REVIEW | 'If you want peace, fight for justice': Economic policy in a divided society

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In the course of South Africa's second decade of democracy, conflicts around economic policy intensified. While poverty levels declined, deep inequalities persisted, largely but not entirely along the lines of race, class and geography established under apartheid. That, in turn, provided fertile ground for disagreement about national economic strategies.

After 1994, the economy recovered from the very slow rates of growth and investment that had characterised the previous 15 years; yet, levels of joblessness and inequality continued to rank amongst the worst in the world. Mining and finance dominated economic growth, resulting in a deeply inequitable distribution of the benefits. Rapid employment growth emerged between 2000 and 2008, mostly in retail and services, but even more rapid job losses followed in the period 2008–2010. Thereafter, the fragility of the recovery in the global North constrained prospects for growth and employment.

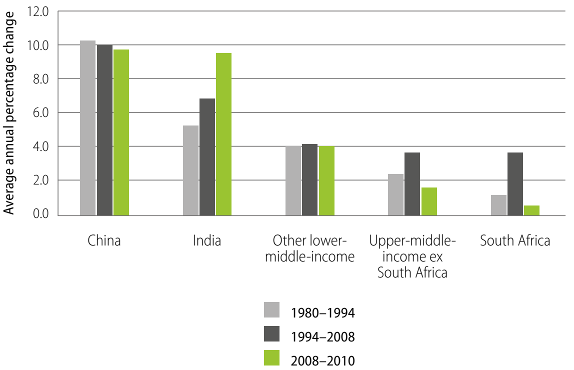
Ultimately, the democratic state faced the dual challenge of making the economy more competitive while simultaneously improving conditions for employment and equity. In the late '00s, economic policy increasingly prioritised support for employment creation as central to enhanced equality. That laid the basis for more coherent economic strategies. Still, a deadlock over implementation remained a real risk. It arose largely from the fragmentation of the state, which ended up substantially mirroring the deep economic divisions in society.

This article first reviews trends in growth, investment, employment and equity since 1994. It then surveys some of the domestic and global factors underlying these trends. The third, and final, part summarises the implicit economic pact that led to extraordinarily stable economic policies for most of the democratic era, despite intense public debates.

Economic trends after 1994

In many ways, South Africa's economic record after 1994 looked like a poster child for democracy. After a decade of stagnation, growth and investment recovered to global norms. Fiscal redistribution provided new services and support for the poorest households, especially in the former bantustans. Nonetheless, participation in the formal economy remained extraordinarily inequitable. High levels of joblessness declined somewhat in the prolonged upswing of the '00s, but returned to their original levels following extraordinary job losses in 2008–2010.

Figure 1.1.1: Growth in South Africa and other upper- and lower-middle-income economies, 1980–2010



Source: Calculated from World Bank (2011)

From 1994 until 2008, the South African economy grew almost exactly at the average for middle-income economies excluding China and India. In contrast, over the previous 15 years it had expanded at only half the norm for peer economies. The 2008 downturn saw a fall in GDP followed by a slower recovery than that of other middle-income economies.

Investment

The democratic era also saw a turnaround for investment, as Figure 1.1.2 shows. Investment fell from 27 per cent of the GDP in 1982 to 15 per cent in 1993. It remained fairly stagnant until the early '00s, but then climbed steadily to 23 per cent in 2008. The downturn meant that private investment dropped by close to 10 per cent between 2008 and mid-2011, although public investment – around a third of the total – climbed by 15 per cent. As a result, total investment dropped by 1.6 per cent and the investment rate fell to just under 18 per cent in the first half of 2011.

The improvement in growth and investment after 1994 was, however, not matched by a similar recovery in equity and employment. That, in turn, led to a steady increase in political strains.

Inequality

Reliable data on income distribution are difficult to obtain everywhere, because households find it hard to assess their income accurately, and a substantial share (in South Africa, typically between 5 per cent and 10 per cent) do not answer income surveys. Furthermore, Statistics South Africa's annual General Household Survey groups together all households earning over R20 000 a month, which accounted for the richest 8 per cent of households in 2010. As a result, estimates of income for the top decile can vary substantially. The Income and Expenditure Survey is more detailed but comes out only every five years, most recently in 2005/6. Finally, because statistics before 1994 largely excluded Africans, new survey systems had to be established, making the data for the late 1990s particularly untrustworthy.

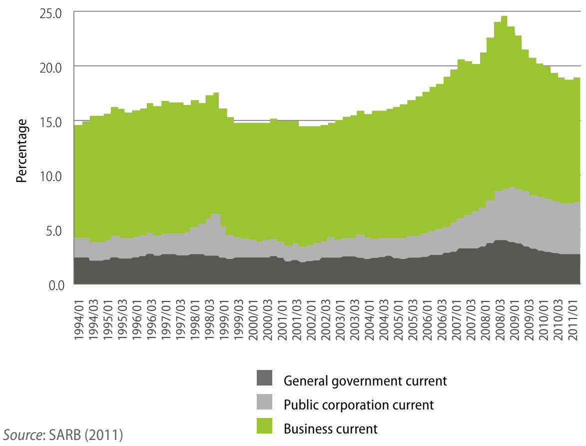
Despite these caveats, the available surveys show that South Africa remained amongst the most inequitable countries in the world, with a Gini coefficient hovering just under .70.[1] The World Bank's World Development Indicators reported a Gini coefficient for only half of all countries in the '00s; of those, South Africa had the worst income distribution. The available surveys suggest that inequality worsened in the late 1990s (when the surveys were least reliable, however) but stabilised in the '00s.

Employment

The transition to democracy did little to alleviate the high rates of joblessness that emerged in the 1980s, although it brought a turnaround in the rapid deterioration in employment of the previous 15 years. As can be seen in Figure 1.1.4, the share of working-age people with employment fell steadily from the late 1970s through the mid-1990s. The boom of the '00s saw some improvement, with the creation of 2.5 million new jobs increasing the employment ratio to 45 per cent. However, the loss of around a million jobs in 2008/09, combined with the growth in the working-age population, meant that the employment ratio fell back to just over 40 per cent.

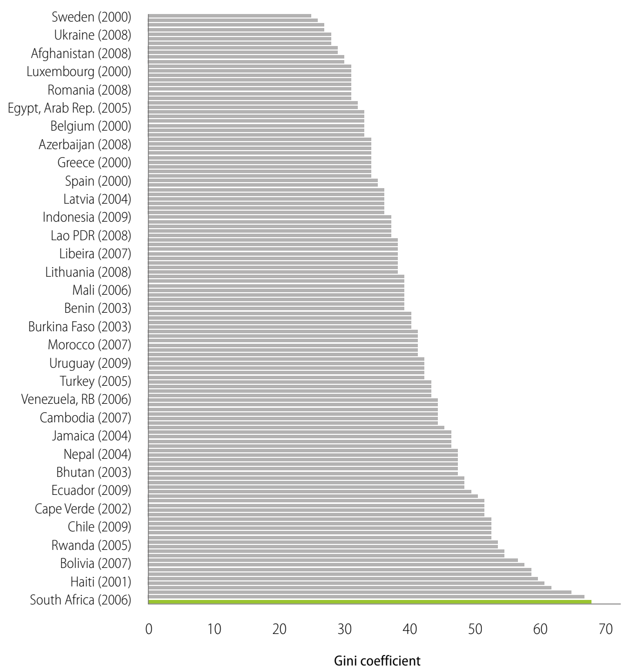
In sum, for most of the past decade only around two adults out of five in South Africa have been employed or self-employed. In contrast, the global norm is around three out of five. Unemployment was closely linked to the spatial inequalities left by apartheid. Some 35 per cent of the population, and 44 per cent of Africans, still lived in the former bantustans in 2010. Only 22 per cent of working-age adults in these areas had employment, however, compared to 48 per cent in the rest of the economy. Moreover, incomes for the employed tended to be lower than they were elsewhere. As a result, in 2010, the median household income in the former bantustans was

Figure 1.1.2: Investment by type of organisation as a percentage of GDP, 1994–2011



Source: SARB (2011)

Figure 1.1.3: Reported Gini coefficients internationally and in South Africa, 2000–2009*



Source: World Bank (2011)

Note: *Only 130 out of 219 countries covered by the World Bank's World Development Indicators reported a Gini coefficient in the '00s. The year of the reported Gini is in parentheses following the country's name. Not all the names of countries appear due to lack of space.

Surveys show that South Africa remained amongst the most inequitable countries in the world.

> The economy's vulnerability resulted from the continued dependence on the mining value chain, combined with a surge in financialisation, driven by extraordinarily large inflows of portfolio capital.

R1 580, compared to R3 080 in the rest of the country (Stats SA 2011a for settlement patterns and median household incomes; Stats SA 2011b for employment status).

Unequal gains

Given growth with constant, although high, inequality, poverty as measured by international poverty lines declined substantially between 1994 and 2008. Again, the data for the 1990s are not fully reliable.[2] While not providing income data, the 1996 October Household Survey found that two-thirds of households spent less than R1 100, which was approximately equal to US$2 per person, or the international poverty line, for a household of five (Stats SA 1996). In 2009, in contrast, the General Household Survey found that only around a third of households lived on the equivalent amount. That was around R1 580 for a household of four, which was used because household size fell in the period (Stats SA 2010a). Moreover, the income data do not show the improvements in government services and housing in poor communities, which further enhanced living standards.

The disproportionate gains of the very well-off during this period, however, effectively overshadowed the real benefits for the poor, and fuelled broad discontent with economic outcomes despite improvements for the majority.

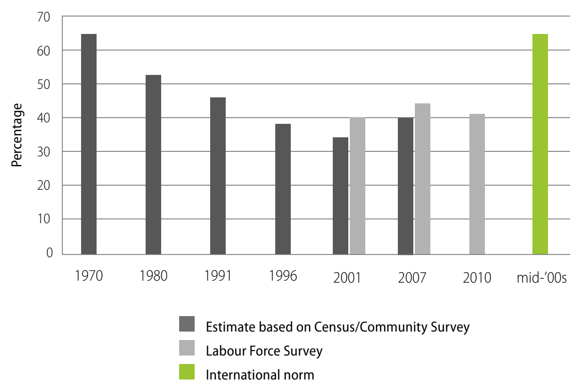
The downturn from 2008 saw an increase in poverty. According to the General Household Survey, the share of households living on less than US$2 a day per person increased slightly, to just over a third, from 2009 to 2010. Moreover, the median household income fell from R2 510 to R2 450 per month in nominal terms. Taking inflation into account, that meant a fall of 9 per cent (Stats SA 2010a, 2011a).

In short, while the transition to democracy brought a substantial economic dividend in terms of growth and investment, the deeply inequitable economy that was created under apartheid largely persisted. Moreover, the downturn from 2008 saw a substantial worsening in unemployment and poverty. In the following three years, despite some recovery, significant instability and generally weak economies in the global North meant that growth in South Africa also slowed, making it even more difficult to address mass joblessness and inequality.

Factors behind lasting inequality

The global downturn demonstrated the shortcomings of the growth path from 1994. In particular, the unusually large job losses – equal to 6 per cent of total employment – pointed to fragility in employment creation. Ultimately, the economy's

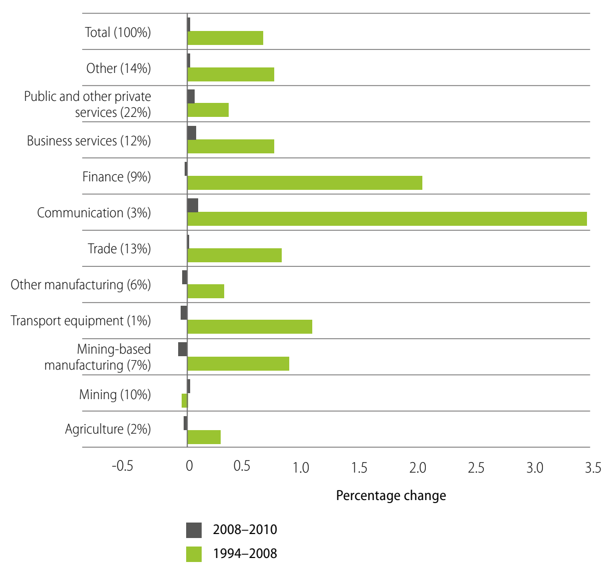
Figure 1.1.4: Share of adults with employment, 1970–2010*



Source: Calculated from Statistics South Africa. Census data for relevant years for RSA, Bophuthatswana, Ciskei and Venda. Downloaded from interactive data site (Nesstar facility) in August 2010; DBSA, data on population and employment in the RSA and TBVC, kindly provided in August 2010.

Note: *Before 1996, the Census did not fully cover Africans. Furthermore, the estimates tended to assume that virtually all adults in the former bantustans were employed as subsistence farmers. The figures here, therefore, represent estimates based on reinterpretations of the available data in line with more standard definitions.

Figure 1.1.5: Growth by sector, 1994–2010 (share of total value added in 2010 in brackets)



Source: Calculated from standardised industry data on value added at basic prices, downloaded from Quantec EasyData, October 2011.

vulnerability resulted from the continued dependence on the mining value chain, combined with a surge in financialisation, driven by extraordinarily large inflows of portfolio capital. The result was a persistently strong and volatile rand, which discouraged exports and made imports cheaper. This hampered diversification into new forms of production. Inequality skewed domestic demand, so that employment grew primarily in services for relatively well-off households and in the public sector.

From 1994 to 2010, the mining value chain provided more than half of all exports, but its overall growth was relatively slow. In contrast, the financial sector grew extraordinarily fast. It was outstripped only by the communications industry, which remained far smaller. The share of the financial sector in total value added increased from 7 per cent in 1994 to 11 per cent in 2008, before falling back to 9 per cent in the global downturn. Communications contributed only 3 per cent of value added in 2011. The financial sector accounted for almost a fifth of total economic growth after 1994.

Growth in the financial sector was underpinned by peculiarly high portfolio inflows, which followed the opening up of the economy from 1989. Between 1994 and 2008, portfolio inflows to the stock market equalled 2.9 per cent of GDP – a far higher proportion than for virtually any other middle-income economy. In this period, South Africa accounted for 0.5 per cent of global production, but received 1.0 per cent of all portfolio equity investment worldwide. In contrast, it received only 0.2 per cent of foreign direct investment (i.e. investment where the foreign partner obtains a controlling interest of at least 10 per cent). Foreign direct investment (FDI) equalled just 1.3 per cent of South Africa's GDP. While South Africa ranked first among the 47 upper-middle-income economies that reported on portfolio inflows relative to GDP, it found itself fifth from the bottom for FDI as a percentage of GDP (World Bank 2011; see also Ahmed, Arzeki & Funke 2007).

A comparison with Brazil, Russia, India and China (the so-called BRIC economies) underscores South Africa's unique position (see Figure 1.1.6). In these countries, portfolio investment ranged from 0.5 per cent of GDP in Russia to 1.1 per cent of GDP in India between 1994 and 2008. In contrast, FDI equalled 1.1 per cent of the GDP in India and 2.5 per cent in China.

As capital inflows boosted the value of the rand, producers of goods and services other than finance faced growing hurdles in both exporting and competing with imports. Between 1994 and 2010, exports of goods and services exceeded imports only in 2001 and 2002. In 2008, the trade deficit peaked at 7 per cent of GDP, before falling to 2.8 per cent in 2010.

High levels of portfolio investment also fed into a bubble on the stock market. By 2010, the market value of companies listed on the JSE was almost 300 per cent of GDP (an increase from 166 per cent in 1994).

The size of market capitalisation compared to GDP was uniquely high in South Africa. Of the 100 countries covered by World Bank data for 2010, the figure for South Africa was exceeded only by Hong Kong. In 2010, the average ratio of market capitalisation to GDP for the world as a whole was 90 per cent. The BRIC countries ranged from a high of 81 per cent for China to a low of 68 per cent for Russia (World Bank 2011).

Growth in the financial sector was also associated with rapid expansion in domestic credit (see Figure 1.1.7), with credit to the private sector climbing from 56 per cent of the GDP in 1994 to a high of 87 per cent in 2008 before dropping to 78 per cent in the downturn (see DTI 2011; Mohamed 2009).

The share of credit to business in total private borrowing rose from 40 per cent in 1994 to 55 per cent in 2003, but then fell back to around 50 per cent as bank loans to households boomed in the late '00s. Rich families dominated household borrowing, with the best-off 10 per cent of households accounting for around 90 per cent of all credit (almost entirely for houses and cars) in the mid-'00s (Stats SA 2006).

The growth of the financial sector was associated with a disproportionate increase in net operating surplus – returns to capital after depreciation – for the industry. From 1994 to 2008, the net operating surplus in finance rose at an average of 16 per cent a year, surpassed only by communications, where it climbed 24 per cent a year. In contrast, surpluses in agriculture, mining and manufacturing rose just 3 per cent a year, and in the rest of the economy around 6 per cent. The financial sector captured over a quarter of the increase in net operating surplus for the economy as a whole between 1994 and 2008.

The financialisation of the economy largely explained the relatively sharp impact of the 2008 downturn on South Africa.

Firstly, the financial institutions reduced their credit extension sharply with the global downturn. In real terms, loans to businesses fell by 9 per cent in 2008/09 before growing slowly by 0.5 per cent in the following year. This fall contributed to the decline in investment and growth. In addition, loans to households fell by 3 per cent in 2008/09 and then grew 3.3 per cent in the following year.[3]

Secondly, the dependence on short-term portfolio inflows left the country vulnerable to rapid changes in investor sentiment. The stock exchange experienced a sharp fall in value in 2008 as foreign capital fled to safer havens overseas, but the very relaxed monetary policies adopted in the global North in

Between 1994 and 2010, exports of goods and services exceeded imports only in 2001 and 2002.

response to the crisis soon saw a recovery. Revived short-term capital inflows led to a strong and highly volatile rand, which, in turn, depressed growth in the rest of the economy.

More fundamentally, large financial inflows combined with booming commodity prices in the first decade of the new millennium hampered diversification in the rest of the economy. The mineral value chain continued to dominate exports, accounting for around 60 per cent of merchandise exports from 1994 through 2010 (see Figure 1.1.8). The production of gold fell substantially, but platinum, iron ore and coal sales rose strongly. As platinum created far fewer jobs than gold mining, this shift contributed to an ongoing decline in employment in mining overall despite the rising value of exports.

Outside the mining value chain, only the auto industry substantially expanded its exports. It enjoyed very large tax subsidies, however, accounting (by various estimates) for between half and three-quarters of all industrial subsidies provided by the state.

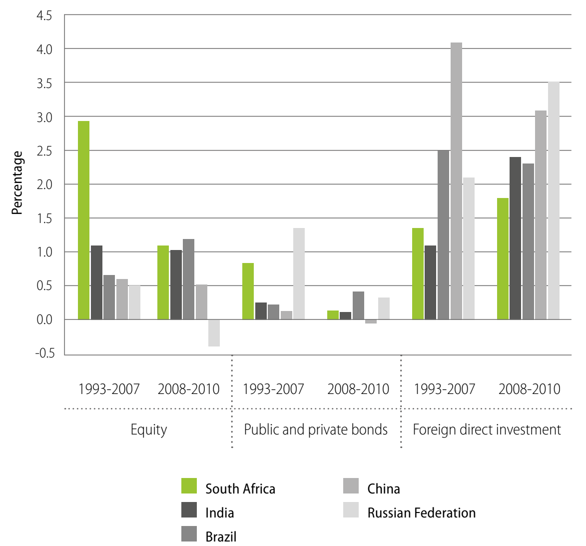
Figures for profitability underscore the difficulties facing diversification, with relatively low gains in mining outside of mineral beneficiation and the auto industry. From 1994 to 2008, the net operating surplus in smelting and refining rose by 7.6 per cent a year, and in transport equipment, by 5.2 per cent. In the rest of manufacturing – mostly food processing, clothing, wood and paper production, appliances and capital goods production – the net operating surplus rose only 1.5 per cent a year in this period. In agriculture, the net operating surplus grew 4.0 per cent a year, falling from 9.0 per cent of the total in 1994 to 5.0 per cent in 2008.[4]

The 2008 downturn underscored the risks of continued over-dependence on mining. Smelting and refining saw a particularly sharp fall in profitability and production, due partly to the decline in export demand and partly to the soaring cost of electricity as South Africa reached the limits of its generation capacity. While commodity prices recovered relatively rapidly, the strong rand and high electricity prices continued to drag on the beneficiation sector. Indeed, the shift to expensive electricity necessitated a fundamental shift away from heavy industry, even as it benefited from high commodity prices. However, given the strong rand and comparatively low profitability in other sectors, it was difficult to identify viable alternatives.

The production structure that emerged from the growth of the financial sector and continued dependence on mining, generally, led to rapid expansion in employment in the '00s, but largely in sectors characterised by considerable insecurity. This pattern of employment creation largely explains the sharp fall in employment in 2008 and 2009.

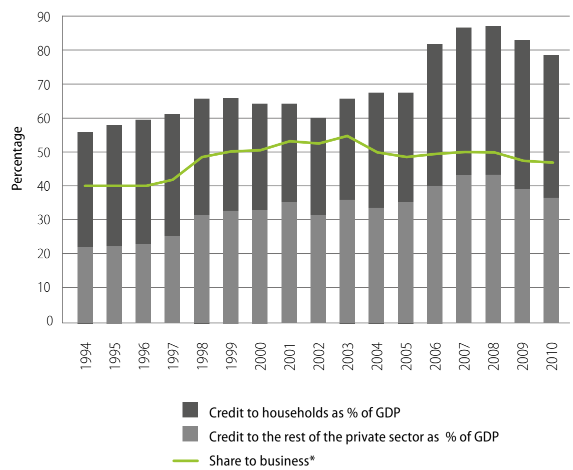
Again, the data for the 1990s on employment are poor, making it hard to assess trends from 1994. Estimates suggest that agricultural employment shrank by half, or by more than a million jobs between 1994 and 2008, while mining jobs fell by around 100 000 and manufacturing employment remained virtually unchanged.[5] Meanwhile, most new jobs after 1994

Figure 1.1.6: Net flows of portfolio equity, public and private bonds and foreign direct investment as a percentage of GDP for the BRICS, 1994–2007 and 2008–2010



Source: World Bank (2011)

Figure 1.1.7: Credit to households and the rest of the private sector relative to GDP, 1994–2010



Source: SARB (2011)

Note: *The share to business is defined here as the share of total credit to the private sector that does not go to households.

> The question became whether the fragmented economic policy institutions of the state could consistently support more vigorous efforts to encourage employment creation and equity.

were created in services and retail for high-end consumers, where employment is particularly sensitive to economic trends, and in the public sector. Retail, business and community services contributed virtually all net new employment between 1994 and 2008. Security guards alone accounted for 12 per cent of all new formal jobs created between 2002 and 2010 (Stats SA 2002, 2010c).

The slow growth of employment in the financial sector was particularly marked in the light of its rapid growth. The industry's contribution to GDP tripled between 1994 and 2008, but employment in the sector climbed by only 14 per cent, to make up just 4 per cent of non-agricultural employment growth. In other words, while the financialisation of the economy slowed growth and employment creation outside of the financial sector, finance itself did relatively little to generate new jobs.

The picture for smelting and refining was similar. The industry contributed 11 per cent of the growth in value added from 1994 to 2008, but lost jobs in the process. In 2008, it contributed an estimated 8 per cent of value added but only 4 per cent of employment.

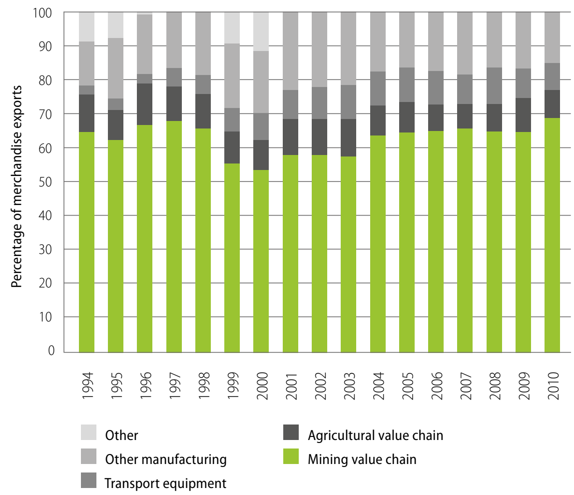
Stagnant employment in the economy's growth industries contributed to a steady decline in the share of remuneration relative to profits in total value added. While employees in government and manufacturing captured a higher share of returns from 1994, overall, and in particular in mining, the share of remuneration in total value added fell in the democratic era (see Figure 1.1.9).

In sum, while growth and investment recovered between 1994 and 2008, they remained centred on mining and, increasingly, the financial sector. The result was that production and employment proved even more vulnerable to external shocks like that experienced in 2008. Relatively slow growth in more labour-intensive manufacturing, high-level services and agriculture meant that there was little qualitative change in the economic opportunities open to the majority of South Africans. In these circumstances, growth did little to address the deep inequalities left by apartheid.

Inequality and economic strategies

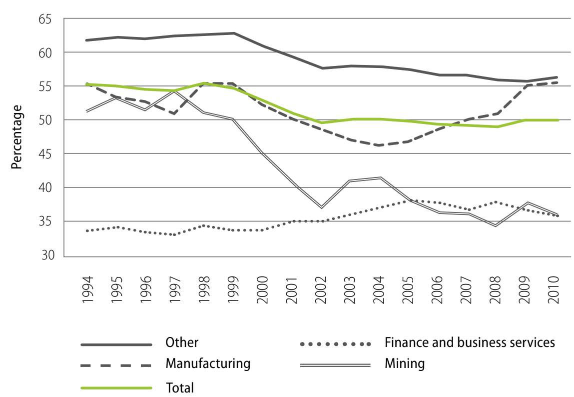
Despite the deep economic and social divisions facing South Africa, economic policy between 1994 and 2010 showed remarkable stability.[6] In effect, this can be understood as reflecting a durable social pact in which government policy provided something for all the major stakeholders. Persistent inequalities placed this pact under increasing pressure, however, as widespread expectations of more fundamental

Figure 1.1.8: Merchandise exports by industry, 1994–2010



Source: Calculated using data on exports (2-digit SIC), downloaded from Quantec EasyData, October 2011.

Figure 1.1.9: Share of remuneration in total value added by major industries, 1994–2010*



Source: Stats SA (2011c)

Note: * Remuneration includes payments to managers, which may include an element of profits.

Table 1.1.1: Summary of broad policy phases, 1994–2010

Policy document	Aim/central argument	Ownership	Employment	Government services	Economic infrastructure	Trade policy	Fiscal/ monetary
RDP (1994)	Growth through redistribution through the fiscus	Support SMMEs, land reform, housing subsidies	Result of broader development strategy	Improved services in black communities critical for equity and to stimulate demand	Not seen as a problem – emphasis on improving housing and related infrastructure in black communities	Open the economy and support exports through supply-side measures	Maintain existing ratios – meaning, above all, budget deficit to GDP
GEAR (1997)	Reassure capital especially by reducing the budget deficit	Privatise large state-owned enterprises	Result of accelerated economic growth and pay restraint in the public sector	Expenditure constrained by deficit target	Same	Same	Reduce budget deficit to 3 per cent
Post-GEAR (2000)	More expansionary fiscal and monetary stance	No explicit shifts	Result of broader development	Relatively rapid expansion, especially in social grants	Same	Same	Expansion in government spending primarily due to more efficient tax collection and reduced interest rates; inflation targeting introduced to relax monetary policy
AsgiSA (2005)	More inclusive growth based on government infrastructure spend, sector strategies and skills development	Greater support for SMMEs and skilling, and stronger and more strategic approach to competition policy	Accelerate through sector strategies, SMMEs and skills	Same	Core economic infrastructure seen as major constraint on growth	Increasingly protectionist in response to Doha demands	Same, plus call for more competitive exchange rate
Crisis response (2008/09)	Counter-cyclical package plus efforts to limit formal-sector retrenchment	Support for major companies	Active labour market policies plus targeted sector rescues	No reduction despite 10 per cent drop in revenues	Maintain infrastructure programmes despite financing problems	Same	Counter-cyclical fiscal strategy and call for more competitive exchange rate
New Growth Path (2011)	Government must reduce unnecessary costs to business but more vigorously support economic equity, especially through employment creation	Intensify strategic competition policy aimed at reducing costs on intermediate and wage goods; support for small-scale agriculture and social economy	Accelerate, above all, through diversification into more labour-intensive activities (light industry, agriculture, high-end services)	Review to ensure more consistent support for employment creation	High public investment as key growth driver	Increasingly shift toward region and global South especially given slowdown in traditional partners	Same; much greater emphasis on local procurement as a driver of diversification

Note: RDP = Reconstruction and Development Programme; GEAR = Growth, Employment and Redistribution; AsgiSA = Accelerated and Shared Growth Initiative for South Africa.

> The fragmentation of the state itself made rigorous implementation of new policies difficult, while the global economic downturn reduced the resources available to finance new initiatives.

change remained unfulfilled. The question became whether the fragmented economic policy institutions of the state could consistently support more vigorous efforts to encourage employment creation and equity.

We can define phases in the state's broad approach to development largely in terms of major policy documents. As Table 1.1.1 shows, every phase had in common a commitment to maintaining the core elements of a market economy while gradually bringing about greater equity.

The following areas of continuity and change in economic policy stand out.

» The RDP contended essentially that improvements in government services to black communities would in themselves ensure a more inclusive economy. This theme increasingly gave way to an emphasis on measures to reform the production structure and ownership, mostly through various subsidies combined with targeted government procurement. The shift emerged together with a growing emphasis on employment creation in the rhetoric of the documents.
» At least until AsgiSA, the government generally took the core formal economy for granted, focusing its efforts on ensuring greater equity without causing major disruptions. It effectively saw the main concession to business as its protection of property rights. It, therefore, felt free to abruptly end many subsidies, including on economic infrastructure. The result was rising costs in key industries, especially for electricity and transport, combined with a decline in the quality of economic infrastructure. AsgiSA reversed this tendency by emphasising the need to address core constraints on business. The New Growth Path strongly emphasises the need to reduce unnecessary costs to enterprise while maintaining pressure for diversification in ways that would support employment creation.
» Social services remained largely delinked from economic needs, in contrast to the RDP's argument that they should be shaped to support economic development. This emerged, for instance, in the location of RDP housing far from economic opportunities, the failure to address core quality issues in education in poor communities, and the escalating health care costs that raised employment costs. Furthermore, the bureaucratic provision of services to individuals and households, with very little opportunity for more transparent or collective decision-making and responsibility, created fertile ground for anger and unrest over perceived unfairness and shortcomings.
» The strategy, as perceived by the public and stakeholders, usually diverged quite fundamentally from the written texts, which generally included many programmes that were never implemented. For instance, GEAR included a host of proposals around redistribution and equity, including restraint on public servants' pay to permit more rapid expansion in public sector employment, and AsgiSA specified strong sector strategies as a major vehicle for employment creation.
» Only the crisis response in 2008 and the New Growth Path began to include measures around emissions as an important part of economic strategy. However, the issue appeared mostly in terms of green jobs rather than as part of a fundamental shift away from an emissions-intensive economy.

In effect, the stability of economic policy resulted from an implicit social pact through which the state managed: the divergence between economic power, still located predominantly in large businesses; the political power wielded by the majority of voters, who remained mostly poor and largely jobless; and the social and lobbying strength of black businesspeople. It, therefore, provided the following:

» For business, only incremental change in the structures of ownership, production and residential areas, combined with a strong commitment to maintaining property rights and core economic infrastructure.
» A combination of social and housing grants to improve conditions for the most marginalised. By 2010, a fifth of all households and two-fifths of households in the former bantustans said that social grants were their main source of income (Stats SA 2011a).
» For the urban working-class, labour rights on the European model, significant improvements in infrastructure and desegregation of historically white institutions and areas.
» For black business and graduates, vastly expanded opportunities through BEE policies in the private sector and employment practices in the public sector.

This social pact was maintained through state policies, rather than being formalised as an agreement to pursue a common development strategy that would bring costs as well as benefits to participants. In this context, policy debates tended to revolve around a zero-sum approach, rather than a search for mutually beneficial compromises. In essence, they reflected the efforts of different stakeholders to modify the underlying social pact in their favour. Participants regularly threatened to resort to power, with business invariably warning of capital flight, while labour organised general strikes and community representatives pointed to rising civil unrest.

The government did not consciously design the social pact to mirror the economy. Rather, the extreme fragmentation of economic policy-making meant that it largely reflected the balance of economic, political and social power in the broader society.

Economic policy-making was divided amongst a host of state entities: sectoral economic departments at national level; co-ordinating departments such as the Treasury, the Economic Development Department and the Department of Rural Development and Land Reform; the Reserve Bank and other regulators; the development finance institutions and state-owned enterprises; and local and provincial governments.

Given this institutional fragmentation, it was easy for policy-makers to end up representing, not the majority in a democratic sense, but rather their key stakeholders. As a result, efforts to implement broad policy changes often got bogged down in inter-departmental debates.

By 2011, the weaknesses in the compromises that emerged after 1994 became increasingly clear, in part because of the sharp losses suffered by the majority in the economic downturn. Calls for nationalisation of the mines and expropriation of farms reflected frustration with the slow pace of change for the majority. The government responded by promising to do more to prioritise the needs of ordinary South Africans, through increased efforts to support employment creation, as reflected in the New Growth Path. However, the fragmentation of the state itself made rigorous implementation of new policies difficult, while the global economic downturn reduced the resources available to finance new initiatives.

Some conclusions

Both AsgiSA and the New Growth Path provided reasonable responses to the economic challenges facing South Africa. In effect, they emphasised the need to diversify the economy in ways that would open new opportunities for the marginalised majority, mostly through employment but also through support for small enterprise. However, it proved much easier to conceptualise a development strategy that would sustain growth while encouraging greater employment and equity than to implement it.

In large part, this situation reflected a vicious cycle common to deeply unequal societies. The divisions resulting from economic injustices in themselves make it more difficult to ensure consistent implementation of national strategies, as stakeholders lobby government departments to meet their specific needs. In South Africa, this weakness was accentuated by the fragmentation of the democratic state, which lent itself to endless debates and deadlocks between different government entities.

Notes

1. The higher the Gini coefficient, the more inequitable the economy. Statistics South Africa's 2005/6 Income and Expenditure Survey, which provides the most reliable income distribution data, used a somewhat unconventional calculation method to come up with a Gini slightly over .70. Using the more common international method, the figure was just under .70. Statistics South Africa's General Household Survey data for 2010 also give a figure of around .70, but the figure is very sensitive to how one estimates income for households earning over R20 000 a month. The data for both surveys are available from the interactive Nesstar database on www.statssa.gov.za.
2. Various authors give different figures for poverty trends, although they agree on a substantial decline. See, amongst others, Stats SA (2010b) and Presidency (2009), which should be treated with caution because some of the data are clearly mislabelled (for instance, the document refers to an Income Expenditure Survey 2008, but the survey was limited to 2005/06).
3. Calculated using data from SARB interactive data site on credit extension to the private sector and households, deflated using the CPI (accessed October 2011).
4. Calculated using Quantec EasyData figures for net operating surplus by standardised industry in constant 2005 rand (accessed October 2011).
5. Figures for employment from 1994 are from estimates for total employment in standardised industries by Quantec EasyData (accessed October 2011).
6. This analysis originated in research by the author for the Centre for Development and Enterprise in 2010.