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February 2026

A new focus

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In [Part 1](#) of this article, we argued that inequality in South Africa is a core structural constraint on economic growth. Despite sustained income redistribution since 1994, the South African economy remains stuck in a cycle of stagnation, high unemployment, and deepening exclusion. There is little transformative vision capable of shifting the underlying structures of economic power and production. This can be remedied by a shift in emphasis from income redistribution to the redistribution of assets and endowments, including land, housing, education, and access to capital.

From income to assets and endowments

It has been observed that successful developmental states were built on a set of initial conditions that included a wide distribution of productive property (including land) and relatively high and broadly distributed levels of human capital.¹ In sharp contrast, South Africa's growth path relied on an extreme degree of accumulation by dispossession and environmental destruction.² Today, ownership of residential property or financial assets is concentrated in a small elite of affluent households and large corporations.³ South Africa is also unusual because of the notable absence of a broader base of small asset owners and proprietors.⁴ Extreme concentration of property ownership and a maldistribution of endowments have resulted in a cycle of economic stagnation, falling productivity, and rising mass unemployment.

The endogenous growth theories of the 1990s pointed to the mechanisms through which we might expect this concentration of ownership of productive capital retards economic growth.⁵ Investment projects can only be financed by the wealthy few who have access to collateral or surplus income. This small, capital-rich elite faces diminishing returns on each new investment because their private capital stock is already so high. This results in investments

¹ See, for instance, Studwell, J. (2013). *How Asia works: Success and failure in the world's most dynamic region*. Profile Books; Bénabou, R. (1996). *Inequality and Growth*. NBER Macroeconomics Annual; Adelman, I (1979). *Redistribution before growth—A strategy for developing countries*. Development of Societies: The Next Twenty-Five Years: Proceedings of the ISS 25th Anniversary Conference The Hague, December 1977

² Arrighi, G., Aschoff, N., & Scully, B. (2010). *Accumulation by Dispossession and Its Limits: The Southern Africa Paradigm Revisited*. *Studies in Comparative International Development*, 45(4), 410–438.

³ Chatterjee, Czajka, & Gethin (2022). *Wealth Inequality in South Africa, 1993–2017*. *The World Bank Economic Review*, 36(1), 19–36.

⁴ See Orthofer, A. F. (2016). *Saving, Wealth and Extreme Inequality: Evidence from South Africa* [PhD thesis].

⁵ Aghion, Caroli & Garcia-Penalosa (1999). *Inequality and economic growth: The perspective of the new growth theories*. *Journal of Economic Literature*, 37(4). See also Bénabou, Roland. 1996. *Inequality and Growth*. NBER Macroeconomics Annual

with low productivity, high levels of conspicuous consumption, and idle cash accumulating on swelling balance sheets. Meanwhile, those with better and more productive uses for capital cannot finance their projects, holding back national development.

Under these circumstances, Phillippe Aghion (this year's recipient of the economics Nobel Prize) theorised that “redistribution from the rich to those who are poorly endowed with physical or human capital creates investment opportunities, thus fostering growth.”⁶ Together with co-authors, he argued that a central policy concern should be how to create a virtuous circle in which “redistributive policy can be used to reduce inequality, which in turn would accelerate growth and thereby automatically induce further reductions in inequality”.

Some commitment to a transformative, egalitarian vision is clearly needed for both economic and political reasons. At the same time, however, exceptionally large levels of public spending, financed by high rates of progressive income taxation, have thus far been unable to shift the path of economic growth away from income inequality. Instead, the combination of expanded fiscal commitments and the immiseration of public services is clear to see in South Africa. Tax-financed income redistribution on its own, without a vision of deeper transformation, has reached the limits of its ability to realise egalitarian outcomes or achieve the social and economic transformation needed to create conditions for sustained growth.

This is because income inequality is generated and reproduced in private markets, and there is a limit to how far the state can correct this problem “after the fact”. There is evidence that differences in long-term structural inequality are determined more by the “pre-distribution” of income that private markets generate than by the tax and spending policies of governments.⁷ Put in the terms reflected in **Figure 5** (see [Part 1](#)), this implies that the high inequality in “market income” is the critical problem to solve, rather than the extent to which taxes and transfers can adjust this to achieve a final income.

However, even though the limits of income redistribution through the fiscus have been reached, it remains the case that egalitarian reform is necessary for long-term growth. How should we think about this problem? One answer is to look at the factors that reproduce unequal market outcomes. This entails a shift in focus from the redistribution of market earnings to the redistribution of assets and endowments. *Assets* can be defined as “stock of financial, human, natural or social resources that can be acquired, developed, improved and transferred across generations.”⁸ The closely related economic concept of *endowments* helps us to broaden the frame, as indicated in this textbook definition:

*A person's endowments are the things.. that enable them to receive income. They include physical wealth (for example: land, housing, machinery); financial wealth (for example: savings, stocks/shares, bonds); intellectual property (for example: patents, copyrights); knowledge, skills, abilities, and experience that affect labour income; citizenship and rights to work. They can include characteristics such as nationality, gender, race, and social class, if these affect their income.*⁹

⁶ Aghion, et al (1999) p1622

⁷ Bozio, Garbinti, Goupille-Lebret, Guillot, & Piketty (2020). *Predistribution vs. Redistribution: Evidence from France and the U.S.* World Inequality Lab Working Paper, No 2020/22, 89.

⁸ Ford Foundation (2004) cited in Moser (Ed.). (2007). *Reducing global poverty: The case for asset accumulation*. Brookings Institution Press. p2

⁹ Core Econ (2023) “The Economy 2.0” <https://www.core-econ.org/the-economy/microeconomics/05-the-rules-of-the-game-11-distribution-of-income.html>

Redistributing assets or changing the allocation of endowments is the key to changing the “pre-distribution” of market earnings and the reproduction of inequality. The concentration of these resources explains why unequal economies tend to grow in a pattern that reinforces inequality.¹⁰

An allocation of property rights can foster (or undermine) cooperation and exacerbate or reduce conflicts of interest.¹¹ Asset ownership and the distribution of endowments also defines the “holding power” of agents in a political settlement, and the unequal distribution of rent across the system.¹² One important asset is the legal ownership of physical property – such as land or housing – and financial claims. Many discussions about the redistribution of assets (e.g. ‘expropriation without compensation’) are concerned narrowly with formal property rights. The right to alienate property – i.e. exchange or give away these rights – is vital to a market economy and, in most cases, is clearly defined in law. However, as Elinor Ostrom (a previous Nobel recipient) points out, asset ownership is only one element of a broader matrix of property rights that define economic and social outcomes, and which are the subject of public choices.¹³ In contemporary South Africa it is often access to public property and the ability to extract rent from that property, rather than formal ownership rights, which underpins accumulation in the political class. On other hand, the exercise of private power to curtail the access of poor South Africans to public spaces is also pervasive.

Policy implications and the question of state capacity

South Africa’s tax-and-transfer state is highly effective and redistributes comparatively high volumes of income. However, the government’s efforts to directly affect the pattern of endowments and asset holding have been weak and ineffective, and in some cases, counterproductive.

- **Housing and transport policy:** After 30 years of democracy, the apartheid spatial economy continues to hold back national development and reproduce segregation. While the state has succeeded in creating and allocating a huge volume of free housing assets to the poor in quantitative terms, housing interventions since 1994 have reinforced spatial segregation and economic exclusion. Meanwhile, large fiscal subsidies to public transport have either been consumed through corruption and waste or gone to underutilized public transport projects with limited developmental impact (or both).
- **Rural land redistribution** has largely failed. Thembeke Ngcukaitobi tells us that “the state’s own programme for the restitution of land has been in disarray since 1994,” and “amid the public discontent about the failure of land reform, a sense of directionless(ness) prevails within the bureaucracy”.¹⁴ Patterns of land ownership remain racially skewed, and “expropriation-without-compensation” remains a hot-button political issue. The government has done little to extend the scope of small-

¹⁰ See Van der Weide, Roy, and Branko Milanovic. 2018. *Inequality Is Bad for Growth of the Poor (but Not for That of the Rich)*. The World Bank Economic Review 32(3):507–30.

¹¹ Bowles & Gintis (1998). *Efficient Redistribution: New Rules for Markets, States and Communities*. In E. Wright (Ed.), *Recasting Egalitarianism*.

¹² Khan, M. (2018). *Political Settlements and the Analysis of Institutions*. SOAS Working Paper.

¹³ Elinor Ostrom identifies a matrix of individual and collective property rights including the right to access a property, decide who else can access it, harvest its products, or manage and regulate its internal use patterns. See Ostrom, E. (2010). *Beyond Markets and States: Polycentric Governance of Complex Economic Systems*. The American Economic Review, 100(3), and Schlager and Ostrom (1992). *Property-Rights Regimes and Natural Resources: A Conceptual Analysis*. *Land Economics*, 68(3)

¹⁴ See Ngcukaitobi, T (2021) *Land Matters: South Africa’s Failed Land Reforms and the Road Ahead*. Kindle edition, p219-220

holder agriculture or secure the rights of subsistence production. Land governance and planning institutions are in a state of crisis in both rural and urban spaces.

- **Education and skills** policies have widened access and today's youth are more educated than yesterday's, but the massive gap between the majority of schools and elite education outcomes is visible year after year, and the overall inequality in educational outcomes remains large.¹⁵
- **Economic concentration:** The unusually high degree of monopoly that apartheid left in its wake remains firmly in place. Asset ownership in South Africa's economy is highly concentrated, undermining competition, stifling innovation, and excluding black people and small businesses.¹⁶
- **Black economic empowerment** policies have sought to reallocate ownership and control of equity in the large corporate sector to redress the historic injustice imposed on black entrepreneurs. These efforts have made modest improvements, but the South African private sector remains overwhelmingly white in its senior management and ownership structures.
- **Credit policy:** The state-directed provision of credit, including financial support for small businesses and micro-entrepreneurs, has not been implemented at scale and remains fragmented into numerous ineffective, small-scale efforts.

This litany of weaknesses – a laundry list of distress – is intended to provide evidence that an approach to policy grounded in endowments and assets has a potentially wide scope of application. As an approach to redistribution it is open to multiple interpretations and could yield novel policy solutions across distinct areas of public action. Redistributing assets could be aimed at building the capabilities of households to access credit, land (both rural and urban), housing and other public social amenities that are close to economic activities. It could embrace new forms of black economic empowerment or new questions for competition policy. It is a lens through which we might look anew at the concentration ownership of land or financial assets

On the other hand, one might conclude that policy failure is baked into the very effort of changing the distribution of endowments. Maybe this should not be surprising. The institutional capabilities required to design and execute effective programmes to create, distribute or redistribute assets are likely to be complex and scarce. Moreover, the opportunities for regulatory capture and the diversion of rents to elite projects are inherently larger in the case of asset-focused programs.

Of course, good leadership and well-designed interventions are a precondition for effective policy, and bad outcomes are always possible. There are many examples from South Africa and around the world where policies that aim for redistribution result in a vicious cycle that slows investment, raises unemployment, and ultimately widens and entrenches inequalities. However, the imbalance in the capacity of state institutions is an outcome of choices.

Conclusion

The GNU consensus is founded on a commitment to democratic constitutionalism and offers the hope of a modest revival of economic growth. It offers a platform for unity for those committed to democracy and efforts to resist the collapse and corruption of basic services.

¹⁵ Spaul & Jansen (2019). *South African schooling: The enigma of inequality : a study of the present situation and future possibilities*. Springer.

¹⁶ This assessment is widely believed, with even IMF staff recently observing that South Africa's "high market concentration in several sectors, including manufacturing and banking, has inhibited the emergence of smaller firms that create new jobs" (<https://www.elibrary.imf.org/view/journals/002/2025/028/article-A001-en.xml>)

This is all essential, but without substantial economic and social transformation, South Africa's economy will remain mired in pedestrian growth rates.

If we consider redistribution as a programme to change economic structures and develop human capabilities, we might reconsider the relationship between inclusion and growth. The assumption that the horse of economic growth will pull the cart of redistribution can be turned on its head. Rather than growth being the binding constraint on redistribution, inequality and social exclusion are the binding constraints on growth.

A new growth model needs to connect new investments with transformations in the underlying structures of production and distribution. This could involve public action to reorder holdings of assets, endowments or property rights in order to generate new investments that enhance productivity while achieving inclusion and equity. Reforms to social policy should aim to bring a myriad public, private, household, and community efforts onto a platform that helps build a common society.