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Exploring production centred redistribution to address rising inequality

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ABSTRACT

Policy interventions to address widening inequality have focused on fiscal-based redistributive measures as governments remain less inclined directly to intervene in shaping outcomes within the production system itself. However, low and stagnating tax rates and contractions in social spending have reduced the quantum of resources available to address inequality, curtailing the effectiveness of such policies. Clearly, the pursuit of purely redistributive and other fiscal policies have been insufficient in addressing growing within country wealth and income inequality. Much less work has focused on how social disparities are reproduced through the production, financial and geospatial organisation of the economy and therefore how appropriate policy may be designed to achieve more equitable outcomes. It is therefore crucial to understand how the structure of markets and political institutions produce particular distributional outcomes before the intervention of fiscal authorities.

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1. Introduction

Policy interventions on inequality have tended to focus on fiscal-based redistributive measures involving, broadly, higher taxation, progressive social expenditure and the extension of welfare policies. In general, governments are less inclined to intervene to shape outcomes in the production system itself, opting instead for these 'safer' fiscal measures. Yet fiscal instruments have clear limits, particularly in a global South context. High levels of poverty and informality, low levels of taxation, and weak state capacities are endemic features of the political economic landscape in the South (Francis et al. 2020). These factors further weaken taxation collection capacity and service provision. Consequently, fiscal efforts, even where substantial, often leave high baseline inequality levels intact in Southern countries. South Africa is an exemplary case here – with among the highest incidence of fiscal redistribution in the world by certain measures and yet the highest levels of post-tax inequality. All of this suggests that genuine solutions to the inequality problem won't only be found within the fiscal

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toolkit alone. Interventions to alter the structure of power and distribution at or before the point of production should be given greater consideration. This volume engages in debates about the necessity and potential of pre-distributional politics in the Global South, with a focus on South Africa.

The eclipse of pre-distributional approaches to inequality has been a long trend and is bound with large structural shifts in global political economy, chiefly the fall of the power of labour. This has concentrated the benefits of growth to owners of capital, so driving higher levels of inequality. Recently there has been a tentative revival of interest in the labour, but this remains a minoritarian trend. Even more radical writers such as Piketty (2014) focus their proscriptive interventions on fiscal measures. Universal suffrage and the development of new political and social mobilisation movements saw a significant expansion in welfare spending across economies in the West between 1910 and 1980 (Chancel et al. 2022). However, in the past four decades, the expansion of the Welfare State has come to a standstill in rich countries contemporaneous with rising global inequality (Chancel et al. 2022). Over this period as well, we observe a rise in social spending and redistribution in developing and emerging countries, although at a much lower rate than the expansion witnessed in the richer economies (Chancel et al. 2022).

Globally, tax revenue has barely changed, stagnating at approximately 25% of global income (Chancel et al. 2022). This is the case because while taxes have remained mostly progressive, in economies such as the US the effective tax rates for the well-off have consistently been reduced such that collection from this group of individuals has reduced over time. Chancel et al. (2022) note that since the 1980s, corporate income tax rates have steadily decreased, a trend that is mostly concentred in the Western economies. This has increased the attractiveness of incorporating as high-income individuals seek to reduce their tax burden by shifting from personal income tax to corporate tax. These shifts serve to reduce available government expenditure at a time where competing social needs have increased exponentially.

Relative to a cohort of comparator countries, we reflect on South Africa's tax to GDP ratio over the past thirty years (Table 1). Three things emerge from this analysis. Firstly, for most countries, the tax-to-GDP ratio has declined since 2010 apart from South Africa, where this increase is largely the result of low growth in GDP, and the United Kingdom. Secondly, together with Botswana, these three countries have tax-to-GDP ratios that are closest to the global ratio of 25% provided by Chancel et al. (2022). Finally, while South

Table 1. Tax-to-GDP ratios for South Africa and a cohort of comparator countries, 1994–2021.

Country	1994	2010	2021
Brazil		14.2	14.3
Botswana	19.9	23.9	22.2
China		10.2	8.0
United Kingdom	23.8	25.3	26.2
Germany	11.7	11.2	11.2
Malaysia		13.3	11.2
Turkey	15.2	18.9	17.9
United States	10.6	8.6	11.4
South Africa	19.6	22.5	25.8

Source: World Development Indicators (World Bank Open Data 2024).
Notes: Blanks indicate that for the specified country, data were not available in that year.

Africa's tax to income ratio has marginally increased in the face of great and competing domestic need, greater income has been mostly ineffective, and inequality has increased.

Low tax-to-GDP ratios have meant that the proportion of resources available to address inequality through the fiscal system is limited. Clearly, the pursuit of purely redistributive and other fiscal policies have been insufficient in addressing growing within country wealth and income inequality. Furthermore, evidence suggests that disparate outcomes in fiscal policy (Stossberg et al. 2016, Chancel et al. 2022) have much to do with the fact that underlying inequality is far greater in the global South (Francis & Webster 2019). Hence, while taxes and transfers assist with lowering poverty and inequality, their overall efficiency is affected by initially high levels of inequality as is the case in South Africa, Botswana and Namibia. Therefore, it is important to evaluate policies that directly affect the structure of the production system and pre-tax and transfer income (Chancel et al. 2022).

Much less work focuses on how social disparities are reproduced through the productive, financial and geospatial organisation of the economy and therefore how appropriate policy may be designed to achieve more equitable outcomes. It is therefore crucial to understand how the structure of markets and political institutions produce particular distributional outcomes before the intervention of fiscal authorities. In this regard, legislation in areas such as corporate ownership, competition and industrial policy, resource ownership and rents, ownership and provision of critical infrastructure including energy and water are important policy instruments available to policymakers to address inequality and generate more equitable economic and social outcomes.

Pre-distributional policies and institutions are those that reduce pre-tax income inequality. Many such policies directly or indirectly impact labour markets – by defining the strength of unions or conditions under which bargaining takes place, for example. Welfare policies alter market dependence and provide access to skills and are therefore partly pre-distributional. Pre-distribution is also impacted by product market dynamics which govern mark-ups. Of particular interest for this special issue given the high levels of concentration within the economy is the use of competition policy to limit the power and rents from monopolies (Diamond & Chwalisz 2015, Chancel et al. 2022). Rather than doing more with less, production-centred redistribution is an attempt at diversifying the policy tools that ensure better social outcomes, and higher productivity coupled with broad-based growth (Diamond & Chwalisz 2015). Chancel et al. (2022) caution that the impact of pre-distribution policies on inequality might be less visible, than the impact from redistribution through taxes and other social transfers. However, large variations in pre-tax income inequality for countries at similar stages of development provide support for the importance of such policies in controlling inequality (Bozio et al. 2024).

The collection of papers in this issue presents preliminary findings on a range of subjects related to production-based inequalities and the policy imperatives that follow from this. The eight papers in this special issue are divided into three main sections. The first deals with conceptual matters within competition policy relating to market power and pricing power. Market power accumulates in the hands of dominant firms when markets deviate from competitive norms. This can lead to upward redistribution within the firm, price increases which disproportionately harm low-income consumers and market distortions that hamper efficiency and deter investment. Pricing power can increase inequality by disproportionately driving up the prices of goods heavily weighted in the consumption baskets of low-income households – which tend to be more price elastic. Goga (2022) concludes that market structures, consumption patterns, financial institutions and political factors all impact the way that competitive dynamics drive market outcomes.

Goga and Valodia argue that understanding the structure of firm-level ownership is critical for understanding wealth dynamics as ownership at the firm level tends to be more concentrated than in other measures of wealth. Their chapter reviews various shared ownership models that have been proposed to distribute surpluses in a manner that enhances worker welfare, increases engagement, and yields positive public benefits. Where narrowly defined, such policies stand to benefit a select few and not the large swathes of previously disadvantaged individuals.

Leuner, Aproskie, Valodia and Ewinyu tackle the issue of firm access to more data that enables them to increasingly customise products and services and target advertising at different consumers. Their works draws on recent case precedent to conclude that the transfer or sharing of data in mergers involving price discriminating firms is sufficient for meeting the requirement of merger-specificity and does not require a demonstration of increased market power. Mergers involving data-driven firms have the potential to increase discrimination across consumers by improving firms' abilities to measure consumers' willingness to pay. The authors highlight recent rulings by local competition authorities providing a threshold point for when harm to a small group of consumers matters sufficiently to outweigh merger specific pro-competitive effects.

The second set of papers consider the impact of competition enforcement on inequality as measured by the following indicators: price, ownership patterns and market structure. Padayachie analyses the relationship between market structure and inequality in the bread, maize and sunflower oil subsectors where competition authorities had imposed fines following the detection of cartel conduct. The analysis reveals that post-intervention, established market power allowed firms to set high prices and continue rent-seeking behaviour. Historical market structures that enabled the development and maintenance of cartels continued beyond the deregulation of these markets and the imposition of hefty fines.

Public interest provisions in mergers have increased in prominence as a solution for lack of structural transformation in the economy and the skewed ownership profile. However what's been the impact of such provisions on the market? Furthermore, what does a review of their suitability and choice reveal? Klaaren, Padayachie and Shedi conclude that competition authorities have shifted in approach from being conservative to increasingly interventionist in the types of merger conditions made. Additionally, little distinction in focus is made between large and intermediate mergers. The authors propose 'greater clarity and transparency around the Minister's role, the types of conditions to be selected and the position of the Commission going forward in terms of interpretation'.

In South Africa, the racial question looms large in discussion of pre-distribution. Black Economic Empowerment policies have a pre-distributionist element in that they are partly targeted at addressing skewed asset ownership. A common perception, however, is that such policies have failed, leaving a 'white monopoly capital' class in charge of the economy. Reddy asks how appropriate that term really is in capturing dynamics of power, control and cohesion among the economic elite. Irrespective of whether they have achieved the desired goals, he finds that such policies have helped to effectuate a significant degree of transformation. However disproportionate they remain, whites don't monopolise power in the way the the term implies, nor are they political realigned from large-scale black capitalists. Yet race may still pattern the political-economic behaviour of elites. In getting beyond the reductive terminology of 'white monopoly capital' he highlights pathways for research on the racial dynamics of elite politics.

This collection of papers also highlights the regional dimensions to competition as South African firms tend to dominate regional value chains (RVCs) (das Nair 2021). The lack of development of RVCs in southern Africa is explained by both structural and institutional factors. A key structural factor is that there are large asymmetries in scale between South Africa and the rest of the region, and thus there is a general firm preference for locating in South Africa. What competitive dynamics follow the expansion of access to a given region or larger supply chain? Ncube frames this question against the backdrop of the poultry and sugar to confectionary regional value chain, the development of supermarkets and how the interaction of these two has led to power imbalances that stifle access to markets for small firms and limit entry by new entrants. Supermarkets are an interesting player as they play a dual role of providing access to markets yet in some instances, they are also large producers in downstream markets.

Finally, we consider the role of institutions in providing access to equitable and sustainable economic outcomes. High concentration and carbon-intensivity in the industrial base of the economy are features of the South African polity. Additionally, the economy has struggled to diversify into downstream value-added service and manufacturing industries. The current global shift towards green industries and low carbon intensity production will demand high capital injection by firms. It also requires coordinated and stable policy agenda and regulatory framework. In line with emerging work examining the role of development banks in creating new industries and industrial capabilities, Goga and Bell examine the capacity of the International Development Corporation (IDC), South Africa's leading DFI, to promote industrialisation that boosts competitiveness and growth while also encouraging decarbonisation. They conclude by proposing a set of criteria which the IDC can use to assess the transformational impacts of its climate change funding.

Switching to a more geographic register, Joseph and Karuri-Sebina assert that cities play dual roles: as providers of services and as drivers of economic development. The importance in the latter role has increasingly sharped with the agglomeration of human capital and employment opportunities. Therefore, urbanisation must be effectively managed to create the potential for equitable spaces and inclusive growth which can reduce poverty, unemployment and inequality. However, few cities are adequately equipped to play this latter role effectively. Additionally, the authors identify the intersection between innovation and cities as a prerequisite for the development of modern economies that simultaneously encourage the development of a vibrant informal economy.

Collectively, these papers make clear the imperative for addressing inequality in the production system itself. They show that a narrow focus on the redistribution through the fiscal system will be inadequate to stem the growing divides in society. Governments that adopt such a lens will inevitably overlook crucial policy tools that have the potential to substantially impact inequality prior to the intervention of taxation and social expenditure. A few key policy conclusions follow from this work. Firstly, the papers in this special issue make a strong case for activist competition policy with an explicit inequality mandate. They also demonstrate the importance of tracking competition enforcement across African regions to develop better procedures for cross-border collaboration, enforce a common regional competition law, and establish a competition enforcement culture and ecosystem. Future research stands to help conceptualise the framework of an approach that extends the purview of competition law beyond a narrow consumer welfare standard. Two lines of inquiry are proposed:

(1) What is the appropriate welfare standard for competition policy if it is to significantly impact on inequality.
(2) Most legal standards for assessing competition cases are based on precedents in the US and the EU. How effective are these legal standards in developing countries, where the imperative for addressing inequality is more urgent? And how can these legal standards be developed with a fair and coherent jurisprudence?

Secondly, is the acknowledgement of the economic importance of cities. Contemporary inequality is spatial inequality – as agglomeration dynamics drive bigger and bigger wedges between rural areas and major cities. To effectively meet this challenge, policy makers in an African context will have to approach informality less as a blight and more as an opportunity. By recognising the potential for innovation (digital and otherwise) that exist in this sector, communities could be better supported to contribute towards the broader economy thereby reducing poverty and exclusion. And cities then also need to enable and bring together the other actors who might support these developments e.g. finding ways to narrow the gap between formal and informal actors and interventions.

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