.

Besides institutional reforms in the economic area that led to an improvement in the management of fiscal policy, the decentralisation of power toward states and municipalities, in spite of the risks of reinforcing spatial inequalities if not done properly, has contributed to the development of a culture of partnership between the three levels of government (federal, state and municipal). It has also given leeway to innovation at a more decentralised level. The strong role of the municipalities in the implementation of Bolsa Família, and recent partnerships between states and the federal government in the implementation of the 'Brazil without Indigence' strategy are good examples of this process, not to mention the lessons and challenges arising as a result of the implementation of the SUS and more recently the Unified Social Assistance System. It is also worth mentioning improvements in the monitoring and evaluation of educational achievement, which are helping create transparency and accountability at all levels and generate incentives to strengthen the performance of schools (Alston and Mueller, 2011).

3.3.5 Links between social protection and growth in the Brazilian context

If implementation of the Brazilian version of the welfare state, which is rooted in the 1988 Constitution, has required increases in the tax burden, it was precisely the increase in the income of the lowest deciles through both a pro-poor labour market performance and pro-poor redistributive policies that allowed the Brazilian economy another source of dynamism in addition to external demand-driven growth led by the boom in commodity prices. Internal consumption fuelled by the emergence of a large lower middle class and the expansion of (expensive) consumption credit jointly with the counter-cyclical measures adopted in 2008/09 explains why the global financial crisis had a relatively mild impact in Brazil (-0.8% in 2008) and why growth bounced back so vigorously in the following year (7.5% in 2009).

3.3.6 Limits and challenges

However, this virtuous cycle between internal and external dynamics, which has worked relatively well to deliver an inclusive growth path over the past few years, has some tensions and limits, as Santos (2011) points out. The first one is the high, by any international standards, basic interest rate observed in Brazil, which, despite some decline over the past few years, still implies interest payments of 5.5% of GDP. The second is the overvalued exchange rate, which has jeopardised the growth of the manufacturing sectors and boosted imports. The third is the lack of private financing for long-term investment, which has led the government to finance investment with a high fiscal cost, given differences between short- and long-term interest rates. Fourth, credit-based mass consumption does not help generate domestic savings; deterioration of the capital account can occur, as most investments will be financed by external savings.

To overcome these challenges, Santos (2011) suggests is necessary to:

1. Improve the quality of the public debt, so as to continue the process of reducing interest rates and to incentivise private sector holders of financial wealth to invest in infrastructure (long-term investment);
2. Avoid leakages of the new investments so as to generate income and savings in the country, which requires a reduction in the availability of consumption credit, something that can be done without hindering redistributive policies;
3. Design an active industrial policy and increase control over the exchange rate in order to avoid specialisation in the commodity sector; and
4. Turn to other redistributive mechanisms, such as making the Brazilian tax system more progressive and improving the quality and distribution of Brazilian social expenditure.

3.4 South Africa

The current unequal distribution of wealth, risk and income in South Africa is not simply a legacy of segregation and Apartheid. It is the result of broader relationships of social and economic power of which the institutions of formal racial discrimination were but a part. The roots of these relationships lie in the history of colonial settlement, and in the particular paths taken in the late 19th and early 20th centuries by the transition to capitalism in the countryside and by the course of industrialisation in the cities. As a result, South Africa has since the mid-1970s been characterised by a process that can be described as ‘jobless de-agrarianisation’: millions of people have been pushed off the land and out of agriculture, with little prospect of finding alternative employment (Bernstein, 2004; Bryceson and Jamal, 1997). Without land and without prospect of decent employment, they have been relegated to the status of a ‘surplus’ population, unable to support themselves through own food production but superfluous to the labour needs of the non-farm economy. In South Africa, growth, contrary to Kraay and Dollar (2001), has not been ‘good for the poor’: rather, it has perpetuated their marginality.

Note that we do not use the word exclusion: the situation of South Africa’s poor is not simply that they are disconnected from the opportunities of the market. It is better characterised as ‘adverse incorporation' (Bracking, 2003; Du Toit and Neves, 2007). Millions of poor, black South Africans find themselves excluded from the economy as farmers, growers, producers, workers and traders ... but included as consumers of the manufactured goods and services created by the South African core economy (Du Toit, 2011b). The result is to close off key pathways out of poverty, and to entrench economic disempowerment within the functioning of the basic structure and the central institutions of South African society.

The transition to democracy has not addressed the underlying dynamics that have driven this process. While inequality has been to some extent de-racialised, the social processes that drive jobless de-agrarianisation have not been decisively interrupted: indeed, in this respect, post-Apartheid South Africa has seen a continuation, and in some dimensions even an exacerbation, of these trends.

3.4.1 Jobless de-agrarianisation and adverse incorporation

The four most important factors driving jobless de-agrarianisation are the legacy of Apartheid dispossession (particularly with respect to land), the unsustainable spatial geography this created and the nature and structure of the South African core economy.

First, colonial settlement and Apartheid policy caused a massive skewing of the distribution of assets in the economy, most obviously by way of the vast asset theft accomplished by the policy of forced removals, which transferred large amounts of land from black farmers into the hands of a small white landed elite. By the end of Apartheid, about 60,000 white-owned farms accounted for 82 million hectares of agricultural land (86% of the farming land in the country), while 12.7 million black South Africans (approximately 32% of the total population) were crowded onto into the 13% of land set aside as 'native reserves' in the terms of the Natives Land Act of 1913 and the 1936 Native Trust and Land Act (Adams et al., 2000). On the commercial farmlands, farm worker livelihoods were precarious and poor and were subject to attrition from the mid-1960s. In the 'Bantustan' areas, agricultural livelihoods were undermined by a lack of infrastructural investment and by pressure on land: holdings in arable land ranged between 0.5 and 1.5 hectares per rural household, with more than half having holdings of less than a hectare (Lahiff and Cousins, 2005; May, 2000). Furthermore, a range of factors, including modernisation, monetisation and the HIV/AIDS pandemic, undermined the social relations of production that had previously sustained smallholder agriculture (Andrew et al., 2003). The vast majority of poor black rural households have been unable to sustain themselves through agriculture: while some 2 million households continue to practise some kind of smallholder farming, most surveys estimate that agriculture contributes less than 10% to already penurious household incomes; even the most optimistic estimates put it at less than 30% (ibid.). For the majority of South Africa's rural population, survival was possible only on the basis of migration and poorly paid labour in the mining and manufacturing sections of South Africa's formal, white-owned economy (Morris, 1980).

Second, a key legacy of Apartheid policy was not only massive inequality in the distribution of assets but also the unsustainable and impoverishing spatial economy that resulted (Christopher, 1994). Apartheid's spatial engineering entrenched deep geographic inequalities, both at the national level, concentrating poverty in Bantustans situated thousands of kilometres from South Africa's economic heartland, and at the regional level, relegating black South Africans to far-flung dormitory townships (Harrison et al., 2008; Smith, 1992). A lasting legacy of this spatialisation of poverty is the persistence of high levels of migration long after the end of Apartheid and the disproportionately high commuter miles still travelled by poor black South Africans (Department of Transport, 1996).

A third factor relates to the capital-intensive, concentrated and vertically integrated nature of the formal economy, which has been dominated by a highly developed industrial complex concentrated around mineral beneficiation and cheap energy (Fine and Rustomjee, 1996). In this sector, growth has tended to be capital intensive, and the gross output elasticity for employment has been low (Black, 2010). A contributing factor has been the highly concentrated nature of the South African economy (Chabane et al., 2003): at the end of Apartheid, six conglomerates accounted for more than 80% of market capitalisation in the Johannesburg Stock Exchange (Competition Commission South Africa, 2009). This concentration and vertical integration is also felt in the food system, which has been characterised by a great degree of agribusiness dominance. In recent years, a particularly important dimension has been the penetration of supermarkets into the food retail system: by 2010, nearly 70% of food marketing was controlled by formal retail, of which 94% was in the hands of six supermarket retailers (Greenberg, 2010). While supermarkets doubtless helped ensure cheap food for those workers who could pay, their supply lines have tended to marginalise or punish small producers and small, medium and micro enterprises (SMMEs), while their retail activities have tended to depress the prospects for the local informal sector (D'Haese and Van Huylenbroeck, 2005; Mather, 2005). A key issue is the strongly spatial aspect of the dominance of corporations in the core economy: a feature of the retail and services sector is their almost total penetration of even distant rural markets. South Africa thus has a problem unusual among developing or middle-income countries: the 'commercial space' available for 'upgrading' and the development of local industries and informal markets is absent from poor South African rural areas and shantytowns (Philip, 2010).

The fourth factor is the massively skewed distribution of human capital created by Verwoerdian education policy and failure to transform the South African education system. Important though it is, though, the role of this factor has been to exacerbate and intensify the outcomes that flow out of the dynamics described in this paper.

Three conceptual and theoretical points can be made here. First, these factors mean poverty and marginalisation in South Africa are structural. They are not the results of a development deficit, and they cannot be addressed by removing obstacles to growth as such. Rather, they are the path-dependent outcomes of the way the South African economy developed. Marginalisation is not an accident, but a result of the functioning of core institutions and social relations of power in the economy. These have tended to create deep divisions between 'insiders' and 'outsiders' in the economy – divisions that are perpetuated by the normal functioning of these institutions, and the 'rational' choices of stakeholders and social actors involved.

Second, these processes of exclusion and marginalisation are not merely the result of racial discrimination. Apartheid and segregation served powerful economic interests, shaped the manner in which these interests were pursued and played a key role in distributing the outcomes and impacts on different parts of the South African population. But institutionalised racial discrimination was but one aspect of highly unequal, adverse and often violently enforced economic relations of power that structured the distribution of opportunity and risk in the economy as a whole.

Third, these features of South African society are difficult to change. The institutional arrangements and social relations described here have great inertia and are protected by powerful vested interests. Path dependency means many key options available in other developing or middle-income countries are simply not on the table. But policy failure has also played a significant role.

3.4.2 Post-Apartheid social and economic policy

For at least the first decade of post-Apartheid rule, economic and social policy avoided confronting the structural roots of poverty. Approaches to poverty eradication and economic transformation were instead dominated by a 'trickle-down' narrative that depicted poverty as a legacy of underdevelopment and irrational market distortions that robust growth would mop up. According to this story, eradicating poverty depended first on giving markets a free hand to get on with the business of creating jobs, second on investing in the productivity and competitiveness of the South African workforce (Nattrass, 2001) and third on creating 'bridges' and 'ladders' that would allow new black entrepreneurs and farmers access to markets (McCord, 2005: 569). Little thought was given to what measures could allow inexperienced, poorly resourced and vulnerable economic actors to compete on this uneven terrain. Rather, modernisation, liberalisation and global financial integration were seen as being in themselves enough to release the economic potential that Apartheid policies had kept in check. This did not happen: instead, the complex process of de- and re-regulation that ensued meant powerful players and vested interests had a free hand to entrench their positions. Policy interventions have tended either not to challenge, or to actually exacerbate, the dynamics that marginalise landless and jobless people.

Thus, macroeconomic and industrial policies encouraged a capital-intensive, and sometimes even labour-shedding, growth path. The assumption appears to have been that what is good for large corporate capital is good for the country. Capital-intensive industry received massive hidden subsidies in the form of cut-price energy (Black, 2010), while significant resources were concentrated on visible, prestigious but relatively employment-unintensive 'white elephants' such as aluminium smelters (or football stadiums!) Labour and industrial relations policy was geared towards the interests of large industry and organised labour; it offered insufficient protection for marginalised, outsourced or informalised workers, and provided little leeway for smaller businesses struggling with the costs of compliance (Godfrey et al., 2006; Rankin, 2006; Seekings and Nattrass, 2005; Theron, 2010). Urban housing and development policy was concerned with the provision of urban residential housing opportunities that were often expensive to create and maintain, and well beyond the reach of the majority of the urban poor (Cross, 2008). While there was extensive lip-service to the importance of the informal sector, SMME policy was biased towards size and formality (Rogerson, 2004). City governments, indeed, appeared to regard the informal trading sector ambivalently, sometimes seeking to 'empower' them and sometimes treating them as a threat (Skinner, 2009).

\Meanwhile, natural resource governance frameworks have tended to privilege the interests of corporates rather than those of poor and marginal people who depend on natural resources such as marine or forestry products (Fabricius, 2004; Mayers et al., 2001; Shackleton et al., 2002; Sunde and Isaacs, 2008). Rural development policy in general either focused almost exclusively on the role of agriculture in economic development and household-level food security – ignoring the multifunctional and hybrid nature of poor rural livelihoods – or on the delivery in remote rural areas of the amenities typically enjoyed by city dwellers (Hall, 2009). Agricultural policy more broadly has been geared towards supporting large-scale, capital-intensive industrial style farming models; this has meant land reform has been undermined by the absence of any coherent approach to appropriate forms of extension, support or market access for small farmers (Aliber et al., 2011). In one way or another, all these policies ended up protecting and promoting the interests of the 'insiders' – those who already have power or resources within the mainstream of South Africa's formal economy – while tending to heighten barriers or worsen the terms of incorporation for those on the margins.

Alongside these policies, which essentially hoped to address poverty by opening the economy, unleashing the power of markets and creating opportunities, there was significant investment in the provision of social goods and the rollout of services towards poor and vulnerable people. Post-Apartheid governance has thus been marked by significant social spending. By far the largest element of the social budget has been education and health, but perhaps the most effective anti-poverty programme has been the de-racialisation of South Africa's formal social protection system. Since the 1990s, expenditure on social grants has increased dramatically, growing at almost 20% in many of the years between 2001 and 2007: in 2009/10, expenditure on social security was R73 billion ($5.94 billion), totalling more than 3% of GDP, unusually high for a middle-income country (Neves et al., 2009).

Significant as this rollout has been, it was characterised by important limitations. While social spending has been quite generous, in the context of what is possible and thinkable for middle-income countries in 'post-Washington consensus times', social policy has still been thoroughly informed by what Franco Barchiesi and James Ferguson call a 'productivist' bias (Barchiesi, 2011; Ferguson, 2007). Cash transfers, social insurance and welfare policies are all designed in terms of assumptions of full employment, and of the notion that, even in a strongly distributive society, access to social entitlements needs to be founded first and foremost on the central figure of the independent, self-activating, employed able-bodied worker. In terms of this segmentation of the population, those too young, too sick or too old to work can have access to redistributive resource, but able-bodied workers are excluded. The fact that this fictional assumption is not valid, and that significant numbers of able-bodied people find themselves unemployed and unemployable, means post-Apartheid social policy is vitiated by serious gaps. Most importantly, the South African government's 'social cluster' of departments could deal only with the fallout of marginalising growth: the core economic processes and directions that drove persistent poverty lay outside their policy ambit. Poverty policy in South Africa has not involved a coherent attempt at reduction and eradication; in its effects, it has amounted to at most the management and government of poverty (Du Toit, 2011a).

3.4.3 **Outcomes**

The result has been that jobless de-agrarianisation and adverse incorporation have continued. Agricultural de-regulation has created a harsh commercial environment for commercial agriculture. This has significantly hampered the implementation of land reform, with the vast majority of land reform projects rated as failures. On the white-owned commercial farmlands, policy uncertainty with respect to land reform and supermarket power have contributed to the intensification of concentration, with the number of commercial farming units declining from 60,000 to less than 45,000 by 2005. Agricultural employment in the commercial sector has almost halved; the fallout of evictions and job losses mean more black South Africans lost land rights since 1994 than gained them through land reform.

The continuation of job-shedding trends and the increasing vulnerability of land-based livelihoods have not been balanced by an increase in non-farm livelihoods. Growth has not been quite jobless, but the jobs that have been created exist for the most part in the low-wage service sector (e.g. the security industry), or are skilled jobs in the service and finance sectors: the result is that the South African job market is characterised simultaneously by a chronic skills shortage and an excess supply of labour. While some jobs have been created, labour participation has risen massively: unemployment in the broad definition (including 'discouraged jobseekers') increased from 31% to 42% in 2002, and has now stabilised at more than 35%. Crucially, lack of uptake in the formal sector has not led to a corresponding increase in informal sector employment. Combined with the persistence of Apartheid's spatial economy, which has tended to perpetuate rural settlements and urban shantytowns as distant poverty traps, the strength and penetration of the corporate services and retail sector has had disastrous implications for black small businesses and entrepreneurs, who are not only relegated to impoverished markets far from the economic hubs but also have to compete within these markets with the likes of Shoprite, Pep Stores and SABMiller. As a result, informal sector employment has been uncharacteristically low for a country with so much open unemployment, providing income for less than 2 million people and contributing less than 5% of GDP (Ligthelm, 2005).

The implications for inclusive and pro-poor growth have been negative. The growth path in the South African economy in 1995-2000 was biased against the poor, with real per capita household expenditures declining for those at the bottom end of the expenditure and an increase in the absolute numbers of poor people (Hoogeveen and Özler, 2005). The period between 2000 and 2005 in South Africa saw a small reduction in the total poverty headcount and a small increase in the incomes of the poor, arguably as a result of the massive increase in social grants (Van der Berg et al., 2006). Poverty for African and coloured racial groups has remained acute, and the urban share of poverty has increased (Leibbrandt et al., 2010). On the whole, the most significant trend has been what happened to distributions: South Africa is already one of the most unequal societies on the planet, with the Gini coefficient for income moving up from 0.66 in 1993 to 0.70 by 2008.

The most significant aspect of inequality, however, lies in how it relates to the structure of South African society. As Seekings and Nattrass (2005) indicate, the formal basis of inequality is no longer racial classification; inequality is related closely to membership of social class. The authors calculated that most income and assets accrue to a tiny urban elite, constituting 12% of households, garnering 45% of monetary income, while poverty is concentrated in a vast underclass of poor and landless urban and rural unemployed South Africans, who comprise 41% of households but to whom accrues only 10% of income. Crucially, they argue, this group is likely to remain poor: lack of access to social networks, lack of skills and the costs of seeking employment constitute structural barriers to entry into paid employment and consequently to social mobility.

3.4.4 **Rethinking growth policy**

The contradictions and tensions between the governing party's political commitment to the eradication of poverty and the persistence of deep structural inequality and marginalisation have been the cause of significant turmoil in South African politics. Most obviously, disenchantment with the Mbeki regime's inability to shift persistent and chronic poverty provided much of the impetus behind rank-and-file discontent and the desire a return to a 'purer' African National Congress (Marais, 2011). The failure of the Zuma regime to meaningfully resolve the same conundrums is clearly fuelling renewed politicking within the alliance that brought Zuma into power.

At present, it seems the policy narratives that have underpinned the basic direction of South African social and economic policy since 1994 are being thrown increasingly into question, without any coherent new framework being imposed in its place. This process had already started before the ascension of Zuma, with former President Mbeki's articulation in 2003 of the 'two economies' thesis. This marked a significant break with the 'trickle-down' policy narratives of the previous decade. Although Mbeki's analysis was very limited, and avoided squarely confronting the ways in which South Africa's globally integrated 'first-world economy' itself contributed to marginalisation, it opened the way for a much more searching debate on the structural nature of inequality. This has set the scene for attempts to push the policy debate in a much more transformative direction. Particularly significant here has been the development, in pilot form, of a Community Work Programme that would, if rolled out, constitute an effective employment guarantee scheme, an ambitious new national health insurance plan and, most significantly, a 'new growth path', articulated by a group of left-leaning economist and policymakers within the Department of Economic Development. This framework explicitly highlights the problematic nature of the core economy, and seeks to develop concrete politics that can lead to 'employment-rich' growth in the right parts of the economy (Economic Development Department, 2010). These are important developments: after almost 20 years, it seems economic policymakers are starting to ask the right questions. But asking the right questions, of course, is not the same as having convincing and implementable answers.

4 Discussion

Based on these case studies, we can elucidate four key factors that have shaped the pattern of growth among the BRICS. This section discusses these in turn.

4.1 Access to assets, above all skills, enabling people to participate in activities that generate income; in agrarian societies, access to land is critical

Based on these case studies, key to an inclusive growth pattern is access to assets, above all the skills that allow participation in activities that generate an income. In agrarian societies, access to land is critical.

There is a clear contrast between China and South Africa's approach to providing people with access to assets, in terms of both human capital and land. In China, growth in the post-1978 period can be explained by relatively equitable access to assets, particularly people's good health and skills and the rural physical infrastructure investment built up in the pre-1978 collective period. Indeed, the incentive structures for investment in human capital and rural infrastructure during the pre-1978 period resulted in relatively good education and health among the Chinese and a network of rural infrastructure. Liu contends that, while the labour force may not have been extremely well educated or highly skilled, the level of literacy and education and generally good health enabled workers to gain the necessary skills rapidly to be able to participate in activities that generated income, and to have the physical stamina to work long hours. Additionally, a sound human capital foundation with good rural infrastructure enabled people in rural areas (where the majority of the people lived) to diversify their income-generating activities in both farming and non-farming activities.

In South Africa, on the other hand, the distribution of land and human capital was severely skewed, setting the country on a path towards inequitable growth if disparities were not addressed. They were not. In terms of land, the colonial settlement and Apartheid policy caused a massive skewing of the distribution of assets in the economy – for example by forcibly transferring large amounts of land from black farmers to a small white elite. In terms of human capital, the Verwoerdian education policy massively distorted the distribution of human capital, and later attempts to reform the education system failed.[15]

How can a country facilitate access to assets? India offers one example: banking reforms in 1969 increased access to credit and thus facilitated access to productive assets. However, India has not enabled people to apply their skills for income generation. It was unable to produce a productive structural transformation from agriculture to labour-intensive manufacturing, as other economies did (including China, Japan, Korea, Singapore, Taiwan and Vietnam). This resulted in jobless growth. The relatively small services sector along with capital-intensive manufacturing drove India's economic growth – neither of these sectors is employment intensive. Its growth policy has perpetuated a dual economy, limiting opportunities for people to use their skills and participate in income-generating activities.

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15. Du Toit contends that, while disparities in education are important, their role has been to exacerbate and intensify the outcomes that flow out of 1) a capital-intensive, concentrated and virtually integrated formal economy; and 2) an unequal distribution of assets – an outcome of Apartheid and the colonial settlement.

Contrary to India, Brazil has aimed to increase people's access to assets, including their skills, through conditional cash transfer programmes that incentivise improvements in maternal and child health and education. Building these assets, while also formalising the economy, has meant people can use their skills to participate in activities that generate income.

4.2 Investment in productive activities that generate jobs and opportunities for the majority

Essential to equitable growth has been investment in productive activities that generate jobs and opportunities for the majority. While China was able to successfully invest in such infrastructure, investments in South Africa and India have not generated jobs; on the contrary, they have contributed to widening inequality.

Investment in India, similar to South Africa, has been capital intensive and has resulted in a dual economy – a recipe for inequitable growth. While India has seen an increase in productivity, the pattern of growth has been jobless. Investment in productive activities has failed to generate jobs for several reasons, including impediments to entrepreneurial growth for small firms and limited incentives for firms to hire workers. The main issue is the duality in India's manufacturing sector: a large, low-productivity, low-wage informal sector that represents a constant share of GDP (i.e. it is not growing) and a high-productivity, high-wage formal manufacturing sector that has been growing (since the 1980s). Gaps in productivity and wages have widened since the 1980s. Opportunities in the manufacturing sector are not being created for poor people, nor are a majority of its employees enjoying increases in their wages. Trade reforms have aggravated this dualism, biased as they have been against labour-intensive and towards capital-intensive manufacturing. As a result, India's comparative advantage of low-cost labour has not been exploited. Additionally, although there has been heavy public investment, particularly in petrol, electricity and railways, serious infrastructural bottlenecks remain.

A capital-intensive, concentrated and vertically integrated formal South African economy has meant investment in the formal sector has created few opportunities for the poor to participate in the country's economic growth, leading to their adverse incorporation into the economy. The case study offers the food system as an example. This is characterised by a great degree of agribusiness dominance, with supply lines marginalising or punishing small producers and retail activities tending to dampen prospects for the local informal sector. The result is adverse incorporation, whereby food provided by supermarkets is cheaper but any opportunity to participate in the growth of the agriculture sector is stifled. Poor people can buy cheaper food, yet they cannot earn a living.

In South Africa, productive investments have been unequal and have worsened inequalities in society. In the former 'Bantustan' areas, agricultural livelihoods have been undermined by a lack of infrastructural investment and by pressure on the land (i.e. very small landholdings per household). A majority of poor black households have thus been unable to sustain themselves with agriculture. Meanwhile, in China, access to land has proved an important source of income and a safety net for rural Chinese. This highlights the importance of access to land for agrarian societies.

China's investment in human capital and rural infrastructure in the pre-1978 reform period generated jobs and opportunities for a majority of people when the 1978 reforms were implemented. With the agrarian reforms, pent-up productive capacity was released and China witnessed a sharp rise in agricultural production. This productive capacity, oriented towards exports, has now been exhausted. Liu calls for investments to support increases in aggregate demand within the country, and to help improve the wealth distribution.

The Brazil case study does not explicitly discuss investment in productive activities as key to its equitable growth pattern. However, emphasis is placed on stabilising the macroeconomic context to enable investment in productive activities and to generate jobs in the economy.

4.3 Social transfers to guarantee minimum incomes to those who cannot work or cannot find work

Based on the case studies, key to inclusive growth are social transfers that guarantee minimum incomes to those who cannot work or cannot find work. While in Brazil social transfers have proved effective at reducing inequality, in South Africa their design has not been able to achieve the desired aims. The India case study does not explicitly discuss social transfers, but the China case study highlights the value of land as a social safety net.

While there are many differences between the Brazilian and South African social transfer programmes, a key distinction relates to the principles and assumptions on which they are based. Despite significant social spending in South Africa, social insurance and welfare policies are founded on the principle that social entitlements should go to able-bodied workers, and on the assumption of full employment. This excludes those too young, too old or too ill – and most importantly those without work. South African programmes do not reach large vulnerable groups of society.

The Brazilian approach, conversely, does not assume full employment, and has social entitlements that reach the elderly and children (through household targeting). Its reach is thus wider and deeper. Brazil has a long history of social transfers. In the 1930s, the country started out with pay-as-you-go programmes for formal sector workers. In subsequent decades, social transfer programmes were expanded to the elderly and to the informal sector. Specifically, two non-contributory programmes for the elderly (guaranteeing a minimum wage) were implemented. Then in the 1990s and 2000s, these were expanded to large segments of the informal sector. These social transfers had three innovations: 1) entitlements were focused on the family unit (rather than an income earner – as in South Africa); 2) they were conditional, with conditionalities focusing on the wellbeing of the child; and 3) they aimed to complement, rather than replace, family income. The Brazil case study offers evidence on how these transfers have made significant contributions to reductions in poverty and inequality in the country. Unfortunately, South Africa has seen rising inequality and only a small decline in poverty.

Historically, China has not had sizable social transfers; instead, local areas provided health care and education, and a safety net was generated through a farmland entitlements system. Free health care and education provision has now been eroded, and the safety net is no longer sufficient for the majority of Chinese. At the time of publication, the case study author contends, the Chinese government is acknowledging the need for social safety nets, but this recognition has perhaps come too late.

4.4 A political economic context that has inclusion as a priority

Governments' motivation to foster inclusive growth is critical to inclusive growth. Brazil and China in the 1978 period had inclusivity as a priority. Unfortunately, South Africa, post-1978 China and India did not.

In Brazil, the political economic context has inclusion as a priority. Indeed, principles of social inclusion are embedded in the Constitution, but are also protected by a series of checks and balances. Large social transfer programmes have been implemented to promote social inclusion. Transparency and scrutiny have curbed corruption and other malpractices in these programmes. Priority has also been given to monitoring and evaluation, particularly of educational achievement, which has helped create transparency and accountability at all levels. There appears to be institutional backing for social inclusion, as is evident in the manner in which decentralisation of power towards the states and municipalities has been implemented. While there was a risk of reinforcing special inequalities, a culture of partnership between the three levels of government, in the implementation of Bolsa Família, has resulted in effective implementation of the programme. It is this prioritisation of social inclusion in the political economy, as evidenced in the scaling-up of social transfer programmes and pro-poor redistributive policies, that has brought about domestic dynamism and subsequently a growing lower-middle class and reductions in poverty and inequality.

In India, some institutional reforms have been inclusive (e.g. bank nationalisation in 1969). However, other institutional reforms reported in the case study have inhibited inclusive growth. These include tight labour laws; a trade regime that is biased towards capital-intensive instead of labour-intensive goods; and reforms that perpetuate and potentially worsen a manufacturing dualism that limits job creation opportunities. The government has not demonstrated a willingness to address the structural causes underpinning rising inequality in the country.

The pre-1978 political economic context in China appears to have prioritised equity. However, post-1978, China prioritised aggregate growth. This has had implications for equality and the sustainability of the country's growth. To remedy rising inequality, and set China on an equitable growth path, Liu recommends increasing access to assets by improving human capital; investing in productive activities that generate jobs for the majority; and increasing social transfers to people, as land is no longer sufficient as a safety net. However, he also highlights that equity is not a priority among *apparachistas:* there appears to be much reluctance on the part of the government to commit itself to long-term inequality-reducing policies such as income transfers to households.

In South Africa, processes of exclusion and marginalisation are not merely the result of racial discrimination but are part of a broader, often violently enforced, economic relations of power that unequally structured the distribution of opportunity and risk in the economy as a whole. In the post-Apartheid years, little has been done to address the concentration and vertical integration of the formal sector, and unequal distribution of human capital and land. Business policy has been biased towards size and formality. Agricultural policy more broadly has been geared towards supporting large-scale, capital-intensive industrial-scale farming models. The case study author contends that all post-Apartheid policies have protected and promoted the interests of the powerful, while inhibiting opportunities for poorer South Africans to achieve a better livelihood. The author cautions that the drivers of marginalisation and exclusion are structural problems, and difficult to change. Institutional arrangements and social relations have great inertia and are protected by powerful vested interests.

These conclusions have been drawn from the four case studies discussed in this paper. Additional analysis and cross-country comparison to confirm the findings would be beneficial.

5 Conclusion

This paper examines how four BRICS countries have grappled with growth and equity. It reveals that reconciling growth and equity is possible, though not always accomplished. To gain a better understanding of the key factors that contribute to, or detract from, equitable growth, we have compared and contrasted the experiences of the four countries, and identified four factors central to shaping the growth patterns of the BRICS countries. These include:

1. Access to assets, above all skills, enabling people to participate in activities that generate income; in agrarian societies, access to land is critical;
2. Investment in productive activities that generate jobs and opportunities for the majority;
3. Social transfers that guarantee minimum incomes to those who cannot work or cannot find work; and
4. A political economic context that has inclusion as a priority.

When a country has all four, as Brazil does, achievements in poverty reduction and inequality are achieved. When countries display the antithesis of each factor (e.g. a political economic context where inclusion is not a priority, or a situation whereby social transfers do not guarantee minimum incomes to those who cannot work), such as in South Africa, growth has been accompanied by rising inequality. China in the late 1970s had many of the four factors, yet their nature has shifted: in the early 2010s, similar to South Africa, it appears to have them in their antithetical form. India has attempted to garner the factors into its development process, but unfortunately has done so unsuccessfully – as inequality has risen and growth has been jobless. However, Brazil illustrates that inclusive growth is possible.

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Overseas Development Institute
203 Blackfriars Road
London SE1 8NJ
UK
Tel: +44 (0)20 7922 0300
Fax: +44 (0)20 7922 0399
Email: publications@odi.org.uk
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