



**Economic Research Southern Africa Activity**

**February 2007 – March 2008**

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# Dawn



Gerard Sekoto

Courtesy of THE GERARD SEKOTO FOUNDATION

## **Director's Statement**

For ERSA the 2007/2008 year was one of substantial growth.

Not only have the traditional areas of activity of ERSA grown substantially in terms of both scope and depth, but a range of new initiatives have added to the intellectual span of ERSA.

Perhaps most importantly the ERSA Working and Paper Series have seen significant improvement during the course of 2007. The number of submissions received by ERSA under the two papers series has increased substantially, with a growing range of academic institutions in South Africa submitting papers for review.

The result of this increase has been a growth in the intensity and frequency with which the reviewing of papers has had to be conducted. Hence the editorial panel of ERSA has now been expanded to four (the Director and three Deputy Directors of ERSA), who conduct weekly teleconferences to discuss, monitor and process submissions. In addition, the editorial panel of ERSA has been able to draw on the refereeing expertise of a wide range of experts both nationally, and internationally. As a result, I believe that the quality of feedback to authors has improved substantially. While the impact of this improvement remains to be seen over a longer run, the editorial panel hopes that the quality of journals in which the work of South African economists appears will improve also – with top level journals being the main target for ERSA Working and Policy papers.

Toward the end of realising top-end publications, the ERSA incentives around the Working Paper Series explicitly incentivise publication in high end journals. Details of the mechanism can be found in the section of this report which deals with the Working Papers, while an appendix provides more comprehensive information about the individual papers that have appeared in the ERSA series to date.

While ERSA is still monitoring the publication rate of its paper series, one indication that this incentive is having the desired effect is that of the 68 Working Papers and 11 Policy Papers published by ERSA to date, 15 have already been published or accepted by international journals, 9 by South African journals, and 2 have appeared as book chapters. There is thus not only a high publication success rate of 33% from the ERSA paper series, but of the published papers international publications 63% are appearing in international journals, including in the top 30 journals in economics. In addition, of the remaining papers, the overwhelming preponderance is under review primarily in international, but also local journals.

It is therefore appropriate to attach some confidence to the expectation that the net effect of the ERSA paper series will be to raise the publication

intensity of Southern African based economists in terms of quantity, but far more importantly, in terms of quality.

Workshop activity under the ERSA banner has also increased dramatically during 2007. A total of nine workshops were hosted by ERSA, covering a wider range of topics in economics than was previously the case. The traditional strengths of ERSA in macroeconomics and growth, as well as labour poverty and inequality were supplemented by new departures in industrial organization, data issues, economic history, as well as new training workshops in policy and programme evaluation.

A particularly valuable feature of the workshop programme of ERSA continues to be a strong presence of leading international economists at the workshops. The consequence is a raising of the breadth and standard of the debate in economics in South Africa, with immediate accessibility of the international leading edge in the focus area under examination.

During 2007 a particular feature of the international participation has been a strong presence of the workshops of members of the international panel of experts invited by National Treasury and the Presidency to review the ASGISA growth policy framework. During 2007 three of the international panel of experts participated in ERSA workshops. During 2008, this pattern looks set to continue, not least through research collaboration between members of the panel and South African based economists, which is being facilitated through ERSA.

International attendance at ERSA workshops has come from the London School of Economics, Harvard, Michigan, Oxford, Wisconsin, Goteborg and Vienna amongst other institutions.

What has continued to be particularly pleasing has been the wide array of institutions from which participation at the workshops has been drawn. A total of 24 different South African institutions have participated in the ERSA workshops, covering academic, private sector and policy making bodies. In addition, a number of institutions that have historically not been centrally involved in national debates in economics have participated not only strongly in individual workshops, but have shown a persistent repeat attendance at the ERSA workshops. The section of this report that covers the workshop activity of ERSA provides more detail, while an appendix provides detailed information about the content of the individual workshops held under the ERSA banner.

Three new initiatives have been launched through ERSA during the course of 2007. For ERSA to become sustainable through wide spread ownership of its scholarly and intellectual activity, it is imperative that there is wide-spread participation in defining suitable topics for the workshop series that ERSA hosts. To provide such a wider base of participation in the setting of the research agenda of ERSA, during 2007 ERSA affiliates were introduced for

the first time. The model was provided by the National Bureau of Economic Research in the USA, and the Centre for Economic and Policy Research in Western Europe. Affiliates were identified by Academic Board as amongst the leading researchers in three core areas in which Academic Board had identified a critical mass of researchers to be present in South Africa. Affiliates are intended to provide the research and scholarly leadership in the three research areas, particularly in defining a research and training agenda for the groups, and in acting so as to be inclusive of all researchers in the area, and in drawing in promising graduate students into the national and international debates.

Since the affiliate mechanism is new to South Africa, it has taken a little time to take root. However, particularly in the Macroeconomics & Growth and Trade & Industrial Organization research groups, the participation of affiliates has been active, and a strong research agenda has emerged. Common across all three groupings has been the emergence of a clearly defined work agenda centred on a series of three annual workshops to be hosted by each of the three research groupings.

Also as a new initiative has been the provision of support by ERSA to the African Econometric Society. For the 2007 conference of the society, ERSA provided funding for a keynote speaker, as well as support for the attendance at the conference for scholars who did not have adequate financial support from their home institutions. Given that the conference of the AES is arguably the premier regional conference in the field of economics in terms of the quality of papers presented, and the international profile of the conference, the support provides a useful extension to the support mechanisms that ERSA provides to scholars in economics in the region.

Added to the already existent support that ERSA provides to the Economic Society of South Africa for the publication of its journals, ERSA has thus effectively extended its institutional support for other professional societies. From the side of ERSA, it is hoped that this institutional association with both societies can continue.

ERSA has also taken a first step toward providing support to students. During 2007 ERSA introduced a range of ERSA prizes for study in economics. While of very limited financial consequence, the prizes provide departments of economics with the ability to reward and recognize outstanding performance by their students, as a way to provide encouragement for continued study in economics.

Finally, the wide ranging activities of ERSA have relied on the input of a wide range of individuals. Members of Academic Board have given a large number of days pro bono, in order to help define the focus and the mechanisms by which ERSA conducts its business. The three Deputy Directors similarly have provided substantial input not only into the editorial processes of ERSA, but also sustained substantive direction to the development of the research

groups that have come to emerge under the ERSA banner. While the affiliate structure of ERSA is new, it is already clear that already a substantial burden of activity is coming to vest in them.

Perhaps most importantly of all, since all of the ERSA activities, including the planning and logistical realization of the paper series, workshops, international visitors, research group activity and the administration of the day-to-day functioning of ERSA rests with a single administrator, Gloria Halland deserves explicit recognition for her tireless contribution to the activities and wellbeing of ERSA.

Certainly as Director my job would not have been possible without the contributions of all of these individuals, and my sincere thanks goes to them all.

Johannes Fedderke  
Director: Economic Research Southern Africa  
24 March 2008

## **Summary of Existing ERSA Mechanisms**

Economic Research Southern Africa (ERSA) is a programme whose primary objectives are:

- To provide for the management of a research programme focused on growth, employment and broadening participation in the South African economy.
- To create a network of economic researchers based in South African universities and to deepen economic research capacity in Southern Africa.
- To expand and broaden economic research capacity in Southern Africa, train and mentor young economists and create a supportive network to link Southern African economic researchers.
- To draw a broad and representative range of South African economists into a programme of policy-oriented research, and to encourage independent and expert economic research.

ERSA employs four mechanisms designed to facilitate research activity in economics:

- The Affiliate Programme
- A Working Paper and Policy Paper series.
- A Workshop Series.
- An Academic Visitorship programme.

In terms of governance, the Director of ERSA is accountable to the Steering Committee of ERSA for the use of the funding, and to the Academic Board of ERSA for the academic content, direction and quality of its activities.

### *The Steering Committee*

Memberships of the Steering Committee consists of representatives of the donors to the ERSA programmes, the private sector and representatives of the academic community of economists in South Africa. Specifically, membership consists of:

- The Chair of the Steering Committee: Elias Masilela
- The Chair of the Academic Board: Merle Holden
- The Director of ERSA: Johannes Fedderke
- Academia:
  - One nominated representative:
    - Murray Leibbrandt
  - The coordinators of the three research groups of ERSA:
    - James Fairburn
    - Dorrit Posel
    - Nicola Viegi

- National Treasury: Two representatives:
  - Christopher Loewald
  - Ismail Momoniat
- Presidency: One representative:
  - Ashraf Kariem or
  - Alan Hirsch
- Private Sector: Two representatives:
  - Appointment pending
  - Appointment pending
- Statistics South Africa: One representative:
  - Rashid Cassimx

### *The Academic Board*

Membership of Academic Board is determined by professional standing, and in the case of the Director of ERSA in ex office terms.

Membership is as follows:

- Tania Ajam, AfRec
- Melvin Ayogu, University of Cape Town
- Johannes Fedderke, Director: ERSA
- Augustin Fosu, WIDER
- Jan van Heerden, University of Pretoria
- Merle Holden, Chair
- Steve Koch, University of Pretoria
- John Luiz, University of the Witwatersrand
- Mthuli Ncube, University of the Witwatersrand
- Dori Posel, University of Kwa-Zulu-Natal
- Nicola Viegi, University of Cape Town
- Ingrid Woolard, University of Cape Town

Meetings of Academic Board in order to provide oversight functions over the work of ERSA, and in order to consider any proposals placed before Academic Board occur in February, July and November of each calendar year.

### *Current ERSA Office Bearers*

The ERSA programme does not currently have full time staff, other than an administrator. It has a Director, and three Deputy Directors who contribute time to its activities on a part-time basis. Currently these office bearers are as follows:

- Director: Johannes Fedderke
- Deputy Directors:
  - Jan van Heerden
  - Dori Posel
  - Nicola Viegi
- Administrator: Gloria Halland

### *The Affiliate Programme*

The primary purpose of Research Affiliates is to recognize substantial and sustained intellectual contribution to the field of economics.

Granting of Affiliateship status is thus in the first instance meant to be an honour for substantial achievement in the field, and an incentive in its own right.

In addition, ERSA Affiliates are intended to provide academic leadership in the research groups of ERSA, which cover:

- Macroeconomics & Growth,
- Microeconomics, Labour, Poverty and Inequality
- Trade and Industrial Organization

in order to improve the quality of guidance, oversight and direction of research within ERSA and across the Southern African region generally.

The objective is to draw on the most experienced researchers in economics from across Southern Africa, in order to provide leadership, direction, advice and guidance to emergent researchers. In addition, they provide the focal point of the research groups around the main research areas within ERSA.

### *The Working and Policy Paper Series*

ERSA publishes two paper series. Publication is both in hard copy format, as well as in electronic form on the ERSA website, at [www.econrsa.org](http://www.econrsa.org)

The Working Paper series is intended to carry research output that is of the strongest possible academic quality.

The Policy Paper series emphasizes findings that are policy relevant, but also aspire to highest possible standards of analytical rigour.

Difference between the two series is thus principally one of the immediacy to policy relevance.

Completed papers are submitted to the ERSA office for evaluation. Evaluation is by the ERSA editorial team, consisting of the Director and Deputy Directors of ERSA, for assignment to referees. Referee's reports require author responses, and determine acceptance into the ERSA paper series.

Acceptance into the ERSA paper series is associated with a small financial incentive; publication in an peer reviewed learned journal is associated with an additional financial incentive, determined by the international academic standing of the journal in terms of the ISI rating service.

## *The Workshop Programme*

One of the prime purposes of ERSA is to facilitate the exchange of ideas, in order to generate an acceleration of research activity.

An important mechanism designed to increase the interaction of academic and policy researchers will be the conduct of regular research workshops, in which invited participants present relevant research findings, identify new agendas for future work, and explore opportunities for collaboration.

The intention is to allow for workshops with three possible focuses:

- *Research Workshops*: Workshops whose primary purpose is to present research findings from both Southern African and international researchers, that are "cutting-edge." Purpose of the workshops is to disseminate findings amongst researchers and policy makers, and to explore avenues for further work.
- *Training Workshops*: Workshops whose primary purpose is to disseminate new research techniques to as wide and inclusive an audience of Southern African researchers as possible. Primary objective of these workshops is to ensure that Southern African researchers remain abreast of international analytical innovations and research directions, and to disseminate national research strengths to as wide and inclusive a set of researchers as is feasible.
- *Networking Workshops*: Workshops whose primary purpose is to stimulate networks of researchers around research clusters, in order to realize critical mass in important research questions facing the Southern African region. Particularly important here is the inclusion of researchers from less active research institutions, in order to facilitate their participation in research initiatives and debates. Equally, the initiative is designed to include new researchers, and graduate students, in order to expose them to leading national and international researchers.

The opportunity to host workshops is open to any institution and/or researcher in Southern Africa. Applications are considered by the Academic Board of ERSA, assessed for quality, and approved or rejected accordingly.

In addition to these workshops the three research groups of ERSA each hold three networking workshops a year, in order to disseminate their research findings.

### *The Academic Visitorship Programme*

The intention of the visitorship programme is to facilitate the interaction of South African researchers in economics with leading international scholars. In particular, the objective is to enable the transfer of human capital to South African researchers, as well as the collaboration of South African researchers with international scholars on research programmes of common interest.

The explicit intention of the academic visitorship programme is to:

- Attract leading international scholars.
- Facilitate academic exchange between Southern African institutions.

It is vital to note that the intention of the programme is not only to attract and interact with leading international scholars, but also to allow Southern African academics to increase the extent of their interaction, including particularly academics from historically disadvantaged institutions.

## **REPORT TO THE STEERING COMMITTEE FROM THE CHAIR OF THE ACADEMIC BOARD**

This is not really a report as such but rather a series of comments and observations from the chair.

ERSA in its latest incarnation has now been running for over two years. During this time one cannot fail to be impressed with the progress that has been made towards the achievement of the objectives set at the start of this very ambitious project.

The foundations of the programme are now all in place. The director supported by his deputies are doing an excellent job of publishing the working papers, setting up workshops both training and research, establishing the data base and organizing the affiliates.

Some of the research groups have been a bit tardy about getting off the ground such as the trade and industrial organization group. However, it is to be hoped that now that the affiliates are in place their activities should accelerate.

An example of the impact of these workshops on the research agenda is well demonstrated by the recent firm level data workshop where through the interaction of researchers and policy makers it was agreed that a user group should drive the future process for gathering relevant firm level longitudinal data.

I have perused the working papers emanating from ERSA finding them to be of a high standard. I would like to suggest that ERSA also track the outcome of these papers reporting on whether, how and when they have found their way into the journals. This should be easy to keep track of given that the authors will be applying for the research incentive money from ERSA. This would be a measure of the effectiveness of the ERSA refereeing process.

In conclusion, despite the hard work of the director and his deputies I think that there is still much to be accomplished in raising the image of ERSA in the academic community. Sadly, there is the view that ERSA is competitive with ESSA and the matter of turf is at issue among the older members of the Economics community.

Merle Holden

Chair, Academic Board ERSA

March 25, 2008

**ERSA Income and Expenditure Statement:  
01/02/07 – 31/01/08**

REPORT TO ECONOMIC POLICY RESEARCH SUPPORT PROJECT  
INCOME AND EXPENDITURE STATEMENT  
PROJECT: ECONOMIC RESEARCH IN SOUTHERN AFRICA  
FUND 421040  
CUMULATIVE: 01 MARCH 2005 - 31 JANUARY 2008  
CURRENT: 01 FEBRUARY 2007 - 31 JANUARY 2008



	01-Feb-07 to 31-Jan-08 Current Actual	01-Mar-05 to 31-Jan-08 Cumulative Actual
<b>INCOME</b>	<b>R 2,892,550.01</b>	<b>R 5,109,096.67</b>
Balance carried forward	R 642,550.01	R -
ERSA	R 2,250,000.00	R 5,109,096.67
<b>EXPENDITURE</b>	<b>R 2,196,426.64</b>	<b>R 4,412,973.30</b>
<b>Payroll</b>	<b>R 430,269.20</b>	<b>R 1,037,047.91</b>
Director	R 143,052.50	R 367,352.50
Deputy Director	R 78,193.79	R 78,193.79
Media Manager	R 20,200.00	R 72,419.67
Administrator	R 188,822.91	R 519,081.95
<b>Other Expenses</b>	<b>R 1,766,157.44</b>	<b>R 3,375,925.39</b>
Research Grants and referee payments	R 333,489.14	R 633,489.14
Vistorships - Honorariums	R 219,079.29	R 231,564.29
Academic board and steering committee	R 120,953.83	R 120,953.83
Travel and conference	R 160,995.90	R 182,259.64
Sponsorships - AES Conference	R 68,065.00	R 68,065.00
Media and monitoring	R 6,360.90	R 6,360.90
Workshops	R 429,877.18	R 1,052,867.15
Printing	R -	R 71,558.20
Working Papers	R 46,611.03	R 138,918.00
Economics prizes	R 19,800.00	R 19,800.00
Web - Design, maintenance and renewal	R 3,200.10	R 33,632.60
Software/IT	R 62,610.01	R 209,873.45
Office Furniture	R 56,002.05	R 86,361.93
Postage	R 3,740.44	R 8,293.37
Stationery	R 4,231.70	R 15,142.26
Telephone	R 10,815.04	R 13,558.84
Entertainment	R 14,324.21	R 17,179.52
Bank Charges	R 1,032.12	R 1,157.29
Sundry Expenditure	R 422.00	R 422.00
UCT Overhead Levy (10%)	R 204,547.50	R 464,467.98
<b>Net Surplus at 31 January 2008</b>	<b>R 696,123.37</b>	<b>R 696,123.37</b>

Note: Subsequent actual plus commitment expenditure incurred to 10 March 2008 amounts to R 319 129.47

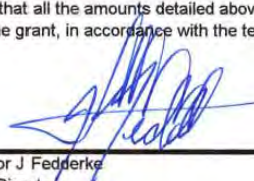
I confirm that the above figures agree with the books and the records of the University of Cape Town. UCT's financial policies, procedures and books of account are the subject of an annual external audit by the firm Ernst & Young.

  
**Z. MAKHOSONKE**  
Asst. Finance Manager

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MW Daubenton  
Commerce Faculty - Management Accountant

I certify that all the amounts detailed above have been actually and necessarily expended under the grant, in accordance with the terms and conditions outlined in the grant agreement.

  
**Professor J Fedderke**  
Project Director

## **1. New ERSA Initiatives for 2008/2009**

A number of new ERSA initiatives are planned for the 2008/2009 period of activity.

The Economic Research Southern Africa (ERSA) initiative was created by National Treasury as a means of deepening research capacity in economics in Southern Africa. The principal means of achieving this objective was to foster research activity and a research culture in the economics discipline, across institutions in the region with an exposure to the generation and consumption of research output in the economics discipline. Focus of the mechanisms implemented by ERSA was the generation of research output that was uncompromising in its academic quality, in order to facilitate economic research that was internationally competitive.

Thus far ERSA has been approaching this task by means of four distinct mechanisms, a Working and Policy Paper series, a Workshop Series, the introduction of ERSA Affiliates, and the facilitation of Academic Visitorships between Southern African institutions, as well as from international scholars to South African institutions.

In terms of stimulating academic interest and output, ERSA is having an immediate impact which appears likely to be sustained into the future.

Three initiatives planned for introduction during 2008/2009 are designed to broaden both the range of issues covered by ERSA mechanism, as well as the accessibility of the research mechanisms.

The first innovation relates to the quantity and depth of policy related work.

The second innovation relates to a broadening of the range and type of training programmes offered by ERSA.

Third is the introduction of a scholarship programme for graduate students in economics in South Africa, to widen and deepen the pool of graduate students engaged in working towards higher degrees in economics.

### *The ERSA Policy Research Initiative*

As ERSA's research output continues to increase, the relationship of that work to a broader community particularly amongst policy makers becomes progressively more important.

During 2008/2009 ERSA will therefore introduce the Policy Research Initiative to facilitate the growth of research based work that is both rigorous and relevant to concrete policy questions. Under the initiative ERSA will appoint a Deputy Director for Economic Policy Analysis, as well as two Policy Associates.

Responsibility of the Deputy Director will be the management of the ERSA Policy Paper series, circulation of the series to a broader policy-making audience, to identify, manage and support specifically policy-related workshops, identify areas of policy analysis, to facilitate networking between the academic and policy making communities, and to provide direction to the policy relevant work of the ERSA Policy Associates.

Responsibility of the Policy Associates will be the production of reports that specifically focus on core questions of concern to policy makers, as well as to produce brief policy synopses of academic papers of relevance to the South African policy environment. Focus of the policy research will be macroeconomics in the first instance, but it may also be extended to other policy relevant areas to which economics can make a contribution.

The ERSA Directorate will be responsible for ensuring the rigour and quality of the policy analysis, as well as its accessibility to policy makers.

While hosted in the ERSA offices, the ERSA Policy Associates would be expected to visit policy making bodies, and academic economics departments in Southern Africa.

### *The ERSA Skills Development Programme*

In order to facilitate the accessibility of advanced research methodologies to a wider body of graduate students and academics in Southern Africa, ERSA plans to widen the range of its training workshops. While workshops addressing the cutting edge of the discipline will continue to be important, it is proposed to introduce a range of workshops that are designed to provide a wide range of mathematical and econometric skills that form the foundation of research in modern economics.

The intention is to develop a recurrent workshop programme covering the core areas of mathematical tools for economists, and econometrics from basic principles to practitioner level. Coverage will include the provision of training workshops in these areas, of practical applications on data sets where appropriate, the provision of open source web-based teaching materials, and ideally will generate research collaboration amongst participants in the workshop as a requirement for the completion of the workshop programme.

The intention is to conduct a total of four workshops a year, two during the summer, and two during the winter vacations. The workshops will be open to academics, graduate students, and to policy makers interested in refreshing or developing competence in an area being covered by the workshops.

Workshops will emphasise hands-on problem solving under the topics covered in the workshops. Real data, and concrete problem sets will form an integral part of the material covered.

Workshops will also make available teaching material including notes, problem sets and data that will become available online as open source material for participants at the ERSA workshops, as well as in hard copy to workshop participants.

### *Proposed ERSA Scholarship Programme*

The long term health of the economics discipline depends crucially on the quantity, but above all on the quality of future generations of researchers. Retention of graduate students of the highest quality in Southern African graduate programmes has become increasingly difficult, particularly students from designated groups. This is often the case due to the opportunity cost of continuing with graduate courses, as well as the direct cost of course registration.

For this reason it is proposed that ERSA introduce a scholarship programme.

Feasible programmes of study cover Masters and PhD programmes.

Eligibility for scholarships will be determined by academic excellence as a necessary criterion. Crucial will be the credible demonstration of the ability to succeed in a credible postgraduate programme in economics. Students from designated groups will receive prioritization in the scholarship programme.

Availability of the scholarships will be advertised to all departments of economics in South Africa, though scholarships will be able to be utilized at the institution of choice of the scholarship winner. They will not be bound to the institution of origin of the student. Students who choose to study outside of South Africa, will be required to return to South Africa to work as economists for a period equivalent to that for which they held the scholarship.

Dissertation components of the degrees pursued by the scholarship holders will be required to be submitted to the ERSA Working or Policy Paper series.

Selection of scholarship holders will be through a panel of economists identified and appointed by the ERSA Academic Board.

The initial scholarship programme will involve 10 scholarships, each of R80,000 per annum.

Funding will be available for 1 year for one year coursework Masters programmes, and Masters by dissertation; 2 years for Masters programmes that have two years of coursework and up to 3 years for PhD programmes.

In the case of multiple years of funding, funding will be conditional on reports on adequate academic progress being achieved, verified by the host university.



# Song of the Pick



Gerard Sekoto

Courtesy of THE GERARD SEKOTO FOUNDATION

## 1. The Workshop Programme

### Introduction

The Workshop programme of ERSA continues to be one of the most active and widely used mechanisms that ERSA makes available to researchers in Southern Africa.

During 2007-2008 ERSA has hosted a total of nine workshops across a wide range of areas in economics. The workshops have served the purpose of research dissemination, of training, as well as networking amongst researchers and policy makers, in order to lower transactions and dissemination costs of new results. In addition, ERSA pays close attention to the need to include young graduate students and academics from universities that have not traditionally been central to research activity in economics in South Africa, in order to allow wider participation in core research and policy debates that concern economists.

The areas covered by the workshops have included:

- issues in industrial organization, both from theoretical as well as empirical and data collection perspectives, particularly at the firm level;
- macroeconomic questions, from the perspective of growth, monetary economics, and the impact of institutions;
- economic history, with an emphasis on opening up new approaches to quantitative approaches to economic history (cliometrics);
- labour market issues, poverty and inequality, including a new departure in addressing questions in the impact of health on human capital and labour markets;
- methodological issues, particularly with respect to programme and policy evaluation.

Use of the workshop mechanism has been widespread by different universities in South Africa. Organizers of workshops have included the Universities of Cape Town, Free State, KwaZulu-Natal, Pretoria, Stellenbosch, and the Witwatersrand.

A noteworthy feature of the workshop programme of 2007/2008, was that a number of the international experts that participated in the review of the ASGISA growth framework for National Treasury and the Presidency, participated in ERSA workshops. Professor James Robinson was a core participant in the *Reflecting History through Numbers* workshop in Stellenbosch focussing on economic history, while Sebastian Galiani was one of two international presenters in the programme and policy evaluation workshop hosted by SALDRU at UCT.

International participation has been more widespread, and includes the following presenters:

1. Klaus Ritzberger from the Vienna Institute for Advanced Studies was the presenter of 'Corporate Control and Theory of the Firm' workshop, Feb 2007.
2. Christopher Adam from Oxford University was the key note presenter at the 'Macro & Growth Workshop, May 2007.
3. Richard and Jacqueline Agesa from Marshall University were key presenters at the 'Applied Labour Economics Workshop', June 2007.
4. Ola Olson from the University of Goteborg, Torfinn Harding from the Norwegian University of Science & Technology and Gunter Fink from Harvard University were key presenters at the 'Institutions & Growth Workshop', Feb 2008.
5. Francis Teal from the Centre for the Study of African Economies at Oxford University, Alvaro Gonzales from the Enterprise Analysis Unit of the IFC, and John van Reenen from the London School of Economics were key presenters at the 'Firm Level Data Analysis' workshop held in Feb 2008.

Participation in the workshops of ERSA has been even more widely cast. A total of 241 people attended the nine ERSA workshops of 2007/8. A breakdown of the attendance by demographic characteristics is provided in Table 1 below. What is clear is that attendance at conferences is not only diverse in terms of demographic characteristics, but also in terms of institutional affiliation as illustrated by Table 2.

**Table 1: Demographics of Workshop Attendance: Feb 2007 - March 2008**

<b>Name of Workshop</b>	<b>Date</b>	<b>Institution/ Place</b>	<b>WM</b>	<b>BM</b>	<b>WF</b>	<b>BF</b>	<b>Total</b>
Corporate Control and Theory of the Firm	Feb 2007	UKZN	11	6	7	2	26
Macroeconomics & Growth	May 2007	SARB	16	7	3	2	28
Reflecting History through Numbers	July 2007	US	15	7	11	3	36
Programme & Policy Evaluation	July 2007	UCT	6	4	6	6	22
Training							
Human Capital Health & Education	August 2007	UP	10	12	5	7	34
Labour & Inequality	Dec 2007	UCT	5	1	5	0	11
Institutions & Growth	Feb 2008	UCT	15	7	1	1	24
Firm Level Data Analysis	Feb 2008	Wits	21	11	4	2	38
Poverty & Inequality	March 2008	UFS	13	3	6	0	22
<b>Total</b>			<b>112</b>	<b>58</b>	<b>48</b>	<b>23</b>	<b>241</b>

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**Table 2: Institutions represented at ERSA Workshops**

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Competition Commission  
Department of Trade and Industry  
Department Water Affairs  
Goteborg University  
Graduate School of Business, UCT  
Harvard University  
International Development Research Centre  
Investec  
London School of Economics  
Marshall University  
National Treasury  
Nelson Mandela Metropolitan University  
North West University  
Norwegian University of Science & Technology  
Oxford University  
Rhodes University  
South African Reserve Bank  
Stats SA  
Trade and Industrial Policy Research  
University of South Africa  
University of Cape Town  
University of Fort Hare  
University of Johannesburg  
University of KwaZulu Natal  
University of Limpopo  
University of Pretoria  
University of Stellenbosch  
University of the Western Cape  
University of the Witwatersrand  
University of Venda  
University of Zululand  
Vienna Institute of Advanced Studies

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What follows is a summary list of the workshops held over the February 2007 – March 2008 period.

A fuller description and report back for each workshop can be found in Appendix I.

The list of workshops is as follows:

**1. Corporate Control and the theory of the Firm: 21 Feb – 23 Feb 2007: KZN**

A three-day workshop on the above took place at UKZN. The workshop was presented by Prof K Ritzberger of the Vienna Institute for Advanced Studies and was jointly organized by Jim Fairburn (School of Economics and Finance, UKZN) and Alexander Zimper (School of Economics, UCT). The workshop was of interest to academics and senior postgraduate students working the fields of financial economics and economic theory.

**2. Macroeconomics and Growth: 10 – 11 May 2007: SARB Pretoria**

This workshop, organized in collaboration with the South African Reserve Bank, was an occasion to exchange information on macroeconomic research currently undertaken in South Africa and coordinate future research initiatives. Themes of the workshop were the areas of Business Cycle Research in South Africa, DSGE Models, Spatial Dimension of Growth, Optimal Monetary and Fiscal Policy Framework, Credit Cycles.

**3. Reflecting History through Numbers: Quantitative African Economic History in the New Institutional Tradition: 26 – 27 July 2007: University of Stellenbosch**

The quantitative study of economic history has gathered pace in the academic literature in recent years, especially within the tradition of the new institutional economics. Purpose of the workshop was to strengthen local participation in this field, with a specific focus on African economic history. Professor James Robinson, of Harvard University facilitated the two-day long workshop.

**4. Programme & Policy Evaluation Training Workshop: 24 – 28 July 2007: UCT**

This ERSA-sponsored course on programme evaluation methods was taught by Professor Sebastian Galiani from Washington University in St Louis. The course covered treatment effect analysis, instrumental variables and matching methods. The course presenter achieved an excellent balance between theory and practical examples from the literature. In the afternoons, course participants attended computer lab sessions in which they analyzed data from Progresa (a conditional cash transfer programme in Mexico).

**5. Human Capital - Health and Education: Micro Analysis and Macro Effects: 16 – 17 August 2007: Gauteng**

This two day Health Economics Workshop was organised by Prof Steve Koch from the University of Pretoria and Prof Frikkie Booyens from the University of the Free State. This was the first ERSA Workshop related to Health Economics and was designed to include a wide variety of topics and a wide variety of health economics health players. A wide variety of papers were presented on public health, epidemiology and health economics related topics. The papers were presented in a forum that allowed researchers from

a number of areas to get together to learn about what sort of research was being conducted across the country and by whom that research was being conducted. In addition to representation from a wide variety of institutions across South Africa, all population groups were also represented by presenters and/or participants.

***6. Labour and Inequality: 6 – 7 December 2007: Cape Town***

This workshop took the format of a forum to present current research and results in the areas of labour and inequality. Contributions explored segmentation and inequality in the labour market and the links between labour market activity and socio-economic well being.

***7. Institutions and Growth: 4 – 5 February 2008: Cape Town***

This workshop served as a forum to present current research and results in the areas of economic growth, institutions and political economy and gave researchers in these areas the opportunity to network. Participants included academics from Harvard, Goteborg, the Norwegian University of science & Technology as well as Southern African universities.

***8. Firm Level Data Analysis: 19 & 20 February 2008: Gauteng***

This workshop took the format of a networking forum to bring research and policy makers together to discuss research, measurement and policy issues related to firms in South Africa and Africa. The specific focus was on techniques for dealing with firm-level heterogeneity and the implication of this firm-level heterogeneity for policy. A further objective was to provide an opportunity for researchers to present current research and further develop research areas related to firms.

***9. Poverty and Inequality: 6 & 7 March 2008: Bloemfontein***

Key objectives of this workshop was to provide a forum for researchers to present work-in-progress on related research and receive more concentrated input than typically than that typically possible at larger conferences and second to increase inter-institution collaboration.

### **3. The Working and Policy Paper Series**

#### Introduction

Intensity of working paper publication has increased significantly during 2007.

To date ERSA has published 68 Working papers and 11 Policy papers.

During the course of 2007 the mechanism governing Working Paper publication was changed by the Academic Board of ERSA. Initially submissions were accepted on the basis of proposals submitted to Academic Board, before the conduct of the research and the associated production of the paper. Experience revealed that this process was too unwieldy to be practicable, with poor success rates in terms of research projects being completed in time. As a consequence Academic Board changed to a simpler mechanism, in terms of which only completed papers would be accepted for consideration in the Working and Policy Paper series. Submissions would be subject to standard academic peer review, and acceptance into the series would result in a smaller financial pay-off than had been the case under the acceptance of full proposals. However, subsequent publication in peer reviewed journals would attract an additional financial reward, on a nonlinear scale depending on the professional status of the journal accepting the paper. Journal rankings are provided by the ISI Thomson Web of Science impact factor adjusted ranking according to the total citations criterion, which is the international standard for journal rankings in economics.

Core objective of the new mechanism is the provision of a clear incentive mechanism to researchers to both increase output, and to attempt to place their work in as highly placed a journal internationally as is feasible.

The consequence of the new mechanism has been a marked increase in the number of submissions to the ERSA series. Since the beginning of 2007 there have been 98 new submissions. Status of these working papers is as follows:

- 27 have been published
- 16 have been rejected
- 18 are under revision and resubmission
- 37 are still under review

The cost of the new process has been that both the administrative burden around the management of submissions, and above all the refereeing process has slowed the rate at which publication of submissions has been feasible.

The ERSA Director and Deputy Directors meet telephonically once a week to discuss submissions and to decide on reviewers and status of the papers. The

net result has been a decided improvement in the standard of papers accepted for publication, and in the quality of feedback provided to authors.

Submissions have been received from a number of institutions including the University of Cape Town, the University of Pretoria, the Financial and Fiscal Commission, the University of the Free State, Harvard University, the University of Johannesburg, the South African Reserve Bank, the University of the Western Cape, the University of KwaZulu Natal, UNISA, Oxford University, the CSIR, and Rhodes University.

ERSA publications have been graded according to the Journal of Economic Literature Classification System. See Table 3 below.

Table 3: Journal of Economic Literature Classification System		Number of Publications categorized under each category under the JEL Classification System
A	General Economics and Teaching	
B	Schools of Economic Thought and Methodology	02
C	Mathematical and Quantitative Methods	01
D	Microeconomics	06
E	Macroeconomics and Monetary Economics	23
F	International Economics	05
G	Financial Economics	06
H	Public Economics	01
I	Health, Education and Welfare	09
J	Labour and Demographic Economics	09
K	Law and Economics	
L	Industrial Organization	19
M	Business Administration and Business Economics; Marketing; Accounting	
N	Economic History	
O	Economic Development, Technological Change, and Growth	18
P	Economic Systems	
Q	Agricultural and Natural Resource Economics; Environmental and Ecological Economics	02
R	Urban, Rural and Regional Economics	
Y	Miscellaneous Categories	
Z	Other Special Topics	

A detailed list of all ERSA Working and Policy papers, including brief abstracts of their contents, can be found in Appendix II.

**Statement by the Chair of the Editorial Committee:  
Professor Jan van Heerden**



UNIVERSITEIT VAN PRETORIA  
UNIVERSITY OF PRETORIA  
YUNIBESITHI YA PRETORIA

Prof JH van Heerden  
School of Economic Sciences  
19 March 2008

The Steering Committee

ERSA

Dear Sirs/Madams

**ERSA Working Paper Series**

On behalf of the editorial committee I would briefly like to report on the state of the ERSA Working Paper Series (hereafter "The WPS").

Since the start of the WPS just over a year ago, we have accepted and published 32 papers and rejected 16. There are currently 38 papers under review, while 14 more have been sent back to authors for revision and resubmission.

An editorial committee consisting of Johann Fedderke and Nicola Viegi from UCT, Dori Posel from KZN and me, Jan van Heerden from U of Pretoria meet on a weekly basis via telephone conference to discuss new and revised submissions, referee reports, and other relating matters. We work by consensus and decide to which referees all papers should be sent, and how to respond to all the referee reports.

The WPS is in my view on a very high standard, and it has become almost easier to publish in a local journal than to get published in the WPS. Editors of the local journals are targeting our papers to be published in their journals because they have been peer reviewed properly already.

In brief, within a very short period of time the ERSA Working Paper Series has become the premier vehicle for academic research in South Africa, and it will continue to grow in stature in the future.

Yours truly,

Jan van Heerden

Chairman

**Statement on the ERSA Working papers submission process by Dr  
Edwin Muchapondwa of Environmental Policy Research Unit**

A lot of emerging researchers feel discouraged by the brutality of the common publication process which tends to begin with submissions to journals. In international journals, if reviewers have made up their mind that they are not going to accept a submission they do not want to invest more time on it by giving more detailed comments about why the submission is not acceptable. Of course, if they did then the journal submission process gets to be used as some kind of a mentoring process – which it is clearly not intended to. Understandably the number of submissions to international journals is quite huge and reviewers are not pained by bluntly rejecting submissions. This is the only way to manage the process where there are usually 3 or 4 times more submissions than are actually needed by a journal. However, this approach tends to alienate the emerging researchers by not giving them a chance to know exactly what was wrong and therefore to improve the standard of another submission next time. Clearly there is a gap in the research and publication process – the lack of more mentoring in the stages beginning from finishing a research article and submitting for journal publication. Traditionally the working paper series play this important role but for this role to be fulfilled effectively there has to be dedicated competence that can be harnessed in the reviewing process. Working papers will generally allow work to be circulated widely without the fear that one's ideas will be inappropriately used or duplicated. This give more room for more feedback before the final leap in the publication process is taken. Many upcoming research units and indeed other established ones do not have the resources and capacity to run their own working paper series. In some cases it would be ridiculously uneconomic to try to set up one.

By taking advantage of the economies of scale in costs and academic capability that come along when all these different groups of researchers who are isolated from each other but work in interconnected areas, ERSA has nourished the wheels of the research and publication process in more ways than can be imagined. The incentive mechanisms make absolute economic sense and it is highly unlikely that any other way of arranging the research and publications process would bring greater benefits. ERSA has created a respectable network of dedicated competence in research and research reviews in Southern Africa and beyond. As an upcoming research initiative, we at the Environmental Policy Research Unit (EPRU) appreciate the role that is being played by Economic Research Southern Africa (ERSA) in encouraging research in Southern Africa and beyond. The provision of external reviews of our research outputs is a key opportunity that has been provided by ERSA.

At a personal level, I have hesitated to submit some of my works back to journals after initial rejections by international journals. Taking advantage of the ERSA friendly but thorough review process, I eventually submitted the papers to their working papers series. After some rigorous, detailed and user-friendly ERSA review comments, I revised the papers to ERSA's satisfaction. When these revised versions were submitted to journals they were well received. One of them is forthcoming in a local journal and the other got an invitation to resubmit to an international journal after some revisions. I am feeling more and more confident in getting my research papers out because of the useful external reviewing that the ERSA working paper series provides. I am sure there are more people who feel the same way I do.

# Parisian Cafe Scene



Gerard Sekoto

Courtesy of THE GERARD SEKOTO FOUNDATION

## **4. The Affiliate Programme**

### Introduction

During the course of 2007 both ERSA's Academic Board and its Steering Committee agreed to the introduction of the ERSA affiliate programme.

The programme is modelled on symmetrical programmes in the NBER in the USA, and CEPR in Europe. Objective of the programme is to identify leading researchers in core areas of research activity in economics in which there is critical mass. The affiliates are tasked with leadership in shaping a research and intellectual agenda for the core research groups.

Academic Board recommended that there were three areas of research activity in which critical mass of academic enquiry exists at present in South Africa:

- Macroeconomics and Growth
- Microeconomics, Labour, Poverty and Inequality
- Trade and Industrial Organization

It is vital to note that if ERSA is to develop as a widely anchored institution amongst researchers in economics in Southern Africa, a mechanism such as the Affiliate structure is essential in defining the intellectual agenda of ERSA. The content and programme of the workshops and other activities of ERSA must be perceived to be owned by the community of researchers, and the leading contributors in any given area of enquiry.

Academic Board also identified the core researchers in each area, and tasked the Director of ERSA to approach the researchers in order to establish their willingness to serve as Affiliates.

During the course of 2007 the various research groups have begun meeting, and have begun identifying a research and workshop programme for the groupings. The coordinators of the alternative groups provide brief statements concerning their groups, their activities and their plans in what follows.

It is worth noting that all three groups have asked for the opportunity to host three workshops each per annum, in order to provide continuous for a for the dissemination of research work, for training workshops, as well as networking opportunities for young and new researchers. Since there will continue to be centrally organized and hosted ERSA workshops in the future, the projected intensity of the ERSA workshop schedule is therefore likely to increase in 2008/9 and beyond.

Also detailed below are the formal criteria of selection as an ERSA Affiliate, as well as lists of the Affiliates under the three research groupings.

## **The Criteria and Processes for Election as an ERSA Affiliate**

For academic direction ERSA relies on input from academics who have been identified amongst research leaders in its core research focus areas.

The affiliates of ERSA are tasked with providing input and support particularly on the workshop activity of ERSA in terms of the themes and content of workshops as well as providing content with leading international researchers in their areas.

Affiliate status is conferred on the basis of objective criteria of research standing, above all on the quality of published peer reviewed work. Other relevant criteria, such as standing in policy work are also considered, where appropriate.

The set of affiliates of ERSA in no way are meant to be viewed as exhaustive of the field of leading and outstanding researchers in any area.

Election to affiliate status is by nomination by an existing affiliate, and a majority vote by existing affiliates.

Access to ERSA activities is in general available to all SA based economists.

Affiliate status above all raises the expectation of making time available for academic planning and input into ERSA activities. ERSA activities are open to all economists.

Statements by the Three Research Programme Coordinators

### ***1. Macroeconomics and Growth***

ERSA's Macroeconomics and Growth group was formed in early 2007 and the convenor is Nicola Viegi of UCT. The other affiliates of the group are:

Melvin Ayogu (UCT)  
Phillippe Burger (UFS)  
Stan du Plessis (US)  
Charlotte du Toit (UP)  
Greg Farrell (SARB)  
Johannes Fedderke (UCT)  
Rangan Gupta (UP)  
Brian Kahn (SARB)  
Renee Koekemoer (UP)  
Christopher Loewald (National Treasury)  
John Luiz (UJ)  
Mtuli Ncube (Wits)  
Eric Schaling (UP)  
Ben Smit (US)

The Group was constituted in 2007. After a first macroeconomic research workshop held at the South African Reserve Bank the 10 & 11 May 2007, the group agreed to promote further initiatives on specific thematic areas, namely Growth and Institutions, African Economic Integration, Savings. In parallel the group will develop an initiative, in collaboration with the SARB, to develop the study and application to South Africa of DSGE models and other advanced macroeconometric techniques, for which training workshops are planned for during the year.

On the 4<sup>th</sup> and 5<sup>th</sup> of February the first 2008 workshop was held focusing on the relationship between institutions and growth. The workshop was attended by around 20 economists from 10 different South African universities and research institutions and by three international researchers, namely Ola Olson from the University of Goteborg, Torfinn Harding from the Norwegian University of Science and Technology and Gunter Fink from Harvard University.

The workshop was successful and it provided a model to follow for the rest of the programme in that it gave a comprehensive view of the state of research in the area and also a useful contact with international research.

The second one will be on "African Economic Integration" and will be held at the University of Rhodes the 19<sup>th</sup> and 20<sup>th</sup> of June. The programme is in the finalization process and it is intended to provide a moment of exchange between researchers and institutions involved in the process of integration.

A final workshop for the year will be "Savings" to be held in the middle of October.

On the training side, Professors Katerina Juselius and Soren Johansen will be in Cape Town from the 26 – 30 May 2008 for a lecture series on Cointegration and Time Series Analysis. The lectures will be directed to critical university personnel who are currently involved in teaching and research in the area. A further training workshop on DSGE modeling is in the planning stage.

Nicola Viegi  
University of Cape Town

## **2. ERSA's Microeconomics, Labour and Inequality**

The convenor of this group (as of December 2007) is Dori Posel at UKZN. Other affiliates are:

Haroon Borat (UCT)  
Frikkie Booysen (UFS)  
Justine Burns (UCT)  
Daniela Casale (UKZN)  
Malcolm Keswell (Stellenbosch)  
Steve Koch (UP)

Murray Leibbrandt (UCT)  
Servaas van der Berg (US)  
Martin Wittenberg (UCT)  
Ingrid Woolard (UCT)

Affiliates of the working group, together with Johann Fedderke, met in early December 2007 in Cape Town to discuss the aims and mechanisms of the group. The key objectives were identified as being to increase research capacity, research momentum, and inter-institutional collaboration among both senior and junior researchers in the country. The working group resolved to hold two kinds of workshops during the year – networking workshops and training workshops:

**Networking workshops** would provide the opportunity for researchers to present work in progress and to receive critical appraisal of research at a formative stage. They would last 1-2 days, typically with 8-10 presentations, encouraging more concentrated and comprehensive feedback than that possible at conferences. It was decided that optimally, there would be two networking workshops a year – one in March/April and the other in October/November.

Two successful networking workshops have been held recently – in December 2007 and March 2008 – drawing participants from a range of institutions (see Workshop Report). Presentations related to the broad themes of Labour Markets, Poverty and Inequality. In future, networking workshops may also be structured around a more specific research area. One possibility is that this Working Group embarks on a book project – The Labour Market in Post-Apartheid South Africa. Researchers would then be invited to present work that would form the basis for the book chapters.

**Training workshops** would offer the means to expand particularly quantitative skills in the country. The workshops would provide training in specific areas of micro-econometrics. The workshops typically would run from 3-5 days and they would be led by a (national or international) expert in the field. Two themes for upcoming training workshops have been identified: non-parametric estimation techniques; and endogeneity and sample selection.

Dorrit Posel  
UKZN

### **3. Trade and Industrial Organisation Group: Report March 2008**

ERSA's Trade and Industry group was formed in late 2007 and the convenor is Jim Fairburn of UKZN. The other affiliates of the group are:

Anthony Black, UCT  
Rashad Cassim, StatsSA  
Lawrence Edwards, UCT  
Shakill Hassan, UCT  
Alan Hirsch, The Presidency  
Merle Holden, UKZN  
Neil Rankin, WITS  
Witness Simbanegavi, UCT  
Harry Zarenda, WITS

On 19/20 February 2008 a workshop on "Firm Level Data Analysis" took place at the University of the Witwatersrand. The workshop was conceived prior to the formation of the trade and industry group and organised by Lawrence Edwards and Neil Rankin. It was jointly funded by ERSA and IDRC. The workshop featured nine presentations, two of which took place by videoconference, and was attended by 38 people. The workshop successfully set out the type of research being done on African firm level data and the agenda for research. It confirmed that there is widespread interest in empirical work in the field, and outlined clearly the data and methodological needs to take this research programme forward locally.

At the workshop the affiliates of the trade and industry group met for the first time to discuss future developments. The meeting was attended by six of the affiliates and by Johannes Fedderke.

The meeting confirmed the group's objective of arranging three workshops a year. A mixture of two types of workshop is envisaged: *training workshops* centred on the presentation of advanced material by international experts, and *networking workshops* involving presentation of research by South African based researchers in the field. In terms of the former, contact is ongoing with Mark Armstrong of University College London, who specializes in regulation, and James Levinsohn of the University of Michigan, an expert in empirical methods in both international trade and industrial organization.

In regard to the networking workshops, the affiliates were keen to have a "stock-taking" workshop to assess the state of research in the trade and industrial organization fields. Affiliates will take the lead in reviewing existing research and identifying research clusters for specific topics. This workshop is provisionally scheduled for November 2008.

At the affiliates meeting there was also a discussion of how best to ensure widespread access to ERSA events for economists at all South African universities. Jim Fairburn has reviewed the ERSA mailing list with this in

mind, and will contact heads of schools to identify those with research and postgraduate teaching interests in the field. An idea that has been previously discussed is to hold a summer school at the postgraduate level to facilitate access to – and accessibility of – other ERSA events.

The past months have then seen a promising start for the group, but the next step is to organise a programme of events for the coming twelve months that identifies and helps consolidate research in the field.

Jim Fairburn  
UKZN

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**Table 4: The ERSA Affiliates List**

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<b>Macroeconomics and Growth</b>	<b>Inst</b>	<b>Microeconomics, Labour and Inequality</b>	<b>Inst</b>	<b>Trade and Industrial Organisation</b>	<b>Inst</b>
Melvin Ayogu	UCT	Haroon Borhat	UCT	Anthony Black	UCT
Phillipe Burger	UFS	Frikkie Booysen	UFS	Rashad Cassim	StatsSA
Stan du Plessis	US	Justine Burns	UCT	Lawrence Edwards	UCT
Charlotte du Toit	UP	Daniela Casale	UKZN	Shakill Hassan	UCT
Greg Farrell	SARB	Malcolm Keswell	US	Alan Hirsch	The Presidency
Johannes Fedderke	UCT	Steve Koch	UP	Merle Holden	UKZN
Rangan Gupta	UP	Murray Leibbrandt	UCT	Neil Rankin	WITS
Brian Kahn	SARB	Servaas van der Berg	US	Witness Simbanegavi	UCT
Renee Koekemoer	UP	Martin Wittenberg	UCT	Harry Zarenda	WITS
Christopher Loewald	NT	Ingrid Woolard	UCT		
John Luiz	UJ				
Mtuli Ncube	WITS				
Eric Schaling	UP				
Ben Smit	US				

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## 5. ERSA Sponsored Visitors

ERSA provides funding for international visitors to attend both ERSA Workshops and stand alone visits to South African academic institutions.

A list of international visitors to ERSA Workshops is provided in Table 4 below.

Stand alone visits are intended to initiate an exchange of leading research methodologies between S.A. based researchers and leading international academics. Ideally, the purpose is to build long term collaboration research activity between SA and international researchers.

**Table 5: ERSA International Visitors**

Christopher	Adam	Oxford University
Richard	Agesa	Marshall University
Jacqueline	Agesa	Marshall University
Phillipe	Aghion	Harvard University
Jorge	Agüero	University of Wisconsin
Gunter	Fink	Harvard University
Sebastian	Galiani	Washington University, St Louis
Torfinn	Harding	Norwegian University of Science & Technology
Ola	Olson	University of Goteborg
Klaus	Ritzberger	Vienna Institute for Advanced Studies
James	Robinson	Harvard University
John	van Reenen	London School of Economics

### **1. John van Reenen: Centre for Economic Performance, London School of Economics: 18 May – 20 May 2007**

John van Reenen gave a presentation on 'Americans do I.T. better: US multinationals and the productivity miracle'

The talk demonstrated the importance of firm level data to modern advances in I/O and growth.

Focus of the paper, which subsequently appeared as a focus piece in The Economist, was on the differences between US & other firms and the innovation with which they employ IT technology, to much greater productivity effect.

### **2. Jorge Agüero: University of California: 16 – 31 July 2007**

ERSA provided funding for a research visit by Jorge Agüero to SALDRU, UCT to continue collaboration with Ingrid Woolard. During his 2 week visit, Agüero and Woolard finalized revisions on a paper on the impact of the Child Support Grant and made significant progress on a new paper on the estimation of

endogenous equivalence scales for South Africa. This provided the opportunity for Prof Agüero to teach an advanced econometrics course on panel data analysis from 16 – 20 July 2007.

**3. *Richard Agesa and Jacqueline Agesa: Marshall University: 28 June – 29 July 2007***

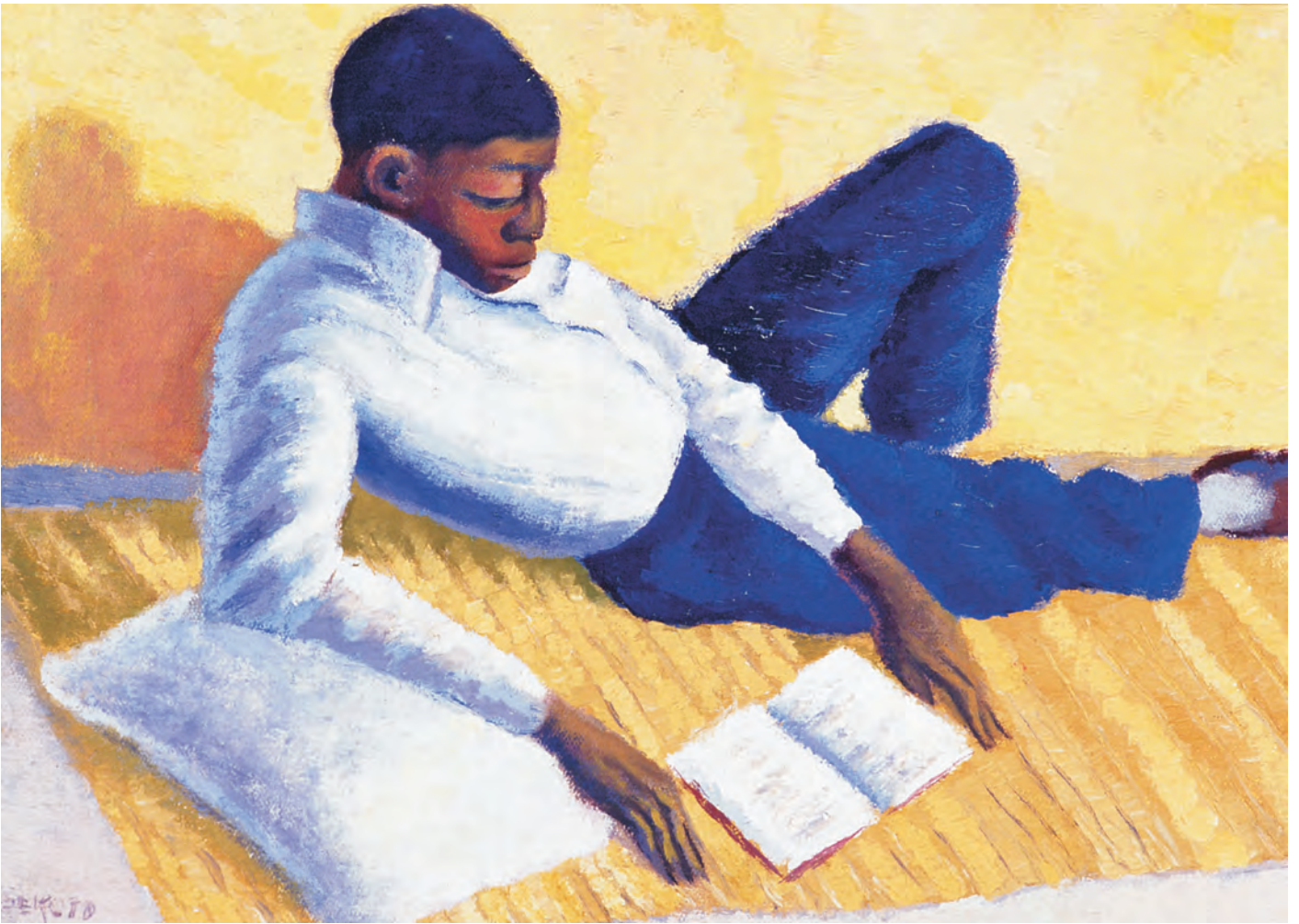
American applied labour economists, Dr Richard Agesa and Dr Jacqueline Agesa were invited by Prof Steve Koch to visit the University of Pretoria to conduct research, work with students and conduct a workshop on decomposition methods.

**4. *Prof Phillippe Aghion: Harvard University: 20 July – 22 July 2007***

Phillipe Aghion visited UCT from the 20 July – 22 July 2007. The visit initiated additional research collaboration between academic faculty and graduate students at UCT and Phillippe Aghion on three distinct topics:

- The growth impact of cost of volatility on economic growth, with application to South Africa.
- The growth impact of trade openness on economic growth, with application to South Africa.
- The implications for the modeling of economic growth in South Africa and the application of the Schumpeterian framework as formulated by Aghion & Howitt (1992).

# Young man reading



Gerard Sekoto

Courtesy of THE GERARD SEKOTO FOUNDATION

## **6. ERSA Presentations: 'Understanding the Growth Challenge: The Chinese and Indian Case Studies' by Michael Spence: 14 June 2007**

A presentation by Michael Spence was held on the 14 June 2007 at UCT and was very well attended by more than 200 people ranging from the Private Sector, Academics, Students and the general public. Michael Spence is one of the 2001 Nobel Laureates in Economics and currently chairs the Commission on Growth and Development.

## **7. Conferences: 12<sup>th</sup> Annual Conference on Econometric Modeling in Africa: 4 – 6 July 2007**

In general ERSA provides a workshop, not a conference series. The objective of this emphasis is to allow for intensive interaction on the exploration of specific questions in some depth.

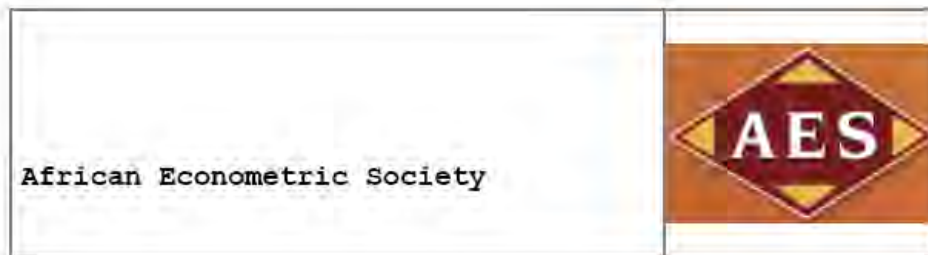
However, during 2007, ERSA was approached by the AES for financial support for its annual conference.

Since the AES annual conference is arguably the best and most internationally attended of the local African conferences, ERSA agreed to provide some funding to the AES. Funding was to cover the costs of one keynote speaker, in this instance Prof Stephen Bond of Oxford University & Nuffield College.

The advantage of the association has been that Prof Bond has committed to returning in January 2009, in order to provide summer school training on advanced dynamic panel estimation techniques.

It is suggested that the ERSA keynote speaker at the AES conference be institutionalized.

## Report by African Econometric Society President



Care of: The Secretary of the AES  
Stan du Plessis  
Department of Economics  
University of Stellenbosch  
South Africa

Johannes Fedderke  
Director  
ERSA

Dear Johannes

### Report on ERSA Support for the African Econometric Society in 2007

The activities of the African Econometric Society revolve around its Annual Conference. I append a Post Conference report that includes information on all financial contributions to the AES for 2007. The financial report shows substantial financial support from ERSA to the AES in two forms; an institutional grant to the AES of R50 000 to assist in organizing the conference and R4 100 to cover the cost of bringing a keynote speaker to the conference.

The full Post-conference report describes an excellent conference with wide pan-African participation and four world-class keynote speakers. The ERSA funding was key to this success. The most direct contribution was the funding of Stephen Bond's participation as a keynote at the conference. Besides his excellent keynote, this Oxford don attended regular sessions throughout and spent a lot of time engaging with participants around their research.

The ERSA institutional grant had import impacts too. For a number of years the AES has been attempting to establish an institutional presence that was more stable than is possible when the AES is a non-auditable collection of far-flung annual conference accounts and websites. The purpose of the institutional grant was to facilitate this and then to facilitate the 2007 conference from this base. An AES website was set up (<http://www.africametrics.org/>) and an AES financial account was established to handle the funds of the society including the conference funds. ERSA's Gloria Halland was central to this set up. In addition, she administers the AES fund on behalf of the Society.

With this ERSA support in place and our strengthened institutional presence, it was easier than usual to leverage additional financial support for the 2007 conference. This included support from the Journal of Applied Econometrics that looks as though it will become permanent. The conference was organized by a professional group. However, Gloria Halland served as a key bridge between the conference organizer and the AES conference organizing committee.

We gratefully thank ERSA for all of this support. The AES turned the corner in 2007 and ERSA support was an important part of this. We acknowledged ERSA as fully as we could during the course of the conference (<http://www.africametrics.org/conference-programme.html>) and do so at every opportunity.

Sincerely

A handwritten signature in black ink, appearing to read 'Murray Leibbrandt', with a stylized flourish at the end.

Professor Murray Leibbrandt  
2007 AES President

# School Girl



Gerard Sekoto

Courtesy of THE GERARD SEKOTO FOUNDATION

## 8. ERSA Prizes

As a means of incentivizing study in economics, ERSA introduced a mechanism for the recognition in student performance in the economics discipline.

To this end Academic Board introduced monetary awards to the best two economics students in South Africa across all universities, in each year of study. While very moderate in amount, the prizes nevertheless allow universities to recognize the best achievers in each year of study, and to motivate them to continue in studying further in economics.

The prizes are R750 for the first placed student, and R500 for the second placed student.

The following universities have applied for and are being awarded the prizes for their top students and also given a donation of R3500 towards hosting departmental social function to honour their top students. Details on students as per Table 5 below.

**Table 6: Prize Winning Students**

Institution	Placing	First Year	Second Year	Third Year	Honours	Masters
UCT	First Place	J du Plessis	Julian Grieve	V Sokolovski	Olga Kerimova	Neryvia Pillay
	Second Place	Caitlin Miles	Evan Bradley	Marc Green	Arden Finn	Peter Arling
UFH	First Place	Jessica Bridger	Sarah Dallas	C Warrington	Lauren Jenkins	
	Second Place	Jenna Hannabus	N Ntozini	Z Tsotso		
UL	First Place	S M Moraswi	P Mathonsi	T D Mabye	B A Mashiane	
	Second Place	M O Molokomme	K P Motebejane	T Mbhalati	E M Mothapo	
NMMU	First Place	J Fourie	B Eriksson	N Stone	K Afari-Twumasi	S Tessendorf
	Second Place	V Reddering	G Webster	R Balie	O Gotshajwang	H vd Westhuizen
UP	First Place	N Tsokodibane	V Paretto	J Benade	Franz Ruch	Annari de Waal
	Second Place	ND Mothobi	Jolinda Bartlett	Helder da Silva	A Eckersley	G Tshiswaka-Kashalala
US	First Place	NJ Gildenhuys	BP Geldenhuys	S Reid	JH Kemp	M de Milander
	Second Place	NL Macdonald	PJ Olivier	M van Rensburg	LH Binge	MB Reid
Wits	First Place	S Seedat	S Ward	I Abrahamowitz	J Walkden	M Maraschin
	Second Place	T Faro	P Piotis	E Fram	S Hurry	C Redl
	Second Place	C Veller		C Talpert		

## **9. ERSA Computer Lab**

The equipping of the ERSA Academic Visitors Room on the 6<sup>th</sup> Floor of the Leslie Social Sciences Building is now complete. It has been designed to cater for 6 visitors in comfort, and each computer has been updated with Gauss and Mathematica software and has internet access. This computer room has proved to be a valuable asset in catering for the needs of academic visitors to ERSA in addition to post-graduate students.

See reports below from various research groups who have utilised the lab.

### **1. Firm Level Survey: Prof Lawrence Edwards (UCT)**

The ERSA computer lab was utilised from January to June 2007 as the 'head office' for two firm level surveys administered by a selection of students and academics at the University of Cape Town. In the first survey, 30 transport companies in the Cape Town were interviewed. In the second survey, the 'team' was responsible for the administration of the Western Cape Transport Module of the World Bank Enterprise Survey. These surveys formed part of a collaborative effort involving the University of Cape Town, the University of Kwazulu Natal, the University of Stellenbosch, the World Bank and students from Harvard University. Over 40 UCT staff and students were involved in the initiative.

### **2. South African National Prevalence Study of Gambling Behaviour: Prof Don Ross (UCT)**

During the week of 10-14 March 2007, an international team of researchers led by Professor Don Ross worked in the lab to design the 2008 South African National Prevalence Study of Gambling Behaviour and the 2009 South African Longitudinal Study of Problem and Pathological Gambling. The prevalence study will survey 3,000 people in the major metropolises to yield a comprehensive picture of gambling participation, attitudes, expenditures and problems by urban South Africans. (A subsequent, related study will examine a selected rural population.) The panel study of 300 volunteers will focus on factors that explain people's falling into and escaping from patterns of gambling behaviour that cause harm to themselves and their families. The studies will together also tell us about the coincidence of gambling problems with drug and alcohol use and abuse, and with clinical depression, anxiety and impulse control issues. The Principal Investigator on the study is Professor Don Ross of the School of Economics. Other UCT team members are Dr. Martine Visser and Mr. Andre Hofmeyr of the School of Economics, Professor Graham Barr of the Department of Statistics, and Mr. Jacques Rousseau of the School of Management Studies. Further team members are drawn from three other universities in South Africa and the United States. The studies are funded by the South African Responsible Gambling Foundation, through a grant administered, quality assured, and vetted for research ethics compliance by UCT.

## **10. ERSA Press Releases**

ERSA has had fairly broad media coverage in the past year, both radio and newspapers. Eleven press releases on ERSA Working Papers have gone out between June 07 and March 08. See below for details.

### **June 2007:**

- Employment levels – and unemployment levels – have trended higher during South Africa's move to democracy (from: "Dissecting post-apartheid labour market developments: Decomposing a discrete choice model while dealing with unobservables", Martin Wittenberg)

### **September 2007:**

- Do advertisers pay more for a white readership? (from "What Advertisers Want: a Hedonic Analysis of Advertising Rates in South Africa", Nicolas Pietersma)

### **October 2007:**

- Race and economic status influence South Africans' levels of happiness; marital status does not (based on In "What is the structure of South African Happiness Equations?", Timothy Hinks and Carola Gruen)
- Better governance and incentives would bolster economic growth in Africa (based on "Governance, Incentives and Elections as Determinants of Economic Performance, Aid and Investment Flows", Al Bhimani and Mthuli Ncube)

### **November 2007:**

- Without commitment, love dies: an economic proof (from "Love and Addiction: The Importance of Commitment", by Steven Koch)
- The part-time wage premium (from "Is there evidence of a wage penalty to female part-time employment in South Africa?", Dori Posel and Colette Muller)

### **January 2008:**

- SA equities: no escaping the global trend (from "The relationship between International Equity Market Behaviour and the JSE", Nick Samouilhan)

**February 2008:**

- Grade progression is poorly linked to ability and learning amongst African high-school learners (based on "Schooling as a Lottery: Racial Differences in School Advancement in Urban South Africa", Cally Ardington, David Lam and Murray Leibbrandt)
- Can Manuel deliver a Budget which offers both assurance and insurance? (comment by Nicola Viegi)

**March 2008:**

- US news, rather than SA news, drives short-term movement in the rand-dollar exchange rate (from "Macroeconomic News 'Surprises' and the Rand/Dollar Exchange rate", Johannes Fedderke and Philippe Flamand)
- Inflation Targeting in Times of Uncertainty: A tougher stance is justified (comment by Nicola Viegi)



# The waiting room



Gerard Sekoto

Courtesy of THE GERARD SEKOTO FOUNDATION

## **Appendix I: Workshop Reports: Feb 2007 – March 2008**

### **1. Corporate Control and the Theory of the Firm: 21 Feb – 23 Feb 2007: KZN**

Jointly organized by Professor James Fairburn (UKZN) and Dr Alexander Zimper (UCT), Professor Klaus Ritzberger gave at the Campus of UKZN a Three-day course (4.5 hours a day) on the theory of the firm from a corporate control perspective.

Klaus discussed the theory of the firm under conditions that violate the standard paradigm of perfect competition and complete markets. The course started with a review of the agency literature and empirical findings. Then it turned to firm behavior under imperfect competition, discussing the price normalization problem and how shareholders would run a firm if they had control. Finally, approaches to modelling firms in economies with incomplete markets were reviewed, both with respect to equilibrium concepts and their efficiency properties.

Klaus – who is the Head of the Department of Economics and Finance at the Vienna Institute for Advanced Studies and an internationally acclaimed Econ Theorist – attacked the theory of the firm from a theoretical, and therefore rather abstract, perspective. While this approach had the advantage of introducing the audience to limitations of the existing theoretical models – thereby giving an overview on most recent research developments - it also left some participants to struggle with the mathematical concepts applied. However, upon realizing the heterogeneity in the technical and conceptual background of the course participants, Klaus took his time and went in to lengths through theoretical concepts that serve as preliminaries for his course (such as incomplete market theory and the economics of imperfect competition). In the end everyone of the about 20 participants gained some insights: advanced researchers were grateful for a resume on current research lines, more applied economists, e.g., staff-members of the competition commission, were given an introduction to concepts of advanced microeconomics relevant to the understanding of the role of firms in the economy.

To sum up: the course was definitely a huge success in that it managed to get across newest developments, as well as standard approaches, in the economic theory of the firm to a rather heterogenous audience from several South African academic and non-academic institutions.

Alexander Zimper

### **2. Macroeconomics and Growth: 10 – 11 May 2007: SARB Pretoria**

Jointly organized by Nicola Viegi (UCT) and Greg Farrel (SARB), the Macroeconomics and Growth workshop was held at the South African Reserve Bank Conference Centre in Pretoria and was attended by around 30 economists from 10 different South African universities, the South African

Reserve Bank and the Treasury.

The workshop was an occasion where researchers could exchange information on current research and discuss and coordinate future research initiatives. Being the first workshop organized by ERSA in the area Macroeconomics, the programme was constructed to achieve three goals: the first was to give a panoramic view of current macroeconomic research in South Africa; the second one was to give some national exposure to new researchers with new and interesting work; the third one was to have enough space for informal discussions on what is needed to develop South African macroeconomic research and the role that ERSA can play.

Christopher Adam from Oxford University started the programme presenting new research on economic policy under uncertainty in the African context. Eric Schaling from UP presented a paper on optimal monetary policy in open economy and learning. These presentations introduced a panel discussion on macro-modelling strategies with particular reference to the Dynamic Stochastic General Equilibrium Models that are rapidly becoming a standard macroeconomics tool. Ben Smit illustrated the general characteristics of this class of models and introduced the general discussion. During that discussion, Eric Schaling and Nicola Viegi launched the proposal of a DSGE Research Network to promote and develop the study of Dynamic Stochastic General Equilibrium Models in the context of emerging economies. The use of this class of models was well illustrated by the presentations of Dave Liu (Pretoria) and Chandana Kularatne (UCT). The first day was concluded by a meeting of the ERSA Macroeconomic Research Group in which further initiative of ERSA in the area was discussed.

The second day was dedicated to presentations by Meshach Aziakpono on financial integration in SACU, by Rangan Gupta on Currency substitution and financial repression, by Marina Marinkov on estimating Okun's coefficient in South Africa and by Nicola Viegi on communication and credibility of monetary policy.

To sum up: the workshop was an important first step in developing and coordinating macroeconomic research at the national level. The response of the participants was very positive and there was a general consensus that we need to continue with further initiatives in specific areas of research and with a larger training component in the programme.

Nicola Viegi

### **3. Reflecting History through Numbers: Quantitative African Economic History in the New Institutional Tradition: 26 – 27 July 2007: University of Stellenbosch**

The Quantitative Economic History Workshop was held at the Botanical Gardens of the University of Stellenbosch in Stellenbosch and was attended

by 36 economists from 9 South African universities. The keynote speaker was Prof. James Robinson from Harvard University, and accompanying him was Maria Angelica Bautista from Brown University.

The workshop was designed to give researchers the opportunity to share already published and current research with the aim of stimulating future research initiatives. It was also intended to be a training workshop. In addition to giving his own presentations, Prof. Robinson also commented on the other presentations. This made the workshop a valuable learning experience for all those attending.

The presenters were all asked beforehand to emphasise the methodology of their research in their presentations, so that the attendees could learn from one another. This strategy did not work as planned, and for future training workshops, we would suggest having only one presenter such as Prof. Robinson. This would have financial implications as ERSA would have to pay for his time. However, we are confident that all of the participants would agree that this would be money well spent.

James Robinson started the first day of the workshop with an introduction, followed by what he saw as the issues in African economic history, how one could study them and what the obstacles are. Raphael de Kadt followed with the presentation of a previously published paper that he co-authored with Fedderke and Luiz entitled "Growth and Institutions: a study of the link between political institutions and economic growth in South Africa – a time series study, 1935-97". Next, James Fairburn and Claire Vermaak presented their work in progress "Institutions for Redistribution". Farayi Gwenhamo was the last speaker of the morning session. She extended the work of De Kadt et al. and presented her work in progress "Institutions, Foreign Direct Investment and Economic Growth: An Empirical Application to Zimbabwe".

In the first part of the afternoon session two papers that were presented at the the XIV<sup>th</sup> International Economic History Conference in 2006 were presented by Krige Siebrits and Estian Calitz, and Robert Vivian respectively. James Robinson spoke again during the final session of the afternoon, presenting the French revolution as an example of a natural experiment.

Johann Fedderke started the second day of the workshop with two presentations that were both works in progress. The first of these "Does Human Generate Social and Institutional Capital? Exploring Evidence from Time Series Data in a Middle Income Country" was co-authored with John Luiz, and the second one "A Theory of Political Transition: when do we fight, and when do we choose peace?" was co-authored with Chandana Kularatne. Next, James Fairburn presented a paper on "Scatterplots and Narratives", followed by Johan Fourie and Wimpie Boshoff's presentation of their work in progress "Economic fluctuations in the Cape Colony: 1652-1793". In the last session Christie Viljoen shared his methodological lessons learned from decoding the 1427 florentine catasto.

The workshop was an important step in stimulating and coordinating research on quantitative economic history in South Africa. All of the participants were invited to contribute to the follow-up of the workshop in the form of a research workshop to be held early in 2009. The rationale for this planned workshop is to have a forum to present papers that will eventually be presented at the XV<sup>th</sup> International Economic History Congress in August 2009.

The response of the participants was very positive, and there was a general consensus that we need to continue with further initiatives to stimulate economic history in South Africa.

Sophia du Plessis and Stan du Plessis

#### **4. Programme & Policy Evaluation Training Workshop: 24 – 28 July 2007; UCT**

An ERSA-sponsored course on programme evaluation methods from 23 to 27 July 2007, taught by Professor Sebastian Galiani from Washington University in St Louis. The course covered the basics of treatment effect analysis, instrumental variables and matching methods. The course presenter achieved an excellent balance between theory and practical examples from the literature. In the afternoons, the course participants attended computer lab sessions in which they analyzed data from Progresa (a conditional cash transfer programme in Mexico). The course was attended by 24 participants from a wide range of universities and institutions, including NMMU, Durban Institute of Technology, UP, UKZN, Mintek, Department of Health, the Presidency and the National Treasury. Of the 22 participants, 11 were women and 12 were Black. The feedback from the course indicated that the course was extremely useful to both the academics and policy people that attended. The course was regarded as highly relevant and the presenter was excellent. The only negative comments received were that the pace of the course was very fast, the time for practical sessions was too short and the overall course duration (of one week) was too short.

#### **5. Human Capital – Health and Education: Micro Analysis and Macro Effects: 16 – 17 August 2007: Gauteng**

##### **Introduction**

Since the introduction of Economic Research Southern Africa, and its successful research and training workshops, there has been interest in the provision of a Health Economics workshop that could be used as a base to organize and coordinate the efforts of health economists in South Africa to push the boundaries of our understanding of the economics of health issues in the country. Such efforts should then be able to further our understanding of development related issues and goals, e.g. the contribution potential of a healthy South African citizenry in attaining ASGISA goals.

With those ideals in mind, Frikkie Booysen and I organized the first, of what we hope is many, ERSA sponsored workshop related to Health Economics. The first such effort was designed to include a wide variety of topics and a wide variety of health economics role players. To that end, the workshop included sessions on 'The Health and Health Behaviours of South Africans', 'Government Policy and Household Health', 'The Public and Private Delivery of Health Care', 'Health and Health-Seeking Behaviours' and the 'Economics of HIV/AIDS'. Presentations in those sessions were made by participants from the Department of Social Development (DSD), the University of the Free State (UFS), the University of the Witwatersrand (Wits), as well as the Centre for Health Policy at Wits (CHP), the UNFPA, the Nelson Mandela Metropolitan University (NMMU), the University of the Western Cape (UWC), the Medical Sciences Research Council (MRC), the University of Cape Town (UCT), the University of Pretoria (UP), Discovery Health (DH), the University of Kwazulu Natal (UKZN), as well as the Health Economics and HIV/AIDS Research Division (HEARD) at UKZN, and the Bureau of Economic Research at the University of Stellenbosch (BER). These institutions were also represented by additional participants.

In addition to representation from a wide variety of institutions across South Africa, all population groups were also represented by presenters and/or participants. There was one coloured male, two coloured females, and a number of African males (11) and females (5) amongst the 30 or so registered participants. Unfortunately, not all registered attendees actually participated in the workshop, probably due to location convenience (see below).

### **Key Outcomes**

A wide variety of papers, 18 in all, were presented on public health, epidemiology, and health economics related topics. In addition to the papers, a variety of discussion topics emerged, especially relating to the possibility of taking things forward. More importantly, the papers were presented in a forum that allowed researchers from a number of areas to get together to learn more about what sort of research was being conducted across the country and by whom that research was being conducted.

In what follows, an effort is made to highlight some of the major discussion points.

- Participants agreed on the importance of not thinking of health economics as concerning only economic evaluations of health, or, more specifically, cost-effectiveness analysis. Although there is a great need for economic evaluations in South and Southern Africa (the MRC presentation, which put forward a long list of recommendations for potential interventions, emphasised the need for health economics work to inform the choice of appropriate interventions), participants agreed that the field of health economics covers a much larger ground, including various micro- and macro-economic issues. There, moreover,

- seems to be a particular dearth of studies on the macroeconomics of health. Other topics that require investigation represent the following: market structures and concentration in the private health sector, provider payment systems, and the public good nature of health. Existing health economics work in South Africa focus heavily on issues of equity and access, health care financing, and public provision of health services, with other areas being under-researched.
- Researchers from the MRC, CHP and BER presented information on the state of health and health delivery in South Africa, and its potential impact on growth in the economy. In particular, some of the disease burdens and factors of disease burdens were highlighted by the MRC, while some of the qualitative impacts of HIV/AIDS in the household were highlighted by researchers at the CHP. Their research showed that HIV/AIDS is the greatest disease burden in the country, such that risky sexual behaviour is one of the most important factors affecting disease in the country. However, it was also clear that many other important risk factors and diseases are rather underrepresented in health economics research, including, for example, work on communicable diseases and injury. Further discussion highlighted problems associated with tobacco use, alcohol use and obesity. In addition to the burden of disease in terms of mortality and morbidity, the CHP research showed the problems related to household sustainability brought about by the HIV/AIDS pandemic. The BER results highlighted the potential growth impacts associated with HIV/AIDS, suggesting that growth could be ½% lower, due to the pandemic.. Each of these presentations centre around areas in which economists, and health economists, in particular, might usefully contribute. For example, developing policies to help the poor attain access to free medical care, which they are entitled under the law, represents a fruitful area of research, some of which is currently being undertaken by poverty researchers in South Africa. Furthermore, many factors affecting the burden of disease are behavioural in nature, which ought to lend itself to theoretical and empirical health economic analysis.
  - There was also an interesting presentation by the UNFPA on the likely demographic dividend awaiting South Africa, albeit it was not exactly clear how large or sure the dividend would be or if in fact this dividend may become a burden in the long run. Another presentation hinted at the spectre of population aging, which also may soon 'haunt' South Africa. Both these presentations highlighted the importance of demography in guiding health economics research
  - A researcher with DH discussed problems facing the private sector insurance industry, and the efforts that have been undertaken to be sure that their members can access health were discussed. The highlight of the discussion, although not directly related to health insurance, was the fact that the number of places in medical schools is falling, since medical schools do not have the staff to train future physicians. In concert with this discussion was the reported

information that South Africa has fewer trained physicians (per 100,000 of population) than nearly every other country with a similar GDP/capita. The importance of training and maintaining qualified staff in the medical profession also became part of the discussion, particularly in the context of the 'brain drain' of health care professionals from the region. Again, the presented results highlighted a number of areas where economists (including for example labour, health and institutional economists) can make a positive impact, by carefully considering staff training and retention incentives.

- In addition to the tobacco based burden of disease, researchers from UP presented results suggesting that tobacco use was crowding-out expenditures on other important household consumption activities. However, researchers from UCT presented results on the efficacy of cigarette taxation, which showed a remarkable inverse relationship between cigarette taxation and cigarette purchases. Interestingly, it is still not clear whether or not cigarette taxation led to the reduction in consumption or if the international (and local) anti-smoking climate was leading to the reduction in consumption, which then made taxation easier to invoke, which is a question that could be further considered by economists.
- In addition to the obesity burden of disease, a researcher from UCT presented results which highlighted important income and asset effects related to obesity. An interesting question did arise from this research regarding the difference between races and genders in observation of obesity. With the release of new data, it is expected that more work could be done on this subject by health economists.
- In a different session, researchers from UP and UFS presented results concerning the delivery of public health care through the clinic and hospital systems. The results here were discouraging, and suggest a need to undertake additional research into the efficacy of the delivery system. A researcher at DH also suggested that there was additional need for such analysis within the private system, although DH does undertake some research along these lines. Furthermore, institutional economics most probably can contribute much to the latter debate of the efficiency with which quality public and private health services can be delivered.
- Researchers from UKZN and UP presented results from research that considered various household factors on determining recovery 'hazards', length of illness and health-seeking behaviour. The results suggested that many factors are important, and further work is warranted to determine whether or not there are implications for social insurance and other potential programmes.
- In the final session, researchers from HEARD, CHP and UFS presented household based research on the effects of HIV/AIDS. Research from HEARD suggests that the loss of parents has detrimental effects on risky sexual behaviour, which points to the need for targeted policy interventions that might mitigate these effects. As already noted, the research from CHP pointed to the need for better access to grant

system that is supposed to be available for the most vulnerable parts of the population. Finally, the research from UFS raised the question as to the existence of negative externalities that might exist as part of the ARV programme, e.g. it is possible that people are dropping their ARV treatments to make sure they continue to receive the disability grant. Further analysis of the particular dataset is required, however, to interrogate this specific issue. It was clear from the presentations that there is much more to be learned about the behaviour of some of the most disadvantaged in the population, which, again, is an area where economists can make important contributions.

In summary, although there was a mixed bag of research topics, one underlying theme of the workshop was the fact that the research was really only touching the tip of an iceberg, and that there is significant need to expand the capacity of researchers to investigate health economics questions.

### **The Venue, Organization and Participation**

The venue was generally very nice. The lodge accommodation was excellent, the food was excellent, and the workshop centre was appropriate, although a bit cold. As previously alluded to, many of the people who had agreed to participate in the workshop did not, in fact, come. In all, I counted seven people who did not come, despite what they had told Frikkie or me. Furthermore, some of the people who made presentations absconded shortly after, and did not provide inputs in the way that had been envisioned; admittedly, we knew this would be the case with a few of them, and we asked them to participate anyway, due to the need to include the topic in the program. In other words, the room we used for presentations seemed far too big, as about 18-20 people participated in all of the sessions.

The participants and presenters were primarily young researchers with limited experience. Although I believe they learned quite a bit, because of their involvement, the fact that there were only about 5 experienced researchers in the sessions led to discussions that could have used more input. Clearly, part of the problem is due to the fact that there are just too few health economists in the country, and many of the more experienced ones could not come due to other commitments or because of injury (in one significant case).

The programme itself, with the exception of a few papers that should not have been presented, due to their only tangential relationship to the actual workshop, the sessions came off without any significant hitches. Initially, we allowed a bit too much freedom for questions to be vague, such that the first session went longer than it should have. However, after the announcement of a few ground rules and enforcement, thereof, the workshop maintained a timely and lively pace.

## **Evaluation**

Despite the concerns raised above, we felt the workshop was successful. Probably only two or three of the papers were not quite relevant; otherwise, the remaining 15 or 16 presentations were on topic, and presented the audience with a nice contrast between what we know and what we do not know, as well as a useful promotion of the importance of health economics issues that need to be investigated.

One of the biggest problems that I saw was the fact that the presentations were forcefully too short, because we tried to cover too many in the allotted time. Due to the timing, we were not able to spend enough time on the health economics theory underlying some of the models or the econometric theory underlying the applied models. A smaller problem, although one we tried to rectify beforehand, was the lack of participation from delegates from other southern African institutions. Despite sending invitations to a number of persons representing regional organisations, we could not garner any involvement from southern African health economists. We could, however, next time make a better effort, we think, to direct such invitations to the various universities in the region rather than to agencies or institutions such as the WHO, UNDP or World Bank. We feel it is more likely that university members would be more willing and able to join us.

The venue, as already noted, was very good at running conferences and workshops; however, a large number of conferences were running simultaneously, which led to a bit too much background noise during various times during the workshop. A less 'conference-oriented' venue might be a useful place to consider in the future. Finally, although the venue was moved to Gauteng to make it easier to get people in and out, the ease of getting to the venue made coming and going too easy. In some cases, this was a benefit, since it allowed people to attend parts of the workshop when they could, but that benefit was also a cost, as some people took advantage of the location to leave when it suited them. In particular, the considerable representation of various government departments and other agencies on the morning of the first day dwindled to three persons only by the second day.

## **The Way Forward**

As noted, we identified a number of key research questions that could use more investigation. In addition, we identified the need to create a working group of health economists, and a system of communication that can be used to help us interact on a more consistent basis. Finally, many of the participants expressed their interest in a workshop that included much more training as part of its mandate.

Given the above, it is our plan to develop a weblog to increase interaction amongst health economists, or economists undertaking health related research, and we hope that ERSA can help us realize this goal. In addition, we would like to plan for a future workshop that is slightly more training

based and topic specific. (The weblog or communication forum, moreover, will facilitate the discussion among the current group and new members of the group on the exact format and nature of the next workshop.) The idea is to propose a workshop topic, e.g., government policy and public health, and invite contributions from participants. Our approach would be similar to a call for papers, and researchers would be invited to make extended presentations, of about one hour, during which time they would discuss the important underlying theory as well as the results of applied work in the particular field. In addition, it would seem reasonable to pay people a small stipend to undertake the research and to present their results; details on this are open to discussion, but we could allow for each paper to become part of the ERSA working paper series following appropriate review, although we would like to pay some of the money upfront. We will also start to plan sessions for upcoming AES, ESSA and IHEA conferences, to make sure that health economists continue to discuss their research in groups with other health economists.

Important, however, is the need to make sure that appropriate vehicles are used to share work with different role players. Participants representing practitioners and policy makers expressed a need to have health economists help them 'digest' and synthesise the hard, scientific knowledge and the state-of-the-art in the field, while younger academia and postgraduate students expressed a need for more discussion on the science of this field. It may be important, therefore, to target a specific audience in a workshop (and even in the outputs produced by and funded by ERSA) rather than try to please all parties. For example, the presentation of a set of overview or review papers on select topics to policy makers, practitioners and government officials, as an input to further discussion on policy issues was highlighted as important, but so too the need for fellow health economics researchers to engage with each other in respect of the state-of-the-art of the theory and applied work in specific areas of health economics.

### **Concluding Comments**

The health economics workshop, the first of its kind, was the kind of success you might expect out of a first-run event. The participants represented a wide spectrum of the SA population, as well as a large number of public institutions. Although quality was not uniformly great, there were enough good papers to lead to very interesting discussions. Those discussions led to further possibilities, with regard to health economics in South Africa. In particular, a long-term goal of establishing health economics as a track within ERSA was agreed upon. At this stage, however, we understand that a number of intermediate steps need to be undertaken, and we will start on those steps very soon. The first is to locate a hub for communication while the second is to draw researchers, practitioners and policymakers from other southern African countries into the network. Once communication is more formal and the group is more representative of southern Africa (and of researchers from across the world working on health economics issues pertaining to southern African countries), we will be able to greatly expand

and improve health economics, as a discipline, in southern Africa, including for example gaining a foothold in informing the data production process, this to ensure that national surveys such as the DHS, NIDS and other surveys conducted by Statistics South Africa and the likes provide the kind of data required to investigate the various health economics issues of interest in a rigorous manner. Such a network may also provide the necessary impetus and opportunities to allow health economists in the region to build on the current, mainly non-experimental work by initiating the kind of multi-centre, experimental studies that are required to inform health policy in the region in terms of scaling up responses to ill health and disease.

Steve Koch and Frikkie Booysen

## **6. Labour and Inequality: 6 – 7 December 2007: Cape Town**

See report on Poverty and Inequality Workshop – point no 9

## **7. Institutions and Growth: 4 – 5 February 2008: Cape Town**

The ERSA Macroeconomic Research Group has organized a workshop focused on the relationship between institutions and growth that was held in Cape Town the 4<sup>th</sup> and 5<sup>th</sup> of February. The workshop was attended by around 20 economists from 10 different South African universities and research institutions and by three international speakers, namely Ola Olson from the University of Goteborg, Torfinn Harding from the Norwegian University of Science and Technology and Gunter Fink from Harvard University.

The workshop highlighted the specific interconnection between institutional development and growth. The programme was organized to give specific meaning to the concept of institutions: so the theme of the first session was the relationship between market structure, trade policies and economic growth; the second and third sessions concentrated on political economy issues and underlying legal and demographic transformations: in the last two sessions of the programme instead the focus was on the effect of macroeconomic instability and uncertainty.

Overall the workshop was a very interesting combination of empirical and theoretical work in the area, with some very interesting and challenging contributions. The response of the participant was very positive and the interaction between national contributors and international guests was very fruitful.

This workshop has been the first of a series of thematic workshop that the Macroeconomics Research Group intends to organize for this year. The next workshop will be the 19<sup>th</sup> and 20<sup>th</sup> of June at the University of Rhodes and will be dedicated to African Economic Integration issues.

Nicola Viegi

## **8. Firm Level Data Analysis: 19 & 20 February 2008: Wits University**

ERSA hosted a two-day networking workshop on "Firm Level Data Analysis" at the University of Witwatersrand from Tuesday 19 February to Wednesday 20 February 2008. The workshop was co-ordinated by Neil Rankin (WITS) and Lawrence Edwards (UCT).

The objective of the workshop was to bring researchers and policy makers together to discuss research, measurement and policy issues related to firms in South Africa and Africa. The specific focus was on techniques for dealing with firm-level heterogeneity and the implication of this firm-level heterogeneity for policy. A further objective was to provide an opportunity for researchers to present current research and further develop research areas related to firms.

Keynote speakers included Francis Teal from the Centre for the Study of African Economies (Oxford), Alvaro Gonzales from the Enterprise Analysis Unit of the IFC, John van Reenen from the London School of Economics. Statistical agencies were represented by Rashad Cassim (Statistics SA) and Anthony Krakah from the Ghana Statistical Service. World Bank representatives at the workshop included Taye Mengistae and Bernard Drum.

The workshop was attended by participants from most of the main universities and research institutes (TIPS, Edge, HSRC) within South Africa. Participation from the historically disadvantaged universities was low. In addition, the workshop was linked to an IDRC workshop for the four country project "Globalisation and better jobs" which led to a number of participants from the rest of Africa.

A key theme emerging from the conference was the need to build network in the field of firm data analysis. These areas include:

- (1) Building networks with statistical agencies to facilitate dissemination of existing data and the collection of new firm data
- (2) Developing research networks including organising conferences for the presentation of firm related research
- (3) Developing a programme of short training workshops to build empirical and theoretical capacity to engage in firm level analysis.

Finally, the ERSA committee on Trade and Industrial organisation met to plan future events related to these fields.

A key outcome from the workshop was the proposal for a special edition of the Journal of Development Perspectives to cover some of the issues discussed during the workshop and to emphasise the importance of this type of data and analysis to policy makers.

## **9. Poverty and Inequality: 6 & 7 March 2008: Bloemfontein**

Two workshops for this working group have been held: one in December 2007 in Cape Town; and the other in March 2008 in Bloemfontein. The key objectives of these workshops have been twofold: first, to provide a forum for researchers to present work-in-progress on (related) research and receive more concentrated input than that typically possible at larger conferences; and second, to increase inter-institution collaboration.

The programmes for the workshops are included below. Both workshops were successful in drawing participants from a range of universities in South Africa: UCT; UKZN, Stellenbosch; UFS; UP; UL and Wits. The workshop in Bloemfontein was attended also by delegates from the Department of Water Affairs and Forestry.

Evaluations by delegates suggest that the workshops have been very effective and constructive forums for presenting work-in progress, and for facilitating inter-institutional sharing of expertise on micro-econometric research methods and analysis. The benefits are even larger when researchers at different institutions are working on topics which are very closely related. At the Workshop on Labour and Inequality (Bloemfontein), for example, there were two presentations on gender and wage gap in South Africa, providing an excellent opportunity for interactive (and very lively) engagement with the research topic.

## **Appendix II: ERSA Working and Policy Papers**

### **Working Paper 01**

Title: Mark-up Pricing in South African Industry

Author(s): Johannes Fedderke, Chandana Kularatne & Martine Mariotti

Journal: 2007, *Journal of African Economies*, 16(1), 28-69.

#### **Abstract**

This paper investigates the extent of the mark-up of the South African manufacturing sector, taking into account a number of characteristics of its component industries. We find significant mark-ups to be present in the South African manufacturing industry. In comparative terms, the mark-up is approximately twice that found for the US manufacturing sector. We find that industry concentration exerts a positive influence on the mark-up over marginal cost whilst an indicator of competitiveness suggests that an increase in an industry's competitiveness relative to other industries allows it to raise its mark-up. However, within-industry increases in competitiveness reduces the mark-up. We also analyze the impact of import and export penetration. Both import and export penetration serve to lower the mark-up. The impact of the business cycle on mark-up indicates that the mark-up is countercyclical. Finally, accounting for intermediate inputs significantly lowers the absolute size of the mark-up, controlling for the industry's concentration ratio. However, relative to findings on the US manufacturing sectors, SA manufacturing mark-ups remain approximately twice as large.

### **Working Paper 02**

Title: Inflation Targets as Focal Points

Author(s): Maria Demertzis and Nicola Viegi

Journal: 2008, *International Journal of Central Banking*, 4(1), 55-87.

#### **Abstract**

In a world characterised by noisy information and conflicting signals, no Central Bank is always able to affect private sector expectations. Based on Morris and Shin's model, monetary policy then becomes an information game, in which individuals form their expectations based on all the information that is available to them (public and private). However individual agents also know that ultimately inflation is affected by both the objectives of the Central Bank (and hence the policies it pursues) as well as the average expectation formed by the all agents. They thus need to evaluate both actions. Central to our argument is the way that individuals interpret these actions to form their expectations. We apply Bacharach's methodology to provide a framework for assessing everyone's interpretations. Our contribution is to merge these two models to show that a monetary policy regime that has explicit quantitative objectives may provide individuals with better anchors for expectations to coordinate at. However, that is only true first, if no great shocks are anticipated to hit the economy and second, when all other public information is very unclear thus rendering the inflation target the only clear piece of information. We derive in detail the conditions under which this is true.

### **Working Paper 03**

Title: Optimal timing of defections from price-setting cartels in volatile markets

Author(s): Shakill Hassan

Journal: 2006, *Economic Modelling*, 23(5), 792-804.

#### **Abstract**

We model cartel defection in markets with stochastic demand fluctuations as an investment timing problem. We show that (i) the optimal timing of cartel defection is pro-cyclical, suggesting higher probability of competitive pricing during booms; and (ii) the defection trigger is a positive function of demand variability, and larger than its deterministic demand counterpart, implying that market volatility facilitates collusion. The first result is consistent with the counter-cyclical pricing prediction originally due to Rotemberg and Saloner (1986), but not dependant on lack of persistence in demand fluctuations. The analysis reveals insights on implications of co-variation between volatility and demand shocks.

### **Working Paper 04**

Title: Has transition improved well-being? An analysis based on income, inequality-adjusted income, nonincome, and subjective well-being measures

Author(s): Carola Gruen and Stephan Klasen

#### **Abstract**

In this paper we examine trends in economic well-being in transition countries from 1988-2002. To do this, we examine economic performance, inequality-adjusted well-being measures, subjective well-being measures, and non-income dimensions of well-being. While for some of the transition countries in Central Europe, the level of well-being is now higher than prior to transition, it is far below those levels in most other transition countries. The only indicator which has shown consistent improvements are measures of political and civil liberties.

### **Working Paper 05**

Title: Using Fractionalization Indexes: deriving methodological principles for growth studies from time series evidence,

Author(s): J. W. Fedderke; J.M. Luiz and R.H. J. de Kadt

Journal: 2008, *Social Indicators Research*, 85, 257-78.

#### **Abstract**

Recent cross country growth studies have found that ethnolinguistic fractionalization is an important explanatory variable of long-run growth performance. This paper highlights some limitations of cross country studies by focusing on the time series evidence for South Africa. In presenting variation over time in a number of social, political and economic dimensions, this paper adds longitudinal evidence on a range of dimensions that have been linked to long run economic development. Given South Africa's history of ethnic and racial politics, it constitutes a useful case study to explore the dynamics of the possible effects of ethnolinguistic fractionalization on growth. We introduce three new sets of fractionalization indicators for South Africa and one set of political indicators. The results of this study provide important nuance to the existing body of evidence, for the use of fractionalization indices in growth studies.

### **Working Paper 06**

Title: Trade liberalisation and labour demand within South African manufacturing firms

Author(s): Lawrence Edwards and Alberto Behar

Journal: 2006, *Studies in Economics and Econometrics*, 30(2), 127-46.

#### **Abstract**

Using new detailed tariff data, wages disaggregated by skill level and firm level information, this paper ascertains the relationships between trade, technology and labour demand and investigates the effects of tariff changes on factor prices in South African manufacturing. We find evidence that trade liberalization and technological change have affected the skill structure of employment. Export orientation, raw materials imports, training, investment in computers and firm age are positively associated with the skill intensity of production. We also find that tariff liberalisation raised the return to capital relative to labour, but that the negative impact on labour is concentrated on semi-skilled workers. Tariff liberalisation mandated a rise in real returns to unskilled workers.

### **Working Paper 07**

Title: 'Who replies in brackets and what are the implications for earnings estimates? An analysis of earnings data from South Africa'

Author(s): Dorrit Posel and Daniela Casale

#### **Abstract**

In household surveys, earnings data typically can be reported as point values, in brackets or as 'missing'. In this paper we consider South African household survey data that contain these three sets of responses. In particular, we examine whether there are systematic differences between the sample of the employed with earnings reported as point values and those with earnings responses in brackets; we compare five different methods of reconciling bracket and point responses so as to generate descriptive measures of earnings; and we investigate empirically how earnings measures differ by approach.

### **Working Paper 08**

Title: Demand for health care in HIV/AIDS – affected households in two communities in the Free State province of South Africa

Author(s): Frikkie Booyens and M Visser

#### **Abstract**

This paper analyses differences in the choice of health care facility by ill individuals in HIV/AIDS-affected households in the Free State province of South Africa. Secondary education, access to medical aid, and household income are significant determinants of choice, as are severity and type of illness, and type of health care required. Ill persons with HIV/AIDS-related illnesses are significantly more likely to opt for public health care, although the strength of this preference declines as household income increases. Ill persons with severe and in particular severe HIV/AIDS-related illness in turn are significantly more likely to opt for private health care, especially at higher levels of income. Furthermore, health care costs associated with HIV/AIDS-related illness is likely to push HIV/AIDS-affected households deeper into poverty, especially where private care is preferred over public health care. The public health care sector therefore will remain the backbone of the health care system in providing health care to those infected with HIV/AIDS.

### **Working Paper 09**

Title: Entering and exiting collaborative purchasing relationships

Author(s): Al Bhimani; Pascal Frantz & Mthuli Ncube

Abstract

Many companies establish collaborative relationships (CRs) with suppliers either alongside or in preference to purchasing parts through a process of competitive bidding (CB). CRs offer flexibilities and options arising mainly from the "looseness" of the contractual relationship. One significant decision element confronting a firm intending to engage in a CR is when to enter such a relationship and when to abandon it. This paper develops a model that focuses on such timing issues. It provides an optimal timing valuation approach to establishing/abandoning a CR that incorporates differential learning rate payouts. To achieve this, a real options' frame of reference is adopted that enables a formal analysis of the contingencies embedded in a CR. A standard illustration of the application of the model is provided.

**Working Paper 10**

Title: Reconsidering the business cycle and stabilisation policies in South Africa

Author(s): Stan du Plessis

Abstract

This paper applies an alternative dating algorithm - suggested by Harding and Pagan (for example, 2002a) - to identify the turning points of the South African business cycle. The characteristics of the resulting business cycle are analysed and compared with results obtained for the official cycle in recent papers on the South African business cycle (du Plessis and Smit, 2003; du Plessis, 2004). The alternative business cycle has plausible characteristics and provides supporting evidence for the thesis that monetary policy has been used more consistently to dampen the cycle of economic activity in South Africa since the early nineties.

**Working Paper 11**

Title: Monetary Policy, Determinacy, and Learnability in the Open Economy

Author(s): James Bullard & Eric Schaling

Abstract

We study how determinacy and learnability of global rational expectations equilibrium may be affected by monetary policy in a simple, two country, New Keynesian framework. The two blocks may be viewed as the U.S. and Europe, or as regions within the euro zone. We seek to understand how monetary policy choices may interact across borders to help or hinder the creation of a unique rational expectations equilibrium worldwide which can be learned by market participants. We study cases in which optimal policies are being pursued country by country as well as some forms of cooperation. We find that open economy considerations may alter conditions for determinacy and learnability relative to closed economy analyses, and that new concerns can arise in the analysis of classic topics such as the desirability of exchange rate targeting and monetary policy cooperation.

**Working Paper 12**

Title: Growth Impact and Determinants of Foreign Direct Investment into South Africa, 1956-2003

Author(s): J. W. Fedderke and A.T. Romm

Journal: 2006, *Economic Modelling*, 23, 738 - 60

Abstract

The paper is concerned with the growth impact and the determinants of foreign direct investment in South Africa. Estimation is in terms of a standard spill-over model of investment, and in terms of a new model of locational choice in FDI between domestic and foreign alternatives. We find complementarity of foreign and domestic capital in the long run, implying a positive technological spill-over from foreign to domestic capital. While there is a crowd-out of domestic investment from foreign direct investment, this impact is restricted to the short run. Further we find that foreign direct investment in South Africa has tended to be capital intensive, suggesting that foreign direct investment has been horizontal rather than vertical. Determinants of foreign direct investment in South Africa lie in the net rate of return, as well as the risk profile of the foreign direct investment liabilities. Policy handles are both direct and powerful. Reducing political risk, ensuring property rights, most importantly bolstering growth in the market size, as well as wage moderation, lowering corporate tax rates, and ensuring full integration of the South African economy into the world economy all follow as policy prescriptions from our empirical findings.

**Working Paper 13**

Title: Challenging Cassandra: Household and Per Capita Household Income Distribution in the October Household Surveys 1995-1999, Income and Expenditure Surveys 1995 & 2000, and the Labour Force Survey 2000

Author(s): J. W. Fedderke, Jeenesh Manga and Farah Pirouz

Abstract

This paper examines household income inequality in the South African October Household Survey datasets

between 1995 and 1999, the Labour Force Survey 2000, and the Income and Expenditure Surveys 1995 and 2000. The paper reflects both on changing patterns of income inequality in South Africa, and on the quality and comparability of the data employed. We employ several measures of income inequality, employing nominal income and expenditure data from South Africa over the 1995-2000 period. Results prove sensitive to the choice of welfare measure. Furthermore, results from income data and expenditure data provide contrasting results. On self-reported income data, our findings are that inequality measures increased over the 1995 - 2000 time period. While we do not attach much credence to the evidence for reasons attaching to data quality, there is nevertheless evidence suggesting that the general increase in inequality for the African race group also hides a decrease in inequality for the bottom 1/3 of the income distribution, and (more unambiguously) a widening of inequality for the middle 1/3 of the income distribution for Africans. There is also some evidence of a narrowing inequality amongst rich households for the population as a whole. This suggests that there is at least some evidence consistent with a successful redistribution of income from richest to poorest households, though this has not yet reversed the high aggregate level of inequality in South Africa. Evidence from inequality measures based on expenditure data reverse the findings based on self-reported income. Where there is evidence of an increase in inequality, in most instances this proves to be statistically insignificant. On some measures African as well as total population inequality has declined significantly, and for a number of racial groups inequality has remained unchanged. The central conclusion of the paper is therefore that there is much contradictory evidence that emerges from household level data on income inequality - suggesting that the choice of data set is non-trivial in drawing inference on income inequality in South Africa.

#### **Working Paper 14**

Title: Corporate Governance, Manager Behavior, and Analyst Behavior as Determinants of Mergers and Acquisitions

Author(s): Al Bhimani & Mthuli Ncube

##### **Abstract**

The literature on Mergers and Acquisitions activity has espoused various explanations for M&A activity. Some of this captures the nature of defence mechanisms against takeovers. In all the expositions the agency conflicts and degrees of collusion among the claimants to the firm's cash-flows, are apparent. In this paper we add to the literature by presenting an integrated framework that classifies manager behavior and corporate governance, and show how a manager can use M&A bids as a vehicle for maximising their own benefits, rather than shareholder value. The M&A bid targeted by the manager could simply be for diversionary reasons that seek to enable the manager to hold on to his employment and benefits, even though he may be a poor manager. We also consider M&A activity that benefits both managers and shareholders. In this analysis, M&A activity is driven by the manager's appetite for M&A activity, both beneficial and unbeneficial. The analysts, who are employed by investment banks, that advise on the M&A activity, collude with management. The analysts forecast inflated earnings for a company because the fees they earn as a portion of what the investment bank earns, are related to the size of the transaction which in turn is determined by the inflated future earnings. The agency conflicts between shareholders, investment banks and their analysts, and managers of the company, are central to our framework.

#### **Working Paper 15**

Title: The Political Economy of Institutions, Stability and Investment: a simultaneous equation approach in an emerging economy – the case of South Africa

Author(s): Johannes Fedderke and John Luiz

Journal: forthcoming, *Journal of Development Studies*.

##### **Abstract**

The modern theory of investment identifies the importance of uncertainty to investment. A number of empirical studies have tested the theory on South African time series, employing political instability measures as proxies for uncertainty. This paper verifies that political instability measures are required in the formulation of the investment function for South Africa. It also establishes that there are distinct institutional factors that influence the uncertainty variable such as property rights and crime levels. We find that rising income and property rights lower political instability, and that rising crime levels are positively related to political instability. The inference is that political instability in South Africa may not represent uncertainty directly, since it is systematically related to a set of determinants. Instead, uncertainty would have to be understood as being related to a broader institutional nexus that in concert may generate uncertainty for investors.

#### **Working Paper 16**

Title: What is the Structure of South African Happiness Equations? Evidence from Quality of Life Surveys

Author(s): Timothy Hinks and Carola Gruen

##### **Abstract**

The issue of what determines subjective well-being has been at the centre of a recent flurry of research in the economics field. A necessary part of this understanding is the role relative positions (economic, social,

geographic) of economic agents, particularly individuals, play in life (commonly referred to in the literature as rivalry). In this paper we concentrate on whether the structure of happiness equations of South Africa are the same/similar to those of developed countries. The analysis uses three of the Durban Quality of Life Studies. Firstly these three data series are pooled and a variety of covariates are tested for their significance on happiness. These include age, marital status, employment status, household income and relative household income. Next we estimate yearly cross-sectional models to see if there are consistent findings of what determines happiness across the period considered. Our findings indicate there maybe some structural differences between results from the Durban studies and those of international findings. Age appears to play no role in happiness likelihood, nor does marital status. Being unemployed does significantly and negatively effect happiness as does the size of household income, relative household income and whether living in a formal dwelling place. When we distinguish between employment categories we find that being self-employed negatively affects happiness, contradicting findings for developed countries. Future research will concentrate on the most recent Durban studies, in which information on health and crime are available, both of which are expected to significantly effect happiness given the well documented nature of these problems in South Africa.

### **Working Paper 17**

Title: The Impact of Performance Intensive Policy Intervention: Aid Policy that is Performance Intensive

Author(s): Johannes Fedderke and Robert Klitgaard

#### **Abstract**

We examine a two country aid model with performance intensive aid. The aid budget is determined by a donor country legislature, but allocated by a donor agency in terms of a performance criterion of its choice. Five sources of slippage in policy delivery are introduced: the donor agency observes the performance of the aid recipient imperfectly; the donor agency and the aid recipient are subject to inefficiency; the aid recipient experiences corruption; and adjustment of aid recipient performance is costly. Incentives between the aid donor and the aid recipient are intentionally aligned - to explore the best-case for the policy intervention. Immediate implications are then that optimal level of effort and governance in the aid recipient increase under performance intensity of aid. Moreover, performance intensity of aid has fundraising effects. While the aid recipient also has an incentive to increase the measurement noise in governance, this incentive is weaker than that to raise true underlying governance, is weakest for the poorest aid recipients and provided that the donor agency is sufficiently efficient, measurement error itself will serve to raise optimal effort in the aid recipient. The importance of aid agency self-monitoring is thereby identified. Three important qualifications on the anticipated success of the policy emerge, however. Despite the elimination of incentive misalignment, aid donors may come to rely on performance intensity precisely where such a reliance is likely to be least successful in aid recipients. Second, performance intensity of aid maximizes its impact under conditions where it is supplemented by technical assistance to improve the effectiveness of own effort by the aid recipient. Finally, under convex adjustment costs the general class of optimal time paths in governance in aid recipients will be non-monotone, such that governance may get worse before they get better - optimally so. Performance intensive policy may thus appear to fail - immediately after imposition.

### **Working Paper 18**

Title: Macroeconomic News 'Surprises' and the Rand/Dollar Exchange Rate

Author(s): Johannes Fedderke and Philippe Flamand

Journal: 2005, *Studies in Economics and Econometrics*, 29(3),1-16.

#### **Abstract**

Economic theory in the context of floating exchange rates has focussed on underlying medium and long term direction of exchange rate movements. Daily volatility is less well understood. One theory that offers an explanation for short term exchange rate movements is that of the efficient market hypothesis or EMH. Its application to the forex market allows exchange rate movements to be understood as the reaction of traders to relevant news. In an efficient market traders react to news and specifically to surprise news events which necessitate a re-evaluation of the currency value. We test for the validity of this hypothesis in the context of the daily rand/dollar forex market over a three year period, adding an emerging market case to the literature. We test the significance of macroeconomic news surprises -measured by the difference between actual and forecast data - in driving daily exchange rates. We find that surprises in both real and nominal variables cause a statistically significant reaction in the exchange rate. The results support an asymmetry between news of different origin as only surprises that originate in the U.S. prove significant. Good news also seems to receive greater attention from traders than bad news in our sample. Finally, we find that the statistical significance of variables is time-varying.

### **Working Paper 19**

Title: Do Free Trade Agreements Create Trade for South Africa?

Author(s): Merle Holden & Landon McMillan

#### **Abstract**

This paper shows that South Africa's exports and imports had been determined by the normal variables found in

gravity models, namely GDP, population and distance. However, differences in the composition of trade had resulted in distance from markets having a greater adverse effect on exports than imports. Cross section estimates of the impact of the free trade agreements between South Africa the EU and SADC failed to show significant effects. Panel estimates on the other hand yielded positive effects for EU exports and imports with South Africa. The SADC FTA was found to have stimulated South Africa's exports to SADC but with little effect on SADC imports into South Africa. Finally, it was found that preferential access under the US AGOA had not particularly benefited South African exporters.

### **Working Paper 20**

Title: Financial Systems and Monetary Policy in Africa

Author(s): Mthuli Ncube

Abstract

This paper examines the role of the financial system in the operation and evolution of monetary policy. The financial system is comprised of the banking system, non-bank financial institutions and the capital markets. The role of the central bank is two-fold, that of price stability, and stability of the payment system. We look at the evolution of monetary policy in Africa over the last forty years, through five stages namely, Currency Board, Rationing Regime, Discretionary Regime, Credit Ceiling regime, and Market Clearing Regime. The paper shows how the financial system is important for the effective conduct of monetary policy. The paper discusses the objectives of financial sector reforms in Africa namely, to reduce financial sector repression by liberalizing interest rates; to institute transition from direct to indirect monetary policy; to restructure the balance sheets of banks and restore their solvency; and to develop financial markets. We then present the state of the financial sector in most African countries before and after the financial sector reforms.

### **Working Paper 21**

Title: Evaluating the general equilibrium effects of a wage subsidy scheme for South Africa

Author(s): Kalie Pauw & Lawrence Edwards

Journals: 2006, *South African Journal of Economics*, 74(3), 442-62.

Abstract

Unemployment among semi- and unskilled workers has reached severe proportions (over 50 %) and threatens the political and economic stability of the South African economy. In this paper a computable general equilibrium (CGE) model of the South African economy to assess the economy-wide impact of a wage subsidy targeted at semi- and unskilled workers. We find that employment of semi- and unskilled workers can be raised quite significantly, although the financial costs can be substantial. The targeting of the correct sectors as well as the budgetary process (deficit financed versus balanced budget) followed play an important role in the outcome.

### **Working Paper 22**

Title: Fractionalization and Long-Run Economic Growth: Webs and Direction of Association between the Economic and the Social – South Africa as a Time Series Case Study

Author(s): Johannes Fedderke and John Luiz

Journal: 2007, *Applied Economics*, 39, 1037-52.

Abstract

Recent cross sectional growth studies have found that ethnolinguistic fractionalization is an important explanatory variable of long-run growth performance. In the present paper we follow the call of earlier studies to conduct a more detailed clinical analysis of the growth experience of a specific country. South Africa constitutes an interesting case in which to explore these questions. The results of this study provide important nuance to the existing body of evidence. We find that fractionalization is subject to strong change over time. In addition, we find strong evidence of webs of association between the various social, political and institutional dimensions. Thus various forms of social cleavage tend to go hand in hand which presents the danger of spurious inference of association. Further, the direction of association in the preponderance of cases runs from economic to social, political and institutional variables, rather than the other way around. However, there remain significant impacts from some, but only some fractionalization indexes on economic growth. Which social cleavage, when, how and for what period of time will depend on the historical path of specific societies.

### **Working Paper 23**

Title: Industry Concentration in South African Manufacturing Industry: Trends and Consequences, 1972-96

Author(s): Johannes Fedderke & Gabor Szalontai

Abstract

This paper examines industry concentration for the South African manufacturing sector over the 1972-1996 period, for the three digit industry classification. The paper notes both the high level of industry concentration in South African manufacturing, and a rising trend in concentration across a wide range of industries. The paper further explores the impact that industry concentration has on a wide range of indicators of industry

performance. We find that increased concentration serves to lower output growth, raise unit labour costs, and to lower labour productivity. The impact on employment, total factor productivity and investment rates based on bivariate examinations of the data are ambiguous. The paper concludes by examining the impact of concentration on employment and investment rates using a dynamic heterogeneous panel estimation methodology. We find that increased concentration unambiguously lowers employment. For investment rates, increased inequality of market share serves to raise investment rates, while falling firm numbers for any given inequality of market share lowers investment rates. The difference can be interpreted as the distinct impact that the pursuit of managerial objectives (large market share promoting further productive capacity expansion) and that market contestability (under falling numbers of firms in an industry, monopolistic incentives to curtail productive capacity rise) have on investment.

#### **Working Paper 24**

Title: The Aid and Maid System: South African Household Data Pitfalls

Author(s): Steve F Koch

##### **Abstract**

This paper presents research on South African household expenditure share behaviour. The research examines whether or not a theoretical and empirical model, which has been successful in explaining expenditure shares in Australia, is valid when applied to South African data. The primary conclusion of the research is that expenditure shares in South Africa do not conform to the assumptions set out in the model. Although there are many potential reasons for non-conformity, this paper provides evidence that the estimates produced within the AID System and the MAID System suffer from heteroskedasticity and non-normality. Therefore, in order to improve the understanding of spending behaviour by South African households, models will have to be specifically developed to deal with the idiosyncrasies of South African data.

#### **Working Paper 25**

Title: Governance, Incentives and Elections as Determinants of Economic Performance, Aid and Investment Flows

Author(s): Al Bhimani & Mthuli Ncube

##### **Abstract**

Scholars have focused their efforts to explain poor growth and development in regions such as Sub-Saharan Africa, and parts of Asia, Eastern Europe, and Latin America, using arguments based on quality of institutions and geography and the structure and process of resource allocation and endowment. This paper presents a different argument based on an incentive compatibility and asymmetric information framework. We characterize the decision-making problem in government and public sector as being fraught with mis-information about the true state of economic performance. Misinformation can also result in a legal liability which may depend on probability of losing elections, income, and attitude to risk. The agency conflicts between the elected politicians and career-bureaucrats contribute to the mis-information problem, resulting in poor policy choices that may lead to poor economic performance. The role of international financial aid flows is examined and the paper argues that such aid flows may only serve to subsidize the inefficiencies of political leaders and reduce the economic gap created by poor policy choices. More financial aid flows may not be a panacea for poor economic growth and its insurance characteristics may cause recipient governments to choose even riskier policies. We also examine why Foreign Direct Investment (FDI) flows to poor regions, such as Sub-Saharan Africa, are low. We show that the risky policy choices create conditions that increase the value of the option-to-wait on investment decisions, thus reducing the flow of FDI. We undertake empirical analysis on some African Countries and show that the quality of governance influences GDP growth, Employment Creation, and Poverty Reduction in Africa.

#### **Working Paper 27**

Title: Technology, Human Capital and Growth

Author(s): J. W. Fedderke.

Journal: 2006, in *South African Reserve Bank, Banco de Mexico and The People's Bank of China (eds.) Economic Growth, Proceedings of a G20 seminar held in Pretoria, South Africa, on 4-5 August 2005.*

##### **Abstract**

The paper examines whether endogenous growth processes can be found in middle income country contexts. Estimation proceeds by means of dynamic heterogeneous panel analysis. Empirical evidence finds in favour of positive impacts on total factor productivity growth by Schumpeterian innovative activity. A crucial finding is that it is the quality of human capital rather than the quantity of human capital that is important for TFP growth. We also find that human capital is both influenced by, and determines the institutions of society that serve to determine the long run productivity of all factors of production.

#### **Working Paper 28**

Title: DEA Applied to a Gauteng Sample of South African Public Hospitals

Author(s): Jacques N Kibambe & Steven K Koch

Abstract

The ability of the South African government to provide antiretroviral medication to those in need will be determined by the ability of the public health services sector to efficiently provide that medication. If the delivery of other health services can be used as a guide, the goals of the anti-retroviral rollout will not be met. The research presented in this paper provides a preliminary analysis of the delivery of a few health care services by the public sector in Gauteng, South Africa. The data for the study was especially difficult to collect, suggesting the need for hospital level data information systems, as well as staff trained to analyse the information collected. The empirical results from the analysis suggest that services provided by small-scale medical facilities waste fewer resources, while medical centres offering more technical services, such as surgeries, also appear to deliver medical services more efficiently.

**Working Paper 29**

Title: Does Human Generate Social and Institutional Capital? Exploring Evidence From Time Series Data in a Middle Income Country

Author(s): Johannes Fedderke and John Luiz

Journal: forthcoming, *Oxford Economic Papers*.

Abstract

This paper presents an analysis of the interaction of human capital investment and the development of social and political institutions. We find that human capital matters - for growth through its quality dimension; for distributional conflict by raising political aspirations. But human capital does not stand alone either. The level of economic development (output) matters, distributional (instability) conflict as well as the rights dispensation can come to influence human capital investment decisions in their own right. Social, human capital, political as well as economic dimensions are densely interwoven in webs of association.

**Working Paper 30**

Title: Economic Growth, Entrepreneurship and the Business Environment in Africa

Author(s): Mthuli Ncube

Extract

Research on causes of underdevelopment traps and economic growth can be traced back to the work of Young (1928), Rosenstein-Rodan (1943) and Nurkse (1953). The seminal work of Kormendi and Meguire (1985), Grier and Tullock (1998), Barro (1991), Abramovitz (1986) and Baumol (1986), revived the debate on causes of economic growth. Later work by Quah (1997), Salai-I-Martin (1987,2004) has sought to identify the factors driving economic growth across various regions around the world in a manner that would explain why various regions are growing at such different rates. A stark example is the vast differences in growth rates between Africa and Asia. Asia, on one hand, was at the same level of development with most African countries in the early sixties, but has since overtaken Africa in the pace of economic growth. Explanations and solutions for Africa's poor growth are found in the research work by Collier (2004), Berthelemy and Varoudakis (1996), Berthelemy and Soderling (2001), and Sacks, et al (2004). The "big-push" initiative, which argues for financial transfers in developing countries especially, Africa has been pushed heavily by Sacks, et al (2004) and is also linked to the African Commission Report driven by the British government, and accompanied by proposals for debt forgiveness for poorer countries.

**Working Paper 31**

Title: The Determinants of Educational Attainment

Author(s): Charles Simkins

Abstract

The determinants of educational attainment are considered within Becker's analysis of the supply and demand for human capital at the individual level. The following sources of variation are considered: type of settlement, assortative mating, household demography, reasons for school drop out and the intergenerational transmission of educational attainment. Particular attention is paid to the determinants of higher educational achievement. The analyses suggest considerable intergenerational mobility in educational achievement and little by way of gender inequality. However, settlement type, school attended and liquidity constraints undermine equality of educational opportunity.

**Working Paper 32**

Title: A fixed point characterization of the dominance solvability of lattice games with strategic substitutes:

Author(s): Alexander Zimper

Journal: forthcoming, *International Journal of Game Theory*.

Abstract

This note demonstrates that a lattice game with strategic substitutes is dominance solvable if and only if there

exists a unique fixed point of the function that results from an iteration of the best response function. This finding complements a result of Milgrom and Roberts' (1990) by which a lattice game with strategic complements is dominance-solvable if and only if there exists a unique Nash equilibrium. We illustrate our main result by an application to a model of Cournot outcome competition.

### **Working Paper 33**

Title: Informative Advertising: Competition or Cooperation?

Author(s): Witness Simbanegavi

Abstract

I compare the outcome when firms semicollude on advertising to the outcome in the Grossman and Shapiro (1984) model of informative advertising. I show that advertising is lower but prices and profits are higher under semicollusion on advertising. I also show that semicollusion on advertising is detrimental to welfare. Although firms earn higher profits when colluding on advertising, fewer consumers are informed, and as a result, welfare is lower. Compared to semicollusion on price, semicollusion on advertising is not always less profitable. Hence I lend theoretical support to empirical studies that find evidence of collusion on advertising rather than price.

### **Working Paper 34**

Title: An Alternative Approach to the Existence of Sunspot Equilibria

Author(s): Haim Abraham

Abstract

This paper offers an alternative approach to the existence of sunspot equilibria. The economy has a single perishable good and fiat money within an overlapping generations framework with two possible extraneous events. The analysis uses the dynamic adjustment of market prices during voluntary trade to establish paths of current spot prices whose limit points are rational expectations equilibria. The paper shows that there is a sub-set of paths whose limit points are self-fulfilling if they are perfectly correlated with extraneous events. It is this sub-set that constitutes sunspot equilibria. Two implications of this approach follow: (a) the likelihood of this existence is generally low; and (b) adding an asset (or a commodity) to the economy invalidates the demonstration of existence.

### **Working Paper 35**

Title: Equilibrium Pricing When Only Some Goods Are Advertised

Author(s): Witness Simbanegavi

Abstract

We study how price advertising of a subset of products affects equilibrium pricing and advertising under low and high product differentiation. We find that, when firms sell products with the same reservation price, loss-leader pricing obtains only when differentiation is low. However, when reservation prices differ, equilibrium may entail loss-leader pricing when differentiation is high. This enables us to shed some light on the seemingly paradoxical empirical findings in the marketing literature that loss-leader pricing fails to increase store traffic, loss-leader sales and hence to increase profits.

### **Working Paper 36**

Title: Forecasting Investment Needs in South Africa's Electricity and Telecom Sectors

Author(s): Željko Bogetic and Johannes W. Fedderke

Journal: 2006, *South African Journal of Economics*, 74(3), 557-74.

Abstract

The paper uses a 52-country panel-data for the period 1980-2002 to estimate demand for electricity and telecom services and, based on these estimates, project investment needs in South Africa through 2010 for two growth scenarios. Projections of average annual investment needs in electricity and telecom for the current growth scenario (3.6% per annum) are of the order of 0.2% and 0.75% of GDP, respectively. An alternative, accelerated growth scenario (6% per annum) implies approximate doubling of investment needs in these sectors.

### **Working Paper 37**

Title: Antitrust Analysis for the Internet Upstream Market: a BGP Approach

Author(s): Alessio D'Ignazio & Emanuele Giovannetti

Date of Publication: April 2006

Abstract

In this paper we study concentration in the European Internet upstream access market. The possibility of measuring market concentration depends on a correct definition of the market itself; however, this is not always

possible, since, as it is the case of the Internet industry, very often Antitrust authorities lack reliable pricing and traffic data. This difficulty motivates our paper. We present an alternative approach based on the inference of the Internet Operators interconnection policies using microdata sourced from their Border Gateway Protocol tables. We assess market concentration following a two step process: firstly we propose a price-independent algorithm for defining both the vertical and geographical relevant market boundaries, then we calculate market concentration indexes using two novel metrics. These assess, for each undertaking, both its role in terms of essential network facility and of wholesale market dominance. The results, applied to four leading Internet Exchange Points in London, Amsterdam, Frankfurt and Milan, show that some vertical segments of these markets are highly concentrated, while others are extremely competitive. According to the Merger Guidelines some of the estimated market concentration values would immediately fall within the special attention category.

### **Working Paper 38**

Title: The South African Phillips Curve: How Applicable is the Gordon Model?

Author(s): P Burger and M Markinkov

#### **Abstract**

Is there a Phillips curve relationship present in South Africa and if so, what form does it take? Traditionally the way to estimate the Phillips curve is merely to regress the change in the price level on a measure of the output gap (or the deviation of actual unemployment from the NAIRU). However, Gordon (1990: 481-5) has argued that estimating the Phillips curve in this manner biases the estimated results. Instead, Gordon (1997; 1989) puts forward his so-called triangular model that controls for inertia effects, output level effects and rates-of-change (in output) effects. He applies the model to several European countries, the US and Japan and finds meaningful results. The question this paper poses is whether or not the triangular model also applies to South Africa. In estimating the Phillips curve for South Africa the paper also experiments with four versions of the output gap, based on four different methods to estimate long run output, including the standard Hodrick-Prescott (HP) filter and the production function approach. There are several variants of the Phillips curve. The first, as estimated by Phillips (1958) himself, measures the relationship between wage inflation and unemployment. However, other versions consider the relationship between price inflation and unemployment or price inflation and output. This paper focuses on the latter, given the absence of quarterly unemployment data in South Africa, as well as the lack of a reliable and sufficiently long unemployment time series. The paper first presents an overview of literature on the Phillips curve and its estimation for South Africa and other countries. This is followed by the second section that considers the model to be estimated, the data as well as the discussion of the alternative measures of the output gap. The third section presents the estimated results followed by section four that contains the conclusion and a discussion of the policy implications.

### **Working Paper 39**

Title: Infrastructure and Growth in South Africa: Direct and Indirect Productivity Impacts of 19 Infrastructure Measures

Author(s): J W. Fedderke & Z Bogetic

#### **Abstract**

Empirical explorations of the growth and productivity impacts of infrastructure have been characterized by ambiguous (countervailing signs) results with little robustness. A number of explanations of the contradictory findings have been proposed. These range from the crowd – out of private by public sector investment, non-linearities generating the possibility of infrastructure overprovision, simultaneity between infrastructure provision and growth, and the possibility of multiple (hence indirect) channels of influence between infrastructure and productivity improvements. This paper explores these possibilities utilizing panel data for South Africa over the 1970-2000 period, and arrange of 19 infrastructure measures. Utilizing a number of alternative measures of productivity, the prevalence of ambiguous (countervailing signs) results, with little systematic pattern is also shown to hold for our dataset in estimations that include the infrastructure measures in simple growth frameworks. We demonstrate that controlling for potential endogeneity of infrastructure in estimation robustly eliminates virtually all evidence of ambiguous impacts of infrastructure, due for example to possible over investment in infrastructure. Indeed, controlling for the possibility of endogeneity in the infrastructure measures renders the impact of infrastructure capital not only positive, but of economically meaningful magnitudes. These findings are in variant between the direct impact of infrastructure on labour productivity, and the indirect impact of infrastructure on total factor productivity.

### **Working Paper 40**

Title: Flexibility of choice versus reduction of ambiguity

Author(s): Ani Guerdjikova and Alexander Zimmer:

Journal: *Social Choice and Welfare*

#### **Abstract**

This paper explores the problem of a social planner willing to improve the welfare of individuals who are unable to compare all available alternatives. The optimal decision trades off the individuals' desire for flexibility versus

their aversion towards ambiguous choice situations. We introduce an axiom system that formalizes this idea. Our main result characterizes the preference maximizing opportunity set. It is a maximal set that consists of mutually comparable alternatives. It also has the property that it maximizes the sum of the distances between its ordered elements for some appropriate metric imposed on the set of possible choices.

#### **Working Paper 41**

Title: What Advertisers Want: A Hedonic Analysis of Advertising Rates in South African Consumer Magazines

Author(s): Nicolas Pietersma

##### **Abstract**

This article explores the role of circulation, readership and reader demographics in the determination of advertising rates in South African consumer magazines. The study uses panel data collected between 2000 and 2003 to quantify the relationships by assigning implicit prices to various magazine characteristics. Furthermore, a synopsis of the structure of the magazine industry in South Africa is developed using cluster-analytic techniques. The analysis lends some statistical credence to some widely held beliefs in the publishing industry; namely that advertisers value the young, the educated and the affluent as audiences. The role of race and gender in the determination of magazine advertising rates is also explored.

#### **Working Paper 42**

Title: The Relationship Between International Equity Market Behaviour and the JSE

Author(s): Nick Samouilhan

Journal: 2006, *South African Journal of Economics*, 74(2), 248-60.

##### **Abstract**

This paper investigates empirically the relationship between domestic and international market returns and volatilities, using the London Stock Exchange as the international market proxy. In order to address problems of widely differing bourse composition, the relationships are tested at both the broad bourse index level and the sectoral sub-indices level. The paper finds significant evidence of a positive relationship between foreign returns and domestic returns and, in addition, between foreign volatility and domestic volatility. It is found that, for most sectors, the main association period is during the same concurrent trading day, although there are additional significant lags present in most of the series. Strong evidence is also found that the magnitude of volatility on the JSE and most of its sub-indices reacts far more to negative shocks than it does to positive shocks.

#### **Working Paper 43**

Title: Industry Structure and Labour Market Flexibility in the South African Manufacturing Sector: A Time Series and Panel Data Approach

Author(s): Johannes W. Fedderke and Andrew J Hill

##### **Abstract**

Our investigation of industry structure in South African manufacturing reveals evidence of imperfect competition. We find an average mark-up of 50% for the period 1970 to 2004. Results suggest that there is no consistent trend in the mark-up over time. This paper extends the analysis of industry structure by linking it to labour market flexibility. We infer the proportion of labour cost that is fixed rather than flexible from the mark-up, and find that two thirds of total labour employed in South African manufacturing is devoted to fixed costs. We find that this proportion falls during the 1980s and rises during the 1990s, suggesting an increase in labour flexibility followed by a decrease.

#### **Working Paper 44**

Title: Currency Crises and Monetary Policy in an Economy with Credit Constraints: The Case for Low Interest Rates Restored

Author(s): Shakill Hassan

##### **Abstract**

This paper revisits the currency crises model of Aghion, Bacchetta and Banerjee (2000, 2001, 2004), who show that if there exist nominal price rigidities and private sector credit constraints, and the credit multiplier depends on real interest rates, then the optimal monetary policy response to the threat of a currency crisis is restrictive. We demonstrate that this result is primarily due to the uncovered interest parity assumption. Assuming that the exchange rate is a martingale restores the case for expansionary reaction — even with foreign-currency debt in firms' balance sheets. The effect of lower interest rates on output can help restore the value of the currency due to increased money demand.

#### **Working Paper 45**

Title: An epistemic model of an agent who does not reflect on reasoning processes

Author(s): Alexander Zimper

#### Abstract

This paper introduces an epistemic model of a boundedly rational agent under the two assumptions that (i) the agent's reasoning process is in accordance with the model but (ii) the agent does not reflect on these reasoning processes. For such a concept of bounded rationality a semantic interpretation by the possible world semantics of the Kripke (1963) type is no longer available because the definition of knowledge in these possible world semantics implies that the agent knows all valid statements of the model. Key to my alternative semantic approach is the extension of the method of truth tables, first introduced for the propositional logic by Wittgenstein (1922), to an epistemic logic so that I can determine the truth value of epistemic statements for all relevant truth conditions. I also define an axiom system plus inference rules for knowledge- and unawareness statements whereby I drop the inference rule of necessitation, which claims that an agent knows all theorems of the logic. As my main formal result I derive a determination theorem linking my semantic with my syntactic approach.

#### **Working Paper 46**

Title: Dissecting post-apartheid labour market developments: Decomposing a discrete choice model while dealing with unobservables

Author(s): Martin Wittenberg

#### Abstract

The abolition of apartheid should have improved the employment prospects of black South Africans. The reality seems to have been different, with rising unemployment rates. Disentangling the real trends from changes in measurement and sampling design has proved to be difficult. We tackle this issue by means of a new methodology for decomposing changes in a proportion. Our approach is based on a methodology presented by Lemieux for continuous variables. In particular we show how we can construct counterfactual data at the individual level controlling for unobservable effects. We show that this methodology has many attractive features when compared to other approaches available. In particular it lends itself to graphical analyses. We use this methodology to explore changes in the proportion of African men being employed, unemployed and not economically active in South Africa in the post-apartheid period. Our results suggest that changes in the characteristics of these men have made them more employable over time, but that the propensity to be employed has declined. One might say that the human and social capital of these men has improved, but that the returns on that capital have declined. The net effect has been to leave measured employment more or less static. Changes in their characteristics and in their propensity to be economically active have both worked towards increasing the participation rate. As a consequence unemployment has risen over time. The analysis confirms that there are important measurement changes between different national surveys.

#### **Working Paper 47**

Title: Security and Potential Level Preferences with Thresholds

Author(s): Ulrich Schmidt & Alexander Zimper:

Journal: 2007, *Journal of Mathematical Psychology*,

#### Abstract

The security level models of Gilboa (1988) and of Jaffray (1988) as well as the security and potential level model of Cohen (1992) and Essid (1997) successfully accommodate classical Allais paradoxes while they offer an interesting explanation for their occurrence. However, experimental data suggest a systematic violation of these models when lotteries with low probabilities of bad or good outcomes are involved. In our opinion, one promising candidate for the explanation of these violations is the assumption of thresholds in the perception of security and potential levels. The present paper develops an axiomatic model that allows for such thresholds, so that the derived representation of preferences can accommodate the observed violations of the original security and potential level models.

#### **Working Paper 48**

Title: The Direct Productivity Impact of Infrastructure Investment: Dynamic Panel Data Evidence From Sub Saharan Africa

Author(s): Ibrahim Bun Kamara

#### Abstract

The paper aimed at isolating the direct productivity of economic infrastructure using a production function approach. Based on an extension of endogenous growth theory with public finance, infrastructure could have either a negative or positive effect on economic growth. The empirical analysis utilises a panel of 19 countries from Sub Saharan Africa (SSA). With SSA infrastructure being less developed both in terms of quantity and quality, the a priori expectation was that all types of infrastructure have a positive and significant effect on aggregate income level. It is found that, like static estimation techniques, dynamic panel data (DPD) estimation techniques could also produce counterintuitive results if endogeneity of infrastructure is not accounted for. Positive and significant direct productive effects of infrastructure (total roads, electricity generation capacity, and

telephones) were obtained using the Pooled Mean Group (PMG) estimator (a form of DPD analysis) after instrumentation for infrastructure. Representing infrastructure with an index constructed from the three infrastructure types also produced similar results. The results are confirmed with the use of the System General Method of Moments (SYS GMM) which constructs instruments for infrastructure using appropriate lags of the variables in first differences and in levels. Thus, it would appear that the negative and counterintuitive productivity results that are sometimes obtained in the literature could be partly due to limitations in methodologies that do not appropriately account for time varying fixed effects and the endogeneity of infrastructure in the economic growth process, especially for developing countries. Control variables for the macroeconomic environment and level of political and civil rights are also found to have a positive and significant effect on aggregate output.

#### **Working Paper 49**

Title: The Price of Risk on the JSE

Author(s): Nick Samouilhan

Journal: 2007, *South African Journal of Economics*, 75(3), 442-58.

##### **Abstract**

This paper investigates domestic risk-return behaviour by focussing on the intertemporal relationship between the conditional domestic equity market premium, its conditional variance and its conditional covariance with the international equity market. The paper finds that the domestic equity market prices in both domestic and international diversification risk. The estimated daily price of domestic variance risk is 0.0279% for every one unit of expected domestic variance. The estimated daily price of covariance risk is 0.0111% for every unit of expected covariance risk. The representative domestic investor values domestic variance more than covariance risk. The variances of domestic and international equity returns are found to be time-varying, as is the covariance between the two. Evidence is found that the JSE is not perfectly integrated with the world economy, in an absolute sense. The volatility spillover effect is observed to be both significant and positive. The standard CAPM model misspecifies the return to domestic risk, biasing the risk-return coefficient upwards. Domestic investors are rewarded for holding internationally diversified portfolios, with an internationally diversified portfolio expected to have an additional effective annual of return 6.285% for the same level of risk as an entirely domestic equity portfolio.

#### **Working Paper 50**

Title: Synchronization between South Africa and the U.S.: A Structural Dynamic Factor Analysis

Author(s): Alain Kabundi

##### **Abstract**

This paper studies the synchronization of economic variables between South Africa and the US. In addition it examines transmission channels through which supply and demand shocks from the US effect economic activity in South Africa. We use a structural dynamic factor model approach, instead of the well known structural vector autoregressive method, as it accommodates a large panel of time series variables. The paper contains four findings. First, using the full-sample period, US supply shocks are transmitted to South Africa through business confidence and imports of goods and services; while US demand shocks are transmitted via interest rates, stock prices, exports of goods and services, and real effective exchange rates. Second, there is a decrease in integration over time as the common component of GDP drops in the reduced sample. The impact of an increase in comovement of GDP is outweighed by several factors resulting from the structural reforms initiated by the government after the end of apartheid. Thirdly, in the latter period the South African economy is mainly affected by the US supply shocks through a variety of channels. For this latter period, US supply shocks are forcefully transmitted to South Africa via consumer and business confidence, stock prices and real effective exchange rates. Finally, the idiosyncratic component still plays an important role in the South African economy. Structural reforms are crucial to make the domestic economy competitive internationally.

#### **Working Paper 51**

Title: Forecasting the South African Economy: A DSGE-VAR Approach

Author(s): Guangling 'Dave' Liu, Rangan Gupta and Eric Schaling

##### **Abstract**

This paper develops an estimable hybrid model that combines the micro-founded DSGE model with the flexibility of the theoretical VAR model. The model is estimated via the maximum likelihood technique based on quarterly data on real Gross National Product (GNP), consumption, investment and hours worked, for the South African economy, over the period of 1970:1 to 2000:4. Based on a recursive estimation using the Kalman filter algorithm, the out-of-sample forecasts from the hybrid model are then compared with the forecasts generated from the Classical and Bayesian variants of the VAR for the period 2001:1-2005:4. The results indicate that, in general, the estimated hybrid DSGE model outperforms the Classical VAR, but not the Bayesian VARs in terms of out-of-sample forecasting performances

### **Working Paper 52**

Title: Can local communities in Zimbabwe be trusted with wildlife management?: Evidence from contingent valuation of elephants

Author(s): Edwin Muchapondwa, Fredrik Carlsson and Gunmar Köhlin

Journal: forthcoming, *South African Journal of Economics*.

#### **Abstract**

If local communities living adjacent to the elephant see it as a burden, then they cannot be trusted to be its stewards. To assess their valuation of it, a CVM study was conducted for one CAMPFIRE district in Zimbabwe. Respondents were classified according to their preferences over the elephant. The median WTP for the preservation of 200 elephants is ZW\$260 (US\$4.73) for respondents who considered the elephant a public good while the same statistic is ZW\$137 (US\$2.49) for those favouring its translocation. The preservation of 200 elephants yields an annual net worth of ZW\$10,828 (US\$196) to CAMPFIRE households. However, the majority of households (62%) do not support elephant preservation. This is one argument against devolution of elephant conservation to local communities. Adequate economic incentives must be extended to local communities if their majority is to partake in sound elephant conservation. External transfers constitute one way of providing additional economic incentives.

### **Working Paper 53**

Title: The Spatial Distribution of Manufacturing in South Africa 1970-1996, its Determinants and Policy Implications

Author(s): Johannes Fedderke and Alexandra Wollnik

#### **Abstract**

This paper researches the change in regional specialisation and industry concentration in South African (SA) manufacturing 1970-96, and evaluates possible determinants of industry location. No evident trend towards greater regional specialisation or despecialisation emerges over most of the period if we take the economic weight of the regions into account. However, between 1993 and 1996, the period of international reintegration, all provinces but one became more specialised. Industry concentration also does not show a clear trend if we account for industry size, although industries of the same rank were more concentrated in the early 1990s than the beginning of the 1970s and 1980s. Drawing on predictions from trade and economic geography models, we find that high plant-internal scale economies, intensity in the use of human capital and high industry-specific productivity gradients between locations are associated with greater geographical concentration of an industry. Scale economies are the most important pro-concentration force. A greater deviation of labour intensity of production from the mean, and strong in term linkages, are associated with low geographical concentration. The latter results can be explained within the economic geography framework. Linkages are the most important determinant of industry geography.

### **Working Paper 54**

Title: Competition and Productivity Growth in South Africa

Author(s): Philippe Aghion, Matias Braun, and Johannes Fedderke

Journal: forthcoming, *Economics of Transition*.

#### **Abstract**

Using three different panel data sets, we show: (i) that mark-ups are significantly higher in South African manufacturing industries than they are in corresponding industries worldwide; (ii) that competition policy (i.e a reduction of mark-ups) should have largely positive effects on productivity growth in South Africa.

### **Working Paper 55**

Title: Robust Estimates of Okun's Coefficient for South Africa:

Author(s): J. Geldenhuys and M. Marinkov

Journal: 2007, *South African Journal of Economics*, 75(3), 373-90.

#### **Abstract**

Persistently high unemployment in South Africa, especially in the face of improved economic conditions since 1994, begs the question: Does unemployment in South Africa respond to changes in output? When considering the linkages between output and unemployment, it is useful to decompose unemployment into its three components: structural, frictional and cyclical unemployment. Deficient aggregate demand gives rise to cyclical unemployment. Okun's law (1962) refers to the inverse relationship that exists between cyclical output and cyclical unemployment. This paper estimates the relationship between economic activity (cyclical GDP) and changes in the unemployment rate (cyclical unemployment) for South Africa. A variety of detrending methods is used to decompose output and unemployment series into their trend and cyclical components. The paper also addresses the question of asymmetries in Okun's coefficient. The results indicate the presence of an Okun's law relationship in South Africa over the period 1970-2005 with more evidence in favour of asymmetries during recessions.

### **Working Paper 56**

Title: Schooling as a Lottery: Racial Differences in School Advancement in Urban South Africa

Author(s): David Lam, Cally Ardington and Murray Leibbrandt

#### **Abstract**

This paper develops a stochastic model of grade repetition to analyze the large racial differences in progress through secondary school in South Africa. The model predicts that a larger stochastic component in the link between learning and measured performance will generate higher enrollment, higher failure rates, and a weaker link between ability and grade progression. Using recently collected longitudinal data we find that progress through secondary school is strongly associated with scores on a baseline literacy and numeracy test. In grades 8-11 the effect of these scores on grade progression is much stronger for white and coloured students than for African students, while there is no racial difference in the impact of the scores on passing the nationally standardized grade 12 matriculation exam. The results provide strong support for our model, suggesting that grade progression in African schools is poorly linked to actual ability and learning. The results point to the importance of considering the stochastic component of grade repetition in analyzing school systems with high failure rates.

### **Working Paper 57**

Title: The male marital earnings premium in the context of bridewealth payments: Evidence from South Africa

Author(s): Daniela Casale and Dorrit Posel

#### **Abstract**

This study explores the nature of the marital earnings premium for African men in South Africa using the September 2004 Labour Force Survey and the Labour Force Survey Panel (2001 - 2004). We show that a robust and positive premium to marriage in cross-sectional estimations is substantially reduced after controlling for individual fixed effects. Furthermore, we find evidence of an additional source of endogeneity created by the positive selection into marriage of men with faster earnings growth in the initial periods of the panel. Our results are to be expected if the payment of bridewealth or ilobolo, by a prospective husband to the bride's family, is a significant constraint to marriage for African men.

### **Working Paper 59**

Title: Labor supply responses to large social transfers: Longitudinal evidence from South Africa

Author(s): Cally Ardington, Anne Case and Victoria Hosegood

Journal: forthcoming, *American Economic Journal – Applied Economics*.

#### **Abstract**

The South African old-age social pension has been much studied by both researchers and policy makers, in part for the larger lessons that might be learned about behavioral responses to cash transfers in developing countries. In this paper, we quantify the labor supply responses of prime-aged individuals to changes in the presence of old-age pensioners in their households, using longitudinal data recently collected in northern KwaZulu-Natal. Our ability to compare households and individuals before and after pension receipt, and pension loss, allows us to control for a host of unobservable household and individual characteristics that may determine labor market behavior. We find that large cash transfers to elderly South Africans lead to increased employment among prime-aged members of their households. Perhaps more importantly, pension receipt influences where this employment takes place. We find large, significant effects on labor migration among prime-aged members upon pension arrival. The pension's impact is attributable both to the increase in household resources it represents, which can be used to stake migrants until they become self-sufficient, and to the presence of pensioners who can care for small children, which allows prime-aged adults to look for work elsewhere.

### **Working Paper 60**

Title: Exchange Rates and Product Variety

Author(s): Witness Simbanegavi

Journal: forthcoming, *International Journal of Finance and Economics*.

#### **Abstract**

We study the role of exchange rate variability in the firm's choice of whether to offer one or two varieties. We show that variability induces the firm to vertically segment markets (offer two varieties). This happens because variability in the exchange rate affects income dispersion and hence the firm's incentives to extract consumer surplus. To better extract surplus, the firm offers two price-quality menus, a high quality variant geared for top-end surplus extraction and a low quality variant to address market coverage concerns.

### **Working Paper 61**

Title: Is there evidence of a wage penalty to female part-time employment in South Africa?

Author(s): Dorrit Posel and Colette Muller

Abstract

In this paper, we investigate female part-time employment in South Africa. Using household survey data for South Africa from 1995 to 2004, we show that women are over-represented in part-time employment, and that the growth in part-time work has been an important feature of the feminisation of the labour force. In contrast to many studies of part-time work in other countries, however, we find evidence of a significant wage premium to female part-time employment. The premium is robust also to fixed effects estimations using Labour Force Survey panel data from 2001 to 2004, where controlling for unobservable differences increases its size. The premium persists with different hourly thresholds defining part-time employment and when we account for possible reporting errors in hours worked.

**Working Paper 62**

Title: Learning About the Term Structure and Optimal Rules for Inflation Targeting

Author(s): Mewael F. Tesfaselassie, Eric Schaling, Sylvester Eijffinger

Abstract

In this paper we incorporate the term structure of interest rates in a standard inflation forecast targeting framework. We find that under flexible inflation targeting and uncertainty in the degree of persistence in the economy, allowing for active learning possibilities has effects on the optimal interest rate rule followed by the central bank. For a wide range of possible initial beliefs about the unknown parameter, the dynamically optimal rule is in general more activist, in the sense of responding aggressively to the state of the economy, than the myopic rule for small to moderate deviations of the state variable from its target. On the other hand, for large deviations, the optimal policy is less activist than the myopic and the certainty equivalence policies.

**Working Paper 63**

Title: Economics, realism and reality: a comparison of Mäki and Lawson

Author(s): Duncan Hodge

Journal: forthcoming, *Cambridge Journal of Economics*.

Abstract

There is presently considerable debate about the application and interpretation of realism in economics. Interest in this area of the philosophy and methodology of economics has intensified over the last twenty years, especially due to the substantial contributions by Uskali Mäki and Tony Lawson respectively. Although their work falls under the same banner of realism in economics, their projects differ significantly in many important respects. This review tries to clarify the contrasting approaches of each author and explains the main reasons for the differences between them. The emphasis is on clarification of their respective positions rather than a comprehensive critical evaluation as such.

**Working Paper 64**

Title: A Theoretically Defensible Measure of Risk: Using Financial Market Data from a Middle Income Context

Author(s): Johannes Fedderke and Neryvia Pillay

Abstract

While economic theory assumes that risk is of central importance in financial decision making, it is difficult to measure the uncertainty faced by investors. Commonly used empirical proxies for risk (such as the moving standard deviation of the returns on an asset) are not firmly grounded in economic theory. Risk measures have been developed by other studies, but these are generally based on subjective weights attaching to a range of objective component indicators and are difficult to replicate. The contribution of this paper is to develop a methodology to construct theory-defensible empirical risk measures. It has the advantages of being explicitly consistent with economic theory and easily replicable. We illustrate this methodology by specific application to the South African context. The time-varying risk measure developed in this paper is consistent with the expectations hypothesis and captures the asymmetric nature of shocks. This measure reflects investors' risk perceptions and accords with the literature on risk in South Africa.

**Working Paper 65**

Title: Can the restrictive harvest period policy conserve mopane worms in Southern Africa? A bio-economic modelling approach

Author(s): Wisdom Akpalu, Edwin Muchapondwa & Precious Zikhali

Abstract

Imbrasia Belina also known as the mopane worm, like other edible insects and caterpillars, is a vital source of protein to Southern African countries. The worms live and graze on mopane trees, which occupy agricultural land. With increasing commercialization of the worm, the management of the worm, which was hitherto organized as a common property resource, has degraded to a near open access. In this paper, a simple bio-economic modeling approach has been taken to show that, for some optimal land allocation, the restrictive

period harvest season policy that is advocated by community leaders may not lead to sustainable harvesting of the worm.

### **Working Paper 66**

Title: A Method for Theoretical Innovation in Economics

Author(s): Arnold Wentzel

#### **Abstract**

How can more theoretical innovation in economics be stimulated? Clues to the answer can be derived from the work of theorists who have been recognised for their innovative contributions to economic theory and from the philosophy of scientific progress. This paper takes the view that scientific progress is propelled by the need to address unsolved problems. From problem theory it is derived that these unsolved problems are generated by inconsistent assumptions and slows down theoretical progress for as long as such problems remain unsolved. Gifted economic theorists intuitively recognise logical inconsistencies, and employ various abductive reasoning strategies to find assumptions that remove these inconsistencies. Their research often produces new inconsistencies, and so triggers further theoretical innovation by others. A rational reconstruction of the seminal work of Nobel Prize winners Kydland and Prescott (1977) provides a running illustration, and shows that an understanding of the structure of economic problems can allow more economists to deliver innovative theoretical work.

### **Working Paper 67**

Title: Inflation and Financial Development: Evidence from Brazil

Author(s): Manoel Bittencourt

#### **Abstract**

We examine the impact of inflation on financial development in Brazil and the data available permit us to cover the period between 1985 and 2002. The results - based initially on time-series and then on panel time-series data and analysis, and robust for different estimators and financial development measures - suggest that inflation presented deleterious effects on financial development at the time. The main implication of the results is that poor macroeconomic performance has detrimental effects to financial development, a variable that is important for affecting, e.g. economic growth and income inequality. Therefore, low and stable inflation, and all that it encompasses, is a necessary first step to achieve a deeper and more active financial sector with all its attached benefits.

### **Working Paper 68**

Title: Measuring the welfare cost of inflation in South Africa

Author(s): Rangan Gupta and Josine Uwilingiye

#### **Abstract**

In this paper, we estimate the long-run equilibrium relationship between money balance as a ratio of income and the Treasury bill rate for the period of 1965:02 to 2007:01, and, in turn, use the relationship to obtain welfare cost estimates of inflation. Using the Johansen (1991, 1995) technique, we estimate a log-log specification and a semi-log model of the above relationship. Based on the fits of the specifications, we decided to rely more on the welfare cost measure obtained under the log-log money demand model. Our estimates suggest that the welfare cost of inflation for South Africa ranges between 0.34 percent and 0.67 percent of GDP, for a band of 3 to 6 percent of inflation. Thus, it seems that the SARB's current inflation target band of 3-6 percent provides quite a good approximation in terms of welfare..

### **Policy Paper 01**

Title: From Chimera to Prospect: South African Sources of and Constraints on Long-Term Growth, 1970-2000

Author(s): J. W. Fedderke

Journal: 2006, in Borhat, H. and Kanbur, R., eds., *Poverty and Policy in Post-Apartheid South Africa*, HSRC Press.

#### **Abstract**

The paper takes stock of South Africa's past growth experience during the period 1970-2000. It discusses major factors of growth, including physical and human capital, and institutions, and draws conclusions about the constraints to long-run growth in the future. We highlight three main conclusions on physical capital and uncertainty, market distortions (especially in labor markets), and human capital accumulation. First, empirically, one of the main reasons for South Africa's structurally declining growth rate is its declining investment rate in fixed capital. Investment in South Africa, as elsewhere, responds positively to the rate of return on capital and negatively to the real user cost of capital, thereby providing policy makers with some immediate policy levers. But a key determinant of investment appears to be uncertainty, especially uncertainty that arises from institutional constraints on economic performance. For example, uncertainty in South Africa proves to be crucial not only for investment in physical capital stock, but also for capital flows required in meeting the shortfall of private sector savings relative to private sector investment. Uncertainty affects investment both directly and indirectly, by lowering the effectiveness of the policy levers that the rate of return on capital and the user cost of capital provide. Second, despite considerable liberalization since 1994, there remain significant market distortions in the South African economy in capital, labor, and output markets, including external trade. Much remains to be done to improve microeconomic policies and the efficiency of resource allocation. A continued, high level of market concentration and related market power in output markets, as well as incomplete trade liberalization remains a concern in an increasingly globalized and competitive world. But perhaps the most enduring concern remains the now well-documented distortions in the labor markets. These distortions pose real constraints to long term, labor-absorbing, equitable growth. To alleviate these constraints and engender more robust and widely shared growth, concerted microeconomic reforms are needed. Third, the impact of human capital on growth reflects the twin combination of a declining contribution of human capital accumulation to growth and a declining quality of education. While much has been accomplished to widen and equalize access to education across racial groups, quality of education has suffered. Even the best parts of the schooling and university systems do not seem to produce the sort of educational output required for long term economic growth in sufficient quantity — yet they do so at a relatively high cost. The main policy implications are threefold: (1) South Africa needs to further reduce remaining uncertainty and engender credible, overall policy environment and favorable climate for private sector investment and growth; (2) further microeconomic and regulatory reforms are needed to reduce market concentration and remaining distortions, especially in labor markets and international trade; and (3) while continued emphasis on broad-based education is very much needed to help eliminate the past inequities, strong reforms to monitor and improve the quality of education must also be put in place.

### **Policy Paper 02**

Title: Technical Barriers to Trade faced by South African SMME's

Author(s): Michael A Peet and Steven Koch

#### **Abstract**

South Africa is an open economy, and, therefore, it is affected by what happens in foreign markets. Exports and export growth are cornerstones of South African economic development policy. One of the implications of an export-orientated economy is that many of its SMME manufacturers must, of necessity, conform to the technical requirements in export markets. South Africa will have to follow international conformity assessment trends and adapt to the highest common denominator in many of these markets. The challenges for local compliance with the technical standards, regulatory and conformity assessment regimes are substantial, even when they are transparent; however, when compared to what might be faced by local SMME's addressing technical requirements both closer to home within the local SADC region and in the rest of Africa, the challenges mount exponentially.

### **Policy Paper 03**

Title: Fiscal Incentives for Research and Development

Author(s): J.W. Fedderke and B.G. Teubes

#### **Abstract**

It is often argued that since the social return to R&D exceeds the private return, the government should provide incentives for R&D expenditure. This paper considers the issue of the impact of such incentives on the fiscal position of the government, using a simple comparative static model. In particular, it is argued that it is possible that the social return from R&D might be sufficient to allow R&D incentives to more than pay for

themselves. The model is calibrated to examine what values of the key parameters are required in order for this conclusion to hold.

#### **Policy Paper 04**

Title: Love and Addiction: The Importance of Commitment

Author(s): Steven Koch

Abstract

The bilaterally monopolistic nature of relationships between partners, combined with the addictive nature of love, which represents the emotion people feel during the course of a relationship, results in love growth when relationships are based on commitment. However, in relationships with less than perfect commitment, love will wither, and potentially die. In this paper, the path of love through a relationship is examined under the assumption that love is addictive and that partners may or may not be able to commit to a relationship. The differences in the results suggest that cohabiting partners may, by their very lack of commitment at the outset, be unsuited to successful marriages.

#### **Policy Paper 05**

Title: Higher Education

Author(s): Charles Simkins

Abstract

Statistical information on the output of universities and technikons is set out before the description of extensive policy development in higher education since 1995. These developments are assessed against a changing pattern of Senior Certificate passes and enrolments. The production of teachers is given special consideration, as are private higher education institutions and the higher education programmes of technical colleges. Complex conditions, including conflicting pressures on the higher education system, mean that policy implementation will stretch over a number of years.

#### **Policy Paper 06**

Title: School Quality

Author(s): Charles Simkins

Abstract

Achieving high levels of school quality is difficult everywhere. Aspects of the recent experience of the United States are reviewed, with special attention paid to incentive issues. Statistical evidence on school enrolments since 1980 is presented as a background to resource reallocation since 1994. South Africa's poor school performance in mathematics and science is discussed. Recent initiatives regarding measurement and management of school quality are presented, and South Africa's particular problem of multilingualism is discussed. South Africa needs to work intensively at school quality issues for years to come.

#### **Policy Paper 07**

Title: International Benchmarking of South Africa's Infrastructure Performance

Author(s): Željko Bogetic and Johannes W. Fedderke

Journal: 2006, *Journal of Development Perspectives*, 2(1), 7-31.

Abstract

ABSTRACT: The paper provides a first systematic, comprehensive benchmarking of South Africa's infrastructure performance in four major sectors - electricity, water and sanitation, information and communication technology, and transportation - against the relevant group of comparator countries using a new World Bank international data base with objective and perception-based indicators of infrastructure performance from over 200 countries.

#### **Policy Paper 08**

Title: International Financial Architecture, Macroeconomic Volatility and Institutions: South Africa Experience

Author(s): Melvin Ayogu and Hashem Dezhbakhsh

Extract

Through 43 years of history, this study identifies proximate causes of aggregate volatility in South Africa, the obstacles to managing those volatility risks, and suggests how the country can harness globalization to strengthen financial institutions in order to manage risks better. Macroeconomic volatility is said to influence growth in many ways including its more obvious effect on investment, through affecting the level of uncertainty. Nonetheless, one can argue that not all types of macroeconomic volatility are on balance inimical. In fact, macroeconomic volatility can "manufacture a crisis" that leads to fruitful reforms. However, this aspect of volatility would be viewed as an exception because in general, volatility dislocates existing policies and impairs institutions, thereby rendering an economy more fragile.

### **Policy Paper 09**

Title: The Importance of Courts for Trade Credit in East African Manufacturing Firms

Author(s): Sheshangai Kaniki

<sup>1</sup>Extract

This paper examines the importance of courts for trade credit amongst manufacturing firms in the East African community (EAC). The paper finds that high enforcement costs do not deter the use of courts to settle disputes associated with trade credit. The analysis suggests that when courts function efficiently they are likely to be a more effective deterrent to opportunistic behaviour relative to non-court mechanisms. Further, the paper finds that when enforcement costs are low firms that have confidence in the judiciary to enforce their property rights are more likely to provide trade credit. The paper also considers whether firm characteristics affect the way firms perceive the judiciary's ability to enforce property rights in business related disputes. Where judicial enforcement is efficient firm characteristics are not important. However, when enforcement costs are high, firm characteristics are important implying that firms are capable of swaying judicial decisions in their favour.

### **Policy Paper 10**

Title: Official Revisions to SA National Accounts Data: Magnitudes and Implications

Author(s): Corne van Walbeek

Extract

This paper investigates the bias and dispersion in official revisions of eight national accounting growth rates. The growth in GDP, consumption expenditure and personal disposable income by households has been subject to significant upward revisions and bias, especially after 1994. No significant bias was found in the revisions to the other national accounting aggregates. The official revisions are subject to a high degree of dispersion. Based on the 1984-2003 period, there is a 30 per cent probability that the "final" growth rate in GDE deviates by more than 5 percentage points from the first release growth rate. For most magnitudes, other than exports and imports, the dispersion in South Africa's official revisions is similar to that of a sample of OECD countries. Using two examples, it is shown that the vintage of the data has a profound impact on the magnitude and significance of regression results based on such data.

### **Policy Paper 11**

Title: Day labourers, unemployment and socio-economic development in South Africa

Author(s): A C Harmse, P F Blaauw and C J Schenck

Abstract

One of the most visible forms of unemployment is the men who stand at the side of the road or on corners every day, waiting for any job that may come their way. Blaauw, Louw and Schenck (2006) estimated that there are nearly 1000 places in South Africa where people are picked up and a minimum of about 45 000, mostly black African men, stand at these sites every day, seeking work. The numbers of day labourers tend to vary from place to place. Inequalities in levels of socio-economic development between different areas of a country occur all over the world. South Africa is no exception and the space-economy is characterised by an uneven distribution of economic activities. There are spatial disparities in unemployment that have existed for decades, within and across countries in the global economy. Empirical studies have shown that there is a geographical or spatial coincidence between levels of unemployment and levels of gross domestic product (GDP) per capita (Suedekum, 2005: 165). The disparities in the spatial patterns of unemployment closely resemble the core-periphery structure of regional GDP per capita. The aim of this paper is twofold. The first objective is to highlight some of the basic demographic dynamics of the research population. The second is to investigate the spatial distribution of and the relationship between day labourers, unemployment and the general level of socio-economic development in South Africa.

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