# CHAPTER FIVE

# THE SOUTH AFRICAN ECONOMY 1960 – 1997: AN OVERVIEW

## 5.1 INTRODUCTION

The purpose of this chapter is to create a framework for the next chapter's discussion of money supply and monetary policy application in South Africa, by indicating some basic features and problems of the South African economy, which relate period of economic growth that preceded the 1994 elections. It should be mentioned that while South Africa had low inflation rates during the 1960s and was one of the best economic performers, its economy sharply deteriorated in the 1980s and early 1990s (Dornbusch, Fischer, Mohr & Rogers 1996:44).

*Stagflationary* pressures caused a new monetary approach to be considered. Years of double-digit inflation had to be managed by monetary authorities. The debate on the role of monetary policy clearly developed around the role of the Reserve Bank in controlling the money supply, thereby affecting *price stability* in the process. After the 1994 elections, the voices of certain politicians became louder and louder in their advocacy of the possible role of monetary policy in directly influencing economic growth and development. Empirical testing is therefore necessary to determine how monetary policy in South Africa developed, whether in a structuralist or an orthodox (neo-liberal) direction. This research study tests the hypotheses surrounding this issue, as stated in the previous part of the study, especially in chapter two, to establish if in fact the SARB can directly influence economic growth and development by the right monetary policy mix. Therefore, it is necessary to describe the economic growth-path of South Africa and outline its main features.

## 5.2 SOUTH AFRICA'S POSITION IN THE WORLD ECONOMY

While the association of gold, diamonds and other minerals with wealth often gives the impression that South Africa enjoys high standards of living, South African is by no means

a rich country by international standards, even though there are very rich people in it. Economic growth is vulnerable; unemployment is high and increasing, with relatively high inflation and recurring balance of payments problems (Dornbusch, Mohr & Rogers 1995:44). Tables 1 and 2, on the following pages, give a picture on how South Africa's economic growth and inflation rates, respectively, compare with those of fifteen selected countries - not all small and open, but selected to give a complete and historic picture, namely, three being Western industrial countries (France, the United Kingdom and the United States), three being former British dominions like South Africa (Argentina, Brazil and Chile) and three sub-Saharan African countries (Kenya, Zambia and Zimbabwe), for the period between 1960 and 1997.

In terms of population and gross national product (GNP), and in comparison with moderately sized economies, South Africa ranks between 20th and 30th among 127 countries. However, when compared with the high-income industrialised countries of the West, the picture becomes bleaker, and South Africa is ranked at 85, on a scale of 1 (the poorest country) to 127 (the richest country) according to GNP per capita expressed in US dollars (World Bank, *International Financial Statistics International Financial Statistics Yearbook*, Various Issues). A comparative ranking is given in table 3.

In terms of social indicators, South Africa stands between Latin American and African countries. The parameters used for such ranking are average population growth percentage, birth rate per 1 000 people, fertility rate and life expectancy at birth (World Bank, World Development Report 1993). These demographic factors are reflected by the Table 4.

Gross domestic product (GDP) measures are fraught with distortions, generating perceptions of national welfare or well-being, such as overlooking the externalities of the production process and quality of goods produced. In calculating GDP, pollution costs, for example, are not factored in when sales revenue from goods produced are calculated. Also, if the quality of goods and services were to decline while the prices remained the same, the country would be worse off, yet the GDP does not reflect such changes. To counter this problem, the United Nations Development Programme (UNDP) developed other measures of economic well-being such as the Measurement of Economic Welfare

(MEW) and the Human Development Index (HDI). The MEW focuses on the level of national welfare, rather than on the level of economic activity. However, difficulties in determining national welfare have restricted the use of MEW. On the other hand, HDI not only considers GDP per capita, but also measures of purchasing power, life expectancy and education levels (Biggs 1997:13-14).

**TABLE 1: ECONOMIC GROWTH IN SELECTED COUNTRIES 1960 – 1997**

| Country | Average annual increase in real GDP (%) | | | | |
|---|---|---|---|---|---|
| | 1960-1969 | 1970-1979 | 1980-1989 | 1990-1993 | 1994-1997 |
| France | 5,6 | 3,7 | 2,3 | 1,5 | 1,0 |
| United Kingdom | 2,9 | 2,4 | 2,3 | -0,8 | 1,4 |
| United States | 4,3 | 2,8 | 2,6 | 0,6 | 2,6 |
| Australia | 5,3 | 3,8 | 3,3 | 0,8 | 3,5 |
| Canada | 5,4 | 4,7 | 3,1 | -0,4 | 1,8 |
| New Zealand | 4,1 | 2,3 | 2,0 | -0,1 | 3,6 |
| Japan | 10,9 | 5,2 | 4,2 | 3,4 | 1,0 |
| South Korea | 7,6 | 9,5 | 8,1 | 7,5 | 7,2 |
| Malaysia | 4,2 | 8,0 | 5,7 | 8,9 | 8,7 |
| Argentina | 4,2 | 2,6 | -0,8 | 5,8 | 5,7 |
| Brazil | 7,7[4] | 7,8 | 2,9 | -1,3 | 2,7 |
| Chile | 4,7 | 1,9 | 3,4 | 6,1 | 7,3 |
| **South Africa** | **5,6** | **3,3** | **2,2** | **-1,0** | **0,6** |
| Kenya | 3,4[4] | 6,4 | 4,2 | 2,0 | 1,4 |
| Zambia | 5,5 | 1,2 | 1,4 | -1,1[2] | -0,2 |
| Zimbabwe | na | 2,4 | 4,9 | 2,1[3] | 1,0 |

NOTES:
1. Figures for Japan are GNP figures
2. Data available only up to 1991
3. Data available only up to 1990
4. Data for full period not available

na Not available

SOURCE: International Monetary Fund, *International Financial Statistics Yearbook* (Various Issues)

## TABLE 2: INFLATION IN SELECTED COUNTRIES

| Country | Average annual increase in consumer prices (%) | | | | |
|---|---|---|---|---|---|
| | 1960-1969 | 1970-1979 | 1980-1989 | 1990-1993 | 1994-1997 |
| France | 3,8 | 8,9 | 7,3 | 3,0 | 2,1 |
| United Kingdom | 3,5 | 12,5 | 7,4 | 6,3 | 3,3 |
| United States | 2,3 | 7,1 | 5,5 | 4,2 | 3,1 |
| Australia | 2,5 | 9,8 | 8,4 | 3,8 | 2,6 |
| Canada | 2,5 | 7,4 | 6,5 | 4,0 | 1,6 |
| New Zealand | 3,2 | 11,4 | 11,8 | 3,2 | 2,4 |
| Japan | 5,3 | 9,0 | 2,5 | 2,7 | 1,0 |
| South Korea | 15,7 | 15,1 | 8,1 | 8,2 | 6,7 |
| Malaysia | 0,7 | 5,4 | 3,6 | 3,9 | 3,7 |
| Argentina | 22,7 | 19,6 | 31,9 | 33,4 | 18,0 |
| Brazil | 44,3 | 30,0 | 23,0 | 11,2 | 19,2 |
| Chile | 25,1 | 12,9 | 21,2 | 21,1 | 14,7 |
| **South Africa** | **2,4** | **9,5** | **14,6** | **14,5** | **13,7** |
| Kenya | 1,8 | 10,8 | 11,6 | 21,5 | 21,1 |
| Zambia | 4,5 | 10,1 | 36,5 | 31,8 | 41,4 |
| Zimbabwe | 1,9[1] | 7,2 | 12,7 | 28,7 | 67,2 |

NOTES: 1. Figures pertain to 1965 - 1969. No earlier data available.

SOURCE: International Monetary Fund, *International Financial Statistics Yearbook* (Various Issues)

**TABLE 3: A COMPARISON OF PER CAPITA INCOME BETWEEN SOUTH AFRICA AND OTHER COUNTRIES, 1995**

| Country | Population (millions) | Population Average Annual Growth Rate (%) 1990-1995 | GNP per Capita (US dollars) | GNP per Capita Annual Growth (%) | GNP per Capita Ranking from 1 (lowest) to 133 |
|---|---|---|---|---|---|
| France | 58 | 0,5 | 24 990 | 6,2 | 125 |
| U.K. | 59 | 0,3 | 18 700 | 1,4 | 116 |
| United States | 263 | 1,0 | 26 980 | 1,3 | 128 |
| Australia | 18 | 1,1 | 18 720 | 1,4 | 127 |
| Canada | 30 | 1,3 | 19 380 | 0,4 | 119 |
| New Zealand | 4 | 1,4 | 14 340 | 0,8 | 111 |
| Japan | 125 | 0,3 | 39 640 | 2,9 | 132 |
| South Korea | 45 | 0,9 | 9 700 | 7,7 | 108 |
| Malaysia | 20 | 2,4 | 3 890 | 5,7 | 99 |
| Argentina | 35 | 1,3 | 8 030 | 1,8 | 105 |
| Brazil | 159 | 1,5 | 3 640 | -0,8 | 98 |
| Chile | 14 | 1,5 | 4 160 | 6,1 | 101 |
| **South Africa** | **41** | **2,2** | **3 160** | **-1,1** | **91** |
| Kenya | 27 | 2,7 | 280 | 0,1 | 22 |
| Zambia | 9 | 2,9 | 400 | -0,8 | 32 |
| Zimbabwe | 11 | 2,4 | 540 | -16,3 | 38 |

NOTES: Data not available for 1996 and 1997.

SOURCE: World Bank, *International Financial Statistics Yearbook*, (Various Issues)

**TABLE 4: SOME DEMOGRAPHIC INDICATORS FOR SELECTED COUNTRIES**

| Country | Average Annual Growth rate (%) 1990-1995 | Average Annual Population Growth (%) 1990-1995 | Crude Birth Rate Per 1 000 Population | Total Fertility Rate 1995 | Life Expect-ancy at birth (years) 1995 |
|---|---|---|---|---|---|
| France | 1,0 | 0,5 | 6 | 1,7 | 78 |
| United Kingdom | 1,4 | 0,3 | 6 | 1,7 | 77 |
| United States | 2,6 | 1,0 | 8 | 2,1 | 77 |
| Australia | 3,5 | 1,1 | 6 | 1,9 | 77 |
| Canada | 1,8 | 1,3 | 6 | 1,7 | 78 |
| New Zealand | 3,6 | 1,4 | 7 | 2,1 | 76 |
| Japan | 1,0 | 0,3 | 5 | 1,5 | 80 |
| South Korea | 7,2 | 0,9 | 10 | 1,8 | 72 |
| Malaysia | 8,7 | 2,4 | 12 | 3,4 | 71 |
| Argentina | 5,7 | 1,3 | 22 | 2,7 | 73 |
| Brazil | 2,7 | 1,5 | 44 | 2,4 | 67 |
| Chile | 7,3 | 1,5 | 12 | 2,3 | 72 |
| **South Africa** | **0,6** | **2,2** | **50** | **3,9** | **64** |
| Kenya | 1,4 | 2,7 | 58 | 4,7 | 58 |
| Zambia | -0,2 | 2,9 | 73 | 5,7 | 46 |
| Zimbabwe | 1,0 | 2,4 | 55 | 3,8 | 57 |

NOTE: 1. The total fertility rate represents the number of children born to a woman living to the end of her childbearing years.

2. Data not available for 1996 and 1997.

SOURCE: World Bank, *International Financial Statistics Yearbook*, (Various Issues).

When 173 countries are ranked from the lowest (173) to highest (1) in 1993, South Africa is placed at position 85, about the middle, using UNDP's HDI approach. As shown in following table, table 5, South Africa's overall low ranking is a result of a low life expectancy at birth, a low adult literacy rate and a low schooling index:

**TABLE 5: THE UNITED NATIONS HUMAN DEVELOPMENT INDEX, SELECTED COUNTRIES**

| Country | Life expectancy at birth (years) 1995 | Adult Literacy rate (%) 1995 | Adjusted GDP per capita (US dollars) 1995 | Ranking from 1 to 173 |
|---|---|---|---|---|
| France | 78 | 98 | 17 405 | 8 |
| U.K. | 77 | 98 | 15 304 | 10 |
| United States | 77 | 98 | 21 449 | 6 |
| Australia | 77 | 98 | 16 051 | 7 |
| Canada | 78 | 98 | 19 323 | 2 |
| New Zealand | 76 | 98 | 13 481 | 17 |
| Japan | 80 | 98 | 17 616 | 1 |
| South Korea | 72 | 96 | 6 733 | 33 |
| Malaysia | 71 | 83 | 6 140 | 57 |
| Argentina | 73 | 96 | 4 295 | 46 |
| Brazil | 67 | 83 | 4 718 | 70 |
| Chile | 72 | 95 | 5 099 | 36 |
| **South Africa** | **64** | **82** | **4 865** | **85** |
| Kenya | 58 | 78 | 1 058 | 127 |
| Zambia | 46 | 78 | 744 | 130 |
| Zimbabwe | 57 | 85 | 1 484 | 121 |

SOURCE: United Nations Development Programme, *Human Development Report*, 1993.

While above comparisons are subject to significant margins of error, it can be safely inferred that by the middle 1990s South Africa's economic performance was fairly modest by international standards.

## 5.3 SOUTH AFRICA'S POSITION IN SOUTHERN AFRICA

In spite of the South African economy's relatively low ranking by international standards, in terms of Africa, South Africa is highly ranked. On the basis of GNP per capita, South Africa was ranked second in 1995. The number one position was taken by Gabon, which has a low population and rich oil deposits. However, although it is impressive in terms of Africa, the region in which South Africa is situated happens to be the worst performing

economic region in the world (International Financial Statistics Yearbook, World Bank, Various Issues). South Africa is by far the largest and most developed economy in Southern Africa, as indicated in table 6:

**TABLE 6: THE ECONOMIES OF SOUTHERN AFRICA**

| Country | GDP in millions (US dollars) 1995 | GNP per capita (US dollars) 1995 | World Bank ranking[1] | Average Annual Growth (%) 1985-1995[2] |
|---|---|---|---|---|
| Botswana | 2020 | 3020 | 84 | 6,1 |
| Lesotho | 2770 | 770 | 35 | 1,2 |
| Malawi | 170 | 170 | 14 | -0,7 |
| Mozambique | 80 | 80 | 1 | 3,6 |
| **South Africa** | **3160** | **3160** | **85** | **1,3** |
| Tanzania | 120 | 120 | 23 | 1,0 |
| Zimbabwe | 540 | 540 | 38 | -0,6 |

NOTES: 1. 133 countries are ranked according to GNP per capita expressed in U.S. dollars from 1 (the lowest) to 133 (the highest)

2. Average annual growth in real GNP.

SOURCE: World Bank, *International Financial Statistics Yearbook*, (Various Issues).

An important point indicated in table 6 is that while South Africa has the largest and most developed economy in Southern Africa, other countries, especially Botswana, have experienced much higher economic growth than South Africa since 1980. The economic and political instability in the region had the drawback of discouraging potential investors. As an African country, South Africa is affected by the perception of what is happening in Africa, which causes international investors serious concern. However, as a gateway into Southern Africa in particular, and Africa in general, South Africa is well positioned in terms of international investment. The downside is that if South Africa stands out as an

economic success for the region, significant migration to South Africa might increase. Such an occurrence would have serious implications for South Africa's growth. Thus, it is crucial that South Africa's economic growth efforts are also extended towards growth in other countries in the region, since attractiveness to potential foreign investors will continue to be linked to development in the region (Dornbusch, Fischer, Mohr & Rogers 1996: 52).

## 5.4 OPENNESS OF THE SOUTH AFRICAN ECONOMY

South Africa is linked not only to countries in sub-Saharan Africa, but also to other countries, notably the major industrialised countries, like the United States and the United Kingdom. As a result, South Africa is vulnerable to changes in international economic conditions, being an important trading nation, ranking among the top 30 in the world. Measured in terms of the share of exports in GDP or the share of imports in gross domestic expenditure (GDE), South Africa has an open economy. However, by international standards, the South African economy is not particularly open, although it is much more open than the economies of the United States, Japan, Argentina and Brazil (Dorbusch, Mohr & Rogers 1996: 52).

Furthermore, the structure of the economic growth and development in South Africa can be inferred from the tables used below. This structure can be better reflected by breaking down imports into capital goods, intermediate goods, consumer goods and unclassified goods, as contained in table 7, on the next page.

As can be seen from table 7, South Africa's imports consist mainly of capital and intermediate goods. In the light of this, and considering that South Africa's exports, which are an important source of income and employment, are largely of mining products, mainly gold, changes in demand and prices in the international markets render South Africa vulnerable. The situation is worsened by the fact that structurally the world economy is moving away from mineral-intensive production methods to technology-intensive production methods based on know-how rather than on natural resources. Without enough skills as compared to newly industrialised countries (NIC) like South Korea, South Africa is facing new challenges as a commodity-exporting country

(Dornbusch, Mohr & Rogers, 1996: 54).

**TABLE 7: COMPOSITION OF SOUTH AFRICA'S IMPORTS, IN SELECTED YEARS**

| Country | Capital goods (%) | Intermediate goods (%) | Consumer goods (%) | Unclassified (%) |
|---|---|---|---|---|
| 1960 | 30,0 | 48,4 | 20,4 | 1,2 |
| 1965 | 39,6 | 38,2 | 19,7 | 2,5 |
| 1970 | 44,3 | 33,0 | 19,8 | 2,9 |
| 1975 | 42,5 | 40,6 | 13,9 | 3,0 |
| 1980 | 38,5 | 48,2 | 13,2 | 0,1 |
| 1985 | 39,4 | 45,0 | 14,5 | 1,1 |
| 1990 | 41,6 | 38,1 | 17,9 | 2,4 |
| 1995 | 41,9 | 39,0 | 17,9 | 1,2 |

NOTES: Data for 1996 and 1997 not available.

SOURCE: South African Reserve Bank, unpublished figures.

## 5.5 SOUTH AFRICA'S BALANCE OF PAYMENTS AND EXCHANGE RATE

Between 1976 and 1997, South Africa faced frequent balance of payments problems, with persistent net outflows of foreign capital along with changes in the composition of capital inflows from long-term direct investment in the private sector to short-term borrowing

and portfolio investment by the public and banking sectors. This meant that unlike in the past, South Africa could no longer finance current account deficits by net inflows of foreign capital, that is capital account surpluses. From 1946 to 1976, South Africa was able to afford domestic expenditure in excess of domestic production. Net exports, that is exports (X) minus imports (Z), represent the difference between gross domestic product (GDP) and gross domestic expenditure (GDE), with GDP = GDE + (X - Z). If GDE is greater than GDP, the net exports (X - Z) are negative. This deficit on the current account will have to be financed. For South Africa, up to 1976, this financing came from net inflows of foreign capital, i.e. capital account surpluses (Mohr & Fourie 1998:658).

In the 1980s, because of international economic and political factors, South Africa faced a foreign debt crisis. Following the 1976 political uprisings in Soweto and other black townships, as well as the 1984 - 1985 labour unrest, strenuous deflationary policies were pursued. As a result, real domestic fixed investment declined by over 10 percent between 1976 and 1977, while real consumption expenditure was fairly constant, falling by less than 1 percent in 1977. That culminated in a cumulative current account surplus of about R5 billion from1977 to 1979 (SARB Quarterly Bulletin, various issues), which financed the capital account deficit of R3,1 million. In 1985 local investor confidence collapsed, and the precipitous drop in the exchange rate was insufficient to protect the levels of foreign reserves. Consequently, a moratorium was declared on all debt repayment, as an attempt to stem the outflow of capital. However, this adjustment led to declining investment, with implications for growth and employment. This indicates a strong correlation between imports and private domestic fixed investment. Given that approximately 85 percent of imports into South Africa are imports of capital and intermediate goods (South African Quarterly Bulletin, various issues), policies aimed at restricting imports of consumer goods, particularly luxury goods, are unlikely to be successful on their own. Thus, satisfactory adjustment involves restructuring the economy to eliminate imbalances at desirable levels of output, investment and social needs. Deflation on its own acts very quickly, but it is costly and the improvement it brings about is temporary. Satisfactory adjustment or restructuring can take place in the medium term, being growth-oriented, rather than merely depressing investment consumption (Kahn 1992:80-82).

On the other hand exchange rate changes are adjusted relative to the prices of imports and exports. Depreciation has an expenditure-switching effect, since local goods become cheaper than imported goods, leading to domestic goods being consumed more. At the same time, exports become more competitive, because they are now cheaper in foreign currency price terms. This then shifts resources to export-oriented sectors. There is also an expenditure-reducing effect, because depreciation raises the domestic prices of imports, in turn raising the cost of living and reducing real income. The extent to which expenditure on imports is reduced depends on the elasticity of demand for imports. In South Africa import price elasticity of demand for capital goods is very low, but expenditure elasticity is high. This means that a reduction in expenditure (consumption and investment) is more effective than depreciation for reducing imports. The less dependent South Africa becomes on capital goods imports, the higher the price elasticity will be. With regard to exports, manufacturers who can set their own prices in world markets can benefit, depending on the price elasticity of demand for these products. Those industries with excess capacity will be best able to take advantage of the depreciation. Thus, flexibility and substitutability are important. At the same time, primary exports will have their rand profit increased, without these necessarily being any impact on foreign exchange earnings (Kahn 1987:82-85).

It is argued that relative price changes alone may not be sufficient to encourage the development of export-oriented manufacturing industries, since customers may place greater emphasis on quality and reliability of delivery criteria than on prices. Furthermore, the establishment of new industries takes time and marketing resources are also needed. Thus, doubt is often expressed over the ability of exchange rate depreciation alone to bring about required allocation of resources. Where nominal depreciation is accompanied by an offsetting acceleration in the domestic rate of inflation, the real exchange rate will remain unchanged. Thus nominal depreciation is unlikely to strengthen the current account. There is no doubt that depreciation boosts inflation. What is uncertain is the extent to which prices and costs rise relative to depreciation, as well as how long it takes prices to catch up. It is argued by structuralists, that exchange depreciation, via its effects on prices, is a propagating factor of inflation (Dornbusch, Ficher, Mohr & Rogers 1996:346-350).

Accordingly, depreciation can result in real output reduction, especially when the export response is low. The contractionary effect of devaluation is short-term. The greater the export response, the more positive the effect on growth. More measures are therefore required to stimulate export expansion, since the growth effects of exchange rate changes depend crucially on the extent and duration of the real exchange rate change, flexibility and structure of production and the response of trade flows to relative price changes. Another important effect of depreciation is the effect on debt repayment and debt servicing. Since most debt is terms of foreign currency, depreciation increases the domestic value of debt. This was the case in South Africa between 1983 and 1984, when foreign debt rose by 6,6 percent in United States dollar terms, but because of depreciation of the rand value, this debt rose by 65,5 percent in rand terms, with the proportion of total debt to GDP rising from 32,6 percent to 45,7 percent. Even if exchange rates are not useful in helping to bring about structural change, the experience of African and Latin American countries in recent years has demonstrated that maintaining a grossly overvalued exchange rate will be economically disastrous in the long run (Kahn 1992:84).

It is essential to consider the impact of exchange rate changes on economic growth. When the economic growth path is export-oriented, a stable predictable real exchange rate is preferred. The reason is that manufacturers are reluctant to embark on an export expansion process when there is a possibility that the real exchange rate might change to their disadvantage. This is confirmed by the success of the export-oriented growth strategies used by Taiwan and South Korea, where stable, and predictable real exchange rates have been maintained. In contrast, when an internally oriented growth path is pursued, the exchange rate is allowed to fluctuate, moving in line with world prices of primary commodities, since countries pursuing this growth path earn foreign exchange through primary goods, in South Africa through the mining sector. Thus, the emphasis is placed on protecting the profitability of this sector. As the prices of mineral goods rise, the domestic currency, the rand, appreciates, and vice versa. This has been the type of exchange rate policy followed in South Africa up to 1988. The floating rand has been helping to insulate these (gold and platinum) exporters against fluctuations in dollar prices of these commodities. The caution provided to such industries by the floating rand could therefore assume even greater importance (Kahn 1991:85-87).

With an increase in demand it is held that the production of these goods will increase

income, employment and physical well-being. However, this policy has constraints. First, it drives deregulation and encourages small business. However, there is no guarantee that an entrepreneurial spiral will seek to establish and expand small firms. Second, large firms are usually more efficient than small ones. Third, in South Africa the existence of highly concentrated industries reduced the prospects of the emergence of small firm across a broad spectrum of industry. And finally, and most importantly, since inward-industrialisation relies on low-cost production and low-cost goods, substantial funding from outside is needed to "kick-start" the process. Thus the exchange rate policy required would be one that results in an injection of foreign funds (McCarthy 1988:vol.56). Having considered South Africa's balance of payments and exchange rate features, we now turn to South Africa's factor endowment, which determines or constrains a country's long-term economic growth potential.

## 5.6 SOUTH AFRICA'S FACTOR ENDOWMENT

The economic growth rate of a country is influenced by the quantity and quality of its factors of production, i.e. natural resources, labour, capital and entrepreneurial talent (Dornbusch, Fischer, Mohr & Rogers, 1996:55). Each of these is now briefly discussed.

### 5.6.1 Natural Resources

Natural resources are all inputs into the production process obtained directly from nature, including land, water, fish resources, metals and minerals. South Africa is fairly well endowed with these resources, especially minerals. However, the country lacks enough water resources. There are no navigable rivers. In terms of minerals, the only one missing is crude oil. Agriculturally, South Africa is capable of producing a food surplus, except for a few products like coffee, tea, rice and cocoa, despite the fact that only 12 percent of the total land area is arable. There is also considerable fishing potential, given the long seaboard (Dornbusch, Fischer, Mohr & Rogers 1996:55-57).

### 5.6.2 Labour

Labour, as a factor of production, includes the total number of people employed or available for employment, as well as their physical and intellectual skills and effort. It depends on the size and age distribution of the population. Labour also hinges on participation rate, that is the proportion of the population of working age employed or seeking work. The level of skills and endeavour depends on factors like prevailing social structure, values, attitudes, education and training (Sadie 1980:ch.13). Accordingly, there are two distinct labour markets in South Africa, one for skilled and one for unskilled workers. There is a chronic shortage of skilled workers, resulting in high remuneration. In contrast, the supply of unskilled workers is abundant, commanding lower wages, which are, however, often increased through trade union intervention (Sadie 1987:290).

This is a legacy of the past apartheid government, which interfered in the labour market through racist policies of job reservation for whites, influx control restricting blacks to certain areas, and inferior Bantu education for blacks. According to the then policy, white immigration was used to supplement the shortage of skilled workers. Between 1963 and 1976, 30 000 net immigrants per year entered South Africa. As political and economic uncertainty loomed in South Africa, the figure dropped to 340 per year between 1985 and 1988. The number increased again between 1989 and 1992, when prospects for democracy became real, jumping to 4 100 per annum (Dornbusch, Fischer, Mohr & Rogers 1996:58).

Demographically, the population of South Africa, for analytical purposes, is divided into four categories, based on the occupational skills level of the male breadwinner, follows:

(1) executive or managerial group

(2) the professional, technical and other skilled workers

(3) workers in jobs demanding less skill (semi-skilled workers)

(4) the unskilled, the peasants, the unemployed and underemployed and the very poor (Sadie 1987:290)

These features are captured in the following two tables, table 8 and table 9:

**TABLE 8: STRUCTURE AND GROWTH OF SOUTH AFRICAN POPULATION**

| | Category | Numbers in 1990 | Increments 1990-2005 | Numbers in 2005 |
|---|---|---|---|---|
| I | (Executive) | 1 181 000 | 129 000 | 1 310 000 |
| II | (Skilled) | 4 226 000 | 680 000 | 4 906 000 |
| III | (Semi-skilled) | 13 903 000 | 4 266 000 | 18 169 000 |
| IV | (Unskilled) | 17 349 000 | 9 693 000 | 27 042 000 |

SOURCE: Sadie, J.L.: 1992. Unemployment in South Africa: its nature and origins, *Studies in Economics and Econometrics*, 16(1).

**TABLE 9: PROJECTED INCREMENTAL LABOUR AND DEMAND BY CATEGORY, 1980-2000**

| | Category | Supply (Increment) | Demand (Increment) | Shortage Or Surplus |
|---|---|---|---|---|
| I | (Executive) | 94 000 | 197 000 | -103 000 |
| II | (Skilled) | 455 000 | 897 000 | -422 000 |
| III | (Semi-skilled) | 2 495 000 | 2 500 000 | - |
| IV | (Unskilled) | 3 796 000 | 1 028 000 | +2 768 000 |

SOURCE: Sadie, J.L.: 1992. The human resources in South Africa. *South African Journal of Science*, 83, May.

In table 9, it is shown how population growth will be dominated by the already large semi-skilled and unskilled categories. However, it should be noted that these projections are based on the apartheid past, so that these may be improvements as the education system gets overhauled. Another factor to be considered is the rise of trade unionism in South Africa. In the past, the impact of labour on the economy was minimal, since labour laws

under apartheid suppressed possible labour strikes and disturbances. But after the Wiehahn Commission of Inquiry into Labour Legislation between 1979 and 1981, the labour laws were changed. Racial discrimination was abolished and black trade unions became recognised. This gave rise to a phenomenal increase in membership of registered trade unions, resulting in a significant increase in the incidence of industrial disputes, according to the National Manpower Commission Report of 1992. This is reflected in table 10:

**TABLE 10: STRIKES IN SOUTH AFRICA (1992 – 1997)**

| Year | Man day Lost in Millions |
|---|---|
| 1992 | 4,2 |
| 1993 | 3,6 |
| 1994 | 3,9 |
| 1995 | 1,6 |
| 1996 | a |
| 1997 | 1,7 |

NOTES: a - In 1996 no strikes were reported , because what took place was merely a high level of unruly behaviour.

SOURCE: South African Survey 1996/97, South African Institute of Race Relations.

### 5.6.3 Capital

It is important to make explicit the difference between capital and its corresponding flow variable, investment. Investment refers to additions to the physical stock of capital, whereas capital means the physical objects, i.e. all manufactured assets used in the production of goods and services. Thus capital is a stock concept, whereas investment is a flow concept, which relates to changes in capital stock during a particular period. Capital stock is at a particular level at any particular point in time. South Africa is capital-poor. Many capital goods, such as heavy or specialised machinery and equipment, cannot be manufactured locally. Thus the large capital component of imports, as shown in table 9. Financing of these capital goods often require net inflows of funds from

abroad. This dependence on imported capital goods and foreign financing has significant implications for a countries economic growth. For instance, higher savings in domestic economic activity leads to increases in import demand, which puts pressure on the balance of payments. The only way out to stem such import demand without the application of import control, is by applying restrictive or contractionary policies (Dornbusch, Fischer, Mohr & Rogers 1996:60-61).

The situation described above put South Africa in a desperate position during the 1980s, when access to foreign funds was denied. South Africa could not repay its foreign debt, becoming a "capital-exporting" country, despite scarcity of capital in the country. Thus, for South Africa to improve its economic growth performance, dependence on imported capital goods and services had to be reduced.

## 5.7 ENTREPRENEURSHIP

The entrepreneur is one who perceives opportunities and marshals the other factors of production in the production process. It is the enterprising spirit of entrepreneurs, which stimulates economic growth. These economic agents are said to come from a proportion of executives relative to other categories. The South African situation is not an encouraging one, considering the picture painted by tables 9 and 10. The inference that can be drawn is that entrepreneurial activity is modified by the economic, political and social environment within which potential entrepreneurs operate (Dornbusch, Mohr & Rogers 1996:61-62). While it is obvious that the political, social and economic structures of the apartheid past have hindered entrepreneurship, the problem cannot be simply remedied by a change in the ruling political party.

The ruling party faces very complex and daunting challenges. To deliver on the campaign trail promises will take a long time, but the electorate that voted the party into office does not seem to exercise any patience. The unemployed are expecting jobs now, while those who are in employment are being retrenched at an increasing rate. Those who are homeless are expecting the promised houses now, while there is no capacity to keep up with demand and informal settlements are being pitched next to upmarket houses, thereby reducing their value. There is student unrest because students are not allowed to

return to school because they are in arrears with school fees, all the while are accepting education subsidies and accommodation from the new democratic government. The list of expectations that cannot be met now can go on and on. Having discussed the factors of production in South Africa, the aggregate demands that these factors have to address is the next topic.

## 5.8 AGGREGATE DEMAND IN SOUTH AFRICA

### 5.8.1 Consumption

During the period 1955 to1979, 89 percent of disposable income was spent on consumer goods and services. This increased to more than 97 percent during the period 1986 to 1993. As a result, the personal saving ratio, that is the ration between personal savings to personal disposable income fell from approximately 11 percent to less than 3 percent between these periods (Dornbusch, Fischer, Mohr & Rogers 1996: 63; Fourie 2000:159).

South Africa's consumption spending exceeds the level of investment, a trend inimical to economic growth. This spending is on four major categories, namely durable goods (e g private motor vehicles and household appliances), semi-durable goods (e g motorcar accessories and clothing, non-durable goods (e g food) and services (e g medical and transport services). Whereas, on the one hand, spending on durable goods is the most volatile, spending on non-durable goods, is the most stable component of private consumption. It should be noted that the decision to consume is a decision not to save, and vice versa. The personal saving ratio, i.e. the ratio between personal savings and personal disposable income in South Africa continues to fall, which is a major concern in recent years. The composition of four major categories of consumption, namely durable goods, semi-durable goods, non-durable goods and services, is affected by cyclical factors and structural changes (Dornbusch, Fischer, Mohr & Rogers 1996:63; Fourie 2000: 247).

Consumption expenditure by government in general is estimated as the current expenditure on salaries and wages; goods and other services of a non-capitol nature by the general departments of public authorities. Government in South Africa includes national

or central, provincial and local government, which is further divided into unicity metropolitan council; district councils and local councils. Government spending does not include transfer payments, such as pensions and disability grants. Thus, there is a difference between government spending on goods and services and the size of government budget, which includes a significant amount of transfers (Nattrass 2000:7-8). This relatively high consumption component of Gross Domestic Expenditure (GDE) in South Africa is reflected in table 11 on the following page:

### 5.8.2 Investment, saving and consumption

Table 11 on the next page shows investment as the smallest component of GDE. Although inventory investment is also important, it is fixed investment, which plays a more significant role in the generation or stimulation of economic growth. Changes in inventories serve as indicators to signal to firms whether to expand or contract the production of services and goods. In South Africa, the growth rate in real gross fixed investment was moderate, with an average annual growth rate of 4,6 percent between 1947 and 1962. Rapid growth occurred between 1963 and 1975 at 9,5 percent, followed by a period of decline from 1976 to 1992 at 1,5 percent per annum, despite the spurt in investment during the 1979-1981 boom. Capital is a scarce factor of production in South Africa. With structural decline in the growth of real fixed investment spending in South Africa, more investment was required, with the result that production became increasingly capital intensive, despite South Africa labour abundance of labour (Dornburch, Fischer, Mohr & Rogers 1996: 64). Table 12, below shows evidence of increased capital intensity of production, by presenting real capital stock per worker in mining and manufacturing for selected years, although it is not suggested that this is the only measure of capital intensity. Other measures are capital-output ratio and the incremental capital-output ratio (ICOR). The capital-output ratio gives the relationship between capital and output, that is the additions to capital stock, in form of investment which brings about corresponding increases in the flow of national output (GNP) as a direct relationship (Todaro 1982:88).

The incremental capital output ratio (ICOR) is the ratio of the rate of investment to the rate of growth. A higher ICOR implies a lower return on investment. If capital is the only scarce factor of production in a country and the rate of investment is the sole determinant

of growth; a high ICOR would imply a relatively low efficiency of investment. In contrast, capital is not the only scarce factor of production, and thus, a relatively high and rising ICOR would not necessarily imply inefficient investment. A rising ICOR could indicate increasing scarcity of factors of production other than capital. As countries approach full employment, their ICOR's are expected to rise, as labour is replaced by capital, with diminishing returns to investment setting in (Riedel 1987:53-55).

**TABLE 11: GDE, GDP AND COMPONENTS OF AGGREGATE DEMAND, 1993 – 1997: AT 1990 CONSTANT PRICES**

| | 1993 Pre-election (R millions) | 1997 Post-election (R millions) |
|---|---|---|
| Private consumption expenditure | 231 756 | 366 688 |
| Consumption expenditure by government | 79 786 | 126 962 |
| Gross domestic fixed investment | 59 304 | 103 343 |
| Change in inventories | 550 | (4 390) |
| Residual item | (4 275) | (4 577) |
| **Gross domestic expenditure (GDE)** | 367 121 | 588 026 |
| Net exports of goods and services (i e exports – imports) | 15 078 | 6 832 |
| **Gross domestic product (GDP)** | 382 199 | 594 858 |

SOURCE: South Africa Reserve Bank, *Quarterly Bulletin*, March 1996 & March 1998

Associated with capital-output ratio is the conflict between employment and output. Given that the total funds available for new investment are limited, using the funds to employ people means inability to purchase equipment, which may mean less employment. However, that might mean increased production. Thus, maximisation of output requires optimal and efficient usage of scarce resources, which means that where capital is scarce, the capital-output ratio is minimised and employment is maximised. The conflict between employment and output maximisation arises because of the increased capital intensity of production on the one hand, the demand for high wages not congruent

with productivity on the other.

It should be remembered, however, that the capital-intensive methods of production are said to always involve lower capital costs per unit of output and higher costs per work place than the labour-intensive methods. Also, where output responds positively to additional workers, the level of employment associated with a given machine will depend on the level of wages. This is illustrated in table 12, on the next page, which shows fixed capital per worker for the South African economy in the mining and manufacturing industries for selected years, 1960 to 1997, at constant 1985 prices.

**TABLE 12: FIXED CAPITAL STOCK PER WORKER AT CONSTANT 1985 PRICES IN MINING AND MANUFACTURING, SELECTED YEARS (1960 – 1997)**

| **Year** | *Mining* **(R)** | **Manufacturing (R)** |
|---|---|---|
| 1960 | 15 243 | 11 972 |
| 1965 | 16 414 | 13 377 |
| 1970 | 16 552 | 15 820 |
| 1975 | 22 014 | 20 450 |
| 1980 | 26 854 | 27 057 |
| 1985 | 36 187 | 33 886 |
| 1990 | 46 367 | 31 497 |
| 1992 | 53 682 | 35 208 |
| 1993 | 69 686 | 105 414 |
| 1995 | 68 668 | 113 884 |
| 1997 | 68 458 | 124 071 |

SOURCE: South African Reserve Bank, *Quarterly Bulletins*, Various Issues

It is obvious, from the table above, that South Africa faced capital deepening, that is an increase in capital per worker. With declining investment spending, this is a serious problem for economic growth in South Africa.

The ratio of gross domestic savings to GDP in South Africa reflects a continuous decline from 1987, as table 13 shows:

**TABLE 13: GROSS DOMESTIC SAVING TO GDP IN SOUTH AFRICA (1981 – 1997)**

| Year | Ratio (%) |
|---|---|
| 1981 | 27,2 |
| 1982 | 20,8 |
| 1983 | 25,3 |
| 1984 | 22,5 |
| 1985 | 24,5 |
| 1986 | 23,5 |
| 1987 | 22,5 |
| 1988 | 22,7 |
| 1989 | 22,6 |
| 1990 | 19,5 |
| 1991 | 18,9 |
| 1992 | 17,1 |
| 1993 | 17,2 |
| 1994 | 17,1 |
| 1995 | 16,8 |
| 1996 | 16,5 |
| 1997 | 14,5 |

SOURCE: South African Institute of Race Relations, *South Africa Survey, 1996/1997.*

On the other hand, private consumption expenditure grew by 4 percent in real terms in 1996, as compared to 4,5 percent in 1995, while real government consumption expenditure grew by 0,5 percent in 1995 and by 5,0 percent in 1996. In 1996, private consumption as a proportion of GDP rose from 62,3 percent in 1946 to 66,8 percent, while central government expenditure as a proportion of GDP rose from 16,8 percent of

GDP in 1946 to 23,5 percent in 1996 (South African Reserve Bank 1997:4-8).

### 5.8.3 Government spending

Central government spending is detested by those who advocate a free-market system, without government intervention, favouring instead privatisation of state-owned enterprises. On the contrary, interventionists see nothing wrong with government interference with the market mechanism. They even call for nationalisation of what is considered crucial enterprises. The South African experience is that government expenditure exceeded government investment as a percentage of GDE, with a resultant increase in the share of transfer payments, that is interest on public debt, subsidies and transfers to households and the rest of the world, as reflected in table 14:

**TABLE 14: GOVERNMENT SPENDING IN SOUTH AFRICA, SELECTED YEARS**

| Year | Consumption spending by government as % of GDE | Gross investment by public sector as % of GDE | Transfer payments as % of GDP |
|---|---|---|---|
| 1946 | 9,8 | 5,5 | 6,3 |
| 1950 | 9,4 | 7,8 | 4,4 |
| 1960 | 9,8 | 8,8 | 4,0 |
| 1970 | 11,7 | 10,2 | 4,9 |
| 1980 | 14,7 | 14,2 | 6,1 |
| 1990 | 20,8 | 7,1 | 9,8 |
| 1993 | 22,0 | 4,3 | 10,8 |
| 1994 | 21,0 | 16,3 | 15,4 |
| 1995 | 20,0 | 16,9 | 15,3 |
| 1996 | 20,6 | 17,5 | 14,9 |
| 1997 | 21,6 | 17,6 | 15,0 |

SOURCE: South African Reserve Bank, *Quarterly Bulletin*, Various Issues.

### 5.8.4 Net Exports

South African's position regarding exports and imports, on the openness of South Africa's economy, is covered in the previous sections. Exports and imports grew from 1994 as the economy became reintegrated internationally after the normalisation of diplomatic and trade ties. Between 1985 and 1996 real exports increased by 42 percent while real imports grew by 95 percent The following table, table 15, shows the real value of total exports and imports and the annual change:

**TABLE 15: SOUTH AFRICA'S EXPORT AND IMPORT PERFORMANCE**

| Year | Real Exports R million | % Increase (Decrease) | Real Imports R million | % Increase (Decrease) |
|---|---|---|---|---|
| 1985 | 63 608 | - | 46 487 | - |
| 1986 | 61 197 | 3,8 | 45 347 | (2,5) |
| 1987 | 60 075 | (1,8) | 46 932 | 3,5 |
| 1988 | 65 969 | 9,8 | 57 214 | 21,9 |
| 1989 | 69 517 | 5,4 | 57 396 | 0,3 |
| 1990 | 70 714 | 1,7 | 54 046 | (5,8) |
| 1991 | 70 674 | (0,1) | 55 204 | 2,1 |
| 1992 | 72 464 | 2,5 | 58 156 | 5,3 |
| 1993 | 75 955 | 4,8 | 62 237 | 7,0 |
| 1994 | 76 731 | 1,0 | 72 257 | 16,1 |
| 1995 | 83 854 | 9,3 | 84 217 | 16,6 |
| 1996 | 90 414 | 7,8 | 90 563 | 7,5 |
| 1997 | 95 387 | 5,5 | 95 453 | 5,4 |
| | | Total 49,7% | | Total 77, 4% |

SOURCE: Department of Finance, *Budget Review*, (Various Issues).

South Africa's major trading partners are shown in table 16:

**TABLE 16: SOUTH AFRICA'S MAJOR TRADING PARTNERS SELECTED YEARS**

| 1981-1985 | 1988 | 1992 | 1994 | 1997 |
|---|---|---|---|---|
| United States | Germany | Germany | United States | Germany |
| Japan | Japan | United States | Germany | United Kingdom |
| Germany | United Kingdom | Japan | United Kingdom | United States |
| United Kingdom | United States | United Kingdom | Japan | Hong Kong |
| Switzerland | Italy | Italy | Switzerland | Italy |
| France | Taiwan | France | Hong Kong | Switzerland |
| Italy | France | Hong Kong | Italy | Taiwan |
| | Belgium | Belgium | Taiwan | Zimbabwe |

NOTES: Ranking is in order of importance according to value of non-gold South African exports to them plus imports from them. Data for Taiwan for 1992 not available.

SOURCE: 1981-1985: Commissioner for Customs and Excise, *Foreign Trade Statistics,* Various Issues.
1982-1992: International Monetary Fund, *Direction of Trade Statistics*, Various Issues.
1996/1997: South African Institute of Race Relations, *South Africa Survey.*

## 5.9 UNEQUAL DISTRIBUTION OF INCOME AND WEALTH

South Africa suffers widespread absolute poverty, with very high unequal distribution of income and wealth. This feature underscores the root of many social, political and economic problems in the country. The poor, with the fragile and new democracy now reigning in South Africa, are cherishing very high expectations for improvement. Aggregate inequality is measured by Gini coefficients. The Gini co-efficient for countries with highly unequal income distributions lies between 0,5 and 0,7 and for countries with relatively equitable distributions the figure lies between 0,2 and 0,35 (Todaro 1982: 142). The following table, table 17, on the next two page shows South Africa's income levels by

race and the income disparity before the 1994 elections, which put the current government in office, that is the levels for 1993 and for 1995. after the elections:

**TABLE 17: AVERAGE INCOME BY RACE IN SOUTH AFRCIA SELECTED YEARS**

| Year | Race | % Income Share | Per Capita Income (R)[a] | Disparity Ratio |
|---|---|---|---|---|
| 1993 | African | 29,3 | 2 717 | 11,8 |
| | Asian | 4,8 | 12 963 | 2,5 |
| | Coloured | 7,4 | 6 278 | 5,1 |
| | White | 58,5 | 32 076 | 1 |
| 1995 | African | 38,5 | 3 379 | 8,0 |
| | Asian | 4,0 | 11 471 | 2,4 |
| | Coloured | 8,9 | 7 072 | 1 |
| | White | 48,6 | 27 040 | 1 |

NOTES:
1. a = Average annual per capita income per population in Rands
2. Disparity ratio is the per capita income of whites to that of Africans.
3. Data for race groups not available for 1996 and 1997.

SOURCE: 1996 – 1997: *South African Survey*, South African Institute of Race Relations, Johannesburg.

Although racial inequality has being narrowing steadily, class inequality is widening. Between 1975 and 1991 the poorest 40 percent of Africans became 40 percent poorer, while the top 20 percent become 40 percent richer. On average, in 1996, African households were earning R1 252 a month, an increase of 10 percent, compared with the R7 108 earned by white households, an increase of 9 percent (South African Institute of Race Relations 1997:377-383). A further racial income distribution, showing the Gini coefficients, is given in the following table, table 18:

**TABLE 18: GINI COEFFICIENTS FOR DIFFERENT POPULATION GROUPS, 1975, 1991 AND 1995**

| Group | 1975 | 1991 | 1995 |
|---|---|---|---|
| African | 0,47 | 0,62 | 0,52 |
| Coloured | 0,51 | 0,52 | 0,50 |
| Asian | 0,45 | 0,49 | 0,44 |
| White | 0,36 | 0,46 | 0,49 |

NOTES: Data for 1997 and 1998 not available.

SOURCES:
1. Whiteford, A & McGrauth, R (1994): *Distribution of Income in South Africa*, Human Sciences Research Council, Pretoria.
2. Hirschowitz, R. (1997): *Earning and Spending in South Africa*, Central Statistics, Pretoria

The Gini coefficient for South Africa as a whole was 0,59 in 1995. This is a high value, indicating highly unequal distribution of income in South Africa. This is comparable to high inequality of income distribution in countries like Brazil and Ecudor (Todoro, 1989:200). As reflected by Table 18 above, income distribution by 1995 is less unequal among Asians (Gini-coefficient = 0,44) than whites (Gini-coefficient = 0,49), Coloureds (Gini-coefficient = 0,50) or Africans (Gini-coefficient = 0,52).

## 5.10 SOUTH AFRICA'S ECONOMIC GROWTH RATE

In 1996, South Africans were 23 percent richer per head than they were in 1960, but 16 percent poorer than in 1981. Four consecutive years, 1990 to 1993, South Africa experienced negative growth in GDP per head. Thereafter, in 1994 it rose by 0,6 percent in 1995 by 1,2 percent and 1 percent in 1996 (South African Institute of Race Relations, 1997:654-658). In line with the structuralist argument, for complete presentation of these contrasting views, a brief account of the socio-political factors of the South African economic environment is first given, followed by a detailed discussion.

## 5.11 THE SOCIO-POLITICAL FACTORS OF THE SOUTH AFRICAN ECONOMY

This section provides a very brief account of the socio political factors of the South African economy, in view of the structuralist argument that socio political factors should be considered if any economic analysis is to be serious and thorough. This is perhaps more pertinent for the South African economy, given the prevalent claims that the current economic performance has largely been conditioned by the economic policies of the *apartheid* era. This is even more applicable given the economic expectations created by the 'political miracle' that gave birth to the new, fledging and tenuous democracy in South Africa. It is in the light of these "unrealised" expectations that the GEAR policy is criticised by COSATU. At the heart of the of the COSATU argument is that the black majority rule that came with the new democracy and 'filtering-down' effects of GEAR policy are not yet being felt by this majority. Put differently, the "Black majority rule does not abolish the economic implications of apartheid in real terms (Cohen 1986: 95).

The previous exclusion of South Africa from the global scene and the governmental protection of industry during the apartheid era had far-reaching inhibiting consequences on economic growth. The conventional economic wisdom was that socio political factors should not be factored into the way business was conducted. The political reality of South Africa has challenged this perception, dictating increased participation of business in developing socio political and economic unfolding process. "The conventional business wisdom of the 1980s held that the business of business is business. However, this view is increasingly challenged by the unconventional macro-environmet and, in 1991, Barlow Rand Chairman publicly proclaimed that the business of business is to stay in business. This subtle change of words implied a dramatic departure in thought, strategy and action regarding the mission and vision of business in South Africa" (Consultative Business Movement 1993: 1).

As South Africa positions itself for the future, the ugly past of apartheid cannot be

ignored. Current aspirations, expectations and temperament are fed off the past. During the new democracy campaign-trail, politicians, jockeying for votes, made at times what was obviously unrealistic promises. Victims of apartheid are now expecting tangible and substantial economic changes, which cannot be delivered overnight. To contain patience, business is compelled to assist these politicians. Otherwise, the fragile democracy will snap back into the violent past. The recurrence destabilising of strikes and boycotts, especially by the labour movement should be avoided at all costs. However, there is a looming potential for such eruption, given the sharp differences between the government, on the one hand, and its allies, COSATU and the South African Communist Party, on the other, over the official economic policy, GEAR, and the process of the privatisation of state assets process by the labour movement (Nattrass 2000:285)

It is crucial for South Africa to maintain a serene and peaceful political atmosphere, in order to attract the investors, both domestic and foreign, especially given the crime wave plaguing the country. Although it seems inconceivable that violent uprising against the new democratic government is likely in the near future, this does not rule out eventual outbursts. If, for instance the state of education remains unaltered in the eyes of the dissatisfied students, and labour demand are ignored, uprisings cannot be ruled out. There is no question that the economic rigidities and racist tenets of apartheid are responsible for the high unemployment rate, especially among blacks (South Africa, RDP Programme 1994:14).

The twin aspects of unemployment and poverty are also alarming: "The consequences of this discriminatory pattern of development for black South Africans are reflected in the statistics. The inequality in income distribution in South Africa is amongst the highest in the world. One-fifth to one-quarter of children under the age of six are mal-nourished; only about one-fifth of black families have incomes above the minimum effective level. The whites, although they only constitute 15% of the population of South Africa, lay claim to well more than half of the national income, and more than 90% of the wealth of the country is in their hands. More than one-fifth of all black South Africans between the ages of 15 to 60 are unemployed, and in some areas unemployment is already as high as 50%. Every year the number of

unemployed grows by nearly a quarter million"(Howe & Roux 1992: 16).

Failure of the manufacturing sector is another socio - political factor to note. Historically, South Africa's means towards industrialisation was via the mining sector. While mining is the major earner of foreign exchange, it lacked major features that stimulate overall economic growth. Natural resources, like gold and diamonds, are wasting or diminishing resources, which deplete with time. Furthermore, mining does not allow for the back-ward and forward linkage crucial for stimulating growth. To sustain apartheid, the protec-tion of infant industries led to an *inward-looking* industrial approach. Competition was thus not forced, as it would otherwise have been and the domestic market was too small to energize these infant-industries into becoming world competitors: "For more than sixty years South Africa attempted to develop a dynamic industrial sector through a policy of *import-substitution.* In fact industries were protected in the hope that they would grow up and become major foreign–exchange earners. Our infant–industries grew old, but most of them never became strong enough to compete in the international markets. As a consequence, our dependence on foreign imports remained high. In spite of all the attempt at import replacement, imports remained very high, 25 – 30 % of national income" (Howe & Le Roux 1992: 17).

Other contributing factors were the exclusion of blacks from the manufacturing process. Bantu education and job reservation imposed constraints on the availability skilled labour. Correlated to the problem of an adequate skills base is the inability to develop capital goods in South Africa. Not only did the government exclude black participation, it also failed to develop a local capital-goods industry (Mirth 1990:302-505). Thus the challenge for South Africa is to speed up its personnel skills development, if she is to catch up with the fast moving world. This will require a new attitude towards investment in education, for if the educational backlog is not addressed, the future is likely to be bleak. Thus, given the socio-political factors at play, after the long waves of violence and political turmoil experienced in South Africa, *stability* stands out as the chief ingredient for economic recovery. "Violence feeds not only on poverty and crime, but also on lack of trust and deteriorating relationships between political actors which could plague South Africa well beyond a political settlement. These conflicting relationships are not only the result of poor relationships between individuals,

but involve deep and conflicting interests" (Consultative Business Movement 1992:15). The next section covers the related problems of poverty, unemployment and crime in South Africa.

## 5.12 SOUTH AFRICA'S PROBLEMS REGARDING POVERTY, UNEMPLOYMENT AND CRIME

Poverty eradication is the primary concern of every country. "One of the greateat threats to the well being of a country is the widespread impoverishment of its people. It is particularly alarming when poverty is not only widespread but continues to grow. These developments are well known for leading to vicious cycles of poverty."(Abedian & Standish 1992: 1). In 1993 the poverty line for an urban household with adults and three children in South Africa was estimated to be about R840 per month. The estimate for a rural household with two adults and three children was given as R740. In terms of these estimates, 63,9 percent were living below the poverty line in the rural areas and 50,8 percent in the urban areas. The figures for coloureds were 25,1 percent in the rural areas and 32,9 percent in the urban areas; for Asians the figures were 0,0 percent in the rural areas and 9,7 percent in the urban areas, and for whites 1,8 percent in rural areas and 3,1 percent in urban areas. Fifty three percent of the population of South Africa made up the poorest 40 percent of households and spent less than R385 per adult per month. The poorest 20 percent of households spent less than R225 per adult per month (South Africa1 Institute of Race Relations 1997:664).

While there has been a definite tendency for real wages to rise for all racial groups, largely due to upward shift of occupational structure which marginalized unskilled labourers, Africans and Coloured have been the most adversely affected, thereby causing impoverishment (Abedian & Standish 1992:10-16). In turn this gave rise to associated socio-economic problems, including poor standards of housing, health, education and productivity. Accompanying these problems and discouraging foreign investment are the soaring levels of crime in South Africa, as indicated in table 19, on the next page.

The framework within which to understand the above crime figures is the higher level

unemployment in South Africa. In 1994, the official unemployment rate among Africans was 41,1 percent, 23,3 percent among coloureds, 17,1 percent among Asians and 6,4 percent among whites. By 1995 the unemployment rate among Africans was 37 percent, 22 percent for coloureds, 13 percent for Asians and 6 percent for Whites (South Africa Institute of Race Relations 1997:359).

**TABLE 19: SELECTION OF CRIMES REPORTED IN SOUTH AFRICA SELECTED YEARS**

| Crime | 1984 | 1988 | 1990 | 1993 | 1994 | 1995 |
|---|---|---|---|---|---|---|
| Arson | 4 714 | 4 882 | 7 171 | 6 854 | 7 056 | 6 562 |
| Assault | 125 002 | 125 571 | 124 030 | 144 504 | 157 315 | 171 656 |
| Theft of motor vehicles | 44 372 | 57 851 | 68 649 | 77 906 | 94 710 | 97 947 |
| House-breaking | 153 440 | 182 754 | 225 158 | 259 646 | 276 056 | 294 204 |
| Murder | 9 462 | 10 631 | 15 109 | 19 583 | 18 312 | 18 983 |
| Rape | 37 755 | 45 847 | 61 132 | 87 102 | 95 763 | 102 809 |
| Shop-lifting | 27 245 | 40 833 | 48 935 | 62 166 | 63 274 | 59 109 |

NOTES: 1. According to the Survey, not all crimes are reported.
2. Data for 1996 and 1997 not available.

SOURCE: South African Institute of Race Relations, *South Africa Survey* 1996/1997.

## 5.13 GROWTH, EMPLOYMENT AND REDISTRIBUTION (GEAR) – THE NEW MACRO-ECONOMIC POLICY AFTER 1994

Prior to the democratic election of 1994, monetary authorities in South Africa pursued an interest-rate stabilisation policy as reflected in table 1. The gross domestic product (GDP), declined from 5,6 percent, during the period 1960 – 1969, to negative 1 percent for the period 1990 – 1993 (see table 2). During this bank-rate era, the inflation rate rose from 2,4 percent during the period 1960 – 1969 to 14,5 percent during 1990 – 1993, as shown

in table 3. Also, the increase in real exports declined from 4,8 percent in 1993 to 1 percent in 1994. As shown by table 18, relative racial income disparity was also high during this bank-rate era. The Gini co-efficient which measured unequal distribution of income within 4 groups in 1991 was 0,62 for Africans, 0,52 for coloureds, 0,49 for Asians and 0,46 for whites. The respective disparity ratios for these race groups were 11,8; 2,5; 5,1; and 1 in 1993, as reflected in table 17.

The Stals era, 1994 to 1997, moved away from "monetary targets" to "monetary guidelines", using changes in money supply as the most important monitor for monetary authorities. This policy shift ushered in improvements on economic growth (GDP) for the period between 1994 and 1997 as shown in table 2. The inflation rate also dropped from 14,5 percent in the period from 1990 to 1993, to 13,7 percent for the period 1994 to 1997 as shown in table 3. Another improvement of this policy shift is the closing of the gap in the distribution of income between the various race groups in South Africa. According to table 18, the Gini coefficient for Africans dropped from 0,62 in 1991 to 0,52 in 1995, from 0,52 to 5,0 for coloured, 0,49 to 0,44 for Asians; while increasing from 0,46 to 0,49 for whites. The income disparity ratios also started closing up, dropping from 11,8 in 1993 to 8,0 in 1995 for Africans, from 2,5 to 2,4 for Asians, and from 5,1 to 3,8 for coloured, as compared to the income of whites.

After the new democratic government took office in 1994, the Department of Finance published GEAR in 1996, as a strategy for rebuilding and restructuring the South African economy. This strategy which is in keeping with goals set in the reconstruction and development program (RDP), acknowledges job creation as the primary source of income redistribution. The RDP document, published in 1994, is the new government's socio-economic framework, which "seeks to mobilise all our people and our country's resources towards the final eradication of apartheid and the building of a democratic, non-racial and non-sexist future" (RDP 1994: 1). There are six linked basic principles, which make up the political and economic philosophy that underlies the whole RDP (South Africa 1994:4–7).

These are:

(1) An integrated and sustainable program – to harness all resources in a coherent and purposeful effort that can be sustained.

(2) A people driven process – rendering development which treats its citizenry as passive recipients of goods and services, but actively involving and empowering all the citizenry.

(3). Peace and security for all – through the creation of a judicial system that assures fairness and equality for all and stems the tide of violence and crime.

(4) Nation-building – to heal massive racial divisions and inequalities left behind by apartheid, and became a united country is able to become globally competitive.

(5) Link reconstruction with development – as an integrated process, in contrast to a commonly held view that growth and development, or growth and redistribution are processes that contradict each other. Growth, increase in GDP, is seen as a priority that precedes development and development as marginal effort of redistribution to areas of urban and rural poverty.

(6). Democratisation of South Africa – eradication of minority control and privilege, which impedes growth and development, by transforming both the state and civil society.

Thus, the RDP seeks to address questions around the creation of jobs, to combat poverty and raise the living standards of all South African citizenry, by providing adequate housing, education, health-care and peaceful co-existence for all races. "The RDP attempts to provide achievable, realistic and clear program to answer these questions. But it goes further than this and encourages people and their organisations to participate in the process" (South Africa 1994: 13).

The goal of the strategy was to an realise annual economic growth of 6 percent and job-creation of 400 000 per year by 2000 (South African Survey 1996/97:653). In the light of this goal, the purpose of this study is to determine whether or not monetary policy is

effective in stimulating economic growth in South Africa, thereby affirming either the structuralist theory or neo-liberal theory.

## 5.14 CONCLUSION

This chapter covered the characteristic features and problems of the South African economy, as well as describing how South Africa compares with other countries. Also covered is the openness and smallness of the South African economy, since the openness of a small country's economy is the key to assessing the dispute between the structuralist theory and neo-classical/orthodox theory regarding the ability or inability of such country's monetary policy to stimulate economic growth. Numerous tables give South Africa's resources, trade performance, growth rate, demographic structure and other key characteristics that reflect South Africa's position.

Further, problems experienced by South Africa, which impact on economic performance are briefly covered. These include poverty, unemployment and the tide of violence and crime. Then, an overview of monetary policy application in South Africa is briefly outlined, since it is the role of monetary policy, in stimulating economic growth, that this study seeks to examine. To complete the portrayal of South Africa's economic picture, the new economic policy of GEAR, formulated within the RDP framework, is given. This chapter sets the stage for the empirical evaluation covered in the following chapters, on whether or not monetary policy stimulates economic growth in South Africa, as a small and open country, as postulated by structuralist theory or neo-liberal/orthodox theory.