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ECONOMIC POLICIES IN SOUTH AFRICA SINCE 1994: LEANING TO THE LEFT OR RIGHT?

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Abstract

This article analyzed the economic policies of the African National Congress (ANC) government of South Africa since 1994. The policies implemented were analyzed as policies which can be regarded as left- or right-leaning policies, and what the effect of the policies was on economic growth, unemployment, inequality and poverty. The study found no clear indication of whether the policies can be classified as left or right. The policies resulted in low economic growth, increased unemployment, and slightly reduced inequality and poverty levels since 1994.

Keywords

Economic Policies, Left- And Right-Leaning, Economic Growth, Unemployment, Inequality, Poverty

Introduction

The first democratic election in South Africa in 1994 celebrated the end of the struggle for political freedom. The struggle for economic freedom, however, had yet to be celebrated at that stage. Colonialism and apartheid have trapped the majority of South Africans in chronic, structural poverty and deprived them of entitlements to escape poverty over time (Adato et al., 2006). The objective of the current study was to analyze the economic policy of the current government, being either left or right-leaning policies in its attempt to address the economic issues of poverty, unemployment, and inequality. This article is structured to provide a theoretical basis and conceptual analysis of the role of the state in the economy, show a descriptive analysis of economic policies of the governing ANC party since 1994, and the effect it had on economic growth, unemployment, inequality and poverty.

The significance of the terms “left” and “right” varies across individuals and countries, and classifying economic policies as left or right can be problematic. This study will classify the economic policies as Inglehart suggests (Inglehart & Klingemann, 1976), classic conceptions of the left-right semantics as distinguishing between those who prefer more (left) or less (right) state intervention in the economy.

Conceptual analysis

Economics studies the problem of scarcity (Baumol & Blinder, 1979; Rider, 1975) regarding limited resources and unlimited needs. In dealing with the problem of scarcity, people are required to direct their behaviour towards meeting their needs. In addressing the economic problem of scarcity, economic activities in society are directed to answer the questions of *what must be produced, how it must be produced* and *to whom it must be distributed*. These three questions are also referred to as the allocation problem, production problem and distribution problem (Terreblanche, 1986; Mankiw & Taylor, 2014). Economic literature distinguishes between two broad perspectives in answering the allocation, production, and distribution problems, namely the free-market economic system (capitalism) or the command system (socialism). The free-market system will guide, as Adam Smith theorized, economic behaviour by self-interest, without interference from authorities and by ensuring private property rights. The interaction of markets will, like an invisible hand, allocate scarce resources, produce goods and services most effectively, and distribute goods and services. Under the conditions of public ownership and a centrally planned economy, the state answers what must be produced, how it should be produced and to whom it must be distributed. The market system is regarded as a "right-hand" economic policy, and socialism as a "left-hand" economic policy.

The free market (capitalist) system stems from the model of a perfect competitive pricing system (Hockley, 1992). Prices act as a guide to producers to produce the correct quantity of goods and services at the lowest possible cost. Higher prices would encourage producers to produce more but attract other producers to enter the market, resulting in more competition and, therefore, lower prices. Higher prices force the consumer to consider the relative scarcity of goods, while lower prices stimulate consumption and force firms to reconsider the quantity they produce. The interplay of market forces results in an equilibrium price and quantity to be reached, at which supply and demand are in balance. The invisible price mechanism determines the optimum price and output. It is the imperfections of the pricing system or market failure that provide an opportunity for government intervention. Government participation is required to provide public goods, such as the military, traffic lights and streetlights, where the divisible use of the good or service is not possible, and consumption is non-rival. Pure public goods are not exclusive to those who are paying for the goods or services and can, therefore, not be operative in or provided by the pricing system of the market mechanism. The existence of positive and negative externalities requires government intervention either to encourage or to discourage the production of goods and services, which results in social costs and benefits (Arnold, 2008). The market mechanism does not price third-party consequences of externalities. Goods and services with positive externalities will likely be under-produced, while goods and services with negative externalities will be over-produced. The role of government is seen as correcting these deficiencies to ensure optimum supply. Externalities can be dealt with by regulation, taxes, subsidies, or pricing policies.

For the effective functioning of the market mechanism, there needs to be a substantial number of firms in the market. These firms encounter increasing costs as they grow beyond a modest size relative to the entire market. The existence of a decreasing cost natural monopoly and natural oligopolies requires government intervention in different ways, such as regulation, antitrust legislation, public ownership, forbidding price-fixing and cartels, and collective action to ensure these entities operate in the public interest.

An additional economic justification of government activities in the economy is not only associated with the technical operation of the market system but also with rejection by society of how the market distributes income. Government intervention is, therefore, based on an ethical judgement against the automatic distribution of income by the market. Government intervention through social spending, progressive tax systems, grants, and transfers are therefore called for the distribution of income (Haveman, 1976).

The state could intervene in several ways in the economy (Biersteker, 2005). State intervention can be done by:

- *Influencing* the behaviour of different sectors of the economy through fiscal, monetary, investment, competition, industrial and trade policies;
- *regulating* the behaviour of entities within the economy to ensure socially acceptable behaviour through consumer and environment protection, worker safety programmes, wage legislation, and financial protection of the workers;
- *mediating* conflicts between capital and labour;
- *redistributing* income through taxes, transfers, subsidies, or industry location policies;
- *producing* goods and services through state-owned enterprises (SOEs) or
- the state could *plan* the entire process of the economic system.

Dominant perspectives regarding the state's role have changed over the last two to three centuries from laissez-faire capitalism (right policies) to entire state socialism (left policies). Two significant swings occurred after the Second World War (1939 – 1945). The post-war years (i.e. 1945 and beyond) witnessed a rejection of the laissez-faire doctrine and the emergence of the mixed economy encouraging state intervention. Since the mid-1970s, a neoliberal counter-offensive became increasingly dominant in re-introducing market principles.

Neoliberalism

Neoliberalism emerged in the 1970s and 1980s after the collapse of Keynesian social regulation, which was dominant for the period after the Second World War. Neoliberalism encourages the liberalization of competitive forces, advocates the abandonment of demand-side intervention, and favours supply-side policy measures. Neoliberalism ignores inequality and uneven development (Williams & Taylor, 2000) and separates the economic and political spheres. Economic activities are viewed as conforming to inherent rationality, distinguishing the economic sphere from the irrational political sphere. Economic motivation is regarded as the driving force of all human activity. Economics, with its inherent rationality, should govern irrational political decision-making processes. Long-term harmony of interest is implicit in economic activity within the free market. Moreover, according to neoliberalism, the free market provides the mechanism to resolve policy problems (Williams & Taylor, 2000). Neoliberalism also focuses on the economic man, a rational egoist constantly seeking to optimize his position.

After the Second World War, the increase in the role of government in the economy was evident in the increased provision of social services, the production of goods and services, an increase in SOEs, an increase in public spending, and the imposing of a diversity of taxes. In addition, using fiscal and monetary policies to manipulate employment levels, inflation, and the business cycle reflects a movement towards Keynesianism and a welfare state. The expansion of government participation in the economy and an increase in total expenditure can be ascribed to the expansion of the revenue-generating capacity of government. Further reasons for this trend are:

- an economic explanation – urbanization, industrialization, and pressure of progress led to the growth in the public sector;
- a political explanation – the bidding power of the electorate required enhanced government action;
- an institutional explanation – the expansion of the bureaucracy required more government participation;
- the international explanation – an increase in world trade and subsequent administrative, regulatory and tariff dispensation of international trade required more government action and
- a fiscal explanation – the non-divisibility of public goods and the fact that costs and benefits of public goods are not directly linked needs government participation (Cameron, 1978).

The period after the subprime crisis (i.e. 2008) has seen a backlash against liberal democracy and neoliberalism (IMF, 2014). Globally, there is a cry that political freedom or democracy has failed the people, as is evident from social unrest, Occupy Wall Street, Brexit, xenophobia in Europe, and the emergence of populist political parties and leaders to the Left and right demanding an alternative political system. The impact of the subprime crisis resulted in very low global growth, lower incomes, and rising inequality. Political freedom did not deliver economic freedom. Globalization, free trade, and economic integration have deprived citizens of economic freedom and are threatening their political freedom as well. The counter movement to local economic development, increased political and economic protectionism, alternative political and economic systems, and a search for economic inclusivity.

Institutionalist perspective

Neoclassical economics determined the boundaries of state intervention, but with the acceptance that market failures exist. Free markets produce optimal outcomes and efficiency under certain conditions. State participation is required to improve free-market outcomes. The state can be defined as consisting of institutions of governance: the bureaucracy, the police, the military, the judiciary, and the legislative assemblies. These comprise the apparatus of government and the system of order they enforce. State institutions determine the formal and informal rules that govern how interests are organized and exercised, namely rules on political associations, rules on incorporation, and rules on lobbying (Burlamaqui et al., 2000).

The market is regarded as one of many institutions comprising the market economy or capitalism. The capitalist system comprises a range of institutions, namely markets for exchange, firms of production, and the state as creator and regulator of institutions. It is argued that the state engineered the emergence of markets. Every country could, therefore, have achieved industrialization or development with state intervention by way of providing infrastructure as well as research and development (Burlamaqui et al., 2000). According to this perspective, the way forward is the institutionalist political economy.

Welfare state

The welfare state option requires the state to provide cash and benefits in kind or tax concessions to finance occupational and private benefits (Barr, 1992). Welfare state activities are visible in a few broad areas, namely cash benefits, health care, education, food, housing, and other welfare services. The objectives of such activities are to relieve poverty and reduce inequality. In providing welfare activities, the state must ensure that the activities adhere to efficiency, equity, and administrative feasibility standards. Providing welfare state activities requires macro-efficiency to ensure the activities are an efficient portion of the gross domestic product (GDP), avoiding distortions to cost explosions, a sufficient tax base, and micro-efficiency in allocating the resources between the different state activities.

Developmental state perspective

The developmental state perspective argues that the economy encompasses the state and that the state is embedded in the economy (Yeung, 2000). The state's role is conceptualized as a dialectical process of interdependence and interconnectedness. The state may be directly involved in economic action and influence economic actions. State-driven development programmes are essential, but at the same time, should include more participatory citizenship, civic consciousness, and democratic institutions than private sector development. The state is thus regulated by social actors, their institutions, and relations.

The developmental state requires the government to play an active role in –

- investing in underdeveloped areas;
- directing private investment;
- accelerating economic growth and
- addressing the skewed pattern of ownership and production.

A developmental state, therefore, encompasses an active industrialization policy and implementing policies to redistribute income and alleviate poverty (Fine, 2010).

There is a broad scholarly and popular consensus that the role of the modern state in the economy is considerable and that it has expanded since World War Two (1939 – 1945) (Biersteker, 1990). The precise meaning of 'state intervention' or 'state participation' remains undefined. Empirical and theoretical treatments of the state's role include the idea that the state should ensure the safety of the people and protect individual property rights as the fundamental purposes of the state. Karl Marx emphasized that the state intervenes to overcome contradictions created by capitalism and the process of capital accumulation and perseverance under a capitalist system. Marxism challenged the impartiality of state intervention and introduced the issue of class beneficiaries of state interventions. The Utilitarians justified state interventions by arguing that the laissez-faire doctrine does not provide the best possible outcomes.

Economic policies of the African National Congress (ANC) since 1994

The sections below provide a discussion of the different economic policies implemented in South Africa by the ANC since 1994. The implementation of economic policies by the ANC, which has been governing South Africa since 1994, will determine whether left – or right-leaning policies are being implemented in South Africa.

The Reconstruction and Development Programme (RDP)

For two decades before the 1994 election, South Africa recorded a dismal economic performance. A total of 35 per cent of households were living in absolute poverty, and an estimated 4 per cent of individuals were regarded as living in poverty. Children living in absolute poverty were estimated at 54 per cent. Relative poverty measures, such as inequality, measured 0.69 (1994) by the Gini coefficient, indicating an extremely unequal society (Blumenfeld, 1997). RDP was the first overarching social and economic development plan to address poverty and inequality in South Africa after 1994.

The initial impetus of the RDP came from the Congress of South African Trade Unions (COSATU) and its alliance with the African National Congress (ANC) and the South African Communist Party (SACP) to serve as an election manifesto for the 1994 election. The base document used five basic principles for the RDP, namely, the programme had to –

- be integrated and sustainable;
- be people-driven;
- promote nation-building;
- be linked to reconstruction and development, and
- had to add to the ongoing democratization of South Africa (Turok, 1995).

The starting point of the RDP was to meet basic needs, upgrade human resources, strengthen the economy, democratize the state and economy, and reorganize the public sector. Through the RDP, the quality of life of the poorest had to be improved, the gap between black and white had to be narrowed, and extreme inequalities and skewed economic ownership had to be reduced (Corder, 1997). The document was also highly normative, prescriptive, and interventionist in its analysis and policy proposals. Explicit and ambitious targets were set for housing, land redistribution, health care, education, electrification, water supply, sanitation, refuse collection, transport, telecommunication services, and nutritional and environmental standards to be achieved within the first five years (i.e. 1994–1999). Additional policies were nationalizing private mineral rights and strategic enterprises, antitrust legislation, land reform, racial and gender quotas in the public sector, and non-economic criteria for providing financial sector services.

The final RDP White Paper, published in November 1994, focused on the strategies to achieve the RDP goals in the base document (Seekings & Nattrass, 2015). The White Paper was less prescriptive and more market-friendly than ANC policies before 1994 to get a favourable response from businesses. Nationalization policies and other forms of intervention were moderated. The RDP policy emphasized redistribution of income and intervention by the state. Growth through redistribution would act as a spur to economic growth. Central planning and the free market were not regarded as ideal options to provide solutions to economic problems. The state, however, had to step in where the private sector failed. The four essential dimensions of the RDP were redistribution of income, economic reconstruction, state coordination of development, and the development had to be people-centred. The RDP emphasized the role of the state, a thriving private sector, and the active involvement of civil society. Although the RDP was considered a policy to the Left, the programme was committed to fiscal discipline and macroeconomic balance to align these with international practices.

In 1994, the Government of National Unity (GNU) adopted the RDP as the broad framework for socio-economic reform and to regenerate economic growth whilst simultaneously alleviating poverty and inequality. An RDP office was established in the Office of the State President. A total of 22 projects were announced to kick-start the programme. Government spending was to be reprioritized to meet RDP objectives, and an initial R2.5 billion was allocated to a fund for a start.

Although the RDP set the core agenda for all successive future policies addressing the inter-linked challenges of poverty, inequality and unemployment, the outcomes could have been more impressive. At the end of 1995, except for the electrification of existing houses, improvement in water supplies, and a primary school feeding programme, little progress was seen in the other ambitious goals set by the RDP. Adelzadeh and Padayachee (1994) argue that:

- the RDP lacked concrete goals and timeframes;
- the fiscal policy was only focused on discipline;
- the monetary and financial policies did not contribute to the RDP, and
- the trade and industrial policies were too general and vague to support the RDP.

The RDP did achieve decreasing inequality by spending on health and education amongst races. The public sector also became more representative, albeit at the expense of service delivery.

In August 1995, a new committee, chaired by the deputy president Thabo Mbeki, was formed to reflect on the economic policies of governments. In February 1996, a new economic policy, GEAR, was introduced.

The Growth, Employment and Redistribution (GEAR) initiative

The GEAR initiative had sustained growth and transformation as its point of departure towards a competitive, outward-orientated economy. Keeping with the goals of the RDP, the nature of the GEAR document emphasized economic growth, a reduction in inflation and budget deficits, reforming the tax system, and liberation to improve international competitiveness. In addition, GEAR proposed the relaxation of exchange controls, tariff reductions, tax incentives to stimulate investments, and a more flexible labour market. GEAR also indicated a shift to the right and a neoliberal economic policy (Cheru, 2001). A supply-side approach replaced the RDP demand-side approach. The prevailing view was that economic growth should translate into redistribution of incomes and opportunities through development programmes, economic empowerment, and the promotion of employment creation.

GEAR (Weeks, 1999) was further focused on addressing structural inequalities and alleviating poverty through market-led economic growth and reprioritizing government budget expenditures to favour disadvantaged communities. Addressing basic needs and improving services to people experiencing poverty were to be achieved by government expenditure priorities and the role of sectoral policies. Public spending channelled to employment-intensive activities was vital to creating job opportunities. The need for growth was emphasized in order to sustain social and development programmes of government through disciplined fiscal and monetary policies and the restructuring of state assets. An increase in public investment spending in the transport, energy, and communication sectors, associated with increased trade and industry activities, was regarded as a priority. In addition, social infrastructure development in housing, water supply, health, and education formed part of the commitment to meet the basic needs of people experiencing poverty. These commitments were fulfilled by reprioritizing the existing government budget and relying on market-driven mechanisms to deliver the objectives. Inadequate water supply and sanitation were regarded as symptoms of poverty and underdevelopment. The Department of Water Affairs and Forestry (DWAF) was tasked to provide water and sanitation to communities. Sanitation programmes were conceived and executed as local government support programmes. The provision of housing was primarily concentrated in the private sector. The aim was to encourage banks and developers to provide low-cost housing through subsidies and mortgage guarantees. Expenditure on education and health aimed to improve access to and the quality of education and health services. After 1994, free and compulsory education for the first ten years of schooling was introduced. In terms of health care, resources were to be shifted to provide a more significant proportion of funds to primary health care, away from secondary and tertiary health care.

Employment creation was seen as a critical determinant in reducing poverty. The objective of the government's employment strategy was to increase the labour absorption rate of the economy. Focusing on skills development, removing structural restrictions to job creation, and identifying critical employment-generating opportunities were essential to creating more jobs. Employment creation was seen as the aim of a range of industrial support policies, such as tourism promotion, the development of small businesses and agriculture development to increase employment levels.

GEAR acknowledged the basic needs addressed by the RDP. However, the GEAR policy implied that increased spending in these areas could only be achieved after improved savings, investment, and growth rates were delivered. Although GEAR successfully reduced fiscal deficits, the high economic growth targets and employment levels were never realized (Tsheola, 2002). The shift to macroeconomic stability and economic growth was necessary due to high debt levels at the time and the need for investment from the international community. The 1998 Asian financial crisis and the depreciation of the rand in 2001 did not make matters easier. However, an average of 3.2 per cent of economic growth was achieved, the inflation rate averaged 5.7 per cent, a budget surplus was announced in 2007, social grants increased to 3.3 per cent of GDP, and the poverty rate fell from 37 per cent to 28 per cent between 1993 and 2007, but there were still not enough jobs created in the SA economy.

The Accelerated and Shared Growth Initiative for South Africa (ASGISA)

In 2006, ASGISA stated that its goal was a national shared growth initiative (Wildenboer, 2008). Economic growth targets and dropping the notion of redistribution were what ASGISA was all about. GEAR presented a specific macroeconomic framework, but ASGISA focused on a detailed list of interventions, which included infrastructure projects, a targeted industrial policy, and an assessment of the constraints to growth. The constraints to economic growth included a shortage of skilled labour, currency volatility at the time, the need for uncompetitive firms to compete internationally, and strict regulatory policies for business.

ASGISA represented a softening of the GEAR approach, visible in the expansion of social grants, a more relaxed budget deficit target, and more expansionist policies. Further initiatives, such as higher investment in public works, infrastructure investment, and interventionist industrial policy, provided a sense of optimism. ASGISA ultimately needed more time to impact because of the 2008 global financial crisis.

Jacob Zuma replaced Thabo Mbeki as president after the 2009 elections, and the country was soon in a new direction and on a new economic plan, the National Development Plan (NDP). In the first five years of Zuma's Presidency, the number of government employees increased considerably (from 2.2 million to 2.7 million), and the wage bill of the government and wage increases were adjusted much higher than inflation. The Zuma years were marked by what has become known as state capture, corruption, the appointment of political cronies, mismanagement of SOEs, and a failure in service delivery (Chetty, 2021).

The New Growth Path (NGP) Framework and the National Development Plan (NDP)

To address poverty and inequality, two strategy documents, the 2010 NGP and the 2012 NDP, were introduced (Hendriks, 2013). The NDP was developed by the National Planning Commission (NPC), chaired by the then Minister in the Presidency for National Planning, Trevor Manuel, and the NGP by the economic cluster under the leadership of then Minister of Economic Development, Ebrahim Patel. The goals of the two strategies were similar, but the mechanisms they envisaged to achieve the goals differed. The NDP sought to reduce poverty, unemployment, and inequality. The NGP, on the other hand, sought to enhance growth and create employment and equity. Both emphasized a solid developmental state orientation (Zarenda, 2013).

The 2010 NGP responded to a global economic and financial meltdown in late 2008. The main concern of the NGP was job creation, and the framework identified specific areas to be targeted for job creation. These were intended to develop policies to facilitate employment and to initiate a drive to enhance social equity and competitiveness. Systemic changes were recommended to mobilize domestic investment in order to create employment. Social dialogue was encouraged to focus stakeholders on employment-creating activities. The redistribution of income and inequality was targeted through inclusive and balanced growth.

The macroeconomic approach of the NGP included monetary policy interventions to achieve growth and employment targets and reprioritizing public spending. The microeconomic approach included targeted measures to support jobs and competitiveness to support the macroeconomic approach. The NGP considered employment creation and different actions as a top priority to encourage a labour-absorbing growth pattern in the targeted sectors, namely infrastructure development, the agriculture value chain, the mining value chain, the green economy, manufacturing services, tourism, and other high-level services. Measurable indicators, such as the number of jobs created, the growth rate, lower inequality and less poverty, and environmental outcomes, were measures to evaluate the success.

Since 2005, the ANC intended to direct South Africa to a democratic developmental state, where the state will play a role in investing in underdeveloped areas and direct private investment, but also in addressing the skewed pattern of ownership and production. This would be achieved through an active industrial policy and implementing policies to redistribute income. Fine (2010) stated that factors in South Africa, such as corruption and policies to boost economic growth and simultaneously apply redistribution policies, have restricted the effectiveness of developmental state efforts.

The ANC's initial commitment to socialistic reform and restructuring of society, with a dynamic role for the state in the economy, was replaced by economic initiatives, which were grounded in neoliberal capitalism (Williams & Taylor, 2000). Neoliberalism increasingly influenced the ANC's economic policies in shifting away from the Freedom Charter. Factors contributing to the movement to the right include the collapse of Soviet economies, which left no alternative but neoliberalism, the continuation of big business pressure and persuasion of the ANC elite to endorse capitalism, and the neoliberal ideology being propagated by the SA press and business.

The NDP had set specific objectives to reduce poverty by 2030 (Naidoo & Mare, 2015). These objectives were:

- reducing the number of households who were living below R419 (in 2009 prices) from 39 per cent to 0 per cent;

- reducing the Gini coefficient from 6.9 to 0.6;
- raising employment levels from 13 million to 24 million by 2030;
- increasing per capita incomes from R50 000 in 2010 to R120 000 by 2030; and
- Increasing the share of national income of the bottom 40 per cent of the population from 6 per cent in 2012 to 10 per cent by 2030.

The NDP aimed to ensure that all South Africans obtain a decent standard of living. The decent standard of living referred to are:

- housing, water, electricity, and sanitation;
- safe and reliable public transport;
- quality education and skills development;
- safety and security;
- quality health care;
- social protection;
- employment;
- recreation and leisure;
- a clean environment and
- adequate nutrition.

The 2012 NDP repeated the aims of the previous economic policies, namely, to eliminate poverty and reduce inequality. The plan was couched in achieving redistribution and employment through economic growth. The NDP acknowledged that market-based policies were the most suitable source of job creation. However, the emphasis on a developmental state was affirmed. A series of five-year planning cycles were envisaged to review and determine the progress of the NDP from 2013 onward.

Nelson (2016) states that the NDP envisaged implementing a developmental state strategy for South Africa. Although the developmental strategy implied additional state intervention, it did not mean socialism or the absence of economic liberalism. The strategy required extensive state powers to influence the economic, political, and social levels, but within a democratic dispensation and a capitalist system.

A developmental state would also require building the state's capacity, providing essential goods to citizens, and ensuring a competent administrative apparatus. According to Nelson, the requirements for such a strategy to be successful comprise:

- a shared vision;
- the political will to implement the strategy;
- performance-driven outcomes;
- state-led industrialization supporting the business sector;
- a labour force supporting economic growth;
- a well-functioning education system;
- effective state bureaucracy;
- high savings rates and
- social cohesion committed to the goals of the strategy.

Since 2005, the ANC has intended to direct South Africa towards a democratic developmental state, where the state would play a role in investing in underdeveloped areas and direct private investment but also address the skewed pattern of ownership and production. This was achieved through an active industrial policy and implementing policies to redistribute income.

Elements of a welfare state have also been extended and applied in South Africa. The non-contributory old-age pension provides a minimum income for the elderly, financial assistance for poor parents, and income for disabled people as cash benefits to relieve poverty. State activities in terms of health care, education, housing, and other welfare services have also increased. State expenditure on education and health has received the largest slice of the state budget for several years. The lack of administrative capacity and the small tax base are restricting the expansion of welfare by the state (Seekings, 2002).

In 2018, Cyril Ramaphosa was elected as South Africa's fifth president. He had the formidable task to return South Africa on a growth path and a better life for all. This task was made even more difficult by the COVID-19 pandemic, slow global growth, and the poor performance of the SA economy since the 2009 Great Financial Crisis (GFC).

Covid-19

The outbreak of the Covid-19 pandemic in 2019 found a vulnerable SA economy. When the pandemic reached our shores, the SA economy had experienced two consecutive quarters of a recession. As a result, the Covid-19 pandemic deepened the economic crisis.

The SA government declared a national state of disaster and adopted containment measures, namely (Masiya, D Mandiyanike, D Molosiwa, and A Mazenda, 2002)

- social distancing;
- travel bans on visitors from high-risk countries;
- quarantine for nationals returning from such countries;
- screening at ports of entry;
- school closures;
- screening visits to homes and
- introduction of mobile technology to track and trace contacts of those infected.

A nationwide lockdown was implemented from midnight on 26 March 2020 until 16 April 2020 (later extended to 30 April 2020), with only critical workers and transport services and essential food and medicine production and retail operating. The banking sector remained open for business. By Month Year, net capital outflows (bonds and equities) since the beginning of the pandemic amounted to $6.3 billion (2.1 per cent of GDP); the sovereign dollar credit spread has more than doubled to 448 basis points (bps), and the rand depreciated by 24 per cent vis-à-vis the United States (US) dollar (IMF, 2020).

To mitigate the negative impact of Covid-19 on the SA economy, the government implemented critical policy responses. This they did by, for instance, assisting companies facing distress through the Unemployment Insurance Fund (UIF) and special programmes from the Industrial Development Corporation (IDC). Within the budget, workers with an income below a certain threshold received a small tax subsidy, and grants to people experiencing poverty were initiated, also referred to as the R350 Covid-19 Social Relief of Distress (SRD) grant. Funds were made available to assist small and medium enterprises (SMEs) under stress, mainly in the tourism and hospitality sectors and small-scale farmers in the poultry, livestock, and vegetables sectors. Allocations were also made to a solidarity fund to help combat the spread of the virus, with assistance from private contributions. The revenue administration accelerated reimbursements and tax credits, allowing SMEs to defer certain tax liabilities, and issued a list of essential goods for a total rebate of customs duty and import value-added tax (VAT) exemption (SA, 2022).

The full-year economic activity in 2020 was down 7.0 per cent compared to 2019. This was the most significant annual decline in economic activity since at least 1946. On 12 March 2020, the Johannesburg Stock Exchange (JSE) had its worst crash since the 1997 Asian financial crisis (11.2 per cent decline), with a 9.7 per cent decline due to the Covid-19 pandemic. All these signs highlighted that a financial crisis was imminent. The JSE All Share Index (ALSI) and the ALSI Top 40 began to fall on the SA stock market. Since 2 January 2020, the ALSI Top 40 lost almost 35 per cent but recovered to around 85 per cent of its pre-Covid-19 value by July 2020, resulting in a cumulative loss of about R2.3 trillion at its worst (Mbatha & Alovokpinhou, 2022).

The National Policy Development Framework (NDPF)

In December 2020, the NDPF was launched. The objective of this framework was to address the harmful effects of COVID-19 and build and advance the ideals of the NDP to enhance the establishment of a developmental state. The challenges of high unemployment levels, poverty, and inequality were once again acknowledged, as well as the urgency to address these problems. Policies implemented in countries such as Malaysia, the United Kingdom, Canada, Australia, and Kenya were taken as benchmarks for the new framework. The establishment of the Socio-Economic Impact Assessment System (SEIAS) Unit in the Presidency marked the importance of this framework.

Nelson (2016) states that the NDP envisaged implementing a developmental state strategy for South Africa. Although such a developmental strategy implies more state intervention, it does not mean socialism or the absence of economic liberalism. A developmental strategy requires extensive state powers to influence economic, political, and social behaviours, but within a democratic dispensation and a capitalist system. A developmental state would also imply building the state's capacity, providing essential goods to citizens, and ensuring a competent administrative apparatus. According to Nelson, the requirements for such a strategy to be successful are a shared vision, the political will to implement the strategy, performance-driven outcomes, state-led industrialization supporting the business sector, a labour force supporting economic growth, a well-functioning education system, effective state bureaucracy, a high savings rate, and social cohesion committed to the goals of the strategy.

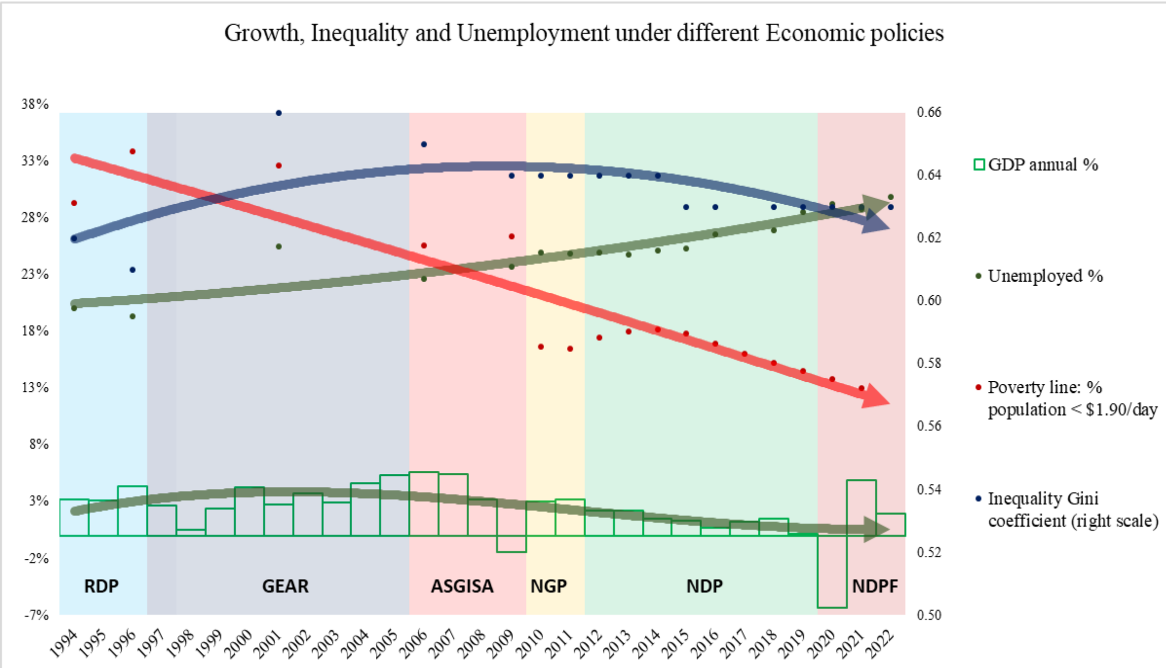
Since 2005, the ANC has intended to direct South Africa to a democratic developmental state, where the state will play a significant role in investing in underdeveloped areas, encourage direct private investment and address the skewed pattern of ownership and production. This would be achieved through an active industrial policy and implementing policies to redistribute income.

Elements of a welfare state have also been extended and applied in South Africa. The non-contributory old-age pension to provide a minimum income for the elderly and financial assistance for poor parents and disabled people are cash benefits to relieve poverty. State activities in health care, education, housing, and other welfare services have also increased. The lack of administrative capacity and the low tax base are restricting the expansion of welfare by the state (Seekings, 2015).

The ANC's initial commitment to socialistic reform and to restructure society, with a dynamic role for the state in the economy, was replaced by economic initiatives that were grounded in neoliberal capitalism (Williams & Taylor, 2000). Neoliberalism increasingly influenced the ANC's economic policies in shifting away from the Freedom Charter. Factors contributing to the movement to the right included:

- the collapse of Soviet economies left no alternative but neoliberal capitalism;
- the continuation of big business pressure and persuasion of the ANC elite to endorse capitalism and
- the neoliberal ideology being propagated by the SA press and business.

The result of the economic policies implemented by the ANC since 1994 on economic growth, unemployment, inequality, and poverty is illustrated in Graph 1. From 1994 to 2022, South Africa recorded an average annual economic growth rate of 2.4%, and unemployment recorded a continuous increase, an improvement in poverty (using $1.90/day as the poverty line), and a slight improvement in inequality.



Graph 1: Growth, unemployment, inequality, and poverty in SA since 1994

Discussion

There is no consensus on whether the policies applied by the ANC government can be regarded as being left or right. Cronje (2020) believes that the ANC's objective with the National Democratic Revolution (NDR) was to shift the country's economy to a socialist and communist one over the past 40 years. Anthea Jeffery (2023) confirms that the ANC and South African Communist Party (SACP) have been committed to a national democratic revolution, which they see as the direct route to socialism.

The RDP goals were to improve the quality of life of the poor, reduce the gap between black and white, and address the extreme inequalities and skewed economic ownership. The RDP document was regarded as highly normative, prescriptive, and interventionist. The final RDP paper was considered more market-friendly by taking a more moderate stance on nationalizing industries and government participation in the economy. However, the focus was on growth through redistribution. The RDP is regarded as using a Keynesian paradigm of a mixed economy to achieve economic goals.

The GEAR document emphasized economic growth by applying supply-side and free-market policies. The GEAR policy is seen as gradually embracing neo-liberal ideas and the International Monetary Fund's (IMF) adjusted programmes within the economy. ASGISA is regarded as a movement to the left with the expansion of social grants and more expansionist policies. The NGP and NDP emphasized a strong developmental state orientation to stimulate economic growth and create employment and equity.

Government spending as a percentage of Gross Domestic Product (GDP) has recorded a low of 24% in 2002, a high of 34.8% in 2020 and an average of 30% since the ANC has been in government (National Treasury, 2020). Government expenditure is also an indication of the government's participation in the economy, and by this measure, government participation by the ANC has mostly stayed the same since 1994.

Conclusion

The governing party will determine whether economic policies of the right or left will be implemented in SA. The policies implemented by the ANC – government since 1994 have elements of both the right and left. The policies had minimal effect on improving economic growth and unemployment. Poverty and inequality have shown improvement since 1994.

Labour retains the power to block the imposition of economic reform – both at the national and workplace levels. Any attempt to impose neo-liberal solutions unilaterally is likely to take the country down the path of ungovernability. At the same time, socialist solutions seem unfeasible; this conclusion points towards a class compromise between capital and the labouring poor for the future: perhaps a Southern version of social democracy.

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