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Pick your poison: poverty, unemployment or inequality?

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No single policy can solve all problems at once but if ever there was a magic bullet that comes closest it would be policies that accelerate economic growth.

If AI wrote a government policy document, it would probably start with some combination of these three words – poverty, unemployment, and inequality. They are indeed our biggest three challenges. But they are often used together, in one breath, despite being three separate problems.

Take the R370-a-month social relief of distress (SRD) grant. Researchers at UCT showed that it makes a meaningful difference to poverty. (<https://sa-tied.wider.unu.edu/sites/default/files/SA-TIED-WP210.pdf>). That such a small amount can make such a significant impact on people's lives is probably one of the saddest research findings I have seen. It *might* encourage people to search for jobs in the short term but probably discourages it in the long term. (<https://www.news.uct.ac.za/article/-2023-11-16-srd-grant-what-is-it-you-are-trying-to-solve>) A joint Stellenbosch-UCT research paper showed that raising taxes to pay for the grant has probably led to job losses (<https://onlinelibrary.wiley.com/doi/full/10.1111/saje.12363>).

What about the grant's impact on inequality? Surely it has helped there? You might think so, but it actually does little to reduce inequality. South Africa's inequality is so ridiculously high that giving those on zero incomes R370 a month makes barely a dent.

So, the SRD is best framed as an anti-poverty policy. It is what it is, and that is what it is.

This is a policy trilemma. Faced with three policy problems, one can only pick one. Or as my grandmother would say, "You can't have everything in life, dear".

Stellenbosch University professor Servaas van der Berg, one of the country's most influential development economists, argues in a new working paper, "Poverty Reduction Under Structural Constraints: Growth, Inequality and Policy Trade-Offs in South Africa", that "moderate growth generates substantial reductions in poverty". In contrast, "plausible medium-term reductions in inequality make a smaller incremental contribution".

Why? Because structural features of the South African labour market: high unemployment, high returns to education, and persistent wage inequality anchor overall inequality and limit the speed at which it can fall.

Inequality is so baked into the structure of the South African economy that Van der Berg finds that even a six-point drop in South Africa's Gini coefficient would do less for poverty reduction over the next 15 years than sustained, moderate real economic growth.

Van der Bergh makes the case for the Tinbergen principle, named after Jan Tinbergen, the 1969 Nobel Prize winner in economics. He built the world's first national macroeconomic model.

Tinbergen's insight is that each policy should have one policy goal in mind. Using policies to achieve multiple (and sometimes conflicting) ends is a recipe for a policy muddle. By trying to do too much, you end up not doing very much at all.

Arguably, preferential procurement also falls into this trap. It aims to do more than one thing: obtain goods and services for the state cost-effectively plus at the same time achieve other goals.

The system used to work by allocating 80 points to price and 20 points to empowerment and social goals. (It is in the middle of being changed but it is all in the courts). The outcome is that the more empowered you are, the higher the price you can charge for what you sell to the state. This is what National Treasury referred to in Parliament as the "procurement premium".

The consequence is that government, by design, is paying more for stuff. The hope is that this increased spending will reduce inequality and support black entrepreneurship.

The only way to achieve this, though, is to have higher taxes. VAT is one of the largest sources of tax. Every single South African pays VAT. The most recent employment equity data shows that personal income taxpayers are increasingly black. And as business is transforming, even corporate income tax is increasingly levied on black firms.

The procurement premium is thus being paid by all South Africans, but it flows through only to those that have tenders with the state.

The Democratic Alliance recently proposed a same-same approach. Their system also relies on a procurement premium, but the premium goes to firms that contribute to the Sustainable Development Goals. This sounds wonderful but is quite vague and more difficult to audit than the BEE system. Imagine your auditors at financial year-end asking for audit evidence on how you've improved human development in the world?

The DA proposal essentially wants the procurement premium to be used to solve all the world's problems, not just inequality. Ambitious? Yes. Workable? Possibly not. Perhaps anyone that bids for government contracts should also show what they have done today for world peace.

The Constitution requires that government procurement be "fair, equitable, transparent, competitive and cost-effective". And while it does allow for preferential procurement, the policy question remains: are these additional rules worth the cost?

Politics is all about choices. No single policy can solve all problems at once. That said, the evidence shows that faster economic growth can make a meaningful dent in South Africa's three main challenges over the longer term. More growth means more jobs *and* more money for the fiscus. This will help increase spending on things like education and healthcare and social grants, which will lower poverty and, ultimately, inequality.

The Tinbergen principle suggests you should pick policies to achieve one clear objective. But if ever there was a magic bullet that comes closest to defying this theory it would be policies that accelerate economic growth.

We should really try it out sometime. Perhaps my granny was wrong all along: "If you grow, you really can have everything in life, dear!"

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