SOUTH AFRICA AND THE UNFOLDING REALITIES OF ECONOMIC MANAGEMENT: TWENTY YEARS AFTER DEMOCRACY, FREEDOM AND TRANSITION

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Abstract
This paper attempts to place in perspective the issues and realities of South African economic challenges and imperatives nearly twenty years after democracy, freedom and transition. To this end the work of Khalid Ikram is acknowledged in respect to the ideas and synthesis utilized in this paper. His work was portrayed in a book Egypt: Economic Management in a Period of Transition (A World Bank Country Economic Report, 1980). The idea of framing this article is based on the similarities that confront South Africa some 33 years after Egypt had undergone its own transition and economic emancipation. There is no doubt that South Africa has made some great strides in assembling economic intervention strategies in two decades of its freedom from the yoke of apartheid oppression. It still has a long journey to undertake in respect of its transition and emancipation from the legacy of apartheid.

Key Words: Transformation, Transition, Economic Management, Democracy, Freedom

INTRODUCTION

The geographical and demographic characteristics of South Africa delineate its basic economic problem. South Africa is a beautiful, diverse and mineral rich country with a sound platform for agricultural development and tourism. The population is estimated in 2013 to be in the region of 52 million.

The resolution of South Africa’s economic problems would have been difficult- even under the most favourable circumstances. Due to the legacy of apartheid the physical infrastructure has suffered from inadequate investment and has deteriorated considerably. These material

difficulties, moreover, are intensified by the prevalence of institutions, policies, attitudes, and expectations that are not always appropriate to the post-1994 circumstances of the economy.
But the present and future are not without opportunities. Because of the-prospects of earnings from mining, revenues from a widened opportunity for agriculture, the opportunities for tourism, the cultural and political links with other African countries, the location of the country, reasonably well-trained emerging labour force post apartheid, the South African economy possesses a considerable potential in the longer-term.

The realization of this potential, however, will require considerable policy reforms and structural changes. The broad framework of a fundamental change in economic strategy, towards a more open, market oriented and mixed economy was enunciated in April 1994 at the dawn of democracy by President Nelson Mandela. However, this process will take time, and is likely to generate considerable stresses and pressures throughout the economic system. The key problem confronting the South African economy, therefore, is its management during the period of transition, which is expected to occupy most of the next decade or several decades, as South African democracy and economic imperatives mature. Thus the focus of this paper is the major policy issues (both macroeconomic and sectoral) which are likely to assume significance in respect of economic management during this period of the emergence and consolidation of South Africa's democracy and economy.

Overall Development

The performance of the South African economy in the past twenty years has been uneven. The 1994 freedom period coincided with a downturn in the business cycle following the emerging world economic crisis. The April 1994 period after the removal of apartheid coincided with the world oil price revolution, freedom and indeed South Africa's acceptance into the world community of nations, coupled with countries that exhibited extreme goodwill which opened up new opportunities for investment and development in South Africa., but which also triggered off a phase of recession combined with inflation in the world economy with adverse repercussions on developing countries. In between these important dates, two different periods may be distinguished. - The decades 1990 - 2010 witnessed fairly rapid and sustained economic growth as well as a major structural transformation of the economy. Industry and services increased both their output and employment and, within industry there were changes in the composition of output in favor of intermediates and consumer durables. The transition from a free, private-enterprise system to a system characterized by state planning, public ownership of modern means of production and wide range administrative control and policy interferences with the economy took place out of necessity due to South Africa's past turbulent and oppressive apartheid history. During this period in order to redress the imbalances created by the apartheid government increased state intervention was observed.

The second period, the-years after 2010 saw a steady decline in the rate of economic growth, with a marked fall in both the rate of investment and domestic savings. Though the decline in economic growth was arrested in the last years of the 1990s, there was no dramatic improvement, nor signs of sustainable recovery. South Africa was suffering from a multitude of problems: from the consequences of earlier, economic policies which failed to push up the rate of savings in line with the rate of investment; from the impact of having to carry a very heavy defense burden from the past and the integration of the public services post democracy; from the inefficiencies of the public sector and from the maladministration of prices, foreign trade and investment programs; and finally from the cumulative effects of the. population explosion.

The overall picture is thus clear. In the period considered (1950- 1976) Egypt enjoyed a stretch of ten years of significant economic growth, from about 1955 to 1965. Before 1955, the economy-was suffering, and then beginning to recover from the downturn which followed the collapse of the Korean boom, and was also sorting itself out after the inevitable uncertainties which follow a major change of political regime. Between 1964-74 the economy could no longer sustain the pace of high economic growth, largely because of the diversion of resources, to defense, and the interruption to the aid flows from the West.

Between 1960 and 1976 the GDP at market prices increased at an average annual rate of just over 5 percent. However, much of the increase was eroded by the rate of population growth, so that the per capita income improved only from about LE 65 to LE 100 (in 1965 prices) over the 16 year period, i.e., at about 2.-7 percent a year. This growth occurred at an uneven rate over time. It was fastest in the early 1960's -- between 1960 and 1965 the average rate was 4.2 percent annually -- but dropped to less than one percent a year between 1966 and 1973; during the latter period there were some years (1966-68, 1972) in which there was actually a fall in real per capita income.

Considering the three major sectors -- agriculture, industry and services -- a familiar picture emerged. Because of the differential rates of growth between agriculture and industry,' the pattern of structural change involved a rapid decline in the share of agriculture in GDP. In the 1950s, industry increased its share of real GDP at the expense of both agriculture and the services. In the 1960s, the rapid growth of the services sector overshadowed that of industry. Egypt has not reached that stage of economic development which is characterized by a decline in secondary relative to tertiary activities. The observed decline in Egypt is, in fact, a sign of economic problems -- arising from the population explosion, the indiscriminate expansion of education, and the unsatisfactory performance of agriculture and industry -- rather than of economic achievement.

ISSUES FOR DEVELOPMENT STRATEGY

The developmental problem is essentially a problem of the quantity, quality and proportion of resources devoted to development on the one hand, and economic management on the other. The following are some of the areas that will have to be addressed by any viable development strategy for Egypt. Population growth is a-fundamental issue that has been ignored by policy-makers for too long; Government policy has approached it only tentatively, with too little means. Though the demographic trends of the past decade have been slightly more encouraging, Egypt will continue to face a major--employment problem. Moreover, the cost of providing the basic needs of the population -- in terms of food, clothing, shelter, education, and health -- may also rise to unmanageable levels. Emigration is not a very satisfactory solution as it releases numbers by introducing imbalances in the skill structure of manpower supplies. To absorb in Government employment potentially redundant workers involves economic costs.

Another major issue is likely to be the need for a qualitative transformation in agriculture. In' the past twenty or thirty years a considerable portion of the developmental effort in agriculture has been directed towards "horizontal expansion" through increasingly costly schemes of land reclamation. Yet despite high yields and apparent constraints on the intensive margin, much remains to be done on the old land. The transformation of agriculture on the old lands could be far reaching, involving drainage, new crop patterns, new methods of irrigation, improved cultivation techniques as well as the linking of new kinds of agricultural production with industry and exports.

Industrialization went on far too long behind protective walls and the process, at times, was marred by wrong investment decisions which loaded the manufacturing sector with inefficient industries. Education has also suffered from the sacrifice of quality in favor of quantity. The fact that Government policies in Egypt established a nexus between education and guaranteed employment has destroyed part of the benefits expected from the accumulation of capital in man.

The mobilization of resources, both external and domestic, is another area on which economic strategy will have to focus, and fundamental choices made. Will external funds be available at the required levels? Will they are available on terms that will-not exacerbate the debt problem? Would a slower-growth strategy, which required a smaller inflow of foreign savings, be favorable to high-growth, and high-aid options? What would be the costs of this strategy? It would have meant a slower-growth strategy in terms of income and employment forgone? Even if the external funds are available, can the complementary domestic resources be mobilized in a non-inflationary manner, and without adversely affecting income distribution? Some of these considerations must be addressed by the democratic government and, its policy makers, but the ultimate choices have to be made by the South African authorities together with its bureaucracy. There is no necessary reason for their decisions to be congruent on all points with the views of external donors. Economic growth and development are related to a significant extent to investment. Much remains to be done in South Africa to improve the methods of project appraisal, project selection, and the implementation of investment programmes. Uneconomic projects, once commenced, are difficult to scrap or close down, especially when employment or prestige is significantly involved. In South Africa, where the public sector will continue to be responsible for a very significant share of total investment, such errors could be repeated. Whether private sector investment carries the risks of inefficient selection is evident post 2000.

The private sector could also easily be given the type of protection and incentives that allow inefficiencies to creep in and take their costly toll.

There are major issues of economic policy-making and coordination. Because of the long and extensive involvement of the Government in the economy, the issues are not limited to improving or modifying this or that policy measure. A complete overhaul of the whole system of policy intervention is called for. The dilemma is that such an overhaul may be ineffective if attempted piecemeal, but perhaps impossible to implement in a swift and radical manner. The fundamental principle is that tinkering with prices, exchange-rates, fiscal and monetary measures, however necessary, would rarely be sufficient in the present South African context. Any realistic program of reform, moreover, will have to take into account the limitations on implementation imposed by the cumbersome workings of the bureaucracy.

Finally, it seems clear that South Africa’s economic system will remain mixed, with a very large public sector and a strengthened private sector. Liberalization may lead to a decline in the relative size of the public sector in manufacturing, but will not affect State ownership in mining and agriculture. However, there is a distinct possibility of increased labour unrest in these sectors and in transport. But 'ownership’s may not matter too much. Liberalization is really about freer access to domestic and foreign markets, less administrative interference with the mobility of factors of production and the functioning of markets. In short, about the management of the economy at both the macro and the micro-level. The problem of the Government is to devise policies which, while proceeding with liberalization, will ensure the continuation of the modest protection hitherto granted to the poor and which will check the operation of forces which aggravate income disparities. The inherent difficulty is that liberalization entails the removal of many forms of administrative intervention that were initially introduced for distributional purposes. The Government will have to continue trying to strike a balance between the conflicting objectives of liberalization for the sake of productivity growth and intervention for the sake of an equitable distribution of income. The hope is that the Government will acquire over time greater mastery in handling the complex set of policies which it has to implement to achieve and reconcile conflicting objectives.

FUTURE PROSPECTS

A number of exercises with a simulation model indicate that given certain assumptions regarding the balance of payments, and if most of the policy reforms discussed and confront the country, the South African economy could grow at an annual rate of about 4 to 6 percent in real terms over the coming decade, provided the government can create employment opportunities, lower the states wage bill, deal with high levels of crime, increase the productivity of the public service, deal with labour unrest and attract foreign direct investment. To some extent, a relatively high-growth strategy is preferable, as it would make it easier to tackle the employment question and also generate a higher level of domestic savings. However, aiming at too high a rate of growth could also create a number of serious problems, unless policy actions were consciously devised to forestall them, or to alleviate their impact. The most important of these problems are likelihood of deterioration in the relative distribution of incomes between rural and urban areas, the extremely high rates of savings that would be required out of additions to per capita incomes, the greater dependence on external capital, and the increased burden of servicing the foreign debt.

HISTORICAL PERSPECTIVE

The modern history of South Africa can be said to have begun with the true freedom and the ushering in of democracy in 1994; the apartheid occupation lasted until 1994. After a period of some uncertainty, the apartheid occupation had far-reaching consequences for the economic development of South Africa and has shaped its development post 1994. The democratic government under the African National Congress, together with what it inherited from apartheid South Africa, established a modern and diversified industrial structure owned entirely by the State. For a variety of reasons the industrial experiment continues and the next major thrust towards industrialization did not come until 2005. Under the current government debt was incurred partly for economic purposes (including the construction of mega projects to reconstruct the country, increased and endemic corruption including misallocation of funds and a lack of financial accountability coupled with the soaring public sector wage bill); but a large part of it was for noneconomic ends, such as the ruling elites luxury consumption, unnecessary financing of the military and so on.. The growing indebtedness is leading to increasing difficulties in servicing the debt, difficulties that could not be staved off.

Substantial measures of financial consolidation, improvement of the physical infrastructure, and administrative reform are urgently required but also, on the other hand, by a neglect of education and rather heavy-handed dealing with rising nationalist aspirations must be dealt with.

AN OVERVIEW OF ECONOMIC EVOLUTION

Future development must be oriented in a totally different direction; The attempted leap from subsistence to a complex economy must be harnessed, and instead the country must now land on the road leading to an export-oriented economy. South Africa could now be integrated-, as an agricultural unit, in the world wide economic system. The integration of South Africa into the world economy spurred on by the legacy of the great Nelson Mandela and based largely on the mining trade and industrialization of the country must necessitate a number of structural changes. First, there must be a substantial increase in the cultivated area, as a result of a rapidly expanding agricultural system.

There must be a great improvement in transport and communication facilities, both internal and external. The railway network must be drastically improved, private ownership of land must be removed; the system of private landownership must be curtailed and reengineered to serve the interests of the landless and the historically marginalized people.

Public debt had reached a level of uncertainty and is growing; It is very doubtful whether many investment projects performed nearly so well. The beginning of the new phase of industrialization did not come rapidly after freedom in 1994. This industrial renaissance should have sparked off a number of factors, the most important of which would have been the accumulation of savings and profitability, and indeed the possibility, of import-substitution.
First, the interruption of maritime communications has had some setbacks and greater investment is required in this sector. The development of the non-traditional sectors of the South African economy is now essential. After 1994 the democratic government had followed an export-led growth strategy

ECONOMIC AUSTERITY

South African politicians are generally reluctant to admit that the economics of austerity in period of transformation is not a viable option, irrespective of the criticism advanced by the prophets of doom. Austerity must not hamper development provided that there is accountability in respect of the use of money and that all forms of wastage and corruption are kept at bay by the government. In the transformation agenda David Graebar (2013: 15) states that the intellectual justification for austerity lies in ruins, in that those that argue that too high a debt to GDP ratio will always necessarily, lead to economic contraction had based their arguments on a spreadsheet error. There is no definite proof that high levels of debt necessarily lead to recession. Austerity in a period of economic development and transition should not become an economic policy in South Africa on the basis that development and progress will be stifled. It has to be about morality and promoting the general welfare. In a larger sense the message is that we are guilty of having dreamed of social security, humane working conditions, pensions and social and economic democracy. The question arises has the morality of debt proved spectacularly good politics? Politicians according to Graber (2013:15) locate economic theories that provide flashy equations to justify the politics; their authors are celebrated as oracles, but no one bothers to check whether the numbers actually add up. If ever proof was required that the theory is selected to suit the politics, one need only consider the reaction politicians have to economists who dare to suggest this moralistic framework is unnecessary, or that there might be solutions that do not involve widespread human suffering. This has been the reality of South Africa in the first twenty years of democracy and in terms of its economic policy. Is there anything wrong with this imperative in a period of transition? The historical survey of debt in terms of the study by Reinhart and Rogoff (in Graber, 2013) was simply wrong, because their historical survey made no distinction between the effects of debt on countries such as the United States or Japan, which issue their own currency, and therefore have their debt denominated in that currency, and countries such as Ireland and Greece that do not. But the real solution to the Eurobond crisis, some have argued, lies in precisely this distinction.

Why is Japan not in the same situation as Spain or Italy? It has one of the highest public debt – to GDP ratios in the world (twice that of Ireland), and is pictured like many other countries as basket cases and how not to manage a modern industrial economy. The Japanese and U.S. governments can just print paper money. This cannot be done by a number of countries, because only the European Central Bank can print Euros. Hence the vicious cycle of austerity. This is what is preached to the so – called developing world, South Africa included. This has to be undertaken as a larger percentage of government spending has to be redirected towards paying rising interest rates, budgets are slashed, workers fired, the economy shrinks, and so does the tax base, further reducing government revenues and increasing the danger of default. Many developing countries including South Africa are confronted with this reality. Such a situation defeats the purposes of development and thus negating the development thrust in a period of dynamic change and transition in democratic South Africa.

Finally, according to Graber (2013: 15) political representatives of the creditors are forced to offer 'rescue packages', announcing that, if the offending country is willing to chastise its sick and elderly, and to shatter the dreams and aspirations of a sufficient percentage of its youth, they will take measures to ensure the bonds will not default. This is what precisely has occurred in South Africa during its period of ongoing transformation from apartheid to a democratic developmental state. Warren Mosler and Philip Pilkington (in Graeber, 2013: 15) have challenged this conventional stance and view of the economics of austerity in a period of transition and transformation. They question as to how money actually works, rather than how it should work. They have made a powerful case that if we just get back to that basic problem of money creation, it may be discovered that none of this is ever necessary to begin with. Their solution to the Eurobond crisis is that for example, Irish Bonds can be used to pay Irish taxes. Investors will be reassured that bonds would remain 'money good' even in the worst of crises. Why has this plan not been adopted for dealing with the debt crisis? No one is quite sure as to why it was rejected in the Irish parliament, rather than perhaps an instinctual bureaucratic fear of the unknown. It's not even clear that anyone would be hurt by the plan. It might not entirely eliminate the crisis. If the politicians refuse to consider it, then they would have not tried.

CONCLUSION

In spite of the gains made in the first twenty years of its freedom, South Africa has to walk a long road in respect of its economic freedom in terms of fulfilling its mandate to a truly economic and democratic state. Its development since freedom in 1994 is one of rapid success in some economic directions and yet this development has been stifled by endemic and wider corruption, patronage and the lack of political leadership. In spite of the negatives South Africa has a bright future for economic success and development, given its past history.

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