Tracing the historical structure of economic growth in South Africa and identifying policies for inclusive growth and redistribution

By Dr Kenneth Creamer

Abstract

The article will analyse the historical structure of economic growth in South Africa with a particular focus on the period from 1994 to 2024. This analysis will show how the social and economic base inherited from the pre-1994 colonial and apartheid periods has, along with weak state capacity, contributed to an ongoing crisis of low growth and unequal accumulation. The article will argue that improved policy frameworks and improved state capacity to advance structural transformation, in a range of sectors, including land reform, industrial policy, and the management of the energy transition, can assist in shifting the country's economic trajectory onto a higher rate of inclusive economic growth and higher levels of productivity. The article will conclude by reflecting on the current balance of political forces in the country and the extent to which political factors could assist in advancing or retarding economic growth and redistribution.

Introduction

Colonial and apartheid policies distorted South Africa's economic development, leaving a legacy of deep racial, class and gender inequalities. Following colonial expansion and the land dispossession of the African population in the seventeenth, eighteenth and nineteenth centuries, South Africa's industrialisation path in the twentieth century was driven by significant capital investment in the country's agriculture, minerals, energy, industrial and financial sectors, and was fueled by the exploitation of black workers and the exclusion of the country's black population from meaningful economic activity.

This history remains structurally present in South African society and economy. Even after thirty years of democratic rule, since 1994, apartheid's racialised inequalities of wealth, land ownership and opportunity remain deeply entrenched, despite the emergence of a sizable black middle class during this period.

This article presents economic growth data to facilitate an analysis of the performance of the South African economy over a number of decades, including over the thirty years since 1994. Based on this analysis, the aim is to identify how a more inclusive growth path can be charted for the South African economy – a growth path that will fundamentally alter the underlying structural inequalities of the South African economy.

Rather than ascribing the ongoing inequalities in South Africa to the limitations and compromises of the 1994 political settlement between the apartheid government and anti-apartheid forces, or to the terms of the South Africa's democratic constitution, as has become quite common in contemporary political discourse, this article contends that ongoing structural unemployment, poverty and inequality, is due largely to inadequate economic policies, policies which have not changed the structural features of the South African economy. As such, it can be argued that the democratic state has failed to advance its constitutional obligations to improve the socio-economic position of the majority of people in South Africa.

This has been exacerbated by weak state capacity, resulting in a double failure for post-1994 South Africa, where inadequate economic policies have themselves been implemented poorly. This failure of economic policy and state capacity has begun to deepen, rather than resolve, the crisis of South Africa's economy in the post-1994 period.

What is required to resolve the country's structural crisis is an economic development framework that is characterised by policies that deliberately and effectively pursue both growth and redistribution. It is not required that a choice be made between a trickle down, *redistribution through growth framework*, or a *growth through redistribution* framework, as animated much of South Africa's economic policy debates in the early 1990's. Rather, both *growth and redistribution* policies need to be pursued and should be designed to reinforce each other so as to achieve truly inclusive growth. Exploitative, ruthless growth would be exclusionary and would lead to even more skewed distribution of wealth and income. Conversely, redistribution done in an economically destructive manner would undermine growth and lead to rising poverty and unemployment.

To succeed, a *growth and redistribution* path must be accompanied by:

- a sufficient political consensus that both growth and redistribution policies will define government's economic programme,
- a capable state, effectively able to implement its economic programme, and not weakened by corruption,
- strengthened service delivery, particularly to underserviced communities, to improve pre-distribution patterns of opportunity, and
- forward-looking planning which seeks to ensure that through skills development as well as technology and infrastructure investment, South Africa builds an internationally competitive economy.

Historical growth data

It is instructive to analyse South Africa's GDP growth rate over the longer term from the post World War 2 years to the current time. As per Figure 1, these decades can be roughly divided into four distinct periods.

- the *apartheid growth* period from the late 1940's to the late 1960's with an average annual GDP growth rate of 4,9%,
- the *crisis of apartheid* period from the 1970's to the early 1990's with an average annual GDP growth rate of 2,2%,
- the *democratic dividend* period from 1994 to 2010 with an average annual GDP growth rate of 3,2%, and
- the *dysfunctional state* period from the early 2010's to the early 2020's with an average annual GDP growth rate of 1,2%.

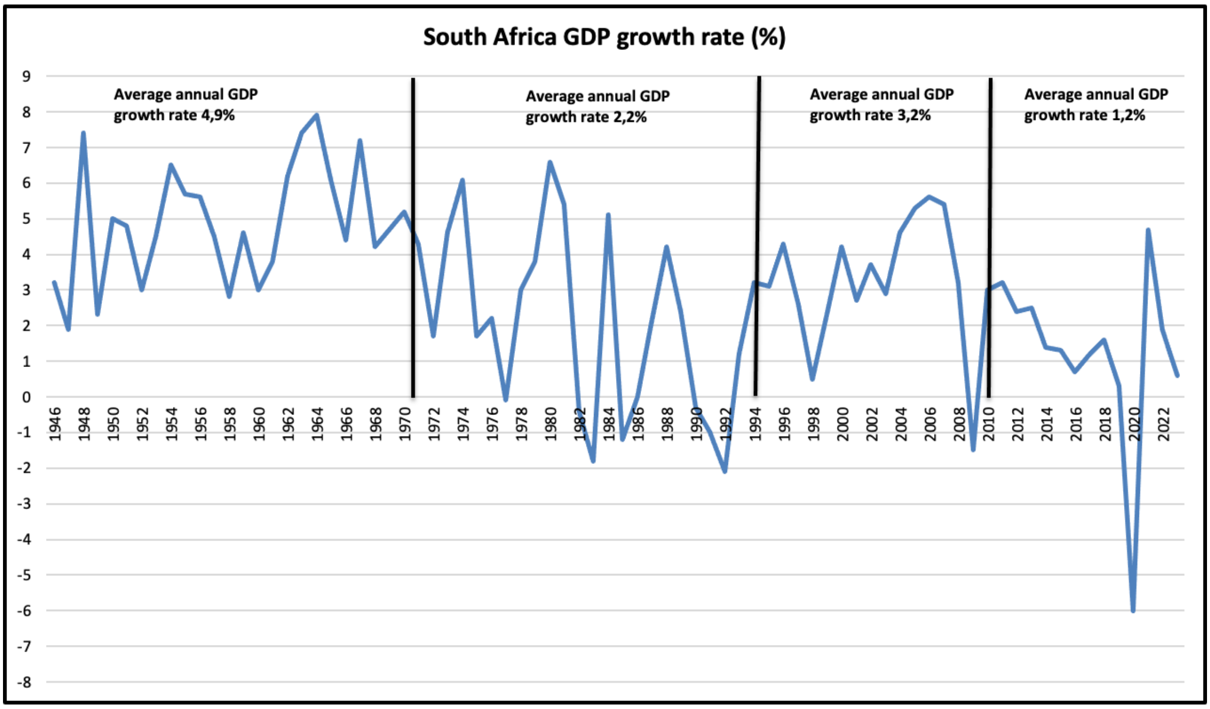

Figure 1. South Africa's Annual GDP Growth Rate 1946-2023

During the period from the late 1940's to the late 1960's apartheid South Africa's growth rate (averaging 4,9% per year) was lifted by a benign period in the world economy as global economic growth and productivity growth ticked upwards. The apartheid state and domestic capital cooperated to see large scale investment in mining and industry. Living standards of white South Africans rose to developed world levels, while petty and grand apartheid law's dispossessed black South Africans of land and opportunity and excluded black South Africans from meaningful economic participation.

During the crisis of apartheid period from 1970 to 1993, the average GDP growth rate declined to an average annual rate of 2,2%. The contradictions within the apartheid system resulted in structural limitations on growth, including the fact that the oppression and exploitation of black South Africans imposed limitations on the size of the country's domestic market and related growth and investment opportunities. Figure 2 shows a decisive negative turning point for investment in the South African economy in the mid 1970's. Internationally, South Africa's economic prospects declined with that of its major trading partners, as the global economy in the 1970's was characterised by a major oil price shock and stagflation – a combination of low economic growth and rising inflation.

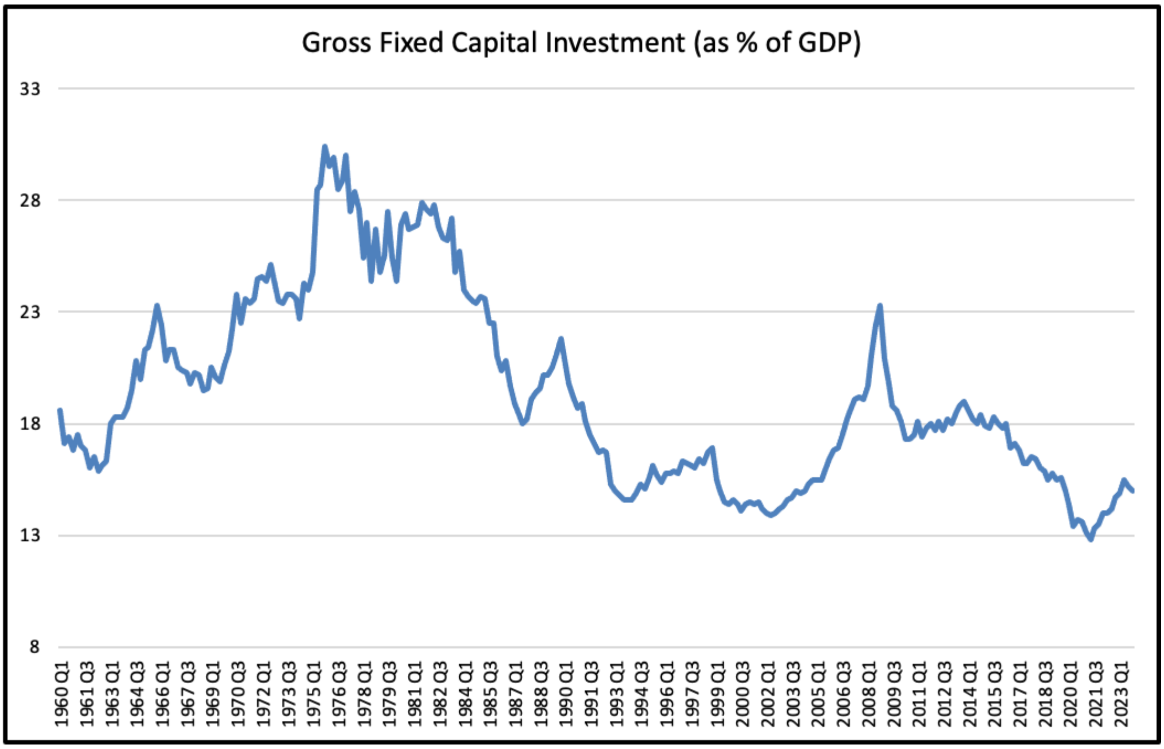

Figure 2. Fixed investment in South Africa from 1960 to 2023

In the latter part of the *crisis of apartheid* period, that is, from the 1980's to the early 1990's, South African growth rates significantly decoupled from the growth rates in the global economy. Figure 3 shows that during this period the economic growth rate in South Africa fell below the growth rates in the world economy and in emerging markets. This deepening of the crisis of the apartheid growth model can be ascribed to falling rates of investment as the contradictions of the model become increasingly dysfunctional to capital (Wolpe 1990), as well as increased resistance to apartheid including rising levels of unrest and instability, and internation trade and financial sanctions against apartheid.

With the dawning of democracy in 1994, South Africa was able to reintegrate into the world economy and the period of the *democratic dividend* resulted in a rising rate of economic growth. From 1994 to 2010, the rate of economic growth averaged 3,2% per year. Domestically, there was relative peace and stability and the decline in the rate of investment begun to bottom out. The end of sanctions and the international isolation of apartheid South Africa saw a rise in foreign and domestic investment.

This was a time of intense debate in democratic South Africa about the role that should be played by fiscal policy and public investment. The Reconstruction and Development Programme (RDP) favoured a large increase in public investment in housing and other sectors, but proponents of the Growth Employment and Redistribution (GEAR) policy contended that through structural reforms and avoiding rising public indebtedness, interest rates would be kept in check, and investment and employment would be stimulated.

In fact, interest rates rose very sharply in the late 1990's due mainly to the impact of the Asian crisis. The lack of coordination between GEAR's fiscal prescriptions and the SARB's 'eclectic' monetary policy of the late 1990's, where interest rates were being raised inter alia to protect the value of the Rand, was one of the key reasons for the adoption of an inflation targetting monetary policy framework. Under the inflation targeting framework, interest rates are set in order to achieve specific inflation objectives, and the rand is allowed to float more freely than under the previous 'eclectic' monetary policy framework.

A less discussed consequence of the GEAR policy was the resulting failure of the democratic state to develop its capacity for the effective management of public investment, which lack of capacity would play a role in the public infrastructure failings in subsequent years.

During this period, the international economy was generally benign and supportive of growth in South Africa, expect for the Asian currency crisis of 1998. The international economy was characterised by increasing globalisation and global integration and, in particular, the spectacular growth of the Chinese economy. As China sourced iron ore, coal, manganese and other minerals for its industrial expansion, South Africa benefited directly from rising global minerals prices. This commodity super-cycle, helped to fuel rising growth and investment in the South African economy (Figure 2), until the crash resulting from the Great Recession that took place from 2007 to 2009.

The Accelerated and Shared Growth Initiative for South Africa (ASGISA) framework sough to mobilise increased public investment on the back of increased growth and government's strengthening fiscal position which moved into surplus in 2006 and 2007, but weakened state capacity, in particular project management capacity, limited the impact of this initiative.

From 2010 to 2024, the average annual GDP growth rate fell to 1,2% per year. The period's experiment with significant counter-cyclical fiscal policy, which saw national public debt increase from 27,8% of GDP in 2008 to 72,8% of GDP in 2022 did not play an effective role in stimulating increased levels of growth or fixed investment (as indicated in Figure 2). The weaknesses in state capacity, which were becoming apparent in earlier periods, began to overwhelm the economy during the period of state capture. This was the *dysfunctional state* period in which the state, instead of playing a developmental role in guiding economic development, saw its expenditures diverted and state policy repurposed in favour of corrupt activities in government departments, as well as in key state-owned companies like Eskom, Transnet, Sanral, and SAA, as outlined in extensive detail in the Judicial Commission of Inquiry into State Capture Report.

This period of low growth and investment, which saw national debt rise, impacted negatively on fiscal revenues, resulted in a situation where from around 2018 onwards, the state's fiscal space was severely squeezed and fiscal consolidation was prioritized in order to avoid a deepening fiscal crisis, where increasing amounts of tax revenues had to be used to service debt repayments.

Rising debt resulted in increasing interest rates as well as a rising risk premium to be paid by the state on its borrowings. The lack of fiscal space, and the rising indebtedness of state-owned companies, placed severe limitations on public service and public investment. Theis constraint on public sector balance sheets, which had been severely weakened during the state capture period, provided the fundamental reason for reforms in key sectors, like electricity and rail, aimed at mobilising public and private sector investment in these sectors. In this context, in 2023 the state also had to take on over R200-bn of Eskom's debt, with the aim of free up the utility's balance sheet so that it could undertake the necessary maintenance and investment required to improve its performance.

The global economic environment after the 2008-09 Great Recession generally was locked into levels of lower economic growth, including China. This and related lower commodity prices played a role in slowing South Africa's economic growth rate. Slow economic growth continued to define the global reality, and was exacerbated with the onset of the Covid pandemic in 2020 and the rise in geo-political tensions. These factors brought the added dimension of increasing inflation rates and increasing interest rates globally. South Africa, in general, has to follow the global interest rate cycle or risk currency depreciation and related inflationary pressures, such as, rising fuel and food costs. As such, South Africa's constrained fiscal space has been made worse by a tight monetary environment.

South Africa's poor economic performance has not only been due to the difficulties and constraints imposed by the global economy. As can be seen in Figure 3, the growth rate in South Africa over the past 12 years has decoupled from that of the global economy and other emerging markets. This can be ascribed to South Africa particular dependence on global commodity prices, which have been low during this period, and also due to state capture as a result of which the state and state-owned companies, instead of facilitating growth and investment, came to be characterised by corruption and dysfunction and became a constraint on growth and investment.

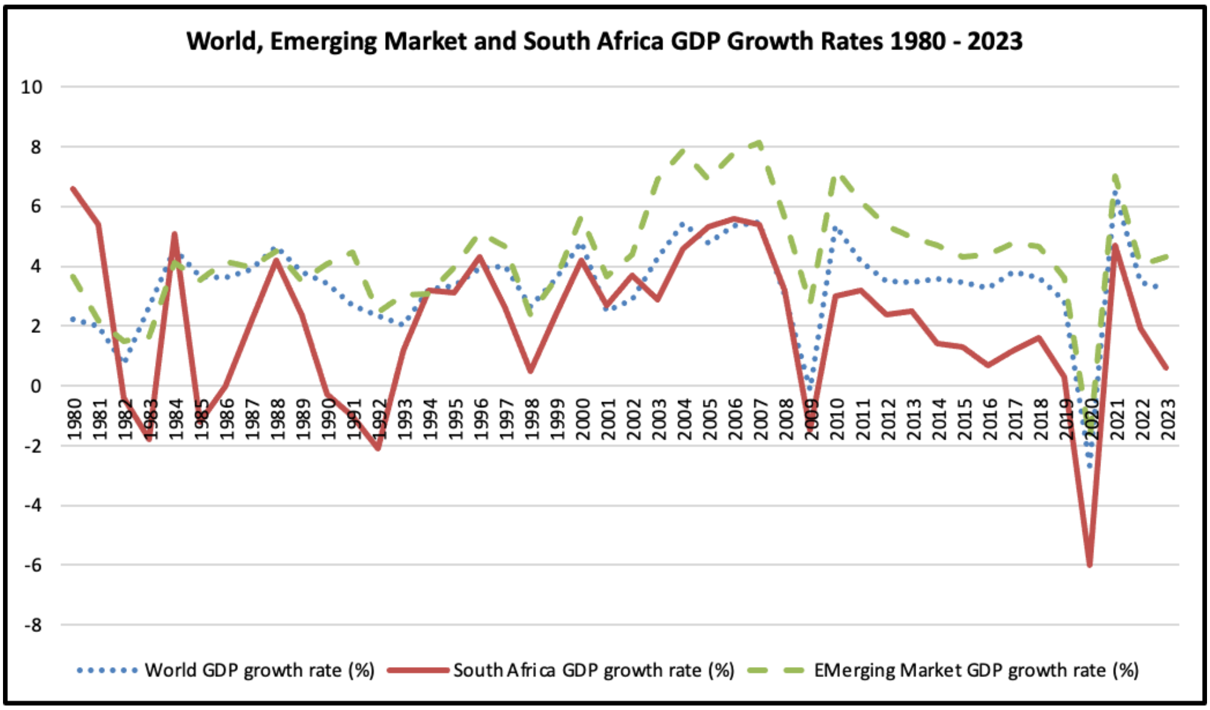

Figure 3. GDP Growth Rates in South Africa, Emerging Markets and Rest of the World

Overall, in comparing South Africa's GDP growth performance to growth rates in the world economy and in emerging market economies, over the period from 1980 to 2023, there are a number of facts that present themselves.

Firstly, in general and with some important periods of exception, the growth rate of the South African economy increases when economic growth rates are rising for the world economy and emerging market economies and South Africa's growth rate falls when world and emerging market growth rates fall. South Africa's rate of economic growth has been positively associated with the growth rate of the global economy in general and the commodity cycle in particular.

Secondly, global crises, like the so-called Asian crisis of 1998, the global financial crisis of 2008-2009, and the Covid pandemic of 2020, impact on South Africa and the rest of the world and emerging markets in similar ways.

Thirdly, there are times when South Africa has its own specific crises which lead to the country's economic growth rates falling relative to world and emerging market growth rates. This happened in the mid 1980's and early 1990's when the rate of growth of South Africa's economy fell below world and emerging market growth rates, even at times entering negative territory. This economic crisis of late apartheid saw falling growth and investment rates and was an important factor in pushing the country towards political transition in 1994. Again, from around 2011 to 2023, the rate of economic growth in South Africa diverged significantly below global and emerging market growth rates. This was the crisis of state capture, where state dysfunction – including corruption, poor service delivery, decaying infrastructure, loadshedding – resulted in falling GDP per capita, rising levels of unemployment, poverty, and sharply declining investment levels. Such economic crises typically result in political pressures and played an important role in the fall in support for the ruling party below 50% of electoral support for the first time since 1994.

Such moments of crisis can lead to different kinds of responses – populist politicians can use the moment to seize power with promises of quick fixes and radical solutions. Alternatively, an economic re-set towards restoring state capacity, sound economic policy increased investment levels and a sustained period of inclusive economic growth can occur. This article will seek to outline a vision for this latter route of mobilising increased levels of co-ordinated investment by both the public and private sectors, but a vision that is wide enough to understand that deeper structural transformations are required for this to succeed. given South Africa's particular historical and socio-economic realities.

Elements of a programme for structural change and inclusive growth

An inclusive growth strategy for South Africa – characterised by growth and redistribution – should be built in the following pillars:

- capital investment and productivity improvements across various sectors and factors of production including land, mining, manufacturing and services,
- a well-managed energy transition linked to the expansion of industrial capacity,
- supportive macroeconomic policies aimed at the sustainable mobilisation of resources for infrastructure investment and improved service delivery, and
- expanded trade with existing trading partners, emerging trading partners and country's on the African continent.

For the structural transformation of South Africa's economy, capital investment and productivity improvements need to take place across various sectors and factors of production – in the rural sector, in mining and manufacturing, and in services, all supported by appropriate technological development and skills and human capital formation.

Land reform and urban planning must not only seek to overcome apartheid inequality and spatial patterns, but should be designed to be productivity enhancing – linked to increasing agricultural output in the rural areas and reduced transport costs and the economies advanced by densified communities in urban settings. In a dual economy, rising productivity in the rural sector helps to push up wages in that sector, as well as wages in the formal sector. Conversely, if productivity is falling due to infrastructure decay and decreasing investment in capital and technology this will put downward pressure on wages in both the rural and urban sectors.

The manufacturing sector would receive a boost if the cost and reliability factors like electricity, logistics and security could be improved. A key growth engine in this industrial modernisation, would be a well-managed energy transition which should be designed to produce energy inputs for South African industry which are secure, reliable, lower carbon, and are cost competitive. Without such an energy transition, the rate of deindustrialisation in South Africa is likely to accelerate. On the other hand, if there is sustained investment in the energy transition, upstream and downstream industrialisation linkages could be exploited leading to accelerated investment, growth and job creation.

To build greater political consensus in support of the energy transition, a wider economic perspective is required in defining 'winners' and 'losers' resulting from the energy transition. Up to now the just energy transition has been defined too narrowly. The focus has been on ensuring that workers and communities from coal-producing areas and around coal-fired power stations should be supported through the creation of new economic opportunities and training as end-of-life coal operations are decommissioned or repurposed.

While the interests of such workers and communities must clearly be taken into account in the process, the question needs to be asked as to who are the 'losers' if the energy transition is not taken forward. Efforts to slow down the restructuring of Eskom and the acceleration of the energy transition would result in slowing levels of growth, investment, and job creation. The economy will be less competitive and this will result in lower levels of growth, investment and job creation.

A full cost-benefit analysis would show the overwhelming net economic benefit of an accelerated energy transition that restores energy security, widens access to electricity, decarbonizes, contains electricity costs, stimulates growth and investment, and reduces unemployment across a wide range of economic activities.

While it is important that those workers and communities negatively affected by the transition are properly and 'justly' supported with alternative employment pathways, there can be no economic argument that the interests of such workers and communities should slow down the pace and scale of the energy transition. The interests of negatively impacted workers and communities could be more effectively advanced in a growing economy, where more resources can be mobilized for 'just' initiatives, than in an economy in which vested interests are blocking the investment and restructuring required to take the energy transition forward.

In addition to a well-managed energy transition, South Africa's industrialisation path need to be aligned with other mega trends in the global economy. These megatrends include, the rise of digitisation and artificial intelligence technologies linked to the fourth industrial revolution, a global rise in services sectors relative to heavy industry, geopolitical shifts towards a more multi-polar world, in which historically colonised nations are gaining greater power and influence, and there is a scramble for resources, such as, the minerals critical for the global energy transition.

A key issue relevant to South Africa is how best to support the development of the services sector and raise productivity in this sector. As argued by Rodrik et al (2024): “The future of developing countries is in services in the sense that that is where the jobs will be. Those jobs need to be productive ones, for reasons of both economic growth and equity. Economic growth requires that we move people from less productive to more productive activities. If services are the preponderant source of new employment, they have to be more productive than the rest of the economy in order for aggregate incomes to rise.”

In addition to productivity enhancing strategies linked to land, minerals, industry and services supportive macroeconomic policy is required. Fiscal policy should seek to maximise resources available for improved service delivery through a combination of revenue collection, sustainable borrowing and cracking down on illicit flows. It will severely weaken the state-led structural transformation of the South African economy if the state were to fall into a debt trap where an increasing amount of its revenues are to be used for debt service costs.

As noted by Aboobaker, "The obsessive focus on expanded public deficits in some quarters is at best a distraction embodying a lack of imagination amid the country’s multidimensional development and distributional challenges. At worst it obscures a regressive class program for economic development."

Supportive, monetary policy too must seek to promote inclusive growth through a framework that protects the value of the currency. Sustainably lower interest rates – both short and long terms rates – will not be achieved if inflation rises too high, or if excessive government borrowing leads to rising rates and a rising risk premium for investment in South Africa.

Geo-political shifts taking place in the world mean that South Africa should seek to advance its national economic interests through building new export markets with African countries and developing countries, while maintaining and growing existing trade partnerships. Participation in Africa's demographic and economic rise in world affairs, should be fully integrated into South Africa's economic strategy, as trade with the continent will provide growth potential and will assist in expanding participation in the South African economy.

Conclusion on the current political conjuncture

Since the 1970's, when the apartheid economic growth model came to be fettered by the limitations of racial exploitation and dispossession, South Africa has not been able to achieve growth rate above those of emerging markets and the rest of the world. Overcoming this structural limitation requires structural solutions. A key question is how does South Africa extend the economy so that those who have been historically excluded can participate and become drivers of a new wave of economic growth. If South Africa is able to make this structural shift and increase investment levels and the productivity levels of its wider population, then the country will be able to overcome the strictures of the 'middle income trap' where growth is limited, and GDP per capita does not rise as there is a loss of competitiveness (World Bank 2015).

Given the political shock with voting support for the ruling party falling below 50% for the first time since 1994, it is important to reflect on the current balance of political forces in the country and the extent to which political factors could assist in advancing or retarding economic growth and transformation.

The Statement of Intent of the 2024 Government of National Unity (GNU) outlines a number of important points of principle concerning economic policy. The GNU statement identifies its minimum progamme as including: “Rapid, inclusive and sustainable economic growth, the promotion of fixed capital investment and industrialization, job creation, transformation, livelihood support, land reform, infrastructure development, structural reforms and transformational change, fiscal sustainability, and the sustainable use of our national resources and endowments. Macro-economic management must support national development goals in a sustainable manner.”

The GNU also offers the opportunity to rebuild state capacity as parties have agreed to the professionalisation of the public service and have agree to protect it from political interference and corruption. The Statement of Intent of the GNU commits to: “A professional, merit-based, non-partisan, developmental public service that puts people first… Building state capacity and creating a professional, merit based, corruption-free and developmental public service…. Restructuring and improving state-owned entities to meet national development goals [and]... the parties recognize established Government and Cabinet protocols in decision-making and the formulation of the budget.”

As per the experiences of a number of successful developmental states, the role of an effective and professional public service is vital. The literature shows that developmental states that have successfully led sustained periods of structural transformation and inclusive economic growth have been characterised by a stance display a character of “embedded autonomy” in the relationship between state and private sector (Evans 1995). Developmental states were found to be most effective when they operated in a manner that was simultaneously autonomous as well as embedded. Autonomous, in that the state itself must bear responsibility for developing the country’s economic plans, and must not find itself captured by backward-looking private interests. The additional insight, though, and one that is often missed in the debate, is that for development programmes to be carried out effectively, they also have to be well embedded, in the sense that the design and implementation of programmes has to be properly rooted in the political, social, and economic realities of the societies that they seek to grow and transform (Jahasz et al, 2023).

It may seem paradoxical to argue that power sharing, rather than complete control over state power, has the potential to bring improved economic outcomes – and surely it may not happen. Nonetheless, the potential does exist for the GNU to achieve improved economic outcomes on condition that political competition improves, rather than cripples, the performance of the state, and the state is able to re-set its relationships with economic actors, while still pursuing programmes that will result in inclusive growth and related structural transformation.

It is helpful that the minimum programme of the GNU is forward looking, rather than setting a terrain upon simply upon which to fight ideological battles, given the sharp ideological differences among the parties to the GNU. Deft leadership will be required to maintain the GNU’s focus on interventions aimed at lifting the performance of the South African economy by crowding-in investment, creating jobs and improving service delivery.

There will be forces trying to pull economic policy to the right – with the aim of protecting historical privilege and resisting change. And there will be forces pulling to the left – with populist slogans that are likely to be economically destructive and lead to increased levels of poverty and unemployment.

Given these risks, South Africa's GNU will have to chart a course, at least for a number of years, where it can build sufficient political support for sound economic policies capable of driving a sustained period of inclusive growth and structural transformation. Such a path of progress will only be achieved if policy is able to strike an ongoing balance capable of achieving the imperatives both of economic growth and economic redistribution.

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