The trajectory of economic development policies in South Africa

The case for public policy analysis

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ABSTRACT

This article commences with an exposition of the interrelationship between the national economic development policies, namely: the Reconstruction and Development Programme, the Growth, Employment and Redistribution, Accelerated Shared Growth Initiative for South Africa and the New Growth Path as well as local economic development (LED) policy objectives. The thrust of this article is that in order for LED policy objectives to be realised, it is imperative for macroeconomic fundamentals to be in place, notably, amongst others, strategies to curb inflation and unemployment. The article examines the major policy shifts pursued by the democratically elected government since the transition to democracy in 1994 to the present with a view to addressing the economic crisis manifesting itself through slowed economic growth, high unemployment and poverty. The plausible strategies to achieve economic growth, employment creation and poverty alleviation are also elucidated.

INTRODUCTION

The purpose of local economic development (LED) policy is to build up the economic capacity of a local area to improve its economic future. It is a process by which the public, business and non-governmental sector partners work collectively to create better conditions for economic growth and employment

economic development policies seeks to, amongst others, to achieve high economic growth rate, employment creation, and poverty alleviation and LED policy is initiated to boost local economies, create jobs and alleviate poverty at the micro, regional and local levels.

THEORETICAL FRAMEWORK: PUBLIC POLICY AND IMPLEMENTATION

Policies may be thought of as the main system which provides the framework for the accomplishment of intended objectives. Formulation of policies involves making explicit the various assumptions which are made with respect to the basic premises and the priorities of needs and allocation of the finances. Policies are intended to spell out the parameters in the context of which organisational decisions are to be made. Policy is crucial in administration, for it gives a concrete shape to the political, economic and social objectives which the government lays down in the form of laws, rules, and regulations (Goel 1994:126).

According to Howlett and Ramesh (2003:192), first, changes in social conditions may affect the interpretation of the problem and possibly the manner in which ongoing programmes are implemented. Secondly, changes in economic conditions can have a similar impact on policy implementation. For instance, a programme targeting the poor and unemployed can be expected to undergo changes after an economic upturn and downturn. Thirdly, the availability of new technology can also cause changes in policy implementation. Policies developed to address pollution control, for example, often change in the course of implementation after a cheaper or effective technology has been discovered. Fourthly, variations in political circumstances are also important considerations. A change of government may lead to changes in the way policies are implemented (Mazmanian and Sabatier 1983:31). While many government decisions continue to be taken without attention to the difficulties of implementation, there is a broad recognition now of the need to take these concerns into account at earlier stages of the policy process, such as in the policy formulation stage (Spence 1999). It is easier and more effective for policy makers to take these limitations into account and devise appropriate response *ex ante* rather than *ex post* (Linder and Peters 1984).

Fourie (2004:15) believes that, the success of this stage of the policy cycle is dependent upon an array of variables: the correct definition of the original problem, the accurate identification of causal links, and just determination of realistic objectives, all of these having an impact on whether or not deviations might occur during this implementation stage. According to Van der Waldt

(2001:97), such deviations may occur due to a shift in the programme during the implementation stage, geographic fragmentation (especially between national government and the provincial and local spheres of government), programme fragmentation (when different government agencies are responsible for different sections of policy implementation, and a breakdown occurs), administrative and management deficiencies, conflict between multiple goals, and vague legislative prescriptions. Wildavsky (1975) states that since policy is made, based on the current knowledge of an uncertain future, it is bound to fall short in some or many aspects depending on the accuracy of existing knowledge and estimated predictions.

More often than not, policies set out to achieve ambitious targets may ultimately fall short of their desired outcomes. The lack of reliable data usually hampers policy makers' ability to devise clear policy goals with well-defined implementation plan and evaluation mechanisms. Another problem of policy implementation could be political will and commitment from officials. Leadership and political commitment are critical for the success of policy (McCourt 2001).

By and large, it can be deduced that a public policy is initiated by policy makers in response to a societal problem and changing circumstances with which the population is faced with at a given period. The policy will contain the important goals to be pursued and the course of action needed to achieve the goals. A public policy becomes implementable provided the elected policy makers have authorised and legitimised it through a formalised policy development process.

The next section discusses the origins, rationale and performance of national economic development policies that were implemented from 1994 to 2005, namely: the Reconstruction and Development Programme (RDP), and the Growth, Employment and Redistribution Policy (GEAR).

Economic development policies (1994–2005)

Gelb (2010:32) asserts that in order to understand economic development in South Africa, it is essential to understand the country's economy, economic policy and economic performance. The economy performed very poorly from the mid-1970s up to 1994. Gross Domestic Product (GDP) growth averaged only 3,3% per annum in the 1970s and 1,2% in the 1980s and a fierce policy-induced recession intended to cut inflation meant that growth between 1990 and 1993 was -0,6% per annum. When the post-apartheid era began in 1994, the expectation was created that economic growth would quickly improve. However, eighteen years later, the optimism at the time of transition has been unfulfilled: only limited progress has been made in raising growth while distributional equality had

remained stagnant. In the first decade of democracy, Gross Domestic Product growth averaged only 2,9% per annum but, taking account the population growth of 2% per annum into account, per capita income barely increased at 0,9% per annum. Between 2004 and 2007, growth averaged 5,06% per annum, before dropping to 3,06% in 2008 in the context of the global financial crisis. In June 2009, the official unemployment rate was 23,6%.

In 1995, 32% of the population was living on less than $2 US per day. This proportion rose to 34% by 2000 before declining to 24% by 2005 (Hoogeveen and Özler 2005). Using a poverty line of R322 per capita per month in 2000 prices, determined by the cost of a basic needs basket of goods and services, 52,5% of the population was in poverty in 1995 while 53% in 2000. This number decreased to 47% in 2005, still an inordinately high proportion. These figures indicate that between 2000 and 2005 there was an improvement in alleviating poverty, and the larger decline in the $2 US per day numbers compared with the R322 per month numbers suggests that those deepest in poverty had improved their situation somewhat more than those at slightly higher incomes (Gelb 2010:32-34).

The origins of post-apartheid policies are found in the economic crisis which started during the 1970s and was characterised by a structural slowdown in economic growth reinforced by political problems (Gelb 1991). As the democratic dispensation approached, the African National Congress embarked upon an extensive consultative process that resulted in the formulation of the *Reconstruction and Development Programme* (RDP) as the major guiding policy document of the movement and the imminent new government. This initial document was later formally issued as a government White Paper immediately after the African National Congress assumed state power (Mhone 2003:20).

The White Paper describes the Reconstruction and Development Programme "as an integrated, coherent socio-economic policy framework. It seeks to mobilise all our people and our country's resources toward the final eradication of the results of apartheid and the building of a democratic, non-racial and non-sexist future. It represents a vision for the fundamental transformation of South Africa" (RDP White Paper 1994).

The government implemented the Reconstruction and Development Programme, first, by ensuring that there was a coordinating ministry attached to the Office of the President and the various programmes were assigned to line ministries and departments for execution in 1994. The government also embarked on a low key process of formulating a growth and development strategy, which galvanised both national and provincial spheres of government. Two years later, the Reconstruction and Development Ministry was disbanded and the growth and development process was hampered as the government announced the new macro-economic policy framework: Growth, Employment

and Redistribution (GEAR) policy framework document (Mhone 2003:22; Department of Finance 1996).

Michie and Padayachee (1998:630) points out that other factors that affected the effective implementation of the Reconstruction and Development Programme included, policy differences between key social service departments and the RDP Office; problems in coordinating budgetary and organisational processes within national government departments; the lack of institutional capacity at many levels of government; difficulties in incorporating South Africa's non-governmental organisations into the delivery process; and in some areas, corruption.

However, the macroeconomic policy document, which was voluntarily embarked upon by the government with the encouragement and support of the International Monetary Fund (IMF) and World Bank, who were periodically consulted during its preparation, was a structural adjustment and stabilisation programme of South Africa's own making (Mhone 2003:22). The Growth, Employment and Redistribution (GEAR) policy was an important step in the evolution of the government's policy approach, but it was a major ideological shift embracing neo-liberal values. Instead, it was a broad, sometimes vague, formalisation of the dominant economic approach within the African National Congress. It was formulated reactively, in response to a crisis in the foreign exchange market, which threatened to erode what few economic gains had been made since the advent of democracy. From mid-February 1996, speculative attacks on the South African Rand led to a significant depreciation. The markets signalled the need for clarity of the economic policy. The government responded by formulating the Growth, Employment and Redistribution (GEAR) policy. The implicit aim of GEAR was, therefore, to calm the financial markets with a view to heading off a financial crisis of the magnitude experienced by Mexico in 1995 (Steyn 2005:189).

The government gave as its rationale for adopting the framework, the changing international economic environment, especially the need to insulate South Africa from the Asian economic and financial crisis and other similar crises that might occur among emerging markets in the future. Implicit in adopting the Growth, Employment and Redistribution policy was the contention that the government needed such a policy statement as a way of not only allaying the concerns and fears of foreign and domestic investors but actually attracting such investors. The document cites the implications of the depreciation of the Rand, which had just occurred, as presenting both a threat and an opportunity. Hence, an uncoordinated response, embroiled in conflict, would cause a further crisis and contraction. Linked to an integrated economic strategy it provided a springboard for enhanced economic activity (Mhone 2003:22; Department of Finance 1996:1).

The Growth, Employment and Redistribution policy document noted that while considerable progress had been made in repositioning the economy, re-establishing growth in Gross Domestic Product (GDP) that was in excess of growth in population, lowering rates of inflation, opening up the economy and securing new markets, restructuring the public sector and reforming the civil service, and establishing a policy framework for delivery of social services, much more needed to be done. In particular, it was noted that the growth achieved to address the high levels of unemployment, did not generate sufficient resources to address the deficit in social services, and yielded insufficient progress toward an equitable distribution of income and wealth (Department of Finance 1996). The shift from the Reconstruction and Development Programme (RDP) to Growth, Employment and Redistribution (GEAR) policy represented recognition of the inescapable influence of global economic forces as South Africa sought to attract foreign investment and to promote exports (Pycroft 2000:143).

Table 2 below presents the targets for economic growth, private investment and employment creation set out in the GEAR policy document. It also presents the GEAR targets for the ratio of budget deficit to the gross domestic product (GDP) and inflation.

One year after the Growth, Employment and Redistribution policy was implemented; its performance was mixed in respect of investment, growth, and employment. Growth was presented as being the primary objective of the policy. Real Gross Domestic Product (GDP) grew at 3% and 3,5% in the third and fourth quarters of 1996, with an average of 3% for 1996 as a whole compared to 3,5% in the GEAR projections. However, the growth rate dropped dramatically to -0,8% in the first quarter of 1997. The growth of gross domestic fixed investment declined from 4,5% in the third quarter of 1996 to 2.5% in

Table 2: The GEAR integrated scenario predictions for key variables, 1996–2000

	1996	1997	1998	1999	2000	average
GDP growth (real)	3,5	2,9	3,8	4,9	6,1	4,2
Inflation (CPI)	8,0	9,7	8,1	7,7	7,6	8,2
Fiscal deficit	-5,1	-4,0	-3,5	-3,0	-3,0	-3,7
Employment growth	1,3	3,0	2,7	3,5	4,3	2,9
Private sector investment	9,3	9,1	9,3	13,9	17,0	117

Source: Department of Finance (1996:7).

the fourth quarter, falling to only 2% in the first quarter of 1997 (South African Reserve Bank, Notes 1997).

A weakness of the GEAR policy was its failure to generate new jobs. According to GEAR, 126 000 jobs should have been created in 1996, but instead the number of formal sector jobs fell by more than 100 000 (*Finance Week* 12 June 1997). The annual average level of employment in the private sector declined by 2,7% in 1996, whereas employment by the public sector organisations actually increased by 2%. The need for implementing GEAR was based on the premise that of attracting foreign investment. However, a total of net capital inflows in 1996 amounted to just R3,8 billion, compared to R19,2 billion for 1995. In May 1997, South Africa's foreign reserves were boosted by R5 billion from the proceeds of the partial sale of the telecommunications parastatal, Telkom, to South Western Bell Communications (SBC, United States of America and Telecom, Malaysia. Despite this development, foreign capital flows into South Africa since 1994 continued to be short-term. GEAR failed to reverse this trend in its first year, despite its macro-economic correctness (Michie and Padayachee 1997:632).

Streak (2004:278) posits four arguments that critiqued the performance of the GEAR policy: First, it was incorrect to assume that the poor growth and development performance in the GEAR period was mainly due to the implementation of the policy. Instead, the economy's poor performance can be attributed to the negative external factors, such as the Asian Crisis, the slow-down in the world economy in the late 1990s and more recently, political developments in Zimbabwe and the United States of America. In this vein,

Table 3: Actual outcomes for key economic indicators in GEAR (1996-2000) and in 2001

	1996	1997	1998	1999	2000	2001	average
GDP growth (real)	4,2	2,5	0,8	2,1	3,4	2,2	2,5
Inflation (CPI)	7,4	8,6	6,9	5,2	5,3	6,6	6,6
Fiscal deficit	-4,6	-3,8	-2,3	-2,0	-2,0	-1,4	-2,9
Employment growth	-0,6	-1,7	-3,4	-2	-2,7		-2,0
Private sector investment	7,7	4,8	-1,8	-3,3	6,4	5,3	2,7

Sources: Budget Reviews (National Treasury, 2000:40; 2001:38; 2002:43) for the GDP data, inflation data (National Treasury, 2000:40; 2001:38) and fiscal deficit data (National Treasury, 2000:46; 2001:45; 2002:49). SARB (2002:S132) and SARB (2002:S119) for the private sector investment.

the then Finance Minister, the Director-General of Finance and economists supportive of the Growth, Employment and Redistribution policy often presented the economy's performance over the five year period as being very impressive in the face of the global economic environment. However, it is difficult to secure empirical studies that have measured the impact of negative external factors and policy in producing slow economic growth during the GEAR period (Streak 2004:278).

The study by Weeks (1999), for example, is based on data only for the years 1996-1998, and contradicts the argument of the pro-GEAR supporters that external factors are largely to blame for the poor economic performance (Streak 2004:278). Furthermore, rapid globalisation was an integral part of the Growth, Employment and Redistribution policy, hence, any negative impact associated with the rapid integration into the world economy that GEAR advocated should, therefore, not be used to explain what undermined the success of the strategy (Streak 2004:278).

The second argument in support of the Growth, Employment and Redistribution policy is that it was impossible to know what would have happened to growth, investment, employment and poverty if the GEAR policy had not been implemented. It is argued that the situation would probably have been worse because the conservative macroeconomic policy helped to keep private investment in South Africa by raising investor confidence (Ramos and Manuel 2002). Paradoxically, Streak (2004) argues that it is true that we will not know for certain whether economic performance would have been better under a different strategy, but it is a defensive and thin argument advanced by its proponents.

The third argument used to defend the GEAR policy is that the implementation of conservative fiscal and monetary policy was crucial to prevent the debt trap that threatened economic growth and development in 1996. It was also crucial to show investors that South Africa was not going to attempt to promote development through short-term policies that would undermine sustainable development in the long term (Ramos and Manuel 2002). The fourth argument posited by the pro-GEAR proponents was that the policy was a success despite not delivering the development goods in had promised by 2000. It had, however, improved prospects for them to be delivered in the future (Streak 2004:279).

The success of the implementation of the Growth, Employment and Redistribution policy are postulated as follows: Fiscal restraint and debt reduction in the GEAR period released resources for public investment in goods and services, particularly for the poor, both at present and in the future; the macroeconomic adjustment and liberalisation in foreign trade and investment markets improved the environment for private sector investment in the South

by lowering interest rates, reducing inflation and making it more predictable, lowering unit labour costs and creating a more credible macro-economic policy; budget reform and legal reform, including the implementation of the *Public Finance Management Act (PFMA)* and the Medium Term Expenditure Framework (MTEF) system of budgeting, helped to build capacity of the government to spend effectively on development projects (Streak 2004:279; National Treasury 2001; and Roux 2001).

The next section discusses the arguments advanced against the implementation of the GEAR policy.

Assertion by Growth, Employment and Redistribution (GEAR) policy's critics

According to the Congress of South African Trade Union (COSATU), the Growth, Employment and Redistribution policy was a failure because it promised in keeping with the Reconstruction and Development Programme, to reduce the legacies of inequality and poverty inherited by the democratically elected government in 1994. It even failed to meet its growth, employment and private investment targets. Instead, it hindered progress on the development front to the goal of pursuing macro-economic policy demanded by neo-liberal macroeconomics and the international investment community (Cosatu 2001:3; Weeks 1999:809-810).

COSATU's critique of the macroeconomic policy was glaring in its submission to parliament through the People's Budget (Cosatu 2001:3) by describing the performance of GEAR as: "macroeconomic policy can either aid or retard development to the extent that it maximises or constrains resources available to implement developmental programmes. Over the past five years or so, the emphasis on fiscal austerity has produced perverse planning paradigm in which developmental objectives have been supplanted by the secondary objective of reducing the government deficit. The hope that tight fiscal and monetary policy would attract private investment which, in turn, would drive growth has not materialised, in fact, the opposite has happened. Instead of leading job creation, private capital has led to job shedding and capital disinvestment".

Streak (2004:280) furthermore argues that a number of flaws contained in the GEAR policy indicate that it was bound to fail. First, the policy rests on the assumption that budget deficit reduction will kick start growth through private sector investment responding to lower budget deficits and interest rates. However, the link between deficit reduction, lower interest rates and increased private sector investment is dubious. One cannot rely on private investment kick starting growth, as interest rates might not fall (Weeks 1999:801). At the same time, Gelb (2000) has highlighted the importance of investor confidence

related to crime and political factors as undermining investment in South Africa in the 1990s.

Secondly, the policy adopted a naïve approach to South Africa's reintegration into the global economy. It hinged on foreign direct investment (FDI) for growth and employment creation when the prospects for attracting FDI into South Africa were weak (Dinkelman and Streak 1999). More importantly, in selling liberalisation and integration into the world economy, it downplayed the reality that global capitalism is a ruthless system for those countries that are not yet sufficiently competitive, skill intensive and shrewd enough to play the global game. The job losses associated with structural adjustment in manufacturing sector in the 1990s, currency depreciation, interest rate increases and those associated with the Asian Crisis of 1998, and the dramatic fall of the rand in 2001 bear testimony to the consequences of opening up a protected economy too rapidly (Streak 2004:280).

Thirdly, the macroeconomic policy relied heavily both in conception and implementation on private sector investment-led growth for employment creation, and poverty and inequality reduction. It is also clear that employment creation will also not necessarily result in the reduction of inequality. Studies on the causes of poverty illustrate that unemployment is indeed the primary cause of poverty in South Africa (Bhorat, Liebbrandt, Maziya, Van der Berg and Woolard 2001:9). Therefore, the GEAR policy was correct in its assumptions that employment creation is key to poverty reduction. However, a consideration of the trend in the capital intensity of the economy since the 1970s and the causes of unemployment in South Africa show glaringly why a heavy reliance on private sector investment–led growth to reduce poverty through employment was problematic. It also indicates why government investment is so crucial for reducing poverty in South Africa. Between 1970 and 1990, the South African economy became much more capital intensive, and with it, the labour-absorptive capacity of the economy declined quite considerably. This ensured that, by the 1990s, a given rate of economic growth had become associated with a considerable smaller change in formal sector employment growth than in the 1970s (Streak 2004:281).

The presumed link between economic growth and poverty reduction through employment creation was and still is weakened further by the mismatch between the skills of the poor and the needs of industry. Hence, the labour demand that is generated by economic growth and private sector investment tends to do little in the way of creating jobs for the millions of unskilled poor who are desperately in need of jobs (Ministry for Social Development 2002:70-3). Mhone (2003:47) furthermore asserts that as a result of the past biases in education and training, there is an oversupply of lower level or secondary labour, while there is a shortage of higher level or primary labour. Meanwhile, the economy's demand

for labour is shifting from reliance on lower skilled labour to reliance on relatively skilled labour, which the economy is unable to supply in adequate numbers.

The fourth flaw in the GEAR policy is that it downplayed the potential for government expenditure on the provision of basic services, productive infrastructure, housing, education, roads and others (Michie and Padayachee 1998:628) to promote growth and redistribution. This is significant not only because the level of demand is a crucial determinant of the private sector investment that is key to growth, but also because empirical evidence (Wittenburg 1997) suggests that fast growing regions, or industries also exhibit fast growth in labour productivity, thereby providing support for the view that stimulating the economy can have the virtuous circle effect of increased output leading to productivity gains, which, in turn, make production more profitable (Wittenburg 1997).

Finally, the GEAR policy failed to see that development theory and economic history illustrate that a heavy reliance on sound macroeconomic policy, liberalisation and efficiency reforms and private sector investment was unlikely to produce rapid growth and development in South Africa (Streak 1997:313-315). In addition, development theory and the missing links between austere macroeconomic policy and growth and poverty and inequality reduction and, the potential positive impact of government investment, require an alternative strategy (Streak 1997, Michie and Padayachee 1998; Weeks 1999). This acknowledges the importance of a sound fiscal and monetary policy as a means to stimulate private sector investment and growth that are so important for development, but, it also stresses the need to rely less on these instruments to generate growth and development and more on the government itself, through industrial policy and investment in the social sectors to stimulate poverty-and-inequality-reducing growth (Streak 2004:282).

GEAR's targets for growth, employment and redistribution have been all missed. By the end of 2000, it was clear that the policy had failed to place the South African economy on a higher growth path. Growth, Employment and Redistribution policy had made critical assumptions on the labour market and industrial policy, but there was no clarity in the GEAR policy document how these various policy elements were to be implemented and reconciled. In fact, most of them failed to materialise (Steyn 2005:191).

Statistics South Africa (2001) reported that the number of people employed in both formal and informal sectors increased from 9,6 million in 1995 to about 10,4 million in 1999, while the number of unemployed, by the official definition, increased from 1,8 million in 1995 to about 3,2 million in 1999. While some sectors have been creating employment, as a result of the restructuring taking place in the labour market, many more have been shedding labour, so the net increases in formal sector employment have been low. By 1999, the overall unemployment

rate, by strict or official definition, was 23,2% (while by the expanded definition it was 36,2%) and has been increasing since then (Mhone 2003:51-52).

The next section discusses the national economic development policies that were put in place between 2006 to date, namely: the Accelerated and Shared Growth Initiative for South Africa (ASGISA) and the New Growth Path (NGP).

Economic development policies (2006 to date)

From 2003, the government acknowledged that inequality and poverty had not been addressed during the post-apartheid era (Gelb 2010:52). Former President Thabo Mbeki argued that South Africa comprised two economies: The third world economy exists side by side with the modern first world economy but is structurally disconnected from it. To end the third world economy underdevelopment and marginalisation will require sustained government intervention and resource transfers including education and training, capital for business development and social and economic infrastructure, marketing information and appropriate technology (Mbeki 2003).

Government policy makers talked of building a staircase from the second economy to the first, suggesting that the European's structural funds to address regional disparities offered a useful model for first-economy resources to be channelled to the second economy. In February 2006, a new policy framework was adopted, entitled the Accelerated and Shared Growth Initiative for South Africa (ASGISA), which aimed to halve the number of the population in poverty by 2014. Nominally based on the two economies concept, ASGISA 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 the scale of human resources allocated to skills development and education. ASGISA intended to boost employment by prioritising the tourism and business process outsourcing sectors, both labour-intensive export sectors with opportunities for small and medium-sized businesses (Gelb 2010:52).

According to Bhorat (2007:35), ASGISA is distinguished, relative to its two predecessors, GEAR and RDP, by its strong emphasis on defined and very specific growth-enhancing projects. The delivery of physical infrastructure and a detailed programme for the provision of skills are some of the interventions. However, it is important to note that in many respects, ASGISA is a continuation of the GEAR policy. Having achieved the critical need for macroeconomic stability arguably the core of the Growth, Employment and Redistribution policy the emphasis has now shifted within ASGISA to a more detailed programme of activities designed to deliver the target of 6% per annum.

From a poverty reduction perspective, first, the Accelerated and Shared Growth Initiative for South Africa (ASGISA) had several difficulties. The two economies concept explicitly assumed there were no linkages between the first and second economies, ignoring interactions between growth and inequality. The first economy growth widens the gap between the two economies and in addition, the social consequences of the second economy may well reduce first economy growth, for example damaging investor confidence. This suggests that uplifting the second economy may require significant restructuring of the first economy, which could involve challenging established interests. Secondly, almost all the extensive infrastructure spending programmes outlined by the public sector since 2005 have been aimed at reducing the costs of doing business in the first economy, rather than extending infrastructure services to those in the second economy. Thirdly, much greater policy priority would have to be given to small and medium enterprises than had been true since 1994. A major obstacle facing both increased numbers of small and medium enterprises in South Africa and of higher survival rates is the low supply of entrepreneurs (Gelb 2010:53).

More significantly, ASGISA has identified six binding constraints mitigating against achieving desired growth rates and removing these constraints would promote economic momentum. These constraints are; the relative volatility of the currency; the cost, efficiency and capacity of national logistics system; shortages of suitably skilled labour, and the spatial distortions of apartheid affecting low skilled labour costs; barriers to entry; limits to competition and limited new investment opportunities; the regulatory environment and the burden on small and medium enterprises and deficiencies in state organisation, capacity and leadership (ASGISA Annual Report 2006:3).

In 2010 the Minister responsible for Economic Development, Ebrahim Patel released a new economic policy titled the New Growth Path underpinned by array of policy packages. In the main the New Growth Path places much emphasis on employment creation. The other areas encapsulated in the policy amongst others are rural development, agriculture, skills development, science, mining, tourism and social development.

The global economic downturn also had a negative impact on the growth levels of the South African economy, with a 3% fall in the Gross Domestic Product from the third quarter of 2008 to mid-2009 as stated earlier. Job losses were still more severe, as employment dropped by a million jobs from the end of 2008 to the middle of 2010. As a result, the employment ratio fell back from a 45% in 2008 to 41% in 2010, virtually the same level as in 2002 before the economic boom started (New Growth Path 2010:5). The New Growth Path policy framework has set out the target of creation of five million jobs by 2020 and the achievement of this target would ensure that half of all

working-age South Africans would have paid employment. This would in turn narrow unemployment by 10 percentage points from the current 25% to around 15%. There are two critical variables that would affect the target of five million jobs, namely, the rate of economic growth and the employment intensity of that growth, that is, the rate of growth in employment relative to the rate of growth in Gross Domestic Product. In essence, maximising growth would yield more employment, mostly in the private sector, in order to reach the set target. Therefore, the employment intensity of growth must be kept between 0,5% and 0,8%, while the rate of growth in Gross Domestic Product should ideally rise to between 4% and 7% per annum (New Growth Path 2010:8-9).

CONCLUSION AND RECOMMENDATIONS

The review of the current economic performance and situation in South Africa should be located within the broader historical background of the economic trajectory and economic development policies that were in place. The policy shifts spearheaded by the government since the dawn of democracy furthermore indicates the complexity inherent in the formulation and implementation of public policies that affects economic development.

The triggers for change related to economic development policies appear to be myriad and can be summarised as follows: the Reconstruction and Development Programme (RDP) sought to achieve both social and economic imperatives at the same time and thus the economic dimension of the policy was not clearly articulated from the outset. Consequently, the RDP was mostly associated with infrastructure development and social development projects such as housing, the provision of water and sanitation. In addition, the global economic crisis that occurred in the mid-1990s appeared to have surpassed the implementation capacity of the government through the RDP in order to cushion the effects of the economic crisis on the South African economy. At the same time, ineffective inter-departmental and inter-governmental relations and conflicts also contributed to the weakening of the RDP and the closure of the RDP Ministerial Office attest to this.

Therefore, the formulation and adoption of the Growth, Employment and Redistribution (GEAR) policy should be based upon this background and context. The GEAR policy had clear-cut targets and indicators for fast tracking economic growth, and job creation. The limitation of this policy lay with the setting of ambitious and unrealistic targets and this is manifested through the failure of the policy to achieve its set targets in 2000. The introduction of the Accelerated and Shared Growth Initiative for South Africa (ASGISA) attests to this abovementioned point. The fundamental objective of ASGISA was to amongst

others primarily to accelerate the achievement of growth and employment creation as a result of the disappointing performance of the GEAR policy. Equally, ASGISA targets were set in line with the Millennium Development Goals (MDG) for 2015. However, the lifespan of this policy was short-lived largely as a result of the new political leadership that assumed political power in 2009 after the national democratic elections and thus the New Growth Path is a macro economic development policy initiated by the new political leadership. The New Growth Path was also a response to the global economic recession that started in late 2009 and took root in 2010. The government believed that the policy contained the necessary measures aimed at mitigating the impact of the global economic crisis on the South African economy in terms of slowed economic growth, job loss and reprioritisation. These critical issues also had an impact on local economies as municipalities faced reduced revenues owing to job loss, stagnant economic growth, high number of business liquidations and increasing poverty levels within localities. The relationship between national economic development policies and the local economic development policy is thus significant.

In order for the government to achieve the objectives set out in the New Growth Path policy, there is a plethora of issues that should be taken into account, notably, the achievement of higher growth rates, the expansion of the pool of entrepreneurs, the enhancement of skills development programmes for the unskilled labour and unemployed youth, the attraction of private investment for implementation of public infrastructure programmes, and the streamlining of integrated planning with a major focus on employment creation and poverty alleviation throughout the three spheres of government, effective communication related to public service delivery plans and the capacitation of the state in relation to spending on public infrastructure and service delivery projects.

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