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South Africa's Changing Macroeconomic Policy Shifts: 1994-2010

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ABSTRACT

The purpose of this study is to analyse the changing nature of South Africa's Macroeconomic policy in the post-apartheid era for the period 1994-2010. The key focus of the study is to uncover the factors that are a direct cause or have contributed to the paradigm shifts in policy during the specified period; supplementary to this, the study will look at how the changing paradigms have contributed in ridding the South African economy of its apartheid legacy, characterised by the triple challenges of poverty, unemployment and inequality.

This study has a strong qualitative approach, comprising a comprehensive document review process, as well as 8 in-depth interviews with relevant experts in the field. This is further complemented by a supplementary quantitative analysis of key socio-economic data and statistics. The findings are that the observed paradigm shifts in macroeconomic policy during the period under review are a result of a number of key factors, namely: the changing domestic political discourse; the global and domestic economic climate; and the influence of domestic institutional arrangements, all of which have a direct impact on the policy discourse.

Despite these paradigm shifts, South Africa continues to be faced with the triple challenge of poverty, unemployment and inequality; macroeconomic policy in the democratic dispensation has failed to deliver the core aims of South Africa's economic development strategy. With the failures of orthodox neo-liberal macroeconomic policy, and the apparent shortcomings of Keynesian influenced redistributive macroeconomic policy, the key question facing policy makers is what direction South Africa's Macroeconomic paradigm should follow. The idea of the developmental state, and its success in building emerging economies in South East Asia, is considered a viable option for South Africa to achieve an inclusive growth path.

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To all my interviewees', thank you for your willing participation, this study was enhanced by your contributions. Finally, to all my colleagues in the MM-PP class of 2013, thank you for your continued support.

DECLARATION

I declare that this report is my own, except where authors have been acknowledged. It is submitted in partial fulfilment of the requirements for the degree of Masters in Public Policy to the Faculty of Commerce, Law and Management of the University of the Witwatersrand. It has not been submitted before for any degree or examination in any other University.

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Lunga Maloyi

March 2016

GLOSSARY OF TERMS

ANC:	African National Congress
ASGISA:	Accelerated Shared Growth Initiative of South Africa
FISCAL POLICY:	A decision by government relating to government taxation and spending, with the goal of influencing macroeconomic goals
GEAR:	Growth Employment and Redistribution, a macroeconomic policy introduced as a macroeconomic policy strategy in 1996
GINI-COEFFECIENT	A commonly used measure of income inequality, it measures the extent to which the distribution of income (or consumption expenditures) among individuals or households within an economy deviates from a perfectly equal distribution.
GROSS DOMESTIC PRODUCT (GDP)	The monetary value of all the finished goods and services produced within a country's borders in a specific time period
MACROECONOMIC POLICY	Described as a set of government rules and regulations used to control or stimulate the aggregate indicators of an economy.
MONETARY POLICY	a meaningful policy, used the world over by federal/central banks, for achieving both inflation and growth objectives
NGP	The New Growth Path, introduced as a macroeconomic policy strategy in 2010
POVERTY LINE	The minimum level of income deemed adequate in a particular country
RDP	The Reconstruction and Development Programme introduced as a macroeconomic policy strategy in 1994
SARB:	The South African Reserve Bank
UNEMPLOYMENT RATE	The percentage of the total labour force that is unemployed but actively seeking employment and willing to work

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Chapter 1: Introduction and Background

1.1. Introduction

Macroeconomic policy in South Africa in the period, 1994-2010 has been characterised by a number of paradigm shifts... It is important to contextualise these shifts in the macroeconomic policy discourse by looking at the prevailing economic conditions in the apartheid era and how the post-apartheid macro-economic policy narrative sought to address and change the inherited economy. In the immediate post-apartheid era, South Africa's economy was characterised by slow growth and an economy in domestic recession, the result of isolation from the global economy in part due to international sanctions imposed on South Africa. In conjunction with this, the economy experienced low levels of investment and a declining secondary sector, which led to job losses, coupled with an over-dependence on the primary sectors of mining and agriculture to drive the economy. This situation of economic decline was exacerbated by the scepticism of both domestic and international capital to the new government and the states' focus on reduced government spending and high debt levels.

These factors negatively affected South Africa's economy and this was a catalyst for the introduction of macro-economic policy that would seek to halt the steady decline of the economy. Of equal importance was the need to seek to re-dress the historical inequalities of Apartheid by adopting a pro-poor stance in policy formulation that would rid the country of the socio-economic challenges of poverty, inequality and unemployment. To achieve this, the South African government adopted a number of macroeconomic packages, which it believed would achieve its developmental goals.

The primary purpose of this research paper is to examine the factors that have contributed to the changing paradigms in macroeconomic policy development in South Africa through a qualitative process of extensive document reviews and insightful in-depth interviews with relevant persons. It is the assertion of this paper that the

changing nature of macroeconomic policy can be analysed through the identification of key themes and trends that shaped policy development in the democratic dispensation. Secondly, the paper will review the performance of the economy through a quantitative analysis of statistics and data, especially about its ability to tackle the challenges of inequality, poverty and unemployment.

1.2 Background

In 1994, the ANC-led government inherited a country of great inequities, coupled with high unemployment and a myriad of other socio-economic fault lines. most of this can be attributed to the legacy of Apartheid. Since the days of colonial rule, poverty and unemployment have been overwhelmingly the preserve of black South Africans. According to Knight (2001), 61% of Africans are classified as poor compared to just 1% of whites; in addition the unemployment rate for black south Africans is 42, 5% compared to 4, and 6% for whites. While significant progress has been made in the post-apartheid era, especially in areas of Education, Health, Social Housing and the general provision of basic services poverty and unemployment continue to be widespread while income disparities remain and grow steadily.

In the democratic era, South Africa's macroeconomic policy landscape has undergone a number of shifts and resulted in the emergence of different policy paradigms. The objective of these policy paradigms focused on stabilising the economy and stimulating growth while at the same time ensuring clear developmental needs of the majority of the people are met. According to Naidoo et al (2008), South Africa's Macro-Economic Policy in this said period was characterised by a number of phases,

i) from the period 1994 to 2000 policy was aimed to contribute towards macroeconomic stability through deficit reduction;
ii) 2001 to 2006 macroeconomic policy was used to increase public spending to contribute towards both higher aggregate demand and the delivery of public goods;

iii) 2007 to 2009 macroeconomic policy's role as a contributor to economic stability is re-emphasised in the adoption of a counter cyclical approach, especially about fiscal policy.

Key to this, according to Kearney and Odusola (2010) was the socio-economic goals set by the democratic government, South Africa adopted 5 key developmental goals;

1. Reduce poverty by half through economic development, comprehensive social security, land reform and improved household and community assets;
2. Provide the skills required by the economy, build capacity and provide resources across society;
3. Reduce unemployment by half through new jobs, skills development, assistance to small businesses, opportunities for self-employment and sustainable community livelihoods;
4. Massively reduce cases of TB, diabetes, malnutrition and maternal deaths, turn the tide against HIV and AIDS, strive to eliminate malaria and improve services to achieve a better national health profile; and
5. Reduce preventable causes of death, including violent crime and road accidents.

Macro-economic policy development therefore necessitated working towards some of these objectives by building an inclusive economy that was cognisant of these developmental goals.

1.3 Macroeconomic Policy and Concepts

Macroeconomic policy is described as a set of government rules and regulations used to control or stimulate the aggregate indicators of an economy. These indicators involve national income, money supply, inflation, unemployment rate, growth rate, interest rate and many more all geared towards meeting macro goals (Black, Calitz & Steenkamp, 2008:42). Macroeconomic policy is aimed at the promotion of economic growth and development, the creation of employment, the improvement of living conditions and reducing the unequal distribution of income between respective participants in the economy (Aron and Muelbauer, 2006:121)

1.3.1. Fiscal Policy

Fiscal Policy is defined as a decision by governments relating to government taxation and spending, with the aim of influencing macroeconomic goals (Murwirapachena, 2011:42). Fiscal policy can also be defined as decisions by national government regarding government expenditure, taxation and borrowing aimed at pursuing particular goals (Black, Calitz & Steenkamp, 2008: 21). Fiscal policy greatly influences macroeconomic policy, as Kopcke et.al (2007) states, fiscal policy affects aggregate demand, the distribution of wealth and the capacity of the economy to produce goods and services. The aim of fiscal policy is to stimulate economic and social development by actively pursuing a policy stance that ensures a balance between taxation, expenditure and borrowing that is consistent with sustainable growth (Ocran, 2009:61)

There are two main distinct approaches or theories on fiscal policy and its effect on economic performance. These are the Structural Approach to fiscal policy and the Keynesian approach, which is often termed counter cyclical. The Keynesian approach to fiscal policy calls for governments to actively manage the economy's aggregate demand so that it equals aggregate supply; it encompasses practical efforts to expand or contract an economy by means of fiscal policy. This approach advocates for counter-cyclical measures in fiscal policy (Black, Calitz & Steenkamp, 2008:18). This

is especially so in times of market failures where the economy has greater difficulty adjusting to market disturbances (Kopcke et al., 2007:21).

The Structural approach holds a differing view, which sees the economy as an active agent, which quickly returns to full capacity whenever shocks occur. Under these conditions, there is no need for changes in fiscal policy in order to stabilise the economy (Kopcke et al, 2007; 103). The Structural approach calls for decreased public spending in an effort to avoid the unintended consequences of crowding out private investment, which is a key driver of growth. It calls for a reduction in public debt and a tax regiment that encourages saving and investment (Black, Calitz & Steenkamp, 2008: 62).

There is a clear difference in the points of departure of both approaches with regards to how fiscal policy should be used in times of economic downturns, and how fiscal policy should be used to encourage a culture of saving by cutting back on public spending and avoiding high debt levels. Both these approaches find resonance within the macroeconomic discourse of the democratic dispensation as will be illustrated in the research

1.3.2 Monetary Policy

Monetary policy has taken on many guises and definitions; however, it generally boils down to adjusting the supply of money in the economy to achieve some combination of inflation and output stabilization (Mathai, 2009: 3). Monetary policy is a meaningful policy, used the world over by federal/central banks, for achieving both inflation and growth objectives (Mathai, 2009:4). Monetary policy is often used as the countercyclical policy of choice, for example in times of economic recession which leads to a decline in consumer spending coupled with a decline in production and investment, and subsequently an overall decline in aggregate demand, governments can respond with a policy which leans against the direction in which the economy is headed, such a countercyclical policy would lead to the desired expansion of output (Mathai, 2009:4).

The overall objective of monetary policy is to create a stable financial environment conducive to the pursuit of overall economic activity. In terms of its goals, monetary policy aims to achieve the following (Black, Calitz & Steenkamp, 2008:18)

:

- ***Relative price stability***- The situation whereby the prices of goods and services offered in the marketplace either change very slowly or do not change at all, factors affecting this include employment and inflation;
- ***Balance of Payments Equilibrium-***Balance of payments equilibrium occurs when induced balance of payments transactions, those engineered by the government to influence the nominal exchange rate, are zero;
- ***Stable and Optimal Economic growth***-maintaining positive levels of economic growth in the economy; and
- ***High levels of employment***-Increasing employment

Monetary policy, as espoused by central banks globally, can best be described as orthodox. This is especially evident in the progressive liberalisation of foreign exchange controls and the focus on inflation (Roberts, 1997: 81). The monetary policy stance of central banks can be said to be consistent with orthodox neo-classical theory and financial liberalisation literature that is premised on the notion that growth will be private sector driven with minimal government intervention (Roberts, 1997: 81).

There have been three broad monetary policy regimes in South Africa since the 1960's, prior to the current inflation-targeting regime namely:

- ✓ The *liquid asset ratio-based system*; this was made up of quantitative controls on interest rates and credit, and was operational until the 1980s.
- ✓ The second regime was the *cash reserves-based system*; which encompassed technical changes to asset requirements and the re-definition of the role of the discount rate-which influenced the cost of overnight collateralised lending and hence market interest rates, this regime was operational from 1985 onwards.

- ✓ A third regime was introduced in 1998, with the repurchase (repo) interest rate being determined by the market through repurchase transactions. Initially there was little difference in interest rate behaviours between the second and third regimes (Aron and Muellbauer, 2006:31).

The South African Reserve Bank (SARB) sets the monetary policy framework of South Africa. In conjunction with the South African government's commitment to reducing the fiscal deficit, the Reserve Bank's interest and exchange rate policies constitute a particular choice about the broad economic strategy to be followed (Roberts, 1997: 83). The Reserve Bank has a dual policy objective, to contain inflation through interest rate policy that is based on monetary targets, and to stabilise the nominal exchange rate by preventing appreciation of the currency (Aron and Muellbauer, 2006:33).

The current Monetary Policy Framework or regime can be described as inflation-target based. The targeting of monetary policy at inflation is based on the premise that inflation inhibits the effectiveness of the market; therefore, reducing inflation enables relative prices to be more clearly perceived in the market (Roberts, 1997:83). Inflation targeting was adopted in 2000-2001 and was aimed at enhancing policy transparency, accountability and predictability. The inflation target aims to achieve a rate of increase in the overall consumer price index, excluding the mortgage interest cost (CPIX) of between 3 and 6 %per year, (Aron and Muellbauer, 2006: 19).

1.4. Macroeconomic Policy in South Africa: 1994-2010

The South African government introduced a number of key macro-economic packages in the period 1994-2010. These were the Reconstruction and Development Programme (RDP), which was introduced in 1994. The GEAR policy emerged in 1996, the third macro-economic package to emerge was the Accelerated Shared Growth Initiative (ASGISA). The New Growth Path emerged as a pinnacle document of South Africa's economic policy in 2010.

1.4.1 Reconstruction and Development Programme (RDP)

In the early 1990s, labour unions, social and civic movements began to develop a plan for the social transformation that was needed in the post-apartheid era. A process developed which involved extensive consultations that took place with the liberation movement, the African National Congress (ANC), its allies and a number of experts, which resulted in the drafting of the RDP in 1994 (Knight, 2001:32). The RDP was the major guiding policy document of the new government and was introduced as a White Paper immediately after the ANC took power. The White Paper described the RDP as an integrated, coherent, socio-economic policy framework, which seeks to mobilise the country's resources toward the eradication of the legacy of apartheid and work towards building a democratic, non-racial, non-sexist society (Koma, 2013:47).

The RDP was aimed at addressing the many social and economic problems that plagued the country at the time. A key aspect of the RDP was that it linked reconstruction with development; it recognised that all the problems (housing, health, inadequate education etc.) are connected, and it proposed job creation through public works. Under this programme, the five (5) key goals were (Knight, 2001:37):

i. meeting basic needs;
ii. developing human resources;
iii. democratising the state and society;
iv. building the economy; and
v. the implementation of the RDP

The RDP was premised on the theory of redistributive economic development through the active use of fiscal expenditure. The main objective of the policy was an attempt to redress the socio-economic imbalances of the past. The RDP is based on the assertion that reconstruction and development are part of an integrated process, and that they have to take place in tandem. This is in contrast to a view that growth and development are mutually exclusive, the pursuance of one often leads to the neglect

of the other. Economic growth is commonly seen as the priority that must precede development; development is viewed as a marginal effort of the redistribution agenda (Polities, 1995:5).

The RDP aimed to stimulate the economy through measures such as curtailing government spending; tax reduction, government fiscal deficit reduction; and expansion of the social service net to include previously disadvantaged people (Kearney and Odusola, 2010:24). One of the major challenges of the RDP was the failure of the market to respond as predicted. The government had hoped to create enough demand in the market in order to put the economy on a positive trajectory again. Part of the reason this did not materialise was that the economy did not have the industrial capacity to respond to the demand.

1.4.2 Growth Employment and Redistribution (GEAR) and the Accelerated Shared Growth Initiative (ASGISA)

In 1996, government introduced the Growth Employment and Redistribution (GEAR) programme. GEAR is a macroeconomic framework that was adopted by the then Department of Finance, aimed at strengthening economic development, broadening employment and redistribution of income in favour of the poor. Key among its goals were the attainment of increased economic growth, reigning in inflation, increasing employment to levels above the then number of economically active people, relaxation of exchange controls, and reduction of the budget deficit (Knight, 2001:48).

GEAR was formulated reactively in response to a crisis in the foreign exchange market, which threatened to diminish the few economic gains that had been made since the advent of democracy (Koma, 2013:149). According to the GEAR strategy published by the then Department of Finance in 1996, a number of critical considerations were taken into account in shaping the framework. Firstly, the context of low growth (3%) without any significant improvements in labour absorption meant that the prospects for improved job growth were limited. Secondly, in light of such restrained growth, the scope for increased public spending on social services would

be severely limited. Thirdly, the balance of payments remained a structural barrier to growth given the country's continued dependence on imported capital and intermediate goods; this was compounded by exchange rate instability that presented a threat of further capital outflows and a balance of payment crisis.

The objective of the GEAR programme was achieving macroeconomic balance in the South African economy through a reduced budget deficit and stable rate of inflation; the second objective was to ensure the economy gets on a 6% growth path by the year 2000; the third objective was redistribution through job creation which was to be realised through economic growth and labour market reforms. Kearney and Odusola 2010) state that key to this strategy were the following objectives that underpinned it:

FASTER FISCAL DEFICIT REDUCTION
EXCHANGE RATE POLICY
CONSISTENT MONETARY POLICY
REDUCTION IN TARIFFS TO CONTAIN INPUT PRICES
GRADUAL RELAXATION OF EXCHANGE CONTROLS
TAX INCENTIVES TO STIMULATE NEW INVESTMENTS
REGIONAL EMPHASIS IN INDUSTRIAL INFRASTRUCTURE DEVELOPMENT;
TRADE AND INVESTMENT
LABOUR MARKET FLEXIBILITY
SOCIAL SERVICE SPENDING AND POVERTY REDUCTION PROGRAMME

In 2006, in light of the limited impact of the GEAR policy, a new policy framework was adopted entitled the Accelerated Shared Growth Initiative (ASGISA) whose main aim was to halve the number of the population in poverty by 2014. This framework targeted massive expansion of infrastructure and skills; planned spending on infrastructure amounted to nearly 5% of the Gross Domestic Product per annum up to 2010, with a parallel increase in human resources allocated for skills development and education (Koma, 2013:152). ASGISA aimed to boost job creation by prioritising the tourism and business process outsourcing (BPO) sectors, both of which are labour intensive export sectors (Koma, 2013:152).

ASGISA was launched as a coordinating framework to enable achievement of new government goals of a massive reduction in unemployment and poverty between 2004 and 2014 (Kearney and Odusola, 2010:52). There was an explicit aim of accelerating economic growth to an average of at least 4.5% between 2005 and 2009, and further to a 6% average annual rate between 2010 and 2014. However, a number of constraints were identified that were impeding desired growth in the economy. Kearney and Odusola (2010), identified these as follows:

Volatility and level of the Rand - this volatility deterred investors in tradable goods and services.

The cost, efficiency and capacity of the national logistics system - backlogs in infrastructure and investment that do not encourage competition, raising costs.

Shortage of suitably skilled labour - amplified by the impact of apartheid spatial patterns on the cost of labour, the legacy of an inferior education system and irrational patterns of population settlement.

Barriers to entry, limits to competition and limited new investment opportunities - the economy remained relatively concentrated, especially in upstream production sectors.

Regulatory environment and the burden on small and medium businesses - mediocre performance of the small, medium and micro business sector in term of contribution to GDP and employment.

Deficiencies in state organisations, capacity and leadership - weaknesses in organization and capacity of key government institutions

The ASGISA strategy recognised the need to counter these binding constraints as a way to foster inclusive growth; it therefore recommended a number of interventions. These interventions did not propose a shift in economic policy as much as they served as a set of initiatives to achieve objections that have already been set out more efficiently. According to the ASGISA summary document, the response to the binding constraints fall into 6 categories namely (The Presidency, 2014:12):

1 ***Infrastructure programmes***: this includes ramping up public-sector investment, bulk of which is to be allocated to public enterprise. Public sector infrastructure spending is considered to have significant spin-offs in terms of regenerating domestic supply industries; small business development.

2 ***Sector Investment Strategies***: preparation of sector studies and their implementation including the drafting of the National Industrial Policy Framework.
3 ***Education and Skills Development***: includes medium-term educational interventions to raise skills levels in areas needed by the economy and other interventions to address the poor education system.
4 ***Eliminating the Second Economy***: by leveraging increased public expenditure to promote small business; tapping into other opportunities such as the 2010 FIFA World Cup; broad based empowerment; expansion of the Public Works Programme.
5 ***Macro-economic issues***: find strategies to reduce the volatility and overvaluation of the currency, ensure that within the inflation-targeting regime fiscal and monetary policy work in tandem. Furthermore, improve budgeting at the level of government and ensure efficient expenditure management.
6 ***Governance and Institutional Interventions***: minimise institutional interventions as they are costly, where possible existing institutions should be levered into new functions.

1.4.4 The New Growth Path

Note: For the purpose of this study, this section is dedicated to unpack the New Growth Path, as per the timeframes of the study, however an analysis of the impact of this policy will not be done as the timeframes for the evaluation of the Policy fall outside the ambit off the study. However, a short critique of its jobs projections will be included in the findings of the study.

In 2010, the newly founded Department of Economic Development, under the stewardship of Minister Ebrahim Patel, introduced a new economic policy, the New Growth Path, which was underpinned by a number of policy packages. The New Growth Path emphasised job creation in the main, through, amongst others, rural development; agriculture; skills development; science; mining; tourism and social development (Koma, 2013:161).

The New Growth Path arose out of a changing economic environment that emerged during the global economic recession of 2008. The global economic downturn had a negative impact on growth levels of the South African economy, with a 3% reduction in GDP from 2008 to 2009. Job losses were also severe, as employment dropped by a million jobs from 2008 to 2010 (New Growth Path, 2010). To reverse this situation, the New Growth Path policy set an aspirational target of creating five (5) million jobs by 2020, the achievement of which would ensure half of all working age South Africans would be employed. This would drop unemployment down to 15% from the then 25%. In order to do this, the employment intensity of growth must be kept between 0.5% and 0.8%, while the growth in Gross Domestic Product should ideally rise to between 4% and 7% per annum (New Growth Path, 2010: 8).

The NGP identifies what it terms “fundamental bottlenecks and imbalances in the economy” which are an impediment to growth and job creation (Kaplan, 2013:31):

a. Over-dependence on the minerals value chain, leading to the high emissions-intensity of the economy;
b. Weaknesses in the state’s use of commodity-based revenue for economic diversification and skills development;
c. Bottlenecks and backlogs in logistics, energy infrastructure and skills, which raise costs across the economy, and which are manifested most obviously in capacity constraints in the generation of electricity;
d. Continued economic concentration in key sectors, permitting rent-seeking at the expense of consumers and industrial development; and
e. A persistent balance-of-trade deficit funded with short-term capital inflows attracted largely by high interest rates.

The New Growth Path then identifies 5 key Job drivers that are expected to bring about the 5 million jobs (New Growth Path, 2010).

1. Substantial investment in infrastructure to create direct employment by improving efficiency across the economy.
2. Targeting more labour-absorbing activities across the main economic sectors

3. Seeking new opportunities in the knowledge and green economies (new economies).
4. Leveraging social capital in the social economy.
5. Fostering rural development and regional integration.

1.5 Problem Statement

In the period 1994-2010 South Africa's macroeconomic policies have undergone a number of shifts as the government attempted to address the socio-economic problems faced by the country. These shifts are to be understood in the context of the changing needs of the society, the new democratic dispensation had to ensure greater inclusivity especially on the part of the previously disadvantage. The discourse of macroeconomic policy has been subject to debate from various interest groups, contestation has arisen as the different interest groups are advocating for different policy regimes that they view would best suit the economic development aims of the country as well as rid the economy of its socio-economic challenges, this has manifested itself in the changing and or shifting of macroeconomic policy in an effort to accommodate these differing views. The policy narratives that have been introduced in South Africa have had a mixture of successes and failures. The biggest challenge has been to agree to one Policy paradigm and its total uninterrupted implementation, in this context of relative 'policy uncertainty', what has been the impact on the developmental goals of the country?

These shifts have also impacted on the issue of the centrality of the state as a role player in the economy , in the time of the RDP, South Africa witnessed great government intervention especially in fiscal policy to achieve a number of socio-economic goals. This was preceded by the GEAR-ASGISA phase, which negated and discouraged government intervention in the economy and advocated for the centrality of the market, later on with the introduction of the New Growth Path policy framework we saw a return to the centrality of the state as a key role player in the economy. The changing or shifting nature of macroeconomic policy in South Africa has led to policy uncertainty and consequently limited the impact that policy has had in driving the

developmental mandate of South Africa, especially the socio-economic indicators of poverty, unemployment and inequality. This study will aim to unpack, in the context of relative policy uncertainty, what has been the impact of these shifts on the developmental indicators of the country.

1.6 Purpose of Study

In the context of these policy paradigm shifts, the purpose of this study is to review the changing paradigms of policy making with regards to macroeconomic policy in South Africa. Key to this would be to analyse the factors that have led to policy shift in the macroeconomic policy development space.

Secondary, the study aims to unpack what has been the impact on the developmental goals of South Africa by outlining key economic indicators and comparing performance of each policy with respect to these indicators, a specific focus will be on three main indicators - Unemployment, Poverty, and Inequality as they are central to South Africa's developmental goals. There is a common narrative that suggests that Government has failed to address these challenges since the advent of democracy.

This study is important in unpacking the underlying reasons for policy shifts in South Africa's macroeconomic discourse and identifying the influencing factors to policy change and to show how this has affected the country's development.

1.7 Research Questions

This study is premised on one Primary research question and a number of secondary research questions that aim to unpack the primary research question. These secondary questions will also be conceptualised in the interview questions for the purpose of in-depth exploration.

Primary Research Question

1. How have the changing macroeconomic policy paradigms contributed to the non-attainment of the developmental goals of post-Apartheid South Africa.?

Secondary Research Question

1 What are the macro-economic policies that have emerged in post-apartheid South Africa?

2 What has been the impact on development of each policy paradigm (a review of performance of key economic indicators-poverty, unemployment and inequality)?

3 Which macro-economic policy package has best suited the needs of a democratic South Africa?

4 What necessitated the shift in macro-economic policy in the said era, and its impact on achieving full employment, reducing poverty and inequality?

Chapter 2: Literature Review

2.1 Introduction to Literature Review

The purpose of a Literature Review is to explore the existing literature in one's field of study and to identify the following (Bryman, 2012:14):

- What is already known about the area of work?
- What are the relevant concepts and theories?
- What research methods were employed in conducting the study?
- Are there any inconsistencies in the findings?
- Are there any unanswered research questions in this area?

Literature review is important as it involves learning and careful readings of other available bodies of work by researchers and scholars leading towards answering the research questions. Sources of literature review may involve books, journals, presentations and relevant information from related websites. A literature review should be guided by the research question, but in addition, the literature review should be used to show why the research question is important (Bryman, 2012:14).

In addition to exposing the researcher to work that has already been undertaken in their field, literature review is also important in guiding the study of the researcher. It gives insight to what is already available, but also can point to where the gaps exist in the field of study and helps to direct the researchers focus in uncovering new areas/sub-genres related to the field of study.

Literature review is an important aspect of research as it assesses existing information in the chosen field of study. In addition, the literature review should describe, evaluate and clarify the literature (Boote and Beile 2005:27). There are four (4) main goals of a literature review (Neuman, 2014:38):

1. To demonstrate a familiarity with a body of knowledge and establish credibility
2. To show the path of prior research and how the current project is linked to it
3. To integrate and summarise what is known in an area.
4. To learn from others and stimulate new ideas.

2.2 Literature on South Africa's Macroeconomic policy

The focus of the literature on South Africa's post-apartheid macroeconomic policy has been on reviewing the performance of the economy in its entirety. Little work has been done in researching the underlying factors that led to the emergence of each Policy Paradigm.

2.2.1 Macroeconomic Policy Phases

One research that has unpacked the performance of the South African economy is that commissioned by the National Treasury in 2008, titled *Fifteen Year Review of Fiscal Policy in South Africa*. This Paper was authored by Kuben Naidoo; Owen Willcox; Peter Makgetsi; Joan Stott. In their assessment of macro-economic policy through the three-phases approach, 1994 to 2000 (the consolidation phase), 2001 to 2006 (the expansion phase) and 2007 to 2009 (the investment for growth phase) the authors argued that "during the first phase, fiscal policy aimed to contribute towards macroeconomic stability through reducing the fiscal deficit. During the second phase, fiscal policy was used to increase public spending to contribute towards both higher aggregate demand and to public service priorities. In the third phase that we are now in, fiscal policy's role as a contributor to macroeconomic stability is re-emphasised in the adoption of a counter cyclical approach to fiscal policy." (Naidoo et al., 2008: 3).

2.2.2 Policy Change Drivers

In the analysis, no distinct differentiation is made between the different policy dispensations, namely the RDP, GEAR and AsgiSA, Instead macroeconomic policy is viewed as having undergone different shifts while the principles have remained the same (Naidoo et al., 2008:23). In this analysis GEAR and the RDP are grouped in the same category, they argue that while RDP was meant as a measure to develop and distribute public goods in order to alleviate poor socio-economic conditions, it then had to undergo a dramatic shift.

This was necessary for the following reasons (Naidoo et al., 2008:23):

i. Firstly South Africa had a very low savings;
ii. Secondly, borrowing from abroad was seen as expensive and risky, the new government was sceptical of borrowing from international finance institutions like the World Bank or the IMF because of the experience of Structural Adjustment Programmes across much of Africa;
iii. Thirdly, the capacity of the public service to roll out a massive investment programme was far short of expectations; the trend in the South African economy was that when public spending increased and domestic demand rose, domestic suppliers were not able to respond to the increased demand.

The RDP proposed an increase in the delivery of social goods through social spending especially in social infrastructure; however, it advocated for the diversion of spending from other government priorities such as defence and state owned companies (Naidoo et al., 2008:24).

In this period, fiscal policy aimed to contribute towards macroeconomic stability through the reduction of the fiscal deficit. Fiscal policy was also used to increase public spending to contribute towards public service priorities. However, it was soon realised by the government that there was a need to accelerate growth in order to effectively implement the goals of the RDP. Therefore, while the social imperatives of the RDP were important, these reasons necessitated the introduction of GEAR.

The policy framework that has determined the economic trajectory of post-apartheid South Africa has been the Growth, Employment, and Redistribution (GEAR) policy. The policy was launched in the context where the currency was depreciating and foreign exchange reserves were at an extremely low level (Heintz, 2003:19). GEAR proposed a set of policies aimed at the rapid liberalisation of the South African economy, these policies included a relaxation of exchange controls, trade liberalisation, labour market flexibility, budget deficit reduction targets and monetary policies aimed at strengthening the rand (Heintz, 2003:19). In his analysis of South Africa's post-apartheid macroeconomic policy and by extension the performance of the economy, Heintz (2013) focuses on four factors, namely growth, investment, unemployment and redistribution.

Hanival and Maia (2009), in their paper *An overview of the South African Economy*, expand on the evaluation of the economy, they argue that in terms of the macroeconomic policy, the RDP was a socio-economic programme as opposed to an integrated macroeconomic policy framework. The implementation of its full vision depended on access to substantial resources, requiring complementary policy initiatives. GEAR on the other hand was said to be a macroeconomic and social development policy framework, whose key strategic goals included, fast-tracking economic growth in order to generate formal employment; redistributing income and generating opportunities for the poor; creating a society in which sound health, education and other services are available to all; and enabling an environment in which homes are secure and places of work are productive (Hanival and Maia, 2009: 13).

The impact of GEAR however is said to have been negatively affected due to external factors such as the Asia crisis of 1998 and a further period of global instability which set in in the new millennium, with the rand depreciating by 21% in nominal terms against the US dollar between September and December 2001(Hanival and Maia, 2009: 13).

Koma (2013), in his work *The Trajectory of economic development policies in South Africa*, argues that the review of the performance of the economy should be located in the broader historical background of the economic trajectory and the economic policies that were in place. He further argues that the triggers for the shift in economic policy can be understood through a myriad of issues: the RDP sought to achieve both social and economic imperatives and thus the economic imperative of the RDP was not clearly articulated. Furthermore, the economic crisis of the mid-1990's appeared to have surpassed the capacity of government through the RDP to cushion the economic effects of the crisis on the South African economy. Therefore, the formulation of GEAR should be viewed in this context and background; the GEAR policy had clear targets and indicators for fast tracking the economic growth and job creation.

2.2.3 Impact of Policy Change on Economic Performance

The development and implementation of macroeconomic policy since 1994 has made a positive contribution in achieving faster economic growth and enabling government to dedicate increasing resources to improving the lives of South Africans (Barnard and Lysenko, 2011:52). The impact of this, in terms of alleviating poverty, unemployment and equality, however cannot be readily stated.

Du Plessis and Smit (2005), wrote extensively on South Africa's growth in the post 1994 era, 1995 to 2004, the real GDP growth rate for the decade since 1994 (i.e. 1995 – 2004, inclusive) was 3,0% and in per capita terms 1,0%. Positive growth levels have been experienced since the advent of democracy this has led to other significant positive spin-offs, but has also produced a phenomenon labelled "jobless growth."

Leibbrandt, *et al.* (2010), write comprehensively about the trends in South African income distribution and poverty since the advent of democracy, and provide an empirical description of inequality and poverty over the post-apartheid period. Furthermore, though there has been a nominal decrease in poverty and inequality (in terms of income distribution and household income levels), an assumption is made that it will take longer for real decreases in poverty and inequality levels to materialise. However, the role of micro-economic packages, such as the social grant, are

highlighted as key factors in confronting the issues of poverty and inequality. Notwithstanding, an over-reliance on the social grant system is said to have long term negative effects in terms of dependency and a negative impact on employment growth.

Heintz (2003) further unpacks the unemployment crises of the South African economy in the post-apartheid period, in what he terms “jobless growth’’. He argues that the economy shed jobs throughout this period, pushing up unemployment rates. He further states that although the economy has experienced positive growth, this has not led to growth in employment. Growth in public employment helped to stem the tide of negative growth in employment, however, beginning in 2000, total employment actually declined suggesting that government employment policies are contributing to the unemployment crisis.

Heintz (2003) asserts that average incomes have not increased significantly in the democratic era. An analysis of income distribution outlines the impact of how economic policies have addressed the legacy of inequality left by the apartheid regime. The extent of inequality in South Africa is dramatic: in 2000, the poorest 20% of households in South Africa received just 1.63 % of all income, while the richest 20 & of households received 35 % of total income. The extent of inequality has increased over time. Heintz (2003) argues that the increase in inequality is reflected in the country’s Gini-coefficient, the Gini-coefficient for South Africa rose from 0.56 in 1995 to 0.57 in 2000, although the change is minimal it does suggest that South Africa is not moving in the right direction in addressing inequality.

2.2.4 Critique of Prevailing Macroeconomic Policy

Adelzadeh (1996), in his Paper *From RDP to GEAR: The Gradual Embracing of Neo-Liberalism in Economic Policy*, is critical of GEAR, especially of its growth forecast. He states that the projected growth rate is based on a number of flawed assumptions. These are as follows:

a) That `crowding out' (of private investment by government) is an important phenomenon in South Africa

b) That deficit reduction will result in a declining interest rate

c) That an increased current account deficit is consistent with a lower interest rate

d) That a lower interest rate will impart a strong stimulus to private investment.

All of this, Adelzadeh asserts, hinges the success of GEAR wholly on the response of the private sector, and provides for very little fiscal stimulus to reach the required growth targets. Adelzadeh (1996) further critiques GEAR's assertion that the prevailing fiscal paradigm is unsustainable, and therefore it proposes a reduction in the fiscal deficit by reducing government expenditure. This, he states, has a profound negative impact on the achievement of RDP objectives of transforming the inherited patterns of inequality.

Heintz (2003), also critiques GEAR, arguing that the post-apartheid South African economy has been unable to deliver on the targets set out in GEAR. The annualised growth rate of 3%,over this period, was only half that projected in the GEAR forecasts The policy also did very little to enhance socio-economic development in the country. Heintz (2003) highlights that inflation has come down over this period; however, the price paid for low inflation has been relatively higher real interest rates, which likely dragged down economic growth. Furthermore, the decline of the rand led to the re-emergence of inflationary pressures, which led to the rapid increase in the prices of basic food items. On the other hand, positive strides were made in the reduction of the budget deficit; this has, however, not had the desired effect of revitalising private investment.

Koma (2013), asserts that the limitation of the GEAR policy stemmed from its setting of ambitious and unrealistic targets. This is manifested by the failure of the policy to reach its targets by the early 2000s.The introduction of ASGISA attests to this abovementioned point. The fundamental goal of ASGISA was to, amongst others, accelerate growth and employment creation as a result of the poor performance of GEAR. ASGISA's goals were also set in line with the Millennium Development Goals for 2015. Koma (2013), explains that the life span of the ASGISA policy was short lived due to two factors - the change in the political landscape, which brought about a new political leadership, and the emergence of a new economic crisis in 2008, which necessitated change in the economic policy of the country through the introduction of the New Growth Path (NGP). The government believed that the NGP contained the necessary measures to stave off the negative impacts of the global recession such as slow and stagnant growth and job losses.

2.3 Theoretical Framework

Most social research is grounded in theory. This helps to shape the nature of the research, and provides a navigational tool in terms of guiding the research. There are a number of contending economic theories; for the purposes of this study, it will be prudent to focus on economic theory and the different strands of economic theory. This study is grounded in the theories of Classical Economics, Keynesian Economics and the Developmental State Theory. All these theories have varying views concerning economic theory-in the context of policymaking.

Analysis of the literature review in terms of the changing paradigms of macroeconomic policy development, specifically about the centrality of the state is identified as integral in these policy changes. There are different views in the theories mentioned above with regards to the involvement of the state in shaping macro-economic policy. This thesis attempts to understand the factors that led to the policy shifts in macroeconomic policy in the context of these three prevailing economic theories.

There have been significant transitions in the theoretical ideology and/or frameworks that underpinned economic theory globally. While in the post-World War 2 era of the 1950's to 1970's, in light of the success of the post war construction in Europe, there was a shift towards the recognition of the state as playing a key role in improving the welfare of the people and the structural transformation of the economy. The structural approach was very dominant and common in most developing nations in the said era (Unesco, 2013; 3).

The structural approach lost its attraction in the 1980's onwards with the onset of increased balance-of-payment crises due to the energy crisis, combined with declining commodity demands. Gradually, economies that were structuralist in nature were viewed as inferior to capitalist economies. This led to the re-birth of free market liberalisation, with most states forced to revert to re-affirming the centrality of the market in economic development. This was evident in the emergence of the so-called 'Washington Consensus', which brought about policy prescriptions of Structural Adjustment Programmes (SAPs) that recommended reforms which postulated the minimum conditions for developing countries to develop (Backhouse, 2004:131). It is, however, suggested that this thinking or theoretical basis has come full circle with the advent of the global economic crises of 2007. Many countries, including developed countries, undertook state-led financial and economic interventions and measures in order to rescue their economies. This strengthened the development theory that advocates for increased state intervention in the economy. During this period, the Developmental State Theory gained traction in many countries (UNESCO, 2013; 7).

Structural (Keynesian) economic theory can be said to have its roots in Classic Socialist theory. Its point of departure is that the market does not produce socially desirable outcomes. Posner (1974) concurs by asserting, under his 'public interest' theory, that government action is supplied in response to the demand from the public for the correction of inefficient or inequitable market practices. Government can also provide public goods and services through public ownership (Fourie & Mohr, 2008:61). Blinder (2004), lists a number of other objectives for government interventions besides market failure; key amongst these are the following:

1. ***Maximize Social Welfare***: this can include the provision of certain public goods
2. ***Macro-economic objectives***: This may include efforts to counteract economic cycles by employing pro-employment policies during times of economic recession
3. ***Socio-economic objectives***: efforts to achieve desired income distribution
4. ***Economic Regulation***: protect consumers, industries etc.

The principles of Keynesian Economics seem to resonate in the adoption and implementation of the RDP programme. State intervention is evident in the economy, in an attempt to redress 'market imperfections' that were a result of the unjust system of apartheid, which marginalised the majority from the market economy through repressive laws and regulations.

The second theory that will shape this study is the Classical Economics theory, According to this theory, macroeconomic policy should encourage the minimal involvement of the state in the economy. In Classical Economics, markets are best suited to improve the allocation of scarce resources; and productive and dynamic efficiency (Blinder, 2004:72). This principle is readily visible in the emergence of GEAR, where government intervention was reduced. This had a number of effects on the economy. On the positive side, it led to exponential GDP growth. Adversely, this did not translate to tangible socio-economic benefits such as employment growth.

Macroeconomic policy making in the post-apartheid era will then be understood through these two countervailing bodies of thought on economic theory especially pertaining to the role of the state in the economy.

Macroeconomic theory has long featured two general views of the economy, as mentioned above. In modern times, a third economic theory has emerged which has its roots in development and social theory. Onis (1991), contends that this new theory attempts to transcend the "structuralist" development theory which downplayed the

key role of markets in development, while similarly aiming to transcend the neo-classical assertion which moved to the opposite extreme and interpreted all successful development as the outcome of free markets and the restriction of state intervention in the economy. It advocates for the appropriate balance and or mixture of market orientation and government intervention, of equal importance is the issues of institutional and political arrangements.

2.3.1 New Classical (Neo-classical) Economic Theory

Neo-classical/New Classical economic theory has its roots in the broader neo-liberal ideology steeped in the notion of free market liberalisation as espoused by theorists such as Adam Smith. In his work (*Wealth of Nations, 1776*), considered by many to be the foundation on which modern day capitalism is built, Smith argued that the two key institutions of free competitive markets and private property could and would automatically channel individual self-interest into a societal utopia without need for state interventions or controls. The first point of departure of New Classicalism, as espoused by the discourse of Classical Economics, is that market supply and demand decisions are made by rational beings or agents, and therefore can be presumed to be efficient. This rationality will generally lead to socially desirable outcomes (King, 2004:17). In essence, if market economies are left to regulate themselves, they will produce the most optimal socially desirable outcomes for all. It is within this context that this theory calls for minimal government intervention. market economies are seen as capable of reversing any form of possible market imperfections, where necessary government intervention will take the shape of establishing a regulatory or enabling framework within which economic agents will thrive.

An example of this theory is the theory of *laissez faire economics.* In free market economies, government is of the view that markets are best suited to improve the allocation of scarce resources; and productive efficiency (Blinder, 2004:23). It is within this context that the call for minimal intervention in economic activity by the state can be understood. This theory outlines a number of inherent government deficiencies that would ultimately undermine all efforts to intervene efficiently in the market, these

include a cumbersome and inefficient bureaucracy lead by politicians and intervention can be slanted to advance the interests of a specific interest group. Posner (1974), in his theory of 'capture theory', asserts that economic regulation or intervention is supplied in response to the demands of interest groups struggling amongst themselves to maximize the incomes of their respective members. Fourie & Mohr (2008) refer to these deficiencies as government failure; they assert that government intervention has to be understood by analysing the decision makers in the public sector and the prevailing interest of interest groups.

Fourie & Mohr (2008) contend that politicians are seen as vote-maximising agents who make decisions that are not necessarily efficient, and these, in some cases, lead to an over-supply of goods and services by government. Similarly, bureaucratic failure is the result of bureaucrats not being subject to competition and the whims of profit making. Inefficiencies can thus persist in such environments. By contrast, the market creates various pressures for internal efficiencies. In the post Keynesian era, efficiency was seen as dependent on the availability of markets that could establish competitive prices for goods and services and regulation is seen as creating a distortion in resource allocation (Backhouse, 2004:41).

Another identified source of government failure is 'rent-seeking' behaviour. Fourie & Mohr (2008) identify this as attempts by private agents or groups to benefit at the expense of society this is done by influencing government behaviour to suit specific interests. Governments are, in such cases, easily persuaded and manipulated. the effects of this phenomenon can only be addressed by minimising government intervention.

Neo-liberal, new classicalism is the economic theory that dominates policy making in the modern era, it has proven to be the preferred ideological framework used to guide macro-economic policy the world over, overtaking "structuralist"/Keynesian orthodox development theory, which had been prevailing in the period of the 1950s-60's. The resurgence stemmed from a growing critique of Keynesian economics by neoclassical economists. According to Resnick and Wolff (2012), neoclassic theorists argued that

a too powerful and excessively regulatory state bureaucracy was preventing capitalism from functioning properly; markets were burdened by unnecessary state regulations and taxes that produced distorted prices and wages, and low economic growth (stagnation).

According to Onis (1991), this was achieved due to three prevailing conditions:

i. Firstly, extensive state intervention to promote import-substituting industrialisation had resulted in inefficient industries which required permanent subsidisation for their survival with little prospect of them being internationally competitive;
ii. Secondly-extensive government intervention had the unintended consequence of generating rent seeking on a massive scale which distracted economic agents from productive activities, a point that was muted by Fourie in the above-mentioned paragraph;
iii. Thirdly, and most significant, was the emergence of the 'South East Asian Tigers' (Taiwan, Singapore, South Korea and Hong Kong) these countries achieved extraordinary economic growth and fairly egalitarian income distribution this performance was driven by an outward-oriented model driven by market incentives and a strong private sector.

2.3.2 Structural (Keynesian) Economic Theory

Structural economic theory has its roots in the broader Marxist ideology and the narrower Classic Socialist theory. Central to this theory is calls for stronger government intervention, arguing that markets are inherently flawed and do not produce the most viable or desirable outcomes, which can affect the economy negatively. This theory is commonly dubbed Keynesian Economic theory, named after John Maynard Keynes. It not only offers a critique of the neoclassical theory, but also advocates for more state action in economic activity. According to Resnick and Wolff (2012), the Keynesian Theory focus of analysis is the economy as a whole, in contrast, neoclassical theory stresses the roles of the individual producers and consumers as shapers of the larger economic structure.

The rise of Keynesian Economic theory, and its subsequent dominance, can be traced back to the 1930's when the world economy was plunged into a crisis. This shook the foundation of neoclassical underpinnings of free market liberalisation. In the face of a crippling crisis, the non-state interventionist assertion of neoclassicism came under scrutiny. This was further exacerbated by the general success of state interventionism in the states of Germany and the then USSR (Resnick and Wolff, 2012: 54). During this period, there was a rapid rise in state interventions. Increased state spending, greater controls over private markets, tax increases and deficits, and state regulations of production and markets were not only consistent with full employment or growth, but seemed necessary to achieve them. This laid the foundation and provided the proof of the assertions made by Keynesian economists.

Resnick and Wolff (2012), observe that central to the critique of neoclassical theory by Keynesian theorists was how neoclassical theorists assumed that the market would react in times of economic crisis, and that the market would correct itself to bring about optimum results. Keynesians argue that markets can and often do not adjust in the way that neoclassical economists predict, or they adjust too slowly, with the result that involuntary unemployment persists. In those situations, the state's economic interventions can correct or offset market failures or inadequacies.

Blinder (2004) states that Keynesian theory advocates aggressive government action to stabilise the economy. This is based on the belief that fluctuations in the economy highly reduce economic well-being, and secondly, that the government has the knowledge and capacity to improve on the free market. It is within this context that the assertion is made that state intervention is critical in the economy to ensure the protection of the economy from the volatility of the market. In his paper titled *The State, Market Economy and Transition* on China's transition from a closed economy to a market economy, Wang (1997) argues that even in mature market economies, state intervention is necessary to remedy market irrationalities; market institutions cannot be established without the support of the state.

The imperfections of the market are often stressed in the narrative of this theory. States have to contend with the fact that while the market can often produce efficient outcomes, these are not often equitable or desirable, and hence the role of the state to produce outcomes that are in the public interest or good. One of the factors put forward by Keynesian theories for state intervention is the phenomenon of market failures. According to Fourie & Mohr (2008), market failure occurs when the market system is unable to allocate resources efficiently, therefore not achieving the best desirable outcome. Fourie & Mohr (2008) give five examples of market failures, namely:

1. ***Monopoly and imperfect competition***: Leads to under production and over-charging, and ultimately a loss of efficiency
2. ***Public goods***: failure of the market to produce these goods
3. ***Externalities***: negative net difference between private and social costs and benefits
4. ***Asymmetric information***: merit goods are under produced and demerit goods are over produced
5. ***Common property resources***: social exclusion of some economic actors from the use of common resources.

2.3.3 Development State Theory

Development State Theory is viewed by many as a middle ground between neoclassic and Keynesian economic theory in that it recognises the centrality of both the market and the state to bring about optimal economic outputs. There have also been some economists who advocate a middle position between Neoclassical and Keynesian economics that attempts to synthesize the two (Resnick and Wolff, 2012:72). The global crisis in capitalism since 2007 generated such a development. Before then, it seemed that economists basically subscribed to neoclassical economic theory; since then, they sound rather more Keynesian in their analyses and policy prescriptions. Onis (1991) contends that this theory prescribes finding the middle ground; it espouses a mixture of market orientation and government intervention consistent with rapid and

efficient industrialisation. One of the leading justifications of the rise of the theory of the developmental state is one that is steeped in the need to move beyond the contrast between Neoclassical and Keynesian theories.

A leading pioneer of the developmental state theory is Chalmers Johnson. He conceptualised the idea of a capitalist developmental state, and his model is based on the institutional arrangements that saw the rise of the South East Asian Tigers. This model has the following characteristics:

- economic development defined in terms of growth, productivity and competitiveness is the sole prerogative of the state;
- conflict of goals is avoided by not having any explicit commitments to social welfare and equality;
- there is an underlying commitment to the sanctity of the market and state intervention is circumscribed by this commitment; the market however is guided with instruments formulated by a small-scale and highly efficient bureaucracy (Onis, 1991: 109).

The developmental state is conceptually positioned between a free market capitalist economic system and a centrally planned economic system, often conjoining private ownership with state guidance. In essence the developmental state refers to a context in which government, being motivated by the need for socio-economic development, intervenes in the operation of the free market so as to influence the pace and direction of socio-economic development by directly intervening in the development process rather than relying solely on the market (Bolesta, 2007:44).

Chang (1999), underlines that economic development requires a state which can create and regulate the economic and political relationships that can support sustained industrialisation, consequently a developmental state is interventionist in nature. Chang (1999) further states developmental state theory in real terms signals a departure from neo-liberal economic ideology and a drift towards state interventionism;

however this interventionism does not hinder socio-economic development as it was often evidenced under Keynesian economic ideology, but with a strong emphasis on development. Importantly, from a microeconomic perspective, developmental state theory emphasises the cooperation between the private sector and the public sector in bringing about meaningful development.

Fundamentally the developmental state has two components, one ideological and one structural. In terms of ideology, a developmental state is essentially underpinned by developmental goals. It conceives its mission as that of achieving economic development, usually interpreted as high levels of accumulation and industrialisation. Structurally the theory speaks to the state's ability to effectively implement economic policies, this capacity is determined by a number of factors namely - institutional, technical, administrative and political (Mkandawire, 2001:26). This must all be underpinned by the relative autonomy of the state from narrow interests, so that it can effectively implement long-term economic development policies free from the influence of these interests (Mkandawire, 2001:26).

Central to the Developmental State theory's critique of the neoclassical framework is that the neoclassical model has a number of shortcomings which hinder faster development. This is due to that fact that it does not take into consideration that, for developmental purposes, there must be a limit to the liberalisation and de-politicisation of the economy because politicising certain economic decisions may be inevitable, if not desirable (Chang, 1999: 192)

Economic policy has a number of underpinning theoretical frameworks. Key to understanding how economic policy is formulated is to understand the ideological narrative that it is grounded in. An analysis of South Africa's economic policy, specifically macroeconomic policy, reveals that it was driven by a number of theoretical outlooks. During the RDP period, a leaning towards Keynesian economic theory can be seen in the central role of the state in driving the economy and setting developmental goals. GEAR can be said to have been grounded in neoclassical

economic theory with its insistence on the centrality of the market in driving development. In the latter macroeconomic offerings of ASGISA and NGP it can be said that the centrality of the state become a focal point once again. However, the sanctity of the market was retained, it can be argued that macroeconomic theory in this period has been driven by the principles of a developmental state.

2.4 Conclusion

The literature on South Africa's macroeconomic policy and its subsequent shifts points to a myriad of factors that influenced these shifts. While the advance of the RDP as a broad socio-economic framework, which according to some authors, was silent on targeted macroeconomic packages, it was very vocal on the aspect of fiscal policy and how it was to be utilised as a tool to bring about much needed redress in the country. The RDP was specific in its approach, which recognised the importance of fiscal reforms to address and undo some of the inherited structural constraints of the apartheid system in an effort to create a much more equitable society. Key literature points to the limited scope of implementation owing to a number of challenges faced by the RDP. Key amongst these were the changing institutional arrangements of government, such as the introduction of the different spheres of government, and the changing nature of the global economy which necessitated the introduction of a pronounced macroeconomic policy regime. However, some of the programmes introduced by the RDP are still in place today, such as the social security grant system, and the social housing programme.

The literature suggests that the emergence of GEAR was a reaction to the changing global economy. This was also preceded by a global economic crisis which necessitated a shift in policy. There was also a realisation that the economy of the country needed to liberalise and modernise in order to be globally competitive. GEAR was seen as the vehicle through which this could be achieved. The GEAR policy was very specific in its macroeconomic goals and proposed a number of interventions to achieve them. An emerging critique in the literature is that the aspirational targets of the policy were farfetched. Ultimately, the policy failed in fostering the developmental goals of a developing economy especially in terms of growing the economy; reducing

unemployment and ridding inequality. The presupposition of private-sector led growth failed to materialise, and led to a declining contribution to developmental goals. Phenomena such as ‘job-less’ growth came to characterise this phase of GEAR, leading to the entrenchment of poverty and inequality.

The emergence of the macroeconomic packages of ASGISA and the New Growth Path are to be understood in this context. In the face of stagnant and declining employment and poverty rates, and growing inequality, the GEAR policy framework had to be tweaked to encompass and embrace a greater developmental goal. The literature is, however, thin on the performance of the emerging policy paradigms and how they have impacted on the developmental goals of the country.

The literature review has proved useful in uncovering a number of issues on the macroeconomic policy landscape of South Africa. Of importance to this study is the identification of the prevailing conditions which resulted in policy shifts and the respective policy framework that prevailed after these shifts. The literature was also helpful in identifying how these policies impacted on the developmental goals of the country.

Chapter 3: Research Methodology

3.1 Introduction

Chadwick et al. (1984) describe social research as diligent and systematic inquiry or investigation into a subject in order to discover or revise facts, theories, applications, etc. Babbie (2014) contends that there are three main reasons to conduct social research. These are:

i. Exploration - when a researcher examines a new interest or when the subject of study is relatively new;
ii. Description - when a researcher observes and then describes what was observed; and
iii. Explanation - when a researcher explains why a certain phenomenon or event took place.

Neuman (2014), draws a further distinction on the major types of research in what he describes as **Basic Research** and **Applied Research***;* basic research which is often called academic research advances fundamental knowledge about the social world, applied research is aimed at addressing a specific concern and its findings shapes decisions.

Neuman (2014) states that in the research process, social scientists apply various scientific methods to transform ideas and questions - often referred to as hypothesis - into new knowledge. According to Chadwick et al. (1984), there are many reasons to do research, however the usefulness of that research is ultimately dependent on the quality of the research design. This design consists of the preparation of a plan from which knowledge about the research problem is obtained. Neuman (2014) concurs with this assertion by stating that to conduct a research study, a sequence of steps has to be followed. The only variance that occurs in these steps is dependent on whether the study adopts a quantitative or qualitative approach, and the type of study being conducted.

This Chapter will outline the research method used to conduct this study. This study will utilise a qualitative research approach. The main focus will be on document analysis and in-depth interviews with relevant persons.

3.2 Research and Theory

Social theory is a system of interconnected ideas. It condenses and organises knowledge about the social world (Neuman, 2014:35). As Chadwick et al. (1984) explain, theory is always present in the research process. Sometimes research is done in order to test theory, other times, the hypothesis is derived from theory. Usually, the analysis is strengthened if findings are interpreted in light of available theory. What this suggests is that theory can be used to systemise and organise experiences. We can then develop specific hypotheses that can be empirically tested through the research process. In essence, theory can be used to provide insight to research activities.

Theory is less prominent in applied and descriptive research than in basic or explanatory research; however, most research studies have theory in them somewhere (Neuman, 2014:35). One clear distinction that has to be made is that between inductive and deductive theory. Deductive theory represents the common set view of the relationship between theory and social research, whereby a researcher, on the basis of what is known about a particular and the theoretical underpinnings of that domain, deduces a hypothesis that must be empirically tested (Bryman, 2012:42). Conversely inductive theory postulates that theory is an outcome of research, induction therefore involves drawing generalisations out of observations.

3.3 Qualitative Research

Qualitative research is a research strategy that usually emphasizes words rather than numbers in the collection and analysis of data (Bryman, 2012:42). Qualitative research refers to several different modes of data collection, including, field research, participant observation, and in-depth interviews, amongst others. There are substantial differences between these strategies, but they all emphasise “getting close to the data” (Chadwick et al.,1984:206).

Neuman (2014) identifies a number of main steps in the qualitative research method, these are:

> Step 1: Acknowledge self and context: start by performing a self-assessment and situating the topic in socio-historical context.
>
> Step 2: Adopt a perspective: ponder the theoretical paradigm or place the inquiry in the context of on-going discussions.
> Step 3-6: Design a study: usually at this stage of the qualitative research, the process of collecting, analysing, and interpreting data will take place simultaneously. It is also the stage where new and or past theory and concepts are tested.
> Step 7: Inform others: write a report of the study and present a description of the study and its results.

Qualitative research has a number of strengths. These include the viewing of behaviour in its natural setting. This enhances a researcher’s understanding of the subject and its setting, and greater depth of understanding due to a researcher’s embeddedness in the research. Another strength of the qualitative approach is flexibility in that it allows the researcher to comprehend issues not originally conceptualised when the research began (Chadwick et al., 1984:65). Chadwick et al. (1984) also emphasises that qualitative research poses a number of weaknesses namely:

a) That qualitative research must contend with the ethical propriety of the research design and its possible harmfulness to the research subject;
b) The risk of a possible violation of personal standards of the researcher and others;
c) The possibility that field work will not yield anything meaningful; and,
d) The over-reliance on a single observer raises doubts about the reliability of the research.

The qualitative approach is best suited for this study as it seeks to uncover facts about the changing nature of macroeconomic policy in South Africa. Qualitative research as an approach, is a method that is constructionist, inductivist, and usually emphasises words rather than quantification (Bryman, 2012: 380). Creswell (2003), concurs with this notion by stating that a qualitative approach is one in which the enquirer makes knowledge claims based on constructivist perspectives, where the researcher collects open-ended emerging data. This study does not seek to research causal effects of independent variables but rather to uncover perceptions.

In an attempt to unpack the factors that contribute to policy change and the subsequent impact on developmental goals, the qualitative approach will assist in detailing the perspectives with regards to this through the process of open-ended interviews with relevant experts in this field, as well as a thorough document review to supplement this inductivist approach. Furthermore, the qualitative approach is best suited for this study as it will seek to explore the following:

1. What are the factors that contributed to the changing macroeconomic policy paradigm in South Africa?

2. How did these affect the developmental goals of South Africa, specifically concerning impact on socio-economic factors of poverty, unemployment and inequality?

3.4 Quantitative Research

According to Bryman (2012), quantitative research methodology applies quantification during the data collection and analysis process, and represents data by means of numerical categories. In essence, quantitative data is concerned with using numerical data to explain certain phenomena. This study will evaluate three main socio-indicators that have a direct bearing on the developmental goals of South Africa, namely Poverty, Unemployment and Inequality. A quantitative approach is best suited for this part of the study as the data available on these indicators is numerical in nature. Secondly, this quantitative analysis will also assist in clearly outlining, through the use of statistics, the three indicators the study seeks to unpack. This can only be done through a quantitative method, and not through a qualitative approach. For example, in measuring the number of unemployed people in the country requires a quantitative approach .

The indicators that will be used to measure these socio-economic indicators are as follows;

- ✓ For Inequality, the study will use the measure of income distribution, specifically national income distribution, which will measure income inequality levels with a specific focus and segmentation according to demographic groupings, (including the measure of the Gini co-efficient).
- ✓ Unemployment will be measured by measuring the national unemployment rate of the country over the period as stipulated by the study.
- ✓ Poverty will be measured by using the *Poverty line* approach, with a specific focus on the different measurements of poverty as per government classifications. Although the measure of poverty can be done using a number of other measurements, this study will be limited to the measurement of poverty by analysing income and expenditure of households. A number of statistical publications from Statistics South Africa (StatsSA) will be consulted for this purpose, these include but are not limited to:
    i. Labour Market Dynamics in SA (2011)
    ii. Income and Expenditure Surveys

iii. Labour Force Surveys
iv. Household Income Surveys
v. Other statistical databases such as Trading Economics, and publications from the South African Reserve Bank (SARB) and the United Nations Development Programme (UNDP) as well as other development statistics from various publications will also be used.

3.5 Data Collection and Analysis

Data collection involves the use of primary and secondary sources by means of analysis of existing documents and interviews. The forms of data collection applied in this study include the following:

3.5.1 In-Depth Interviews

One of the key research instruments to be used in this study is the use of in-depth interviews that will be comprised of open-ended questions, as I sought to gain deeper insights into the perceptions of the respondents. Open-ended/in-depth interviews are used when the researcher wants to gain rich, detailed material for the purpose of qualitative analysis; these interviews tend to be like conversations (Bell, 2001:31). Holstein and Gubrium (2006) identify the importance of interviews as means of scientific exploration and deem them to be the most popular instruments in the field of social research.

Bryman (2012), refers to these types of interviews as qualitative interviews. Key to their characteristics is that:

a. they are less structured;
b. there is greater focus on the interviewee's point of view;
c. rambling or going-off on a tangent is often encouraged;

d. the interviewer can deviate from scheduled set of questions in order to delve deeper into new thoughts and or perceptions; and,
e. the interviews are flexible; the purpose is to draw out rich, detailed answers.

Based on the above, instead of set questions, this study posed questions related to specific categories such as the respective performance of the relative policies; impact analysis of policies; capacity of the state to implement policies; and, changes in policy. These were followed up with direct questions to try and explore emerging themes and perspectives. Due to the open nature of these interviews, they were recorded for decoding at a later stage. as it proved difficult to draw the necessary information during the interview process. To prevent the interviews from unravelling into a totally unstructured format the interviewer attempted continuously to bring the interview back into focus when the subject matter drifted into other areas that were not covered in the area of the study.

Interviews were conducted in 2015. All interviews were expected to be conducted face-to-face. However, where necessary other technological instruments, such as telephone interviews were used. As the researcher, I was mindful that the results of the interviews might dispel any pre-conceived ideas I had on the research matter.

Sampling

The interviews were limited only to relevant policy makers and experts both in government and outside of government. This included key academics, and policy/political analysts who have engaged on the subject matter extensively. In essence, purposive sampling was applied. With the goal being to sample cases/participants in a strategic way so that those sampled were relevant to the research.

List of Interviewees

Trevor Manuel - Former South African Minister of Finance from 1996-2009

Dr Neva Makgetla - Economist, former Head of Policy Unit at COSATU and an ex-Deputy Director General at the Economic Development Department.

Professor Steven Friedman - Academic, reputed policy analyst

Jorge Maia - Head: Economic Research & Information Department at Industrial Development Corporation of South Africa

Rudi Dicks - Outcomes Facilitator: Department of Planning Monitoring and Evaluation; former-Executive Director of the National Labour and Economic Development Institute (NALEDI)-a COSATU think tank

Tanya van Meelis - former Deputy Director General at Department of Economic Development

Dr Sam Koma - Academic, lecturer at University of Pretoria

Alex Mashilo – Spokesperson: South African Communist Party (SACP)

Key to uncovering the power relations with regards to policy shifts it was important to engage individuals within the ruling party and its tripartite alliance partners. The study was mindful of inherent bias in the responses of the interviewees, owing to the positions they occupy in their respective organisations. As part of the research project, an Analytical Framework was established. This Framework measured performance in the three (3) theme areas of Poverty, Inequality and Unemployment.

Emerging data from the above processes was analysed throughout the research project. This enabled me to shape the study as it progressed. Key to the analysis was to group the information according to emerging themes, patterns and categories, as they related to the research questions

3.5.2 Document Review

The document review with regards to economic performance in the different macro-economic policy dispensations was an important part of the analysis. It focused specifically on the socio-economic indicators of Poverty, Unemployment and Inequality. Online economic databases were sourced for this purpose, and illustrated through visual aids such as graphs. These included, but were not limited to *Trading Economics*, *StatsSA*, *and SARB Publications*. Bryman (2012), advocates the use of 'official statistics' for purposes of research as the data has already been collected and this might save the researcher considerable time and expenses. Secondly, the data can be analysed both sectionally and longitudinally, and this can be done over time to analyse trends, and perhaps relate these with wider social changes. The types of documents that were sourced for the purposes of this document review included:

a) State Documents: Policy Documents, Reports, Statistical Publications and Press Releases
b) Private Documents (in the public Domain): Journal Publications; Articles; Themed Academic Papers; Research Papers.

3.5.3 Data Analysis

Key documents and the in-depth interviews were subject to qualitative content analysis. According to Bryman (2012), this comprises of searching out of underlying themes in the materials that is being analysed. This entailed 'open coding' of material into various themes. According to Babbie (2014), the key process in the analysis of qualitative research data is coding, classifying or categorising individual pieces of data, coupled with a retrieval system. Babbie (2014) further draws key distinctions between three forms of coding, namely open coding, axial coding and selective coding:

Open Coding: this is the process of analysing data and identifying themes. The codes are suggested by the researcher's questioning and examination of the data.

Axial Coding: A re-analysis of the open coding, aimed at identifying the important, general concepts.

Selective Coding: this analysis builds up on the results of open coding and axial coding to identify the central concept that organises other concepts that have been identified.

This process will allow for the categorisation of data into key themes and concepts for further analysis. This content analysis was also being extended to the quantitative data, an analysis of the statistical data pertaining to the socio-economic indicators which are part of the study will be conducted. This data is presented in the form of graphs and other related visual aids such as tables, accompanied by an overview that explains how the data presentations have been interpreted to avoid possible ambiguity.

3.5.4 Data Validity and Reliability

Data validity and reliability represent important criteria for the evaluation of research. Reliability is concerned with whether or not the results of a study are repeatable. Furthermore it is used in determining whether the measures for concepts commonly used in the social sciences are consistent (Bryman, 2012:62). The most important criterion is validity, which is concerned with the integrity of the conclusions that are generated from the study (Bryman, 2012:62). These two concepts therefore require that the researcher proves that their study is credible. Due to the qualitative nature of the research, in which the collection of data is done in the natural setting and situations, as opposed to an artificial one, the reliability and validity aspect of the study is stronger than it would be if the research was quantitative in nature.

Though it is commonly accepted that there it is rare to have perfect validity and reliability in social research, this study attempted to ensure that these two factors were paramount. In terms of improving reliability and validity, this study ensured that constructs were conceptualised clearly by developing unambiguous definitions and measures. This was made easier by using measures/indicators that are concrete and easily observable through a process of analysis. This was especially so in the

document review process. The interview process, although open-ended, gravitated towards key themes and observations which the research aimed to unpack, thus ensuring that, although interview subjects gave different responses, they were giving key insights on broader themes.

3.5.5 Limitations of the Study

There are a number of limitations to the study. One key limitation is the period of analysis of the study, i.e. 1994-2010. This limitation might exclude significant macroeconomic policy developments that have occurred post this period, and therefore are excluded from the analysis of this study. This limited timeframe also poses a limitation on the evaluation of the impact of the NGP policy framework, as its impact on developmental goals falls outside the period of the study. Another limitation is the sample size for the interview process. This was limited to relevant persons in academia, political organisations, experts, and members of the state. This sampling process, especially the identification of interviewees, was the prerogative of the researcher and was limited to identified persons. This limitation might have ignored and or excluded significant, if not important, findings and observations that could have enhanced the study if the number of interviewees had been increased. Furthermore, the study is not representative, but strives for a qualitative understanding of the South African macroeconomic policy discourse during the period under review.

3.6 Conclusion

In Social Research, research methodology contains a number of basic concepts and principles. These can be summarised as:

i. the process of literature review;
ii. data gathering and analysis; and
iii. presentation of research findings.

This study has selected the research methodology which is said to be qualitative in nature. This methodology is used to explore and analyse the changing nature of macroeconomic policy as espoused by government, and its consequential impact on the developmental goals of a post-apartheid South Africa in the period 1994-2010. The results of this study will assist in adding to the limited scope of literature that seeks to explore the ideological and or structural underpinnings of economic policy shifts or changes that have come to characterise the post-apartheid policy formulation space in South Africa.

Chapter 4: Research Findings and Analysis

4.1 Introduction

Macroeconomic policy in South Africa can be said to have undergone a number of shifts. Some were gradual, while others represented a complete paradigm shift. Macroeconomic policy in South Africa, and the changes it has undergone, should be understood in terms of the context of the South African socio-economic problems, and the role policy was meant to play in addressing these. The broad economic policy of South Africa, in the era of 1994-2010, can be summarised as an attempt to embark on a development path of job creation through fiscal discipline and growth, poverty reduction through targeted social spending, maintaining price stability through an inflation-targeting regime, and a radical transformation of the labour market with a focus on worker rights. These factors were to be found in the different iterations of macroeconomic policy in South Africa. Key to the understanding of why the shifts occurred required researching the factors that led to the paradigm shifts, and subsequently how this affected development.

This study was, through a qualitative approach, focused on the review of documents pertaining to the research topic, complemented by prolonged in depth interviews with relevant experts, academics, and former bureaucrats who understood the macroeconomic development space very well. Through a process of data and statistical analysis, the performance of the economy in terms of poverty, unemployment and inequality indicators is expanded on in the latter part of this chapter.

4.2 Macroeconomic policy development: Changing Paradigms

The South African economic policy landscape has undoubtedly experienced a number of changes in the immediate post democratic era. Although policy making is, in itself, not a static process and tends to evolve over time, the findings of this study reveal three main thematic trends which assist in explaining the changing policy paradigms in the said period. This study makes the assertion that macro-economic policy changes can be understood through the unpacking of the following themes:

i. Changing political and ideological environment;
ii. Prevailing economic conditions, both domestic and global;
iii. The key Institutional Arrangements in the policy implementation.

The next section of this study unpacks each of these themes.

4.2.1 Politics, Ideology and Macroeconomic Policy development

- **The Tripartite Alliance, the RDP and GEAR**

In 1994, the ANC government inherited a fragmented society, plagued by socio-economic challenges. Logically, the first step towards democratising the South African society would be premised on building a more equitable and just society through restitution, redistribution and democratisation. It is important to understand the political milieu that existed pre-democracy, especially that which shaped ANC politics and ideology at the time, and how this would influence policy development in the immediate post-apartheid years. One such important factor was that the ANC had entered into a strategic alliance with the Congress of South African Unions (COSATU) and the South African Communist Party (SACP), known as the Tripartite Alliance. The Alliance was viewed, especially on the part of COSATU, as designed to ensure that a working class bias prevailed in the policy and programmes adopted by the ANC once it became the governing party. The Alliance, therefore, was forged to try to ensure that the newly democratic government would be labour friendly (Southall and Wood, 1999:68).

Prior to South Africa's first democratic election, the ANC agreed in principle to adopt the COSATU's Reconstruction and Development Programme (RDP) in return for COSATU's support in the elections., It therefore followed that the RDP formed the basis of the ANC's election manifesto. According to Marais (2001), the RDP was also an ideological reference point that seems to confirm the political-historical continuity between the Freedom Charter and the realities of post-apartheid South Africa. Terreblanche (2003) asserts that the RDP represented growth through redistribution policy. As a first priority, it identified the meeting of people's basic needs: jobs, land, housing, water, and transport, and electricity, health care and social welfare.

Edwards et al. (2015), further postulate that the RDP argued that growth and development were not mutually exclusive ideologies. Specifically, that development without growth would not be financially possible, while growth without development would simply perpetuate South Africa's problems, and therefore would not be socially and politically sustainable. From 1994 to 1996, the RDP became the guiding document of the Government of National Unity. It was driven from the RDP Office within the Presidency, under the authority of Minister Without Portfolio, Jay Naidoo, the ex-General Secretary of COSATU (Webster and Adler, 1998:2).

Parallel to the RDP policy, the RDP Office also embarked on a process of developing a Growth and Development Strategy, which would provide the overarching framework for growth and development in the country. Two years later the RDP was disbanded, and the growth and development strategy was shelved as the government announced the GEAR policy framework (Koma, 2013:146).

The Growth, Employment and Redistribution (GEAR) policy was an important step in the evolution of government's policy approach, but it also represented a significant shift in embracing neo-liberal values (Koma, 2013:147). This policy shift marked a departure of the centrality of the state and the growth through redistribution approach espoused by the RDP, to one that embraced an approach best described as redistribution through growth. Nattrass (1994) makes the point that, while the ANC's

internal policy documents of the early 1990's argued for 'growth through redistribution' rather than the other way around, this approach had significantly been tampered with by the time the RDP base document and White Paper were produced. Trevor Manuel, a former cabinet minister, believes the debate has to be contextualised. In the early 1990's, coming out of the cold war, the sanctity of state involvement in the economy was sacrosanct. However, in the later drafting of the RDP, there was greater consideration for the reduction of the state's role in the economy (Manuel, Trevor. Personal Interview).

It is important to note that at the time of the adoption of GEAR, the dominant worldview on economic policy was one neo-liberal, and was often touted by institutions such as the World Bank and the International Monetary Fund (IMF). This is an important consideration in understanding how the dominant global ideology on macroeconomic theory influenced the debate on policy. In the case of South Africa, it is also important to note how this became a dominant view within the ruling party, and had come to characterise macroeconomic policy formulation. Often, the embracing of neo-liberal values and its influence on policy development is viewed as having been a conscious decision by a cabal within the ruling party, led by the then Deputy President Thabo Mbeki, and supported by the Economic Advisory Panel members such as Trevor Manuel and Tito Mboweni. Indeed, as Marais (2001) argues, by 1996 the ANC government's economic policy had acquired an overt class character. It was geared to service the prerogatives of domestic and international capital, together with the interests of an emerging black middle class, at the expense of the impoverished majority. Alex Mashilo argues earnestly that the '1996 Class Project' was as a direct result of individuals within the ruling party and government who had come to greatly influence economic thinking. It shifted government from its pro-poor pre-occupation to one that embraced anti-poor neoliberal policy in the shape of GEAR (Mashilo, Alex. Personal Interview).

The role played by social groupings cannot be overstated. There was intense lobbying from various interest groups from within the ruling party in an effort to get the ANC to advance their interests. As Nattrass (1994) explains, there were a diversity of interests

within the ANC itself, including pro-labour and pro-business sentiments. Others have pointed to a more aggressive strategy employed by business, especially the mining companies, to lobby top ANC officials to adopt a more pro-business approach. Dr Koma states that the immediate post-1994 era was characterised by a lot of contestation within the Alliance as to what ideological path the alliance should embark on. This was clearly seen in the number of interest groupings who all tried to impose their interest on what should happen in the south African economy. The right leaning neo-liberals ultimately won this fight (Koma, Sam. Personal Interview)

The move towards GEAR also represented, to an extent, the failure on the part of labour to impose a worker-led agenda on the ANC. This failure can be seen as a result of extreme opposition within the ANC. Professor Friedman argues that further evidence can be found in the internal rumblings within the ANC when it came to the adoption of the RDP. As a result, there were 6 re-drafts of the RDP, clearly pointing to internal infighting within the ANC (Friedman, Steven. Personal Interview).

However, the ultimate toppling of the RDP was not marked as a victory by the neo-liberal advocates within the ruling party. It was often argued that the success of the RDP was dependent on the successful implementation of GEAR (Naidoo & Mare, 2015:411). The government at the time argued that GEAR would assist in the realisation of the RDP's goals for socio and economic transformation. This is not reflective of what transpired, although many experts argue that the two policies are not mutually exclusive. As previously shown, the RDP office was already on its way to formulating its own economic policy process, named the national growth and development strategy. However, it was excluded from the formulation of GEAR, and ultimately sidelined for the latter (Naidoo & Mare, 2015:417). Manuel counters this by stating that "there was no schism really". He argues that as far back as the 'Ready to Govern' Conference of 1992, and the drafting of *the RDP-the last Chapter*, and furthermore in the resolutions of the 1997 ANC elective conference in Mafikeng, there was a reaffirmation of the GEAR policy as a lever for the delivery of the RDP (Manuel, Trevor. Personal Interview).

This illustrates, to some extent, the dominance of the right-leaning neo-liberal faction within the ANC., This dominance was further entrenched and emboldened by the seemingly unilateral imposition of GEAR by the ANC, without consulting the Alliance partners. Even in the face of discontent from the other Alliance partners, former presidents Mandela and Mbeki, together with then Finance Minister, Mr Trevor Manuel, declared GEAR to be "non-negotiable" (Terreblanche, 2003:112). In defence of this the ANC leadership often argued that macroeconomic policy was the prerogative of the state, and therefore did not need broad consensus, as was envisioned through the NEDLAC process. Dicks' views is that, to show who was in charge, they didn't even take GEAR to NEDLAC as they were supposed to (Dicks, Rudi. Personal Interview).

This notion is however refuted by the following argument by Manuel: "…[t]his did not stem from a position of superiority; the RDP was not in consideration of the empirical context. For example, in 1993 the budget deficit was around 8%, large reserves went towards servicing this debt. in 1996 the deficit was still around 6% and there was an implicit undertaking not to borrow from international finance institutions as we didn't want to be under the influence of these institutions. Due to such factors, deficit reduction was essential for the growth of the economy in the context of low savings, low tax to GDP ratio and zero foreign reserves." (Manuel).

- **AsgiSA and the NGP**

Growing criticism and dissent against the GEAR policy necessitated a tweaking of the GEAR policy in order to appease increased calls for its abandonment, and a return to pro-labour and pro-poor economic trajectory. GEAR faced a lot of criticism, especially from the Alliance partners, COSATU and the SACP. COSATU's critique of GEAR was evident in its *People's Budget (2001).* It described GEAR as a policy that can either aid or retard development to the extent that it maximises or constrains resources available to implement development programmes. COSTATU further argued that during the years of GEAR, the over emphasis on fiscal austerity has produced

perverse planning paradigm where the development objectives have been supplanted by the secondary objective of reducing the budget deficit (Koma, 2013:151).

Furthermore, according to COSATU, the biggest failure of the GEAR policy is its promise to continue implementation of the RDP to reduce the legacies of the past. GEAR even failed to meet its own growth, investment and employment targets. Instead, it hindered progress on the development front in pursuing macro-economic policy demanded by economists and international investors. The failures of GEAR were obvious; in the period 1996-2001 the economy grew by only 2.7%, far less than the predicted 6% growth rate; employment shrank by 3% (more than a million jobs); government investment grew by only 1.8%, as opposed to the envisioned 7.1%; and, the private sector investment, upon which much of the success of GEAR was based on, fell sharply from 6.1% in 1996 to -0.7% in 1998 (Marais, 2001:163). GEAR's much touted private-sector led growth did not materialise.

In the face of such hardened attitudes towards GEAR within the Alliance, and growing disillusionment from within the ranks of the ANC due to the perceived shortcomings of the GEAR policy in delivering the growth rates promised, and reducing poverty and unemployment, there was a gradual softening of the GEAR approach leading up to the formation and adoption of AsgiSA in 2006 (Naidoo and Mare, 2015:412). AsgiSA placed a new emphasis on poverty reduction as well as employment creation. It shifted the GEAR narrative, which was centred purely on a drive for growth, to one that acknowledged the need for more specific types of growth that aim to reduce poverty and inequality more effectively (The Presidency, 2006:3). This shift, in some respects, represented a shift back to more leftist leaning, pro-poor, re-distributive policy agenda. Makgetla supports this view, stating that AsgiSA definitely represented a return to the left. This is evident in the greater emphasis it placed on public spending and the muting of microeconomics such as industrial policy as one of the mechanisms for job creation (Makgetla, Neva. Personal Interview).

According to Bhorat (2007), AsgiSA is distinguished relative to its predecessors, RDP and GEAR, by its strong emphasis on specific growth enhancing projects. The delivery of physical infrastructure and a detailed programmed on skills development are some of its core interventions; however, it is important to note that in many respects, AsgiSA is a continuation of the GEAR policy. As Manuel explains, "one has to take into consideration the ever changing nature of policy. GEAR was never meant to be permanent. The macroeconomic balances of RDP were well served by GEAR. …[A]fter the lessons learnt in the implementation of GEAR there was a need to improve, hence the emergence of AsgiSA. This does not point to failure on the part of GEAR, even prior to the adoption of GEAR-in an attempt to review GEAR work had begun on identifying binding constraints to growth." (Manuel)

It is important to note that AsgiSA, as opposed to representing a radical paradigm shift in macroeconomic policy, instead represented a slight tweaking, and the ideological and political power dimensions were still entrenched. Concessions were given to interests of other social groupings within the alliance, but ultimately the economic policy trajectory remained largely unchanged. Professors Friedman believes that "…[t]here has been no radical or fundamental ideological shift in 20 years since GEAR. For instance, in terms of implementation, fiscal discipline still remains in place…the recent emergence of the NDP is testament to that" (Friedman).

AsgiSA however had very little time to make an impact as its implementation was curtailed by a changing political landscape. Political upheaval within the ANC, coupled with a new global economic crisis derailed both the institutional and economic conditions in which it had to be implemented (Habib, 2012:61).

The introduction of the New Growth Path (NGP) can be viewed within the political climate that existed at the time. The ANC, led by President Jacob Zuma and backed by a strengthened leftist movement, had ascended to power. The rise to power in 2009 of President Zuma created some political momentum for leftist actors in the tripartite alliance, whose support was crucial to his election campaign (Habib, 2012:42). As Professor Friedman argues, Internal ANC politics and the rebellion

against Mbeki can be used to explain the introduction of the NGP. Most notably the NGP represented a new political balance of power, through negotiation and compromise Zuma was compelled to give the parties that brought him to power something (Friedman, Steven. Personal Interview).

The central objective of the NGP was to put forward a job-sensitive growth strategy for South Africa (Naidoo and Mare, 2015: 413). “It therefore followed that Zuma’s cabinet appointments favoured candidates from COSATU and the SACP in key cabinet positions within government’s economic cluster. Most notably was the appointment of ex-trade unionist, Ebrahim Patel, to head the newly established Economic Development Department” (Friedman). The NGP produced by his department would come to represent the new leftist leaning ideological shift both within the Alliance and within government. It emphasises the building an inclusive economy characterised by labour-absorbing growth, reduction in poverty and unemployment, and a new focus on creating decent work opportunities for the unemployed. The dominance of the socialist left ideology and associated political influence is clearly evidenced in the NGP.

“The creation of the New Growth Path was as a result of the leadership changes in the ANC and government administration, the creation of EDD particularly was an attempt by the victorious labour constituency to pursue a growth and strategy based on social equity and decent work.” (Koma, Sam. Personal Interview). In the period leading up to democracy, the ANC had entered into a compact with leftist leaning organisations in the mould of the SACP and the COSATU. It undertook to adopt an economic trajectory that was leftist in its discourse as a tangible path towards restructuring and reforming the economy from its apartheid legacy. The period immediately after coming to power witnessed a softening of these leftist ideals on the part of the ANC, and a gradual political shift back to the right. This culminated in the simultaneous shift to the right in macroeconomic policy as well as witnessed by the emergence of conservative, neo-liberal economic policy. This led to an abandonment of a leftist redistributive economic growth path to one characterised by a rightist market led, growth sensitive growth path.

The abandonment of the leftist ideals was a source of consternation within the Alliance. In the face of the growing failures of the neo-liberal economic discourse, growing discontent from within the Alliance partners necessitated a shift that would once again gradually embrace the redistributive economic policies that were adopted in the immediate post-apartheid era. Emboldened by the deepening of socio-economic challenges, the political and ideological shift to the left was fully embraced in the period from 2007 onwards. Macroeconomic discourse based on the leftist ideals, which included factors related to the shared and inclusive growth and the sanctity of job creation and preservation coupled with an emphasis on the call for decent work became the embodiment of macroeconomic policy.

4.2.2 Economic landscape: a prescript to policy tweaking

- **RDP and GEAR**

In 1994, the newly elected ANC government faced the challenge of trying to redress the injustices of the past, faced with high debt levels and other structural challenges arising from apartheid it needed to introduce policies to address these challenges. The economy performed very poorly in the apartheid era, from 1970-1994 GDP growth averaged only 3.3% in the 1970s, 1.2% in the 1980s and -0.6% in the period between 1990 and 1993. Furthermore the other short-term issues the economy faced at the time were a global economic recession; severe drought in 1992; a large budget deficit; almost no foreign exchange reserves; political and economic policy uncertainty, high interest rates, high inflation and massive capital outflows (Naidoo et al. 2008:4). According to former Minister, Trevor Manuel, “it therefore followed that part of the immediate response to the daunting constraints on the economy, there was a need to embark on a trajectory that focused on macroeconomic stability in order to foster growth.” (Manuel).

This coupled with massive unemployment, high poverty levels and increasing inequality placed the South African economy in a precarious position. It is against this background that the RDP was introduced as the first macroeconomic framework, it suggested various socio-economic commitments premised on the aspirations of growth, redistribution, reconstruction and development. In keeping with its Keynesian paradigm it emphasised government spending in order to deliver basic social goods to the majority of previously disadvantaged people. By 1996 the government realised that while the social objectives of the RDP were noble, faster economic growth was needed to provide resources to implement the RDP (Naidoo, et al., 2008:6). This amongst other factors led to the policy shift from the RDP to GEAR. Jorge Maia asserts that “GEAR represented a short-term plan on how to restructure the economy, it advocated the pursuance of macroeconomic stability through fiscal and monetary policy. It also signalled the re-integration of the South African economy into the global economy as seen through trade liberalisation reforms, trade and investment flows and regional integration.” (Maia).

One of the key reasons given for the emergence of GEAR is that it was formulated as a response to the global economic crisis of 1996. The crisis in the foreign exchange market posed a threat to the few economic gains that had been made since the advent of democracy. From February 1996, the South African rand was faced with massive depreciation, the global markets signalled the need for greater clarity in the of the economic policy, the South African market then introduced GEAR, the aim of which was to calm financial markets and head off the impending financial crisis (Koma, 2013:147).

The government gave as its rationale for adopting the framework, the changing international economic climate, especially the need to insulate South Africa from the Asian economic and financial crisis. Implicit in the adoption of GEAR was the contention that the government needed such a policy statement as a way of not only allaying fears of foreign and domestic investors, but also as a way of attracting these investors (Koma, 2013: 147). The East Asian crisis was critical in driving policymaking;

it enforced a policy path based on macroeconomic stability (Maia, Jorge. Personal Interview).

The shift from RDP to GEAR represented the recognition that the influence of the global economic forces was inescapable. It was hoped that GEAR would encourage investment by demonstrating that a credible and orthodox policy framework could be put in place. The market-led economic policy path proposed by GEAR represented this orthodox policy framework. Neva Makgetla boldly states that "…[i]t was obvious from the onset that the banks, and other international finance institutions had scared the ANC into adopting GEAR. They pointed to the crisis happening in the emerging economies and warned this could happen to South Africa if it did not impose the neo-liberal structural changes to its economy…they literally threatened massive capital outflows if this was not done. " (Makgetla).

While the global economic environment provided one of the main economic reasons as to why the country needed to embark on a growth-led economic trajectory espoused by GEAR, it was also argued by policy makers that the current structure of the economy would not yield the necessary gains that would bring about the socio-economic changes that were needed for the transformation of the South African society. In short, the economy could not deliver on the promises of the RDP if it did not reform. The South African economy therefore needed to emphasise economic growth through fiscal prudence while promoting exports and attracting foreign investment, which would in turn deliver the desired socio-economic outcomes of increased employment and poverty reduction.

- **Period of "Jobless" growth - Emergence of AsgiSA and NGP**

Soon after the introduction of GEAR, its performance in terms of in respect of growth and investment, the main indicators upon which its success was premised, was mixed. This in turn also affected its ability to create employment. It enjoyed great success in other areas, such as the reduction of the budget deficit and bringing down inflation and

interest rates. However, after almost 10 years of relative economic growth, GEAR did not deliver on its developmental goals, poverty and unemployment remained extremely high. According to GEAR almost 126 000 jobs should have been created in 1996 alone, but instead the number of formal sector jobs dropped by nearly 100 000 (Koma, 2013:149).

GEAR was heavily criticised for its failure to deliver on the projected jobs, especially by the labour movement within the tripartite alliance. Its failures re-affirmed the assertion by left leaning members of the alliance that the GEAR policy was not suited for the developmental trajectory that the country needed to redress the socio-economic fault lines manifested by poverty and inequality. In its The People's Budget (2001), COSATU asserted that GEAR in fact reinforced the vicious cycle of poverty by supporting an economic strategy that did little to promote equality. Because of its weak proposal on how to restructure the economy, it effectively reinforced South Africa's historic growth trajectory. More worryingly for the labour faction was that GEAR had called for measures to reduce the bargaining power of labour, so as to limit both wages and skills development, therefore aggravating workplace conflict. According to the SACP's Alex Mashilo, "…[G]EAR presided over a period of job-less growth. During its reign we in fact saw a haemorrhaging of jobs, witnessed through huge retrenchments due to restructuring and privatisation which we saw under GEAR." (Mashilo).

In subsequent years, especially in the period of 2001-2006, the South African economy experienced positive growth rates coupled with improvements in public spending especially on social services and social security. However the majority of South Africans continued to gain no benefit to the improved economic conditions. The limited employment that occurred during this period proved insufficient in accommodating the growing number of people joining the labour force; major areas of service delivery (such as education and crime prevention) were not making progress. GEAR therefore presided over a period of imbalanced growth. A key critique of GEAR is that it opened the economy of South Africa too soon. This resulted in a negative effect on the productive capacity of the economy. In particular, trade liberalisation opened the economy to competition from the global economy, for which the domestic

economy was ill prepared. This had a direct impact on poverty and inequality. (Koma, Sam. Personal Interview).

The economic conditions at the time were cause for concern and called for a review of the growth-led development trajectory. South Africa did experience a period of positive growth, but without the expected job creation. . The emergence of AsgiSA in 2006 was in some way a response to correct the apparent shortcomings of the GEAR policy. It recognised the macroeconomic and microeconomic obstacles that prohibited faster and more balanced growth. According to Naidoo and Mare (2015), the positive growth outlook helped bolster AsgiSA's ambitious goals. However, this was undermined by the persistent structural unemployment. The number of unemployed people increased from 1.8 million in 1995 to 3.2 million in 1999 (Koma, 2013: 153). According to Marais (2001), South Africa experienced major layoffs in the public and private sectors. In 1997 in the mining industry alone there were 30 000 retrenchments.

Through AsgiSA, the developmental aspect of economic growth was brought back to the fore. AsgiSA aimed at halving the number of people in poverty by 2014, based on two economic concepts: targeting infrastructure development and skills development. It also aimed to boost employment by prioritising labour intensive export sectors with opportunities for small and medium sized businesses (Gelb, 2010:52). AsgiSA placed a renewed emphasis on the creation of job opportunities as a means out of poverty. The policy shifted the narrative of GEAR's drive for growth in a way that acknowledged the need for more specific types of growth-shared growth so as to address the challenges of poverty and inequality (Naidoo and Mare, 2015:63).

The global economic recession of 2008 had a negative impact on the growth levels of the South African economy. GDP fell by 3% from the third quarter of 2008 to mid-2009. Further, job losses were severe as employment dropped by a million jobs from the end of 2008 to 2010 (Koma, 2013:155). As part of a broader response to the global recession, the government introduced the New Growth Path (NGP). The NGP policy framework targeted the creation of five (5) million jobs by 2020, and the achievement

of this target would ensure that half of all working-age South Africans would have paid employment (New Growth Path, 2010:6). The NGP was underpinned by a number of policy packages, apart from the strong emphasis on job creation. Prof Friedman states that the NGP represented targeted intervention which represented a targeted response to the global recession. Evidence of that can be seen in the hard targets it sets, especially concerning employment creation…something that is almost unprecedented in macroeconomic policy (Friedman, Steven. Personal Interview).

The prevailing economic conditions are a major contributing factor to the shifts in policy. The pre-democracy economy, beset by large debt, low savings, depleted foreign reserves and high inflation, coupled with an emerging global Asian financial crisis were telling factors that influenced the adoption of a concise, prudent and conservative macroeconomic strategy in the form of GEAR. It proved to be a factor that contributed strongly to the adoption of a fiscally disciplined, growth-led economic development trajectory. The unforeseen negative socio-economic effects on the domestic economic climate of such a growth-led trajectory were a factor that greatly influenced the shift back to a redistributive growth path. The economic conditions that undermined development, coupled with the advent of a global economic crisis which further entrenched challenges of unemployment and poverty, were seen at the time as a catalyst for the introduction of macroeconomic policy that put developmental goals at the forefront of the new policy paradigm.

4.2.3 Policy Implementation and Coordination - the role of Institutional Arrangements

- **Policy coordination uncertainty**

The role of institutional arrangements, especially pertaining to the implementation of macroeconomic policy is a contributing factor to understanding how some policy changes came about. In the case of the RDP, as previously mentioned the RDP Office was located within the Office of the President under the Ministry headed by Jay Naidoo, an ex-trade unionist. From the onset the RDP Office lacked the necessary

capacity to implement some of the broad policy aspects it encompassed. The administration of the RDP was also left to a small number of individuals who had no previous technical and governance skills.

Makgetla provides a succinct description of this problem by arguing that "…[t]he immediate problem besetting the RDP office was that, due to the public sector having not been transformed, a lot of staff were inherited from various other public sector institutions that existed prior to democracy. They had neither the appetite nor the ideological understanding of what the RDP sought to do, and how to go about implementing its programmes. This situation was further exacerbated by the unwillingness of these bureaucrats, and to some degree the unwillingness of members of the ANC themselves, to bring in members of the tripartite alliance members who had either the necessary technical skills or educational backgrounds. [They] were often confronted with the unsaid pre-requisite that comrades had to be educated (university degree) just to be eligible to work in the state" (Makgetla).

According to Bond (2002), timid politicians, hostile bureaucrats and unreliable private sector partners fatally undermined the RDP. Furthermore, Minister Naidoo did not command the respect of his ANC colleagues, and did not always see eye-to-eye with President Mandela on RDP issues. These issues greatly hampered the successful implementation of the RDP and brought light on the growing chasm within the ANC regarding the RDP and it intended objectives. Makgetla adds that within the ANC there was growing suspicion that [Naidoo] was a leftist mole, who served at the behest of labour. Furthermore he was not "ANC" and was viewed as having been imposed on the ruling party by members of the ANC.. He was the first example of the rejection of the notion of a super ministry, something re-appeared with Manuel and the National Planning Commission (Makgetla, Neva. Personal Interview).

Essentially, part of the problem was the attempt to position the RDP ministry as a coordinating ministry, where all the various programmes of the RDP would be assigned to line ministries and departments for implementation. The notion was

roundly rejected by the respective line Ministers. Former Minister Naidoo himself concedes this, stating that there were clear institutional limits to the role and influence of the RDP Ministry, which was meant to perform a specific coordinating function, that is to vet, persuade and influence more focused, better-resourced and more permanent line departments (Makgetla, Neva. Personal Interview). The RDP Office's lack of authority and the perceived rejection of its importance by members of the ruling party was a stumbling block to its implementation. Its authority was further undermined by the lack of support it received from the left-leaning partners of the Alliance, COSATU and the ANC.

Within the leftist grouping there was growing concern that the actual implementation of the RDP had to cater too much to the satisfaction of capitalist interest. This, according to Bond (2000), was evident in the *RDP White Paper* published in 1994, which departed significantly from the original RDP document. It introduced fiscal prudence not as a means of attaining RDP goals, but as an added goal. The notion of redistribution was dropped, as the government's major role was reduced to managing transformation. Rudi Dicks, then actively involved in COSATU, explains that "…[i]t soon became clear in the early years of the RDP, that the ruling party's commitment to fiscal discipline… that there would not be space or money to properly implement RDP objectives. This was also not helped by the RDP's failure to clearly spell out a detailed programme. The White Paper just became a broad wish list trying to please everyone." (Dicks)

These issues presented the RDP policy framework with obvious problems, especially at the implementation phase. One of the examples of the failures of its administration is evidenced by the fact that by March 1996 only R5 billion of the R15 billion allocated for reconstruction and development had been spent (Lee, 1998:5). Michie and Padayachee (1998) best sum of the institutional failures of the RDP programme that contributed in some way to its abandonment. They included policy differences between the key service departments and the RDP Office; problems in co-ordinating budgetary and organisational processes within national government; difficulties in

incorporating social partners in the delivery process; and in some way, corruption and political apathy.

These policy coordination gridlocks also afflicted the AsgiSA and NGP frameworks in some respects. Like the RDP, AsgiSA suffered from inherent lack of state capacity. Alan Hirsch, then Chief Director for Policy Coordination and Advisory Services in the Presidency, described AsgiSA as a process of communicating, monitoring, evaluating and reporting, furthermore, it was meant to foster coordination and implementation of prioritised programmes (Naidoo and Mare, 2015:414). AsgiSA was supposed to be driven from the Office of the then Deputy President Mlambo Ngcuka; however, the implementation and co-ordination was led by line departments, for instance the extended investment in infrastructure required budget allocations from the National Treasury.

Similarly with the NGP, while it was meant to spearhead the coordination of economic development powers, it relies on implementing agents and line departments that fall outside the ambit of its mandate. In the case of the NGP the creation of the Economic Development Department has created confusion as to which Ministry was to assume leadership over macroeconomic policy. Furthermore, it created a number of duplications within the economic cluster departments. Friedman supports this position by arguing that what the creation of the Economic Development Department did was to create three centres of power…the National Treasury, DTI and EDD.

- **GEAR - Emergence of Strong Institutions**

Naidoo& Mare (2015), note that unlike the RDP, the institutional arrangements of GEAR differed markedly, although it produced its own institutional politics and tensions, GEAR dispensed with the creation of auxiliary coordinating structures within the state by being spearheaded by the key ministerial actors within Cabinet, namely the Ministry of Finance and National Treasury, the pre-eminence of National Treasury

was clear. What the GEAR policy managed to do well was to identify strong, key institutions with equally strong authoritative mandates to drive the policy, The National Treasury and the South African Reserve Bank (SARB). According to Makgetla, The main function of National Treasury was its influence on fiscal stability, it performed this function well and built strong capacity internally (Makgetla, Neva. Personal Interview).

Weak institutional arrangements can be seen to play a role in policy shifts, as seen in the RDP policy the inherent weakness of the institutions meant to drive its co-ordination made it easy for differing interest to capitalise on these weaknesses and impose their narrow interest. One of the compelling remarks by the former Finance Minister, Trevor Manuel, was that the RDP Office was never in a position to deliver the much talked about Growth and Development Strategy they were supposedly developing due to weak institutional capacity. It therefore followed that this provided space for its replacement.

The myriad of institutional co-ordinating mandates also proved a daunting preposition, without any authoritative mandate, drivers of the macroeconomic policies of RDP, AsgiSA and the NGP were hamstrung by the complicated co-ordination and implementation arrangements. Conversely one of the strengths of the GEAR macroeconomic policy and, its longevity, it can be argued was its strong institutional authority, as mentioned previously it co-ordinated the mandates of fiscal and monetary policy through the National Treasury and the South African Reserve Bank respectively, the relative autonomy of the Reserve Bank as enshrined in the constitution was instrumental to its rebuttal from constant criticisms of its inflation targeting regime by the labour movement, it insulated it from any political and ideological influence. The National Treasury also stood strong in its pursuance of the fiscal deficit reduction and discipline, as can be seen by the introduction of the Public Finance Management act and other policy instruments that entrenched its mandate.

4.3 The Impact of Macro-Economic policy shifts on economy: 1994-2010

According to Gelb (2004), macroeconomic policy in South Africa in the post 1994 era has led to increased macroeconomic stability. This has been important for economic growth, which impacts on socio-economic conditions such as the reduction of poverty. Following the successful transition to a democratic dispensation, the post-apartheid government committed itself to a long-term development strategy for generating rapid economic growth. According to Aaron and Muellbauer (2006), the post-election growth performance proved disappointing. Real annual GDP growth averaged 0.5% in 1998 and 2.4% in 1997, compared to earlier highs of 3.1% (1995) and 4.1% (1996). According to Aaron and Muellbauer (2006), apart from South Africa's labour market inflexibility, increased global competition, and a steady decline of the gold price, the reason for this stagnant growth was the high real interest rates prevailing at the time.

Economic performance of post-apartheid South Africa has been relatively impressive, averaging 3.3% growth rate compared to the average of 0.8% in the 1985 to 1994 era (Kearney and Odusola, 2010:39). A number of factors contributed to this growth. Du Plessis and Smit (2006) state that most of the positive economic growth can be attributed to improvements in productivity, openness to international trade being the leading cause of rising productivity, increase in economic growth was also driven by higher investment rates in South Africa, which in turn was stimulated by lower user cost of capital and lowering risk in the economy due to improved stability. This steady growth was negatively affected by the global economic downturn of 2008.

4.3.1 Impact of Fiscal Policy

Gelb (2004), asserts that fiscal policy in the post-apartheid era is seen as one of the major successes of economic policy, an essential contributor to the fiscal regime of this period was the gains on the revenue side of the national budget as opposed to expenditure cuts. This was further underlined by public sector investment in both social and economic infrastructure, which was important for redistribution. During this period, fiscal policy aimed to contribute towards macroeconomic stability through the reduction of the fiscal deficit. Fiscal policy was also used to increase public spending to contribute towards both higher aggregate demand and public service priorities (Naidoo et al, 2008;14). The RDP proposed a massive increase in the delivery of social goods, especially in social infrastructure. It did, however, advocate for prudent fiscal policy and the diversion of spending from competing government priorities such as defence and state owned companies. The intention was to drive up domestic demand so that investment would follow and employment would rise (Naidoo et al, 2008;14). By 1996 it was soon realised that, while increased spending on social goods was necessary, there was a corresponding need to accelerate growth to implement the macroeconomic goals of the RDP.

From a Fiscal policy point of view the two most important goals of GEAR were to halt the deteriorating fiscal situation and to quell fears about the government's perceived lack of commitment to fiscal prudence (Black, Calitz & Steenkamp, 2008:46). According to Khamfula (2004), the objective of the GEAR programme was achieving macroeconomic balance in the South African economy through a reduced budget deficit, and falling rate of inflation; the second objective was to make the South African economy achieve and maintain a 6% growth rate by the year 2000; the third objective was redistribution through job creation from economic growth and labour market reforms. The three goals of fiscal policy under GEAR were the reduction in the budget deficit to 3 percent of GDP; maintenance of the tax burden at 25 % of GDP; and the reduction of general government expenditure as a percentage of GDP (Black, Calitz & Steenkamp, 2008:46).

The theme of fiscal reform and consolidation continued under GEAR. One of the key developments under GEAR was the institutional reform in tax revenue collection and the management of government expenditure. According to Naidoo et al (2008), major reforms to both tax policy and administration were undertaken. A single revenue authority was established which closed numerous loopholes and reduced tax rates. In addition, the overall tax to GDP ratio increased. This consolidation of the fiscal position helped to reduce domestic debt from 50 to 43 per cent of GDP between 1994 and 2000. Revenue collection was improving with direct tax collections rising by 2.5 percentage points of GDP in the period between 1995 and 1998. This resulted from the significant increase in the tax base and associated compliance (Gelb, 2004:37).

The fiscal policy stance in South Africa became more expansionary after the year 2000. It was characterised by three main features: strong growth in revenue due to a strong economy and high commodity prices; improved tax collection efficiency; and rapid increases in public spending (Naidoo et al, 2008). Government was now able to adopt and support an expansionary fiscal stance that is characterised by strong expenditure growth and continued tax relief. The National Treasury stepped up fundamental income tax reforms with the purpose of broadening the tax base (Murwirapachena, 2011:21). While the focus of fiscal policy had shifted away from macroeconomic stability to focusing on microeconomic reform and service delivery, prudent debt management, stable inflation, improved credit ratings for the country and lower interest rates meant that debt service costs continued to decline along with government's overall debt to GDP ratio (Naidoo et al , 2008:51).

The fiscal framework from 2000 onward aimed at increasing the resources available for social spending, with a particular focus on responding to poverty and vulnerability; providing for increased investment in infrastructure; focused on extended service delivery and economic opportunities to poor people; and reduced tax rates for all (Murwirapachena, 2011:21). The New Growth Path (2010), called for greater constraints in fiscal policy to slow down inflation, it advocates for a counter-cyclical stance, which will manage demand while achieving critical public spending goals, it

foresees growth in expenditure of just 2% of the previous Medium Term Expenditure Framework (MTEF) period (2009-2014).

Kearney and Odusola (2010) state that the improvement in the fiscal situation coincided with favourable growth rates in the early 2000's. Whereas the aim was to reduce public deficits to 3 per cent of GDP, by 2006/07 the budget was in surplus. This turnaround in budget performance resulted in reduction of the budget deficit as a percentage of GDP. This has had a positive spin-off in that it has attracted direct foreign investment to the country and has also resulted in positive credit ratings.

The focus of fiscal policy moved away from stabilisation outlook to implementing micro-economic reform and service delivery through increased revenue and expenditure. According to Ajam (2010), the institutional reforms governing revenue collection and expenditure management bore fruit in the fiscal years following from 2000. The latter was strengthened by the passage of the Public Finance Management Act in 1999. Debt management and lower interest rates brought about sustained savings that were redeployed to social and capital expenditure. The expansionary period was characterised by rapid revenue growth owing to the improved revenue collection system. Significantly, tax revenue as a percentage of GDP has been constant, with actual tax revenue collected reaching a maximum in 2008. This coincided with the highest maximum government revenue in the same year (Murwirapachena, 2011). Ajam (2010) further states that even when government revenue projections were revised upwards, they were outstripped by actual collections, this translated into tax relief for almost all taxpayers.

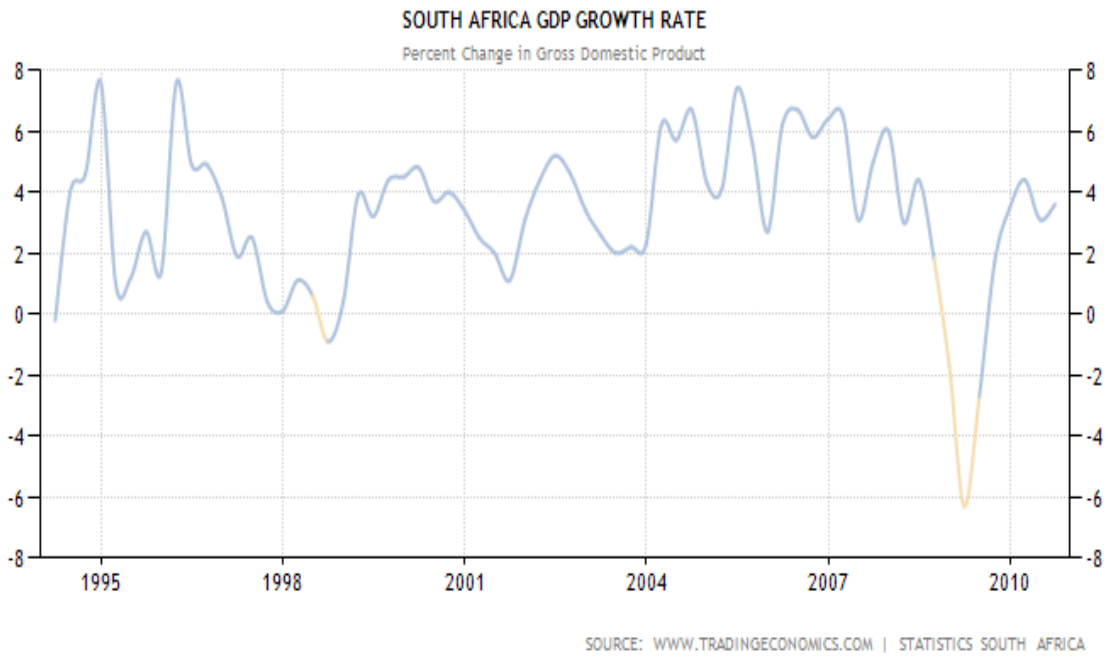
The buoyancy in government revenue resulted in increased government expenditure in the same period. The South African government spends considerably towards services, this is especially so on services such as education, infrastructure, social welfare, debt, housing, health protection, water and agriculture (Murwirapachena, 2011; 26). Murwirapachena (2011) further contends, that government capital expenditure consumes much of government's revenue, this includes all expenditure

towards infrastructure by the government. According to National Treasury (2014), public sector investment in infrastructure will total R847.3 million which is equivalent to 7% of GDP in 2015. The second major area of increased spending, according to Naidoo et al (2008), was social grants, which experienced an increase of almost 1 percentage point of GDP. This included expanding the grant to children up to 14 years; rising disability grant beneficiaries. Spending on social grants constituted 10.3% of spending on social services. Social services' spending consumes the bulk of non-interest consolidated expenditure, averaging just below 60% of total expenditure, with the largest expenditure items being Education, Social Development and Health (Ajam, 2010).

Government spending continued to grow, even at the outset of the global recession of 2008. Although the growth in government revenues slowed down and turned negative with the onset of the recession, as the crisis hit, government decided to proceed with projected expenditure plans. The overall picture was that of an upward drift in public spending at just the time when revenues were being negatively affected by the downturn (Lysenko & Barnard, 2011).

Pre- financial crisis, the economic growth of the country was healthy, booming with activity and overall increased standard of living. During the financial crisis, the economy experienced negative growth reaching levels of -6%. Post financial crisis, growth recovered from the 2008/2009 downturn, economic growth in 2011 reaching 3, 5%. (See Figure 1).

Figure 1: GDP Growth Rate



An analysis of the economic growth in the country would reveal that the expansionary phase of fiscal policy correlated with positive economic growth. The mid-2000s until the recession represented high growth rates averaging between 4-6 %, as seen in Figure 1. These boom years can be said to have been a result of active fiscal policy, for example, the decrease in taxes which might have resulted in increased household income, which fuelled consumption and therefore pushing up aggregate demand. One of the main contributors to economic growth was domestic demand, which Mohr and Fourie (2008) explain as having been bolstered by increased government spending This is especially so when looking at investment in infrastructure, public investment in infrastructure has bolstered productivity leading to increased growth.

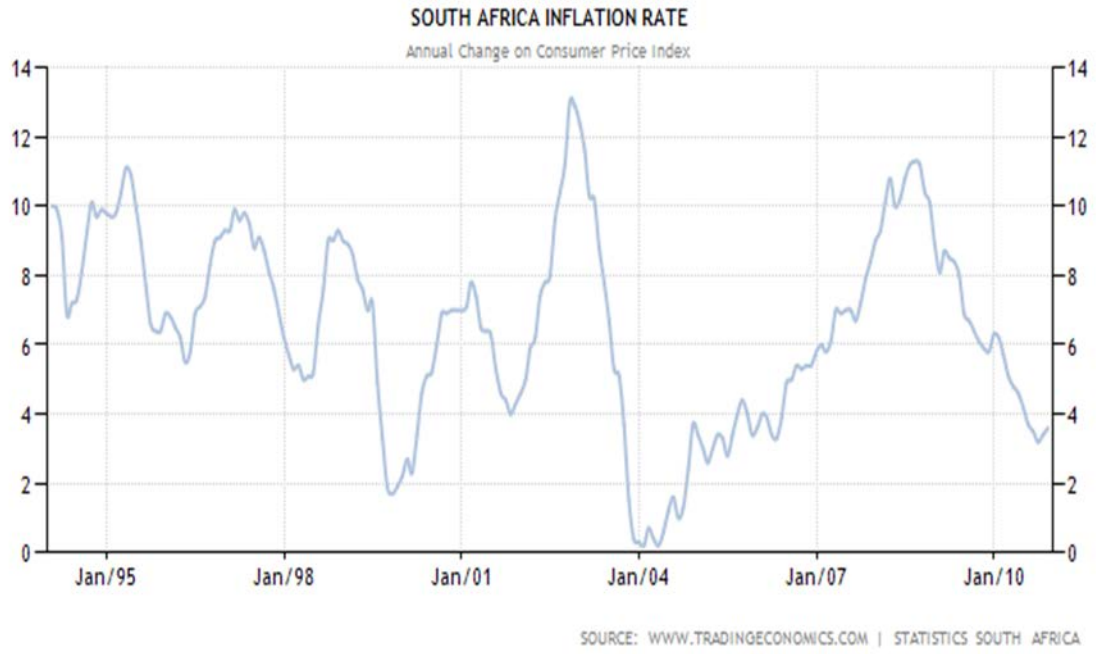
4.3.2 Impact of Monetary Policy

In the latter years of the pre-democracy era nominal interest rates had dropped steadily from 1990 to 1994, tracking inflation downwards. However, rates steadily began to rise again due to foreign investment (Gelb, 2004; 36). Gelb (2004) further contends that from 1994 monetary policy had oscillated between rapid and large interest rate hikes in an effort to stem capital outflows and exchange rate depreciation during this period. Since inflation continued to decline, real rates rose in the period between 1994 and 1998.

In 2000 the South Africa Reserve Bank (SARB) introduced inflation targeting as their primary policy goal to stabilise the internal value of the South African currency., The target was to maintain inflation between 3-6% (Kearney and Odusola, 2010; 22). This move kept inflation steady and kept commodity prices stable, offering poorer consumers a cushion against rising prices. Inflation levels therefore came down drastically relative to the double-digit inflation rates of the early 1990s. According to Gelb (2004), the inflation target was not immediately met as the depreciation of the Rand (25% in late 2001) pushed price increases above 10%, and food prices rose by 11.4% in 2001.

According to the South African Reserve Bank (2014), during this period (2000) inflation has been volatile. Pre global financial crisis, the inflation rate remained within the target band, with 2002 being an exception. During the crisis the inflation rate increased to as much as 11.5%. Post the financial crisis, the inflation rate began to moderate (See Figure 2). The inflation rate has occasionally breached the upper end of the inflation target band. the result of this is that commodity prices have remained stable, offering domestic consumers a cushion against rising prices, inflation levels have also drastically decreased relative to the double-digit inflation levels of the early 1990s

Figure 2: South Africa Inflation Rate



The exchange rate policy stance, aimed at nominal stability, was replaced with a focus on the real exchange rate competitiveness as espoused by GEAR, followed by a stance on non-intervention in the exchange rate. None of these approaches has achieved exchange rate stability in the face of capital flow volatility (Gelb, 2014: 36).

4.4 South Africa's Macroeconomic Policy and its Development Goals

South Africa's post-apartheid government clearly set out a number of developmental goals which it sought to achieve through a targeted and tailored macroeconomic policy regime. It is of importance to understand that these goals were an attempt to rid South Africa of its apartheid characterisation which was premised on race-based discrimination. This commitment to the transformation of the South African society, and its transition to a democratic dispensation are expressed in the introduction of development and planning frameworks.

As alluded to previously in the study, the RDP was adopted as the country's socio-economic policy framework aimed at addressing the immense socio-economic problems besetting the country, focusing on areas of health, education, electrification, and housing. Subsequent to this came the introduction of the GEAR macroeconomic strategy which was anchored on four main pillars, economic growth as a stimulus to employment; redistributive and pro-poor outcomes; the provision of basic services; and fostering a safe environment for investment. Building on GEAR, ASGISA was introduced to speed up employment creation by halving unemployment by 2014. The NGP brought about a strong focus on microeconomic policy and greater emphasis on job creation with clear targets. The development goals of the country are clearly set out in its macroeconomic strategies, they can be summarised as follows; meeting basic needs; restructuring, reforming and developing the economy; job creation; eradication of poverty and unemployment; creation of an equitable society.

Table 1 below provides an outline that demonstrates the coherence between South Africa's macroeconomic strategies and its development goals and objectives.

Table 1: Macroeconomic strategies and development objectives.

Macroeconomic Strategy	Development Objectives
Reconstruction and Development Programme (RDP)	Meeting Basic Needs Developing Human Resources Building the economy
Growth Employment and Redistribution Strategy (GEAR)	Restructure the Economy Create jobs Counter high inflation
Accelerated and Shared Growth Initiative for South Africa (AsgiSA)	Halve unemployment and poverty Improve Capacity of the state
New Growth Path (NGP)	Employment Creation

Source: Millennium Development Goals, 2013

4.4.1 Towards SA's Development Goals: the stubborn challenge of Poverty, Unemployment and Inequality

It is often noted that the one distinguishing failure of post-apartheid South Africa, is its failure to address the triple challenges of Poverty, Unemployment and Inequality. These continue to be a blot on the outlook of the post 1994 dispensation. As stated previously it is this study's intention to unpack how the macroeconomic paradigms have fared in the pursuit of eradicating poverty and unemployment and the extent to which they have fostered the creation of a more equitable society. Even in the context of fiscal stability, monetary policy reforms, increased foreign investment, labour market reform, the South African economy continues to exhibit its apartheid characterisation due to its inability to eradicate poverty, decrease unemployment and create a more equitable society. The next section will outline these continuing challenges and how the changing macroeconomic policy paradigms have failed in addressing them

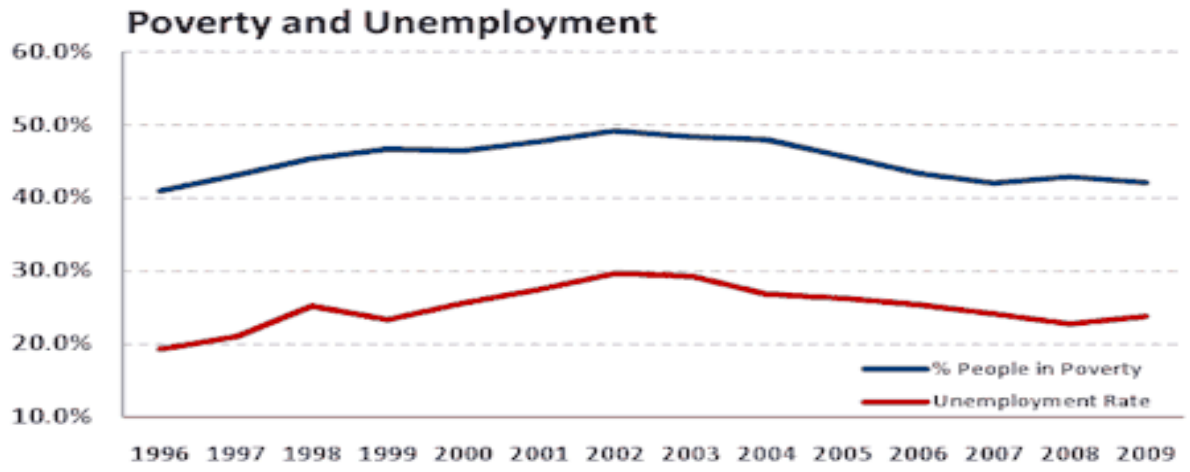
4.4.2 Poverty, Inequality and Unemployment - A Clear Correlation in the South African context

For the purposes of this section, it is the intention of the study to examine the socio-economic indicators of Unemployment, Inequality and Poverty within the premise that there exists a clear correlation between the two in the South African context. This correlation stems from the apparent trend that shows that high unemployment levels are in themselves a pre-condition for the relatively high poverty levels experienced in the country.

In South Africa, there exists a clear correlation between the high levels of unemployment and high poverty levels. The government continues to spend more on the non-interest expenditure comprised largely by social grants and other forms of social protection (Naidoo et al, 2008). According to World Bank (2012) the number of people dependent on social grants has risen from 3, 5 million in 1995 to 11 million in 2010. Therefore, the slight decrease in poverty levels has been largely due to

expenditure on social grants. According to Stats SA (2014), the number of people living below the food line increased to 15, 8 million in 2009 from 12, 6 million in 2006, before dropping to 10, 2 million people in 2011.

Figure 3: Changes in Poverty and Unemployment



Source: UNDP, 2013

Figure 3 clearly demonstrates this correlation. The unemployment rate can be seen to follow a similar path when compared to the percentage of people in poverty. Poverty, as with unemployment and inequality, continues to exhibit a racial characterisation.

When GEAR was introduced, the unemployment rate was just below 20%, while the associated number of people living in poverty was estimated at around 41%. Throughout the GEAR period there was a steady increase in both the unemployment rate and the number of people living in poverty. During the boom years of GEAR, the mid-2000s, unemployment and poverty reached its highest levels in the post-apartheid dispensation. In 2002 unemployment reached 30% while simultaneously Poverty rose to nearly 50%. These figures showed a decline in the latter years of GEAR and throughout the period of AsgiSA. Unemployment did however rise again with the advent of the global recession of 2008, although poverty levels continued to decline, in part due to the expanded social spending on service delivery and the social grant system.

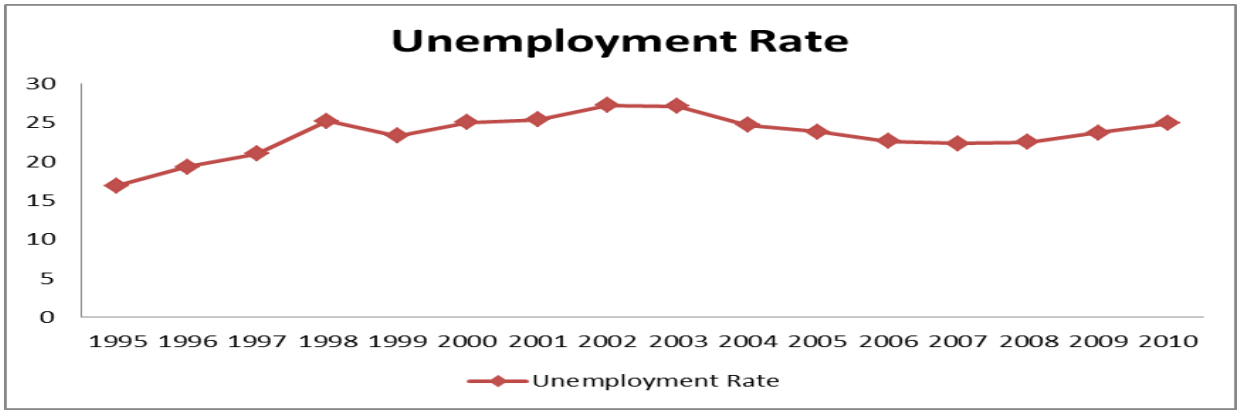
Unemployment

Although the South African economy went through a phase of stabilisation and growth, this did not have the desired effect of creating employment and by extension alleviating poverty in the country. Naidoo et al (2008) identified a number of constraints to job creation:

i. A poor skills base and weak institutions, from schools to workplace-based training systems;
ii. Spatial development patterns – a legacy of Apartheid planning - resulting in inefficient land use and high transportation costs;
iii. Poor passenger and freight transportation systems;
iv. Poorly regulated monopoly markets in key areas such as telecommunications and energy, as well as little room for competition in many private goods markets.

Unemployment remains high despite positive employment growth over the period. Although there has been positive employment growth over the period, labour force participation has grown more over the same period so that unemployment has not declined significantly (Kearney and Odusola, 2010). According to the SARB the 2010 unemployment rate was at 24.9 %. Employment creation remains one of the weakest economic performances of the post-apartheid macroeconomic policy dispensation. The Figure below illustrates the unemployment rate since 1994.

Figure 4: Unemployment Rate



Source: SARB, 2014

Unemployment, as can be seen in Figure 4, increased and remained stubbornly high during the period of GEAR. A steady decline in the unemployment rate is witnessed during the AsgiSA period, followed by another upturn in the period leading up to the introduction of the NGP mainly due to the 2008 global economic recession.

Poverty

According to the DPME (2012), in 1995 it was estimated that 28% of households and 48% of the population were living below the estimated poverty line. Since then, the significant rollout of social services has significantly improved the lives of millions of South Africans. Notwithstanding, South African society continues to be afflicted by high poverty levels. According to Edwards et.al (2015) in the early 1990's South Africa was characterised by significant levels of poverty, which followed a hierarchy along racial lines, therefore, while 61% of the African population and 38% of the coloured population lived in poverty, only 1% of whites faced the same plight. Edwards et.al (2015) further states that a main contributing factor to this was the highly skewed labour market, the labour force data of 1995 show that whites were the most economically included racial groups with a labour force participation of 68.6%, and the highest rate of employment of 66.4%. By contrast, the African labour force participation was the lowest with low employment rates and high unemployment rates. That characterisation had not changed in 2010, Whites continued to have a high labour force participation of 67.5% and an employment rate of 63.7%, while Africans had an employment rate of 36.4% with a labour force participation of 50.6%. (Statistics South Africa, 2011:4)

According to StatsSA (2014), South Africa published a set of three national poverty lines – the food poverty line (FPL), lower-bound poverty line (LBPL) and upper-bound poverty line (UBPL) – to be used for poverty measurement in the country. The FPL is the level of consumption below which individuals are unable to purchase sufficient food to provide them with an adequate diet. The LBPL includes non-food items, but requires that individuals sacrifice food in order to obtain these, while individuals at the UBPL can purchase both adequate food and non-food items. The Rand value of each

line is updated annually using Consumer Price Index (CPI) prices data. South Africa has a high number and percentage of the population living below all three national poverty lines, as illustrated below.

Table 2: Numbers and Percentages of population living below poverty lines (2009)

	Food poverty line (R305)		Lower-bound poverty line (R416)		Upper-bound poverty line (R577)	
	Number	Percentage (%)	Number	Percentage (%)	Number	Percentage (%)
South Africa	**12 871 658**	**26.3**	**19 025 108**	**38.9**	**25 593 339**	**52.3**

Source: DPME (2013)

Despite the adverse impact of the financial crisis, poverty levels did noticeably improve according to 2011 estimates. This was driven by a combination of factors ranging from a growing social safety net, income growth, above inflation wage increases, decelerating inflationary pressure and an expansion of credit. The period of AsgiSA and NGP also offered some positives. Between 2006 and 2011, households recorded a 16, 7% real increase in income (Statistics SA, 2014). A combination of all of the above factors has led to decreased poverty levels in South Africa, some as a direct effect of the country's fiscal policy.

Inequality

Aggregate inequality has increased throughout the period of analysis. The different macro-economic strategies proved inadequate in arresting growing inequality, and South Africa still suffers from high levels of inequality, according to Stats SA (2010). The term Income is inclusive; it covers all sources of household revenue and includes not only earnings but also social grants, other sources of revenue from government

such as UIF, as well as investment income. South Africa's inequality levels are amongst the highest in the world. Furthermore, levels of inequality and poverty continue to bear a persistent racial undertone (Leibbrandt et.al, 2010:9). This can be illustrated by a simple analysis of the estimates of per capita personal income by race group:

Table 3: Estimates of annual per capita personal income by race group

Year	*White*	*African*	*Coloured*	*Asian*	*Average*
Per Capita Income in constant 2000 rands					
1993	46486	5073	8990	19537	11177
1995	48387	6525	9668	23424	12572
2000	56179	8926	12911	23025	16220
2008	75297	9790	16567	51457	17475
Relative per Capita personal incomes (% of white levels)					
1993	100	10.9	19.3	42.0	24.0
1995	100	13.5	20.0	48.4	26.0
2000	100	15.9	23.0	41.0	28.9
2008	100	13.0	22.0	60.0	23.2

Source: Leibbrandt et al. (2010)

The table above clearly illustrates the rising aggregate inequality and the continuing rising inequality within each race group. A further illustration of this can be illustrated by analysing the Gini coefficients for per capita income by race:

Table 4: Gini coefficients per capita by race group

	1993	2000	2008
African	0.54	0.60	0.62
Coloured	0.44	0.53	0.54
Asian	0.47	0.51	0.61
White	0.43	0.47	0.50
Overall	0.66	0.68	0.70

Source: Leibbrandt (2010)

The table above illustrates that the overall Gini coefficient has ranged between 0.66 and 0.70. In addition, inequality within racial groups also increased with the Gini coefficient being particularly high for Africans. According to the DPME (2013), the Gini-Coefficient of South Africa has averaged between 0.70 and 0.67 in the period 2000-2010, making it one of the highest in the world. Unequal income distribution and high unemployment fuel the high inequality. A recent study on monthly earnings of South Africans by Statistics South Africa's (2014), revealed that the bottom 5% of employees earned R570 or less while the top 5% recorded monthly earnings of R17 000 or more.

Netshitenzhe (2013) argues that while income inequality between and within race groups are slowly diminishing it is important to note seven (7) key trends with regards to inequality in South Africa:

1. Income poverty has been declining since the advent of democracy, poverty headcount at R524 per person per month decreased from 53% of the population in 1995 to 49% in 2008. This can be attributed to both higher employment rates and increased social welfare programmes.
2. Functional distribution of national income has worsened. Over 50% of national income goes to the richest 10% of households, while poorest 40% receive less than 5% of national income.
3. Changes in the share of national income has not favoured the middle class, this has declined from 56% in 1993 to 47% in 2008.
4. Employment does not guarantee an escape from poverty. The bottom 5% of those in employment earned about R600 a month, half earned R3033 and below, while the top 5% earned R21 666 per month.
5. The Gini Coefficient has been hovering in the mid to upper 0.60 since democracy, placing South Africa second highest level of income inequality globally.
6. Inequality shows a declining trend between races, while showing and increasing trend within races.
7. Inequality in the labour market is aggravated by the skills shortage, which influences wages. The over-supply of unskilled workers has helped to keep wages low.

Inequality is a result of political forces as much as economic ones, with government setting the rules of the game in ways that profoundly impact on distributional outcomes – not only in ways that exacerbate inequality, but in ways that can by contrast create equity also (Stiglitz, 2012:31). While every country's context is specific, a critical overarching factor that influences the extent of inequality is the role of public policy and of institutions.

The Congress of South African Trade Unions (COSATU) in its *The People's Budget of 2001* best summarises the ramifications of the triple challenge of poverty, inequality and unemployment for South Africa. It describes South Africa as being in a classical poverty trap where massive inequalities and associated poverty prevent growth and development. Specifically, poverty lowers the productivity of the labour force; undermines social cohesion by perpetuating inequalities; and reduces household incomes which in turn limit domestic markets.

4.5 Conclusion

The research findings of this study have pointed to distinct features of South Africa's macro-economic space. Like with all forms of policy making the space is contested. In the context of South Africa and its continued struggle with socio-economic problems it has become clear that this contestation is subject to political/ ideological considerations in the pursuance of the best fit for the prevailing economic conditions. In this chapter the study has analysed the thematic factors that have led to paradigm shift in policy. These have been identified as the political influences on macroeconomic policy, exemplified by how differing forces within both South Africa's body politic and those outside of it have attempted to exert their influence. A clear example is the plethora of interests that exist within the ruling alliance and how that has manifested itself in policy development. The findings have also revealed how the global economic climate, especially the dominance of orthodox neo-liberal economic theory was a driving force in moving South Africa's macroeconomic theory towards an acceptable neo-liberal disposition.

The research has also outlined the role of policy co-ordination and implementation and the role that institutions play as an important consideration of how this can lead to policy shift. It has shown that where institutional arrangements are weak, it is easy for countervailing forces to impose their narrow agenda and influence the changing of policy. Conversely, where institutions are strong policy shifts are harder to manifest. The findings have also analysed a longstanding narrative on the interplay between macroeconomic policy and development, through an analysis of the socio-economic indicators of poverty, inequality and unemployment. It has shown how these factors continue to be a challenge, and an affront on the South African economy. In the context of an embrace of orthodox economic theory and relative success in some of its underpinnings, majority of South Africans continue to be excluded from the gains of the economy.

Chapter 5: Conclusions and Recommendations

5.1 Conclusions

As illustrated in the research, the shift in macroeconomic policy represented a paradigm shift spurred by a number of overlapping factors. The shift from the RDP and its redistributive aims to GEAR, which emphasised the importance of growth over development, represented one such paradigm shift. Research has revealed that this shift can be attributed to a number of factors, key amongst these being the negative global and domestic economic climate at the time, a rapid depreciation of the rand, low savings and foreign reserves, huge debt coupled with a global economy suffering from a financial crisis which threatened most emerging economies. The fiscal discipline of GEAR is what was needed not only as a buffer to the financial crisis but also a necessary prerequisite to prevent the economy from falling into a debt trap.

Other factors point to the dominance of the orthodox neo-liberal mantra in economic policy at the time, which in some way forced the hand of the incoming government to adopt a pro-neo-liberal policy stance. Faced with the imminent threat of capital flight, this stance was emboldened by an emerging faction within the ruling party who bought into the neo-liberal mantra and saw it as the most viable option in setting the economy on a workable growth path. Furthermore, the paradigm shift can also be understood within the context of a weak institutional capacity of its predecessor. GEAR, this together with the RDP's vagueness on macroeconomic issues produced the fertile ground for more focused conservative economists to impose their interests and in essence capture the macroeconomic space.

The tweaking of the dominant GEAR strategy to produce the AsgiSA policy is said to have its roots in the return to a developmental outlook in government policy. This return was due to the failings of the GEAR programme to deliver on its developmental goals.

In the context of successful growth rates, reduction of the budget deficit, and increased government savings, the economy was still faced with growing unemployment, poverty and inequality. It was important at the time that government should introduce a policy that would ensure that the successes of GEAR would be more inclusive, AsgiSA was identified as a means to bringing about 'shared' growth. It embodied the developmental agenda with its strong pronouncements on poverty reduction, skills development and focus on microeconomics seen as one of the levers for job creation. The emergence of AsgiSA can, however, also be viewed in the context of the continued opposition to GEAR's implementation by leftist leaning members of the Tripartite Alliance. Its failures in delivering some if its targets were the reason for growing dissent within the ruling alliance. GEAR presided over a period of unbalanced growth, and therefore this laid the foreground for the gradual shift from its underpinnings

The internal political fallout within the ANC brought about a new political landscape, characterised by the victory of the left. This in turn resulted in the dominance of this faction in the new government. The NGP, with its strong focus on employment creation and decent work, was the result of this shifting of the balances of power towards the left. This new political landscape, coupled with a global recession, laid the groundwork for the emergence of the New Growth Path.

Even in the context of the paradigm shifts of the macroeconomic landscape, the glaring socio-economic fault lines remained unchanged, especially in terms of high unemployment, poverty and inequality. Failure to address these remains the weakness of the South African economy, and by extension its macroeconomic policy. Despite relative success in growing the economy and increased public spending on social and public goods, the structure and nature of the economy remains largely unmoved. Inequality, poverty and unemployment continue to undermine development, and continue to manifest with correlating racial undertones, a legacy of the past that the economy has been unable to shake off. The stubbornness of the economy to restructure and transform points to the failings of the current neo-liberal economic policy trajectory. In its recommendations this research calls for the embodiment of the

Developmental State narrative which focuses power in the state in driving economic development backed by strong institutions and adequate and democratic participation on the part of the social partners.

5.2 Recommendations - Towards a developmental state

Macroeconomic development in South Africa continues to be a contested space with varying interests besetting the policy development space. South Africa in its quest to rid itself of its apartheid characterisation is in need of a radical review of its policy space especially with regards to macroeconomic policy. The aforementioned adaptation of an orthodox economic trajectory premised on the pillars of neo-liberal economic theory has had mixed results in the South African context. Coupled with mixed results in the tweaking of macroeconomic theory towards a more Keynesian disposition, South Africa can be said to be at a crossroads in its macroeconomic policy paradigm.

While a growth led economic trajectory has resulted in significant success in some aspects and have constituted acceptable global norms, the unintended effect is that in a country with a past like South Africa this has proven to be inefficient in addressing the growing socio-economic difficulties. Secondly while a distributive growth path has proven to be tangible in the South African, as witnessed by state intervention in the form of public spending, the feasibility of such state driven development is both questionable in terms of its sustainability and often frowned upon as representing an out dated model of economic theory. The constant chasm and jockeying between these two ideological positions warrants re-thinking of the macroeconomic stance of the country. While growth and development are both important towards building a more inclusive economy, it is important to attempt to strike a workable balance between these countervailing positions, a position that transcends both.

In modern economies the role of the centrality of the state cannot be overstated, in recent years the state has come to represent an important institution in both driving the developmental agenda and acting as a buffer at the damaging changing tides of the global economy. The state is undeniably an important socio-economic and political institution, it consists of inter-related socio-economic and political institutions, and it has always been seen as the main supplier of public goods (UNESCO, 2013:4). In the concept of a developmental state, economic development is placed as the preserve of government policy, this policy is tasked with establishing well-functioning institutions, the weaving of formal and informal networks (UNESCO, 2013:4). The developmental state has also been characterised as a state that promotes macroeconomic stability as well as establishes an institutional framework that advances human development (Mkandawire, 2010:96).

5.2.1 Developmental State in Africa

The narrative of the developmental state in Africa has raged for some time, the discourse has moved mainly in two directions-the first being pre-occupied with whether or not the Developmental State was feasible in Africa; the second has , against the background of a tacit consensus especially amongst scholars and policy makers, on the imperative of establishing a developmental state on the continent, the shape and form it should take-to follow the Asian autocratic development model or adopt a democratic development model (UNESCO, 2013:4). The scepticism of whether or not the Developmental State model is feasible is premised on the generally poor record of state-led development on the continents in the post-independence era, as previously seen, state intervention in the economy has often led to the accumulation of wealth on the part of the ruling elites (Ake, 1996:6). Added to this was the absence of genuine leadership that was development oriented.

Proponents of the Developmental State however have dismissed this scepticism by arguing that the blanket generalisation about poor performing African states is just as biased as the unqualified venerations of the achievements of the South East Asian

Tigers, they have interpreted the rejection of the feasibility of the developmental state on the continent as being premised on an ideological preference for neo-liberalism (Chang, 2006:12).

5.2.2 The case for South Africa

In this study's analysis of GEAR and the RDP, the RDP can be said to be pro-development policy while GEAR is a pro-neo-liberal policy. From an economic policy perspective, the RDP moved from the premise that there was room for both the involvement of the state, especially in the provision of public goods, and the free market in delivering the necessary economic climate for the successful implementation of RDP programmes. Secondly, as stated previously the ANC's alliance partners, COSATU and the SACP have blamed GEAR for the deepening of socio-economic problems such as poverty and unemployment, while the ANC argued that the favourable economic conditions of high growth and investment that were in place in the 2000's were as a result of the success of the GEAR policy.

At the 2007 elective conference of the ruling ANC, the concept of the Developmental State was overwhelmingly supported by delegates, although the alliance partners themselves have differing views on economic policies. What is however common in their outlook is the agreement that the continuing socio-economic challenges that continue to afflict the South African economy are a constraint on the country's development? In order to overcome these challenges the economy needs to be placed on a developmental state trajectory, central to this trajectory is the sanctity of employment creation as a lever towards poverty eradication. One key component that the state will have to address is the perpetual mistrust between business and labour, as previously noted central to the concept of the success of the Developmental State is its ability to fostering networks, closely linked to this is the centrality of the private sector in the developmental endeavour.

Secondly the state should be in a position to intervene in the economy in the interest of economic development, in the ANC's Economic Transformation Policy Discussion Document of 2007 it is clearly stated that the ANC's approach to economic transformation is based on the understanding that the changes which it seeks to achieve in the economy cannot be left to the 'invisible hand' of the market. It therefore follows that the state should play a strategic role in shaping economic development. The discussion document also pronounces on South Africa's Developmental State and asserts that it will be shape by local realities and central to its thrust will the restructuring of the economy. The potential of South Africa to become a Developmental State needs to come into being, the first step towards this would be to reform its current neo-liberal nature of its economy.

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3. Professor Steven Friedman- Academic, reputed policy analyst-24 January 2016
4. Jorge Maia-Head: Economic Research & Information Department at Industrial Development Corporation of South Africa-07 March 2016
5. Rudi Dicks-Outcomes Facilitator: Department of Planning Monitoring and Evaluation; former-Executive Director of the National Labour and Economic Development Institute (NALEDI)-a COSATU think tank.-22 February 2016
6. Tanya van Meelis-former Deputy Director General at Department of Economic Development-09 December 2015
7. Dr Sam Koma-Academic, lecturer at University of Pretoria-14 January 2016
8. Alex Mashilo- Spokesperson-South African Communist Party (SACP)-18 January 2016