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South Africa economic policy: Are we moving towards a welfare state?

Philippe Burger

Berichte aus dem Weltwirtschaftlichen Colloquium der Universität Bremen

Nr. 104

Hrsg. von

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Berichte aus dem Weltwirtschaftlichen Colloquium
der Universität Bremen, Nr. 104, Juli 2007,
ISSN 0948-3829

Bezug: IWIM - Institut für Weltwirtschaft
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Zusammenfassung

Südafrika kann seit 1994, dem Beginn des Demokratisierungsprozesses, auf enorme Fortschritte zurück blicken. Diese schließen eine verbesserte Wirtschaftskraft, eine stärkere Finanzposition und Verbesserungen im Hausbau, der Versorgung mit Elektrizität und Wasser sowie der Hygienebedingungen ein. Diskrepanzen sind immer noch im Bereich der Einkommensverteilung, des Wohlstandes und des Bildungsstandes zu verzeichnen. Das Niveau der Armut und Arbeitslosigkeit bei der schwarzen Bevölkerung, bei Frauen und bei denen, die in den landwirtschaftlichen Bereichen sowie den ehemaligen Homelands leben, ist immer noch sehr hoch. Die Servicequalität behördlicher Dienstleistungen bleibt auch problematisch. Seit 1994 hat die Regierung eine Vielzahl an politischen Richtlinien eingeführt, um diesen Herausforderungen zu begegnen. Dieses Papier zeigt, dass die Politikentwicklungen in Südafrika seit 1994 in zwei Phasen eingeteilt werden können. Die erste Periode von 1994 bis 1999 fokussierte auf die Stabilisierung der Wirtschaft und die Entwirrung des steuerlichen Chaos, welches die neue Regierung von dem Vorgängerregime übernahm. Die zweite Phase, seit 2000, ist als eine ruhige Phase anzusehen, die immer noch anhält. Diese Phase ist geprägt vom Ausbau der sozialen Wohlfahrt bzw. des Sozialstaates. Vergleicht man die zwei Perioden, dann zeigt dieser Beitrag, dass die ökonomischen Ansichten der Regierung in der ersten Phase viel konservativer waren, d. h. was der International Monetary Fund (IMF), ausländischen Investoren und Rating-Agenturen als besonnene Politik bezeichnen. Die zweite Phase weist eine weniger konservative Position auf. Hier stehen und standen Ausgaben für die Privatisierung, des Bildungswesen und der Personalentwicklung sowie zum Aufbau der sozialen Wohlfahrt im Vordergrund. Der Beitrag betrachtet und vergleicht diese zwei Phasen, um aufzuzeigen, in welche Richtung sich die Politik bewegen wird und in welche sie zukünftig bewegt werden müsste.

Abstract

It has been 13 years since the dawn of democracy in South Africa. Though the country can boast progress on several fronts since 1994, including improved economic performance, a healthier fiscal position and improved delivery of houses, electricity, water and sanitation, it still faces significant discrepancies in the allocation of income, wealth and skills. In addition, poverty and unemployment levels among Blacks, females and those living in rural and ex-homeland areas are very high irrespective of the benchmark used. Service delivery by some local authorities also remains problematic. Since 1994 the government has implemented a wide range of policies to address these challenges. This paper shows that policy developments in South Africa since 1994 can be divided into two phases. The first is the period 1994-99 that focused on the stabilisation of the economy and the eradication of the fiscal chaos that the new government inherited from its predecessor. The second phase is the still ongoing period that started in 2000. This period saw the significant expansion of the social welfare system. Comparing the two periods, the paper also shows that the economic views of government in the first phase was much more conservative and in line with what the IMF, foreign investors and rating agencies saw as prudent policy. The second phase sees a less conservative stance on issues such as privatisation, the role of human development in growth, as well as the provision of social welfare. The paper considers and contrasts these two phases to consider in what direction policy might be moving and might need to be moving in future.

Key words: Economic development; welfare; unemployment; income and wealth distribution

JEL codes: O11; O12; O20; O23; O55

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LIST OF ABBREVIATIONS

ABET	Education and Traning for Adults
ANC	African National Congress
ASGISA	Accelerated Shared Growth Initiative – South Africa
BBBEE	Broad-Based Black Economic Empowerment
COSATUR	Congress of South African Trade Unions
Exp	Expenditures
FEDSAL	Federation of South African Labour Unions
GDP	Gross Domestic Product

GEAR	Growth, Education and Redistribution Strategy
GHS	General Household Survey
IES	Income and Expenditure Survey
IMF	International Monetary Fund
IT	Information Technology
JIPSA	Joint Initiative for Priority Skills Acquisition
NACTU	National Council of Trade Unions
RDP	Reconstruction and Development Plan
SACC	South African Council of Churches
SALDRU	South African Labour Development Research Unit
SANGOCO	South African National Non-Governmental Organisation Coaltion
SARB	South African Reserve Bank
SME	Small and Medium Enterprises
StatsSA	Statistics South Africa

1. Introduction

The year 2007 marks the thirteenth year of democracy in South Africa. It saw three general elections while the second term of its second president is already halfway. Thus, in 2007 the 'new' South Africa of 1994 is maturing and not all that new anymore. In 1994 economic growth was very low, even negative in real *per capita* terms, while in 2007 it has improved significantly with real economic growth hovering around 5%. In 1994 public debt was high according to historical standards and still increasing due to large budget deficits. Labour productivity was low and not really growing, while inflation, though already decreasing, was still relatively high. In 2007 all these indicators improved: public debt is two fifths down from its 1994 level, the budget deficit is budgeted to turn into a surplus in the 2007/8 fiscal year, labour productivity is growing, while inflation is contained within the 3% to 6% target range pursued by the South African Reserve Bank (see SARB 2007a). In terms of social service delivery the South Africa of 2007 is a much better place than the South Africa of 1994. The delivery of houses, electricity, water and sanitation improved significantly. In addition, by 2007 government has rolled out what is for an emerging market country an extensive welfare system. In addition, by the end of the decade government wants to implement a full-scale social security system.

However, despite these improvements there still remain some very significant issues to address. There still are significant discrepancies in the allocation of income, wealth and skills, with levels of poverty higher among Blacks, females and those living in rural and ex-homeland areas.[1] Compared to international standards unemployment in South Africa is very high irrespective of the measure or benchmark used. Although the economic growth rate improved significantly since the mid-1990s, it still is much less than that of other emerging market success stories such as China and India. This raises the question whether or not South Africa can emulate these success stories. Because of a shortage of skills and management capacity affecting all levels of

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[1] The apartheid government created a series of homelands or, as they are also called in the literature, 'bantustans'. These were ethnic reserves, usually rural in nature, that according to official apartheid policy had to develop separately from the rest of South Africa. However, in effect these homelands were starved of proper development. Rather, they served as key instruments in the apartheid government's repressive management of migration labour since Blacks originating from these homelands had to have an official pass to move and live in the rest of South Africa. Because, according to apartheid ideology, these homelands were also suppose to develop into independent states (four were granted 'independence' by the apartheid government), the apartheid government used their existence as justification for not granting Blacks political rights in South Africa proper.

government, service delivery on especially local government level is not what it should be. The lack of service delivery has lead recently to several local authorities, for instance in the Free State province, to experience social unrest.

Since 1994 the government has implemented a wide range of policies to address these challenges. This paper sets out an overview of these policies, not to provide a detailed discussion of each, but rather to indicate the general changing directions of policy. Policy developments in South Africa since 1994 can be divided into two phases. The first is the period 1994-99 that focused on the stabilisation of the economy and the eradication of the chaos of public finances that the new government inherited from its predecessor. As such, this period focused on the creation of a sound economic and fiscal foundation. The second phase is the period starting in 2000 and that is still ongoing. This period saw the significant expansion of the social welfare system. What is notable about the expansion is that it never threatened the health of public finance.

Comparing the two periods, it is also clear that the economic views of government in the first phase was much more conservative and in line with what the international community, including the IMF, foreign investors and rating agencies, saw as prudent policy. The second phase sees a less conservative stance on issues such as privatisation (that all but disappeared from the vocabulary of government), the role of human development in growth, as well as the provision of social welfare. The paper considers and contrasts these two phases to also consider in what direction policy might be moving and might need to be moving in future. However, before reviewing these two phases as well as the policy issues that government needs to address in future, the next section first provides an overview of the developmental, growth and employment challenges that South Africa faces.

2. The state of development, growth and employment

Up to the mid-1970 economic growth in South Africa was strong with economic growth rates peaking at 6% per annum in the 1960s. However, due to the political turmoil that started in the mid-1970s and worsened in the 1980s, economic growth in South Africa weakened significantly, with per capita growth turning negative in the period 1981-95. Since then economic growth, both in aggregate and per capita terms improved into positive territory (see Table 1). However, it would seem as if the growth rates registered in the period since 1994 did not significantly affect the unemployment rate, the level of poverty or inequality. If anything, some of the figures seem to have worsened.

Table 1 – Economic growth in South Africa

	Real GDP growth	**Per capita real GDP growth**
1961-65	6.15	3.46
1966-70	5.4	2.32
1971-75	3.43	1.23
1976-80	3.13	0.74
1981-85	1.2	-0.88
1986-90	1.59	-0.46
1990-95	1.03	-1.2
1996-2000	2.96	0.68
2001-05	3.98	2.24

Source: South African Reserve Bank 2007b.

Significant changes in the levels and composition of poverty occurred since the early 1990s (see Table 2 for a summary of findings). Based on 1996 and 2001 Census data and 1995 and 2000 Income and Expenditure Survey (IES) data, Bhorat and Kanbur (2005:4) note that income inequality and poverty increased. Using a $2 a day poverty line they show that between 1995 and 2000 the headcount index measuring poverty increased from 32% to 34% using IES data, or 26% to 28% using Census data (Bhorat and Kanbur 2005:4). They also show that with the same $2 a day standard the gap between the income of the average poor household and the poverty line increased from 11% to 13% between 1995 and 2000. Using a household poverty line of R7 240 per annum for 1996, Simkins (2004:8) calculates a poverty head count of 34.6%, and a poverty gap of 16.8%. For 2001 and with a poverty line of R10 189 (that is equivalent to the R7 240 of 1996) the values are 36.5% and 15.6%. Thus, according to Simkins the proportion of poor increased, though the poverty gap decreased. Bhorat and Kanbur (2005:4-5) report that both absolute and relative poverty of Black households in South Africa also increased during the same period, while more rural areas also have higher levels of poverty.

Concerning income inequality Simkins (2004:8-9) reports that based on 1996 and 2001 Census data the Gini coefficient[2] increased from 0.660 to 0.692, while based on the 1995 and 2000 IES data, it increased from 0.608 to 0.669.[3] Using General Household Survey (GHS) data for 2004 Whyte (2006) found that the Gini coefficient was 0.6. When population groups, i.e. Blacks, Whites, Coloureds and Indians, are used to define groups, the contribution of within-group inequality to total inequality

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[2] The Gini-coefficient can take a value between zero and one. The closer the coefficient approximates one, the more unequal the distribution of income.

[3] Simkins (2004:9) states that at the lower end of the income distribution income was more underreported in the 1996 Census than in the 2001 Census. There is also a better correspondence for reporting at the lower end between the 2001 Census and the 2000 IES.

also seems to have increased significantly, while the contribution of between-group inequality has decreased significantly. Compared to the 1970s, the contribution of within-group inequality to total inequality has increased with 20 percentage points to about 60% in 2001 (Bhorat and Kanbur 2005:5).

Table 2 – Changes in poverty

Author(s) and the measures they used	**Finding**
<u>Bhorat and Kanbur (2005:4)</u>	
Poverty head count and poverty gap ($2 a day poverty line)	Income inequality and poverty increased Absolute and relative poverty of Black households increased Within-group inequality to total inequality has increased
<u>Simkins (2004:8)</u>	
Poverty head count and poverty gap (poverty line of R7 240 per annum for 1996; 2001 and with a poverty line of R10 189) Gini coefficient Income shares	Proportion of poor increased, though the poverty gap decreased. Gini coefficients increased
<u>Whyte (2006)</u>	
Gini coefficient	Within-group inequality to total inequality increased significantly
<u>Bhorat, Naidoo and Van der Westhuisen (2006)</u>	
Gini coefficient for asset and service access Head count for asset poverty (20th and 40th percentile poverty lines)	Inequality in terms of assets decreased Within-group inequality increased Household access to services improved

Source: Author's own compilation.

Using GHS 2004 data for age-groups 25-60 Whyte (2006) reports that the Gini coefficient for Blacks is 0.56 and for Whites is 0.47. The same data shows that the difference between male and female inequality is more or less the same with the male Gini coefficient at 0.59 and that of females at 0.60. All these Gini coefficients are some of the worst in the world and are comparable to that of for instance Brazil.

The inequality it further highlighted when considering the share of each population group in aggregate household income. Using IES data, Simkins (2004:2) reports that Blacks received 42% and Whites 45.5% of aggregate household income in 1995, while in 2000 Blacks received 40% and Whites 46%. Census data provides a slightly better picture with Blacks receiving 43.6% and Whites 44.3% of aggregate household income in 1996, while in 2001 Blacks received 43.8% and Whites 42.7%. These figures should be seen against the background that according to the September 2006 Labour Force Survey (StatsSA, 2007), Blacks constitute 79% of the total population, while Whites constitute 9% (on a population of 47.5 million).

However, income and expenditure are not the only measures of absolute and relative living standards. Bhorat, Naidoo and Van der Westhuisen (2006) found that inequality in terms of assets decreased between 1993 and 2004 and ascribe this decrease to government policy aimed at reducing asset inequality.[4] However, they also noted that the within-group inequality increased during this period. Bhorat *et al* (2006:16) also found that household access to a formal dwelling, piped water, electricity for lighting and cooking improved significantly.[5]

Using the 20th percentile as asset poverty line, Bhorat *et al* (2006:31) indicate that between 1993 and 2004 the head count for asset poverty decreased from 38.4% in rural areas and 4.5% in urban areas to 20% in rural areas and 2.6% in urban areas. The poverty gap decreased from 12.6% in rural areas and 0.6% in urban areas to 9% in rural areas and 0.5% in urban areas. Using the 40th percentile as asset poverty line the head count for asset poverty decreased from 72.7% in rural areas and 11.2% in urban areas to 43.2% in rural areas and 6.7% in urban areas. With the 40th percentile as poverty line, the poverty gap decreased from 34.2% in rural areas and 4.1% in urban areas to 19.6% in rural areas and 2.4% in urban areas. Using the 20th percentile might be interpreted as denoting those in extreme poverty, while using the 40th percentile denotes a broader group that might include those not in extreme poverty. A similar decrease can be observed when a distinction is made between male and female asset poverty, the asset poverty of rural Black households and rural Black female-headed households, where in all cases both the headcount index and the poverty gap decreased.

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4 Their paper considers non-income welfare improvements and entitlement deprivation and they examined the access of households to services and assets. Their study uses the 1993 South African Labour Development Research Unit (SALDRU) data, 1999 October Household Survey (OHS) data and the 2004 General Household Survey (GHS) data.

5 Access to formal dwelling improved from 68.3% in 1993 to 73.6% in 2004. For piped water it is 59.3% and 67.8%, and for a flush/chemical toilet it is 52.6% and 57.2%. Electricity for lighting improved from 51.9% to 80.2%, while electricity for cooking improved from 45.2% to 59.4%. Water, electricity and sanitation are services that government targeted for improved levels of delivery. In addition, with regard to services and ownership that government did not target, household access to telecommunications improved from 27.3% to 54.6%, while radio ownership improved from 79% to 81.1%, and television ownership from 47.7% to 59.5%. The only decrease was in vehicle ownership that decreased from 27.6% to 24.7[0]%.

Considering asset inequality using a Gini coefficient, Bhorat *et al* (2006:45) finds that the Gini coefficient for Blacks decreased from 0.359 to 0.268 between 1993 and 2004, while that of Whites remained low, being 0.024 in 1993 and 0.02 in 2004. It also decreased in both rural and urban areas and for both males and females. The contribution of within-group inequality to total inequality (based on population group) increased from 63.4% to 81.9%. Thus, just as with income distribution within-group inequality contributes significantly more to total inequality.

A significant amount of the above inequality in income and access to assets as well as poverty can be ascribed to unemployment. The extent to which this is true can be seen in Table 3. Table 3 shows that in 2002 and 2005 less than a third of household income in the two lowest quintiles (i.e. the 20% of the population constituting the lowest income group and the 20% constituting the second lowest income group) recorded salaries and wages as their main source of income.

Table 3 – Main source of household income (% of households) 2002 and 2005

	Household quintile				
	Lowest quintile	Second lowest quintile	Middle quintile	Second highest quintile	Highest quintile
2002					
Salaries/wages	25.3	28.6	53.2	71	88
Remittances	39.9	27.2	9.2	5.1	2
Pensions/grants	16.1	31.4	31.1	18.1	4.4
Other/none	18.7	12.8	6.5	5.8	5.6
2005					
Salaries/wages	17.8	31.6	50.9	77.4	90.7
Remittances	30.8	12.7	5.8	4	1.1
Pensions/grants	39.6	49.5	38.1	14.3	2.8
Other/none	11.8	6.1	5.2	4.3	5.4

Source: National Treasury 2007b: Budget Review 2007/8, pp. 101, based on 2002 and 2005 General Household Surveys of StatsSA.

Thus, while government can accomplish a lot and may still be able to improve current levels by providing better access to services such as housing, electricity, water and sanitation, room for such improvements is limited. Beyond these limits of basic services real and sustainable improvements in living standards and income need to be sustained by higher levels of employment. Judged by any international standard current levels of unemployment in South Africa are very high. Comparing September Labour Force Survey data for September 2001 to September 2006, the official unemployment rate stood at 25.5% in September 2006, being at 29.4% in September 2001 and reaching a high of 30.4% in September 2002 (see Table 4). However, the expanded definition of unemployment stood at 37.3% in September 2006 (Table 4). The difference between the official and the expanded definition is the inclusion in the expanded definition of discouraged work seekers, i.e. those willing and able to work, but due to failure to find a job in the past are not anymore actively seeking a job.

Reasons for the high unemployment rate are found in the political and economic history of the country. Wohlmuth (1996:8-16) discusses six interrelated reasons for the high level of unemployment:

The decline in macroeconomic indicators such as output and productivity over the thirty year period preceding 1994, mostly as a result from increasing international isolation due to apartheid.

Extreme spatial concentration of production and income towards metropolitan and sub-metropolitan areas and away from peripheral and homeland areas.

Industrial concentration and concentration of agricultural land ownership that led to overly intensive capital structures and undermined the proper functioning of markets for products, capital, land and labour. It also led to the overregulation of markets such as the agricultural product markets. These inefficiencies ultimately lead to lower output levels and thus employment.

A system of tariffs and subsidies to protect industries that skewed the structure of the economy. Protection caused allocative and cost (X-) inefficiency, undermining competition and the efficient allocation of resources, including labour.

Lack of training and thus skilled personnel, which every time that the economy enters a growth phase inhibits the growth. As Wohlmuth (1996:14) states “South Africa is prototypical for a country where the quality of the labour force is not in conformity with the level of development and the importance of the capital stock.”

Apartheid caused all factor markets to be distorted structurally, that is the land market, the capital market as well as the labour market.

The persistent high unemployment rate does not mean that South Africa is experiencing jobless growth. Employment increased in every year of the current decade, being at 12.8 million in September 2006 (Table 4). The number of unemployed peaked in September 2002 at 4.9 million. Since then it remained range-bound being 4.4 million in September 2006.

Table 4 – Changes in employment and the unemployment rate (in 000)

	Sep'01	Sep'02	Sep'03	Sep'04	Sep'05	Sep'06
Employed	11181	11296	11424	11643	12301	12800
Unemployed	4655	4936	4434	4135	4487	4391
Total (Employed + Unemployed)	15836	16232	15858	15778	16788	17191
Official unempl rate	29.4	30.4	28.	26.2	26.7	25.5
Male	25.5	25.9	24.7	23.1	22.6	21.2
Female	33.8	35.9	32	30.2	31.7	30.7
Discouraged	2994	3194	3773	3948	3312	3217
Expanded unemployment	7649	8130	8207	8083	7799	7608
Total (Employed + Unemployed + Discouraged)	18830	19426	19631	19726	20100	20408
Expanded unempl rate	40.6	41.9	41.8	41	38.8	37.3

Source: StatsSA 2007: Labour Force Survey September 2006.

Table 5 – High unemployment among the young

Age group	Sep'01	Sep'02	Sep'03	Sep'04	Sep'05	Sep'06
Official unempl rate	29.4	30.4	28.	26.2	26.7	25.5
15-24 years	53.4	55.9	55.3	51.7	51.4	50.2
25-34 years	34.4	34.1	30.9	29.7	30.3	28.5
35-44 years	19.8	21	18.7	18.2	18.2	18.2
45-54 years	13.9	16.1	13.5	11.9	13	12.4
55-65 years	10.6	10	8.9	7.3	8.3	6.9

Source: StatsSA 2007: Labour Force Survey September 2006.

Table 6 – The racial and gender profile of the unemployed

Population group	Sep'01	Sep'02	Sep'03	Sep'04	Sep'05	Sep'06
Official unempl rate	29.4	30.4	28.	26.2	26.7	25.5
Black	35.7	36.4	33.9	31.3	31.5	30.5
Coloured	21.2	23	21.1	21.8	22.4	19.4
Indian	18.8	20.4	16.6	13.4	15.8	9.6
White	5.8	6	5	5.4	5.1	4.5
Male	25.5	25.9	24.7	23.1	22.6	21.2
Black	31.5	31.5	30	27.6	26.6	25.3
Coloured	19.5	19.9	18.8	19.7	20.6	16.6
Indian	15.7	15.6	15.5	12.4	14	6.6
White	4.7	5	4	5.1	3.6	4.6
Female	33.8	35.9	32	30.2	31.7	30.7
Black	40.7	42.3	38.7	36	37.1	36.4
Coloured	23.1	26.6	23.6	24.1	24.6	22.6
Indian	23.5	27.1	18.4	14.4	18.6	14.3
White	7.4	7.4	6.2	5.8	6.9	4.4

Source: StatsSA 2007: Labour Force Survey September 2006.

However, discouraged work seekers, not counted as part of the unemployment figures just cited, increased from 2.9 million in September 2001 to 3.9 million in September 2004, before decreasing to 3.2 million in September 2006. Levels of discouragement among those in the labour force are particularly high among the young, with 16% to 18% of workers in their twenties counted as discouraged work seekers, while only 3% to 5% of those between 55 and 65 being discouraged (StatsSA 2007:xxi). This coincides with the much higher unemployment rates among the young, with 50.2% of those between 15 and 24 being unemployed and a further 28.5% of those between 25 and 34 being unemployed (see Table 5).

Though the contribution of the between-group inequality to total inequality calculated on the basis of population groups is decreasing, it still is very prevalent and largely driven by the much higher unemployment rate among Blacks. Table 6 shows that in September 2006 Black unemployment was 30.5%, while White unemployment was 4.5%. In addition, there are also much higher unemployment levels among Black females than among Black males (see Table 6).

Table 7 – Changing levels of employment in different industries

Industry	Sep'01	Sep'02	Sep'03	Sep'04	Sep'05	Sep'06
Agriculture	1178	1420	1212	1063	925	1088
Mining	554	559	552	405	411	398
Manufacturing	1620	1633	1550	1714	1706	1737
Utilities	94	84	91	99	100	119
Construction	634	605	664	824	935	1024
Trade	2454	2194	2429	2542	3024	3055
Transport	546	574	537	564	616	611
Finance	1035	1084	1098	1147	1296	1309
Community and social services	1989	2043	2180	2185	2192	2319
Private households	1034	1029	1075	1075	1067	1108
Unspecified	42	72	34	26	29	33
Employed	11181	11296	11424	11643	12301	12800

Source: StatsSA 2007: Labour Force Survey September 2006.

The biggest contributors to employment creation between September 2001 and September 2006 were construction, the trade, transport, finance as well as community and social services, with construction showing the largest percentage increase. Agriculture and manufacturing remained more or less range-bound, while employment in the mining industry shrunk (see Table 7).

When considering the type of jobs that caused the increase in employment, almost all categories increased with the exception of skilled agriculture that decreased and machine operators that remained range-bound (see Table 8).

What is also clear is that the increase in employment between September 2001 and September 2006 is due to an average 20% increase in the employment levels of both the formal and informal sectors, calculated over the whole period between September 2001 and September 2006 (see Table 9).

Table 8 – Types of jobs

Occupation	Sep'01	Sep'02	Sep'03	Sep'04	Sep'05	Sep'06
Manager	664	731	822	910	857	873
Professional	486	502	544	458	589	601
Technician	1176	1207	1159	1149	1196	1231
Clerk	1091	1110	1156	1169	1188	1246
Sales and service	1429	1244	1361	1453	1607	1638
Skilled agriculture	521	706	341	329	302	432
Craft	1529	1460	1454	1538	1744	1921
Machine operator	1127	1156	1145	1113	1127	1118
Elementary (labourer)	2253	2296	2530	2619	2811	2841
Domestic worker	881	844	895	881	859	886
Unspecified	24	40	17	23	21	14
Employed	11181	11296	11424	11643	12301	12800

Source: StatsSA 2007: Labour Force Survey September 2006

Table 9 – Employment in the formal and informal sectors

Sector	Sep'01	Sep'02	Sep'03	Sep'04	Sep'05	Sep'06	Increase (%) '01-'06
Formal (excl agri)	7027	7181	7373	7692	7987	8384	19.3
Informal (excl agri)	1967	1780	1903	1946	2462	2379	21
Domestic worker	881	844	895	881	859	886	0.6
Agriculture	1178	1420	1212	1063	925	1088	-7.6
Unspecified	128	72	40	60	67	64	-50
Employed	11181	11296	11424	11643	12301	12800	14.5

Source: StatsSA 2007: Labour Force Survey September 2006 and author's own calculations.

However, one question remaining is why the informal sector is not much larger (as it is in many other emerging market countries), thereby absorbing more of the unemployed? This is a question Kingdon and Knight (2004:391-2; 395) considers. They find a large earnings segmentation between the formal and informal employed, while the unemployed are much worse off compared to even the informally employed in terms of earnings and spending (Kingdon and Knight 2004:404). Such a difference in earnings and spending should not leave people indifferent as to whether they should work in the informal sector or be unemployed. However, one reason for the existence of high unemployment in the face of such a difference could be that work has a high level of disutility compared to the wage that workers might earn in the informal sector. Thus, these unemployed might be voluntary unemployed given that their reservation wage exceeds the wage that they can command in the (informal) labour market.

The possibility that the unemployed might be voluntarily unemployed leads Kingdon and Knight (2004:391) to consider the question whether or not unemployment in South Africa is voluntary or involuntary. This is an ethical question, because if it is voluntary, it deserves much less policy attention compared to if it is involuntary. However, Kingdon and Knight (2004:404-5) conclude that unemployment in South Africa is *in*voluntary given that the measured happiness levels of the unemployed are much lower than those of the employed, while it is likely that the unemployed would accept work at the going wage in the market (thought there are problems with data to estimate the reservation wage). Furthermore, they ascribe the small size of the informal sector to the barriers to entry faced by many potential entrants to the sector. The barriers according to Kingdon and Knight (2004:403-4) mainly involve lack of capital and skills.

Some authors detect a worrying trend in that unemployment is seen to increase more among the low and semi-skilled. Nattrass (2004:91) notes that the South African economy moved towards a more skills- and capital intensive structure, while employment opportunities favour the skilled relative to the unskilled. According to Bhorat and Cassim (2004:18) the shortage of skilled workers also causes workers at the top end to be paid a premium. In addition, Whiteford and Van Seventer (2000:28-30) projected an increasing demand in the formal sector of the economy for skilled labour and a decreasing demand for unskilled labour, while Nattrass (2004:93) expressed concern that the shortage of skilled labour will act as a constraint on future growth. However, considering Table 10 it becomes clear that the composition of employment in terms of skill levels has not changed between September 2001 and September 2006.

Table 10 – No change in the skills composition

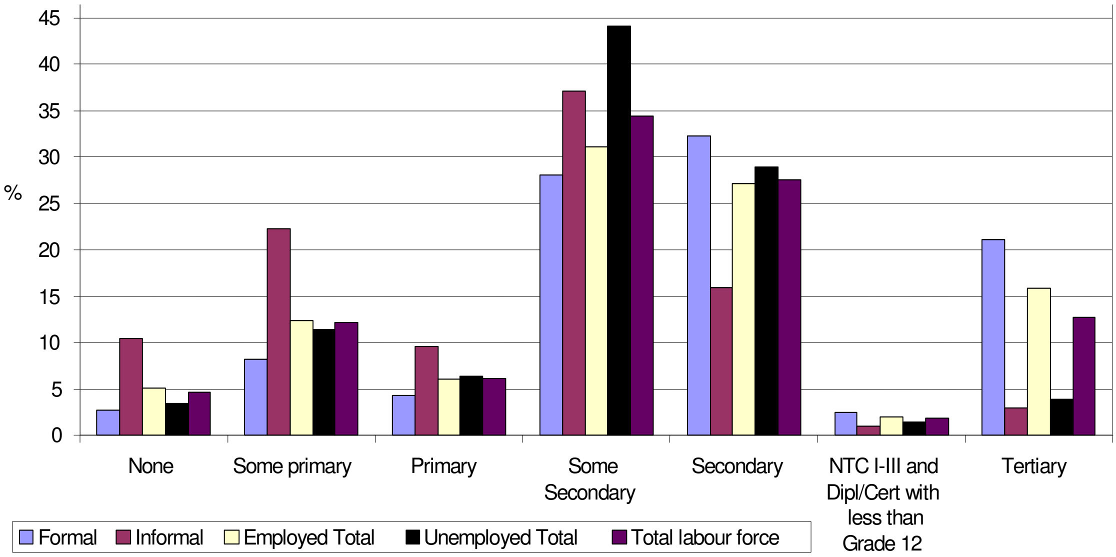
	Sep'01	Sep'02	Sep'03	Sep'04	Sep'05	Sep'06
Highly skilled[1, 4]	10.3	11	12	11.8	11.8	11.5
Skilled and semi-skilled[2, 4]	61.6	61.2	58	58.1	58.3	59.3
Unskilled[3, 4]	28.1	27.9	30	30.1	29.9	29.2

1 Includes managers and professional workers.
2 Includes technicians, clerks, sales and service workers, skilled agricultural workers, craft workers and machine operators.
3 Includes elementary labourers and domestic workers.
4 Percentages calculated as proportion of total employment (excluding the unspecified).

Source: StatsSA 2007: Labour Force Survey September 2006 and authors own calculations.

However, since Table 10 only considers the employed, it may still not preclude the possibility that large portions of the unskilled remain unemployed while the highly skilled, skilled and semi-skilled experience higher level of employment. To consider this possibility Figure 1 compares the highest level of education attained by the employed and unemployed as percentage of the employed and unemployed (using the official definition of unemployment). It also distinguishes between formal and informal employment.

Figure 1 – Highest levels of education of the employed and unemployed



Note: Some Primary includes those with Grades 1 to 6, Primary are those with Grade 7, Some Secondary are those with Grades 8 to 11, Secondary those with Grade 12, while Tertiary are those the Degrees and more as well as those with a Diploma/Certificate and Grade 12.

Source: StatsSA 2007: Labour Force Survey September 2006 and authors own calculations.

Figure 1 shows that for those with no schooling, some primary and complete primary education (who together constitute 23% of the total labour force), there is no clear distinction between the employed and the unemployed, i.e. they constitute approximately the same percentage of the employed and unemployed. However, what is notable is that those with no schooling, some primary and complete primary education constitute a larger percentage of the workers employed in the informal sector compared to the formal sector. The same holds true for those with some secondary education.

Figure 1 also shows that those with some secondary and complete secondary education (who together constitute 62% of the total labour force) constitute a larger proportion of the unemployed than of the employed. This is surprising as one would have expected this pattern to exist among those with no schooling, some primary and complete primary education, with less of a distinction at the level of those with some secondary and complete secondary education. In addition, Figure 1 also shows that in contrast with lower levels of education, those with complete secondary education constitute a larger proportion of the formal employment than of informal employment. Lastly, Figure 1 shows that those with a tertiary qualification, while constituting 13% of the total labour force, constitute a much larger proportion of the employed (16%) than of the unemployed (4%). They also constitute a much larger proportion of formal sector employment (21%) than of informal sector employment (3%). Should one associates secondary and complete secondary education with semi-skilled and skilled labour, while associating tertiary education with highly skilled labour (though there is not a one-for-one correspondence) it becomes clear that formal sector employment requires higher levels of highly skilled labour than informal sector employment. In addition it also becomes clear that differences between the proportions of some secondary, complete secondary and tertiary education in total employment and unemployment suggest that if there are shortages of skills, the problem is more accentuated at the level of the highly skilled than at the level of the skilled and semi-skilled. With the tertiary unemployment rate equals to 7.7% a tertiary qualification also significantly reduces the probability of being unemployed.[6]

Given that those with a tertiary education constitute 21% of formal sector employment but only 13% of the total labour force (see Figure 1), means that should emphasis be placed on the formal sector to grow the economy, then the economy might run into significant shortages of skilled labour. Thus, there is a need to grow the amount of skilled labour (i.e. those with a tertiary education). However, growth need not only come from the formal sector since the informal or small business sector can also grow. Should emphasis be on growing the informal and small business sector (so

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[6] There are 170 000 unemployed persons with a tertiary education out of the total 4.4 million unemployed and the 2.2 million people with tertiary education. Of the 170 000 unemployed with a tertiary education only 29 000 hold degrees, while the rest hold diplomas and certificates in addition to grade 12 education. Thus, the unemployment rate of those with degrees or more is 3.5% (i.e. 29 000 as percentage of the 821 000 in the labour force with a degree or more).

that, following Kingdon and Knight's (2004:391-2; 395) suggestion, its size is comparable to the informal sector in other emerging market countries) employment creation in the informal sector may require a level of skills creation that is much less than that possessed by highly skilled workers. Furthermore, the effort needed to endow an unemployed person with these skills might not be that much given that 73% of the unemployed completed some secondary or complete secondary education. What might be needed are some financial literacy skills as well as some technical skill so that the unemployed person can add value when producing in the informal sector, and as such receive remuneration for adding the value. Such basic skills may help to overcome the skills barrier to the informal sector that Kingdon and Knight (2004:403-4) discussed. Growing the informal and small business sector implies an economic policy that is not export-led, but rather focuses on employment creation through the creation of a domestic market that is serviced by small businesses. Such an approach, though, also requires a change in attitude in terms of how government and people think of the informal sector. Unfortunately this attitude has not changed much so that the 1996 observation by Wohlmuth (1996:6) still rings true in 2007, when he notes that:

"Informal sector employment and subsistence sector employment are still considered as residual employment sectors, thereby suggesting that the unemployed have to be considered as jobseekers vis-à-vis the formal sector rather than as job-creators in the non-formal sector of the economy."

However, there might be early indications of a change in attitude by government. When government announced Accelerated and Shared Growth Initiative – South Africa (ASGISA) (discussed below), it indicated that it intends to bring the informal sector into the formal sector. It also indicated that it would review the impact of current labour legislation on particularly small businesses (South Africa 2006:8-10). However, its hesitance to do so up to date undermines efforts to bring the informal sector into the formal sector (particularly because operating in the formal sector requires from a business to comply with labour legislation, something that does not necessarily happen when small businesses in the informal sector employ workers).

3. Creating a sound foundation? The 1994-99 phase

As stated in the introduction, the economic policy stance of the South African government after 1994 can be divided into two distinct phases, the 1994-99 phase and the phase since 2000.

3.1 Finding the right GEAR

The first phase saw the introduction of two key policy documents, namely the Reconstruction and Development Plan (RDP) (ANC 1994) and the Growth, Employment and Redistribution: A Macro-economic Strategy (GEAR) (1996) (Department of Finance 1996).

The RDP was the election platform for the African National Congress (ANC) in 1994. After the election the RDP document was turned into a White Paper in 1994 (South Africa 1994). The RDP focused on the improvement of service delivery to the poor and the creation of an environment engendering human development. As a basic point of departure the RDP White Paper stated that economic growth and development are interdependent and as such, the South African government would focus on both. The main objective of the RDP was to foster sustainable human development and to eradicate inequality and poverty. To reach these objectives the RDP foresaw an increase in government social expenditure on education, health, welfare and housing. However, it was also an explicit objective of the RDP to reduce the deficit and debt burden of South Africa and ensure that recurrent expenditure in total does not increase (South Africa 1994:4). The RDP White Paper also stated as an objective the reduction of government dissaving and an increase in the proportion of government investment expenditure (South Africa 1994:4). As such, the RDP White Paper stated that the RDP objectives were to be met by a shift in expenditure to ensure that social expenditure increases, while total recurrent expenditure remains unchanged and the deficit decreases. The RDP White Paper further stated the need to train civil servants and reform the labour market to establish central bargaining (South Africa 1994:4).

Following the introduction of the RDP concerns were raised as to the ability of government to deliver on the objectives, while also ensuring that recurrent expenditure does not increase and the deficit and debt burden decrease. As Hirsch (2005:73-4) states, even though government thought that the reallocation of expenditure mostly away from expenditure posts such as the military would ensure the required increase in social service expenditure, it was not sufficient. Amidst this uncertainty the business community lobby group called the South Africa Foundation (1996) released a document entitled 'Growth for all' while the Congress of South African Trade Unions (COSATU) and its allies released a document entitled 'Social equity and job creation' (COSATU, NACTU and FEDSAL 1996). These two documents made rather diverging proposals and added to the policy uncertainty at the time.[7]

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[7] The 'Growth for all' document took a strong pro-market approach, advocating reduced government activity and privatisation, while the 'Social equity and job creation' document advocated a strong interventionist, even socialist fiscal stance.

Following this and after some exchange rate pressure due to capital outflows, the government released GEAR in 1996.

Essentially GEAR is a neoclassical macroeconomic stabilisation policy along the lines of the so-called Washington Consensus. It had a five year term, 1996-2000. Given that its focus, as its full name states, is macroeconomic, social issues received less attention than in the RDP. The GEAR policy envisaged the elimination of dissaving to release more resources for public and private investment, with a preference for private investment (Department of Finance 1996:2). The focus on a reduction of dissaving as a precondition for higher investment explains its neoclassical nature. Higher investment, in turn, should lead to a higher national income and employment. Thus, GEAR saw a prudent fiscal policy as a means towards the ultimate end, which is development, poverty reduction and the reduction of inequality.

As part of the prudent fiscal policy, GEAR also stated as objective to reduce the budget deficit/GDP ratio to 3% by 1999 and 2000 (Department of Finance 1996). Through the reduction of the deficit government wanted to stabilise and even reduce the public debt/GDP ratio. Government succeeded in stabilising this ratio at approximately 50% by 1999/2000 (currently it is budgeted to decrease below 30%). The reduction of the debt burden would have the added benefit that interest payments on the debt make a smaller claim on government revenue. This would leave more room for government to spend on other expenditure categories, such as social expenditure. When the debt burden was at its highest interest payments on government debt constituted the second largest expenditure post on the budget. Only education expenditure exceeded it. Hence government aimed directly at the reduction of the interest burden (National Treasury 2000) and reduced it to below 20% of total government expenditure in the 2000/01 budget (National Treasury 2001).

GEAR (Department of Finance 1996) furthermore aimed at a reduction in tariffs as well as a restructuring and possible privatisation of state assets. It also argued for a commitment to moderate wage demands, prudent monetary policy to contain inflation and larger infrastructure investment (Department of Finance 1996). Though South Africa did not borrow from the IMF or World Bank, all these proposals fitted well with the type of conditions that the IMF placed on countries who were participating in its conditional loan and structural adjustment programmes. Hence the conclusion that GEAR fitted well with the Washington Consensus and as such could be seen as a self-imposed structural adjustment programme. Government hoped that by self-imposing it, it would demonstrate to foreign (and domestic) investors that it can be trusted with economic policy.

In addition, to demonstrate its commitment to prudent policy and maintain its independence from foreign institutions such as the IMF and World Bank, government also did not want to borrow offshore on a large scale to finance investment projects.

Fears of the exchange rate risk that exists when borrowing in a foreign currency, as well as a lack of management capacity might have been additional reasons for not borrowing offshore (Hirsch 2005:75). Though all these reasons are valid, the downside of not borrowing in the mid- to late 1990s to create infrastructure is that by 2007 the country was suffering from several infrastructure bottlenecks. These range from a short supply of electricity, limited capacity of the Durban harbour and other transportation infrastructure as well as a lack of broadband telecommunication capacity. Though there are currently plans to expand the infrastructure, these infrastructure constraints already hamper growth, implying that the infrastructure expansion plans are ten years too late.

3.2 Social discord and arguments to reverse GEAR

Though government and the business sector supported GEAR, it experienced significant resistance from COSATU and its social partners such as the South African Communist Party, the South African Council of Churches (SACC) and the South African National Non-Governmental Organisation Coalition (SANGOCO)). As argued above, GEAR saw a prudent fiscal policy in the form of a reduction and even elimination of government dissaving as the prerequisite towards the ultimate end, which is development, poverty reduction and the reduction of inequality. A reduction of dissaving (through *inter alia* a reduction in recurrent expenditure) would allow more investment and economic growth, which would generate the additional employment and resources needed to address poverty and inequality. The higher economic growth would increase the tax base, which means that government could raise the additional taxes needed to address poverty and inequality without a need to increase the tax rates. The basic philosophy behind GEAR was succinctly summarised by the minister of finance, Trevor Manuel, in his 2005/6 budget speech (italics in the original):

"*More rapid growth.* Over the past decade we have laid the macroeconomic and fiscal foundations on which increased investment and a stable business environment rest. In the years ahead we must see more rapid expansion in the productive capacity of our businesses, creating jobs for workseekers, while also growing the revenue base that makes possible an expanded envelope of public services to citizens."

However, COSATU argued that instead of growing the economy, GEAR placed a damper on the economy (People's Budget Campaign 2005):

"Cuts in government spending mean a smaller market for business as well. Under GEAR, falling government spending reduced demand for goods and services, which depressed economic growth."

In addition, COSATU argued that "higher social spending … is a necessary precondition for development and rapid economic growth" (COSATU 2000). Thus, while the government view proclaimed a causality from disciplined fiscal policy to economic growth and then to development, COSATU and its allies argued that the causality runs in the opposite direction: growth will follow development, which may follow an increase in expenditure. To finance the higher expenditure COSATU prefers to increase the tax rates on higher income groups and businesses, though it is also not averse to increasing the debt burden of government (presumably it assumes that debt can be repaid later when growth and the resulting improvements in revenue occur) (See People's Budget Campaign 2007:29).

3.3 GEAR: Did the country move forward?

Ultimately the success of GEAR hinged on an increase in investment, primarily private and foreign investment, and an increase in employment. Though government largely succeeded in decreasing the deficit and government dissaving (Department of Finance 2000), GEAR failed to stimulate investment. Not only was private investment not forthcoming to the extent foreseen by GEAR (by the end of the decade it even decreased in the aftermath of the Asian crisis), but even government investment instead of increasing, decreased. Employment also did not increase significantly with the unemployment rate even increasing in the late 1990s.

Several reasons may exist for the failure of GEAR to increase investment and reduce unemployment. These may include the effects of the Asian and emerging market crises of the late 1990s and the reaction of the South African Reserve Bank to these crises. (To stem the outflow of capital during the crisis in 1997/8, the South African Reserve Bank engineered a significant increase in interest rates that impacted very negatively on investment.) The government might also have been too hasty in expecting foreign investors to react positively to GEAR and its prudent fiscal policy. Before investing in the country many investors might still have been waiting to see whether or not the country can built a positive track record in terms of being democratic and market-friendly. Furthermore, as Wohlmuth (1996:7) warned in 1996, demographic factors, international integration factors resulting from opening up the economy, technological transfers needed to adapt to international best practice and technology, as well as adapting socio-political institutions (such as provincial government) might impact on the labour market and employment growth in South Africa and cause the absorption capacity of the formal sector to be limited in the years to come. His warning at the time seems to have been vindicated. Thus, once these changes were made and once the country established a track record as a country with sound economic and fiscal management, the fruits of GEAR in the form of higher investment and growth might be forthcoming, but only after the term of GEAR expired.

4 Forging ahead: The phase since 2000

With government finances in a much better position and with macroeconomic policy on a sound basis by 2000 government could afford to increase its social expenditure. Government also turned its attention to more microeconomic issues. As a result by 2007 the social grant system expanded to approximately double its size between 2003 and 2007. Government also announced plans in the 2007/8 budget to implement a full-scale social security system by the end of the decade (National Treasury 2007a). A further development is the implementation of the Accelerated and Shared Growth Initiative – South Africa (ASGISA), announced in 2006.

4.1 If ever so slightly, a move so profound

Underlying these policy announcements and steps is a very nuanced but yet observable relaxation of the conservative fiscal stance embodied in GEAR and that characterised the first phase. Whereas the focus of GEAR was very macroeconomic, emphasising the causality running from prudent fiscal policy to investment and growth and on to human development, the 2005/6 budget speech by the minister of finance states:

"More rapid growth makes greater progress in social development possible, and, in turn, well-targeted investments in human capabilities contribute to rising productivity and sustained growth."

Thus, whereas GEAR very much emphasises a unidirectional causality, government now recognises bidirectional causality. This goes a long way to bridge the divide that existed between government and COSATU in the late 1990s as is clear from the following statement by COSATU (People's Budget Campaign 2005):

"On both the deficit and taxation levels government has adopted a moderately expansionary stance. We believe that this is the right direction, but would support an even more robust strategy aimed at changing the cycle of moderate growth characterised by high levels of unemployment."

COSATU still argues for even bolder increases in social expenditure such as expenditure on education, housing and public transport (though it opposes the Gautrain project[8] in favour of improved transport between industrial and township areas), as well as on land distribution (People's Budget Campaign 2007). It also argues for the introduction of a Basic Income Grant (BIG), an unconditional grant

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[8] The Gautrain will be a high-speed train running between OR Tambo International Airport (the international airport in Johannesburg), the northern suburbs of Johannesburg, as well as Pretoria. It is suppose to alleviate pressure on the Ben Schoeman Highway running between Johannesburg and Pretoria.

paid to every person in the country, and national health insurance (People's Budget Campaign 2008/9). Government opposes the introduction of BIG on the grounds that it is too untargeted.

4.2 ASGISA, a second GEAR?

According to President Mbeki (2006), in his 2006 State of the Nation Address, ASGISA is "…not intended to cover all elements of a comprehensive development plan". Rather, it is a "…limited set of interventions…", to serve as catalyst for accelerated and shared growth. According to the ASGISA background document (South Africa 2006:1), since government consulted widely before it put ASGISA together, ASGISA should be seen as a nationally shared growth initiative and should not be seen as a government programme. Government probably emphasised the non-programme, non-plan nature of ASGISA given the criticism that GEAR attracted as a policy programme that government implemented without heeding the criticism of those opposed to GEAR. Government (South Africa 2006:2) also argues explicitly that ASGISA '…contrasts with the Washington Consensus approach', further evidence that it wants to differentiate ASGISA from GEAR, which was widely seen as a 'Washington Consensus approach'. Thus, implicit to the statement by government on ASGISA, ASGISA is not comparable to GEAR.

The main objectives of ASGISA are to increase the economic growth rate to 4.5% in 2005-09 and 6% in 2010-14 and halving unemployment and poverty by 2014 (to fit with the Millennium Development Goals).

The ASGISA background document argues that the South African economy suffers from two sets of imbalances (South Africa 2006:2). The first is the current account deficit that results from an economic upswing that is driven by better commodity prices, capital inflows and consumer demand. The second imbalance results from a lack of participation in the economy that causes a third of the population to not share directly in the economic improvements that occurred. These imbalances, government argues, must be countered to ensure that it reaches its objectives.

Government also lists six so-called 'binding constraints' (though, what makes them binding and what they bind is not too clear). The constraints are (South Africa 2006:2-4):

1. Volatility and level of Rand, considered at the time that ASGISA was announced as too strong and thereby dampening exports[9].
2. The cost, efficiency and capacity of national logistics system.
3. Shortage of suitably skilled labour.
4. Barriers to entry, limits to competition and limited new investment opportunities.
5. Regulatory environment and the burden on SMEs.
6. Deficiencies in state organisation, capacity and leadership .

To address these constraints government devised selected interventions. Note that these interventions do not address the constraints in a one-to-one relation, meaning that the package of interventions needs to address the package or constraints. ASGISA categorises the interventions as follows (South Africa 2006:4-12):

⇒ Infrastructure: This includes expenditure to the value of R370 billion, mostly on power generation, power distribution, rail transport, harbours and an oil pipeline.

⇒ Sector strategies: In particular these strategies should encourage business process outsourcing (i.e. call centers) and tourism.

⇒ Education and skills: The focus should be on the quality of education, ABET and the training of artisans. Government also wants to implement the Joint Initiative for Priority Skills Acquisition (JIPSA), to identify the types of skills that are in short supply in South Africa. Government wants to undertake JIPSA with the cooperation of the business sector.

⇒ Interventions in the second economy (i.e. the informal sector): Government wants to build bridges between the formal and informal sectors so as to integrate the informal into the formal sector, thereby eliminating the second economy. Measures to do this include increased expenditure to develop small businesses, support to Nafcoc, the traditionally Black chamber of commerce, to establish 100 000 SMEs per annum, the implementation of preferential

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[9] Exchange rate policy is largely the responsibility of the South African Reserve Bank, who follows a policy of not actively intervening in the foreign exchange market to stabilise the value of the Rand. This policy stance follows from the unsuccessful attempt during the Asian crisis to prevent the Rand from depreciating that only led to the Reserve Bank incurring significant foreign exchange liabilities.

procurement and the implementation of broad-based black economic empowerment (BBBEE). The minister of labour will also lead a review on the impact of labour law on small businesses.

⇒ Public Administration: The aim is to improve public service delivery and to improve skill levels on local government level through Project Consolidate.

⇒ Macroeconomic: Government wants to find ways to reduce exchange rate volatility. A further objective is better cooperation between fiscal and monetary policy to ensure better growth. It also wants to address the problem of over estimating expenditure and under estimating revenue collection. Government furthermore wants to improve expenditure management.

Criticism against ASGISA may be raised on several levels. First there is the question as to whether or not the growth and especially the employment targets of ASGISA are realistic. Although the growth rate of the economy already reaches the ASGISA target, and might increase to 6% by 2010, these growth rates might not be sufficient to absorb the unemployed to such an extent that the unemployment rate and poverty is halved in the next seven years. Though government never claimed that ASGISA is an integrated programme – it even stated that ASGISA is merely a set of interventions – questions do exist regarding what binds the various interventions into a unified body (except the loosely stated growth and employment objectives). Put differently, is ASGISA not just a collective acronym for a set of policies/interventions that already existed. By collecting them under one banner creates the perception, though not necessarily an accurate perception, of policy integration and focus. The growth and employment objectives are loosely stated since ASGISA does not demonstrate how the various interventions relate and contribute to the objectives, and whether, in fact, these interventions are sufficient (or even necessary) to ensure the growth and employment objectives. In short, ASGISA lacks structure and fails to demonstrate clearly the nature of the link between its objectives and the interventions.

Another major shortcoming of ASGISA is that it does not even mention the possible implications of the HIV/AIDS epidemic, both for the implementation of the various interventions and the overall growth, employment and poverty alleviation objectives of ASGISA. Currently HIV prevalence rates in South Africa are some of the highest in the world. Dorrington, Bradshaw, Johnson and Budlender (2006:17) report that in 2005 5.4 million South Africans were HIV positive, with an HIV prevalence rate of 11% (their population estimate was 47.5 million people). The 11% figure masks the fact that the prevalence rate among males between 25 and 44 is in excess of 20%, peaking at 26.5% for those between 30 and 34 (Dorrington *et al* 2006:10). For females between 20 and 39 the prevalence rate is also in excess of 20% peaking at 28.2% for those between 30 and 34 (Dorrington *et al* 2006:10). Dorrington *et al* (2006:20) further calculate that although the total population will keep on growing, the rate will decrease to 0.5% by 2011 with the number of infected people in excess of 6 million by 2015. The number of people sick with AIDS will increase to 797 000 in 2015 (Dorrington *et al* 2006:20). The number of AIDS orphans, according to Dorrington *et al* (2006:24), is set to increase to approximately 2 500 000 by 2015, with current levels already estimated to already be in excess of 1000 000. Dorrington *et al* (2006:5) calculate with Anti-retroviral treatment (ART) treatment, life expectancy at birth will fall to approximately 50 years by 2015. These are significant and potentially very disruptive effects that hold the potential to derail large parts of the labour market in particular and the economy in general, thereby undermining the growth objectives of ASGISA. Yet ASGISA is silent on the issue.

Nevertheless, despite these shortcomings ASGISA does recognise key elements needed for growth and employment creation. For instance, regarding the shortage of skills the document states that (South Africa 2006:7):

"For both the public infrastructure and the private investment programmes, the single greatest impediment is the shortage of skills – including professional skills such as engineers and scientists, managers and financial personnel, project managers; and skilled technical employees such as information technology (IT) specialists and artisans."

While with regard to investment it states (South Africa 2006:12):

"There are reports that some investment projects have been held up by unnecessary bureaucratic delays. Government will ensure that investors have access to a one-stop trouble-shooting centre, probably located at Trade and Investment South Africa (TISA)."

Therefore, though ASGISA displays several shortcomings, and even lacks the focus or structure of the RDP and GEAR, it represents an improvement over GEAR in that it recognises many of the institutional shortcomings that hamper growth and employment creation. In addition, the various policies and interventions mentioned in the ASGISA document contain significant detail (also because many of them are existing policies). Unfortunately, as argued above, although it is clear that many of these interventions support growth and employment, it is not clear that they will deliver on the growth and employment objectives of ASGISA.

4.3 A South African welfare state?

In what constitutes another indication of the difference between the first and second phases of economic governance in South Africa, the South African welfare system has undergone a significant expansion, with the amount of social grant beneficiaries doubling between April 2003 and April 2007. During this period the amount of grant beneficiaries increased from 5.8 million to 12 million (see Table 11), which are 25%

of the South African population. This is a significant achievement for an emerging market country. The largest increases occurred in the foster care and child support grants that registered average per annum growth rates of 28.7% and 31.6% (See Table 11). HIV/AIDS is one of the factors that contribute to the increase in grants such as the disability, foster care and child support grants.

The significant increase in the number of beneficiaries also meant that social grant expenditure by government (on national and provincial level) increased from R37 billion to R57.7 billion between the 2003/4 and 2006/7 fiscal years (in nominal terms) and is set to increase further to R73 billion by 2009/10 (see Table 11). However, as percentage of GDP the increase is much less dramatic, with social grants as percentage of GDP increasing from 2.9% in 2003/4 to 3.3% in 2006/7 and budgeted to remain there over the medium term. As percentage of consolidated national and provincial expenditure it increased with a mere 1.1 percentage points to 12.1% and is budgeted to decrease again with a percentage point over the medium term (see Table 12).

Table 11 – Number of social grant beneficiaries

	Apr'03	**Apr'04**	**Apr'05**	**Apr'06**	**Apr'07 projected**	**Average annual growth**
Old age	2022206	2078591	2093440	2144117	2186189	2
War veterans	4594	3961	3343	2832	2326	-15.6
Disability	953965	1270964	1307551	1319536	1437842	10.8
Foster care	138763	200340	252106	312614	381125	28.7
Care dependency	58140	77934	88889	94263	103992	15.6
Child support	2630826	4309772	5661500	7044901	7879558	31.6
Total	5808494	7941562	9406829	10918263	11991032	19.9

Source: National Treasury 2007b: Budget Review 2007/8, pp. 105.

The significant role that grants play can be seen in Table 13, which is a repeat of Table 3. Table 13 shows the percentage of households in every quintile that depend on say salaries and wages or pensions and grants as their main source of income. Table 13 shows that due to the significant increase in beneficiaries and grants paid, households in the lowest two income quintiles depend to a much larger extent on grants in 2005 than in 2002 (16.1% and 31.4% in 2002 relative to 29.6% and 49.5% in 2005). Therefore, these grants also help to prevent income distribution to deteriorate further, though as argued above, a significant and sustainable decrease in the skewness of income distribution ultimately depends on employment creation.

Table 12 – Social grant expenditure 2003/4 to 2008/10

R Million	2003/4	2004/5	2005/6	2006/7 Prelim outcome	2007/8 Medium-term expenditure	2008/9	2009/10
Social grant expenditure	36982	44885	50708	57720	62238	67633	73037
Percentage of GDP	2.9	3.1	3.2	3.3	3.3	3.2	3.2
Percentage of consolidated national and provincial exp	10.9	12	12	12.1	11.5	11.3	11.1

Source: National Treasury 2007b: Budget Review 2007/8, pp. 106.

Table 13 – Main source of household income (% of households) 2002 and 2005

	Household quintile				
	Lowest quintile	Second lowest quintile	Middle quintile	Second highest quintile	Highest quintile
2002					
Salaries/wages	25.3	28.6	53.2	71	88
Remittances	39.9	27.2	9.2	5.1	2
Pensions/grants	16.1	31.4	31.1	18.1	4.4
Other/none	18.7	12.8	6.5	5.8	5.6
2005					
Salaries/wages	17.8	31.6	50.9	77.4	90.7
Remittances	30.8	12.7	5.8	4	1.1
Pensions/grants	39.6	49.5	38.1	14.3	2.8
Other/none	11.8	6.1	5.2	4.3	5.4

Source: National Treasury 2007b: Budget Review 2007/8, pp. 101, based on 2002 and 2005 General Household Surveys of StatsSA.

Though the South African government's involvement in social security through the payment of grants is already rather extensive, it plans to expand it to a full social security system by 2010 that involves the mandatory earnings related social security tax to fund a retirement fund (National Treasury 2007c:1). Each person in formal employment will contribute between 13% and 18% of their earnings, up to a maximum threshold, to this fund (National Treasury 2007c:3). This contribution, paid into an individual's account at the fund, will provide for an old-age pension, death and disability payment as well as unemployment compensation.[10] In principle, the

[10] As such the fund will be a funded, rather than a pay-as-you-go system (National Treasury 2007b:112). Government also considers setting the threshold at R60 000, meaning that the contribution will be calculated as a percentage of income below and up to R60 000 (National Treasury 2007c:3). A 15% contribution will then imply payments up to a maximum of R750 per month (National Treasury 2007c:3).

implementation of the social security system will provide a more sound basis for retirement planning at all levels of income and will reduce the dependence of many on the old-age pensions paid by government currently (these are pensions that government pays, usually to those who have no other source of income, without the beneficiaries having made any contributions to fund it during their working lives).

To support people earning low wages to make the social security contribution, government also considers the implementation of a wage subsidy that will take the form of a rebate paid to employees on their social security contribution (National Treasury 2007c:6). The detail of this subsidy is not worked out yet, but with a vast majority of those people working in the formal sector earning low incomes, one question is whether the wage subsidy will not turn what is a social security tax system comprising individual contributions, into an elaborate subsidised state pension system where government subsidises and thus continues to pay the vast majority of pensions. This in turn raises the question whether or not the government can afford the system given current tax rates. However, should the subsidy not be that elaborate, rendering the system affordable to government, the question of affordability does not disappear. It will merely shift to the ability of poor households to afford paying the social security tax. The ability of households in poverty to save is limited, if not non-existent given that they need to spend almost all if not all of their income to survive. Thus, there is still significant uncertainty about the burden of distribution that the new social security system will imply.

In addition, though government plans to implement a wage subsidy to help the poor employed in the formal sector to make their social security contributions, there remains the problem of the unemployed and those who are employed in the informal sector. Given that government plans to levy the social security tax on those in formal employment means that those who are unemployed or who are employed in the informal sector will remain outside the social security retirement system. These people will remain dependent on the old-age pensions that government currently pays.

5. Conclusion: The two phases and the way forward

Because of the adverse economic conditions of 1994 (i.e. low aggregate and *per capita* growth, high unemployment and poverty and relatively high inflation) as well as the unhealthy state of public finances (i.e. high deficits, dissaving and public debt burden), the first phase of post-apartheid economic governance focused on the establishment of a stable macroeconomic and fiscal environment. Through GEAR government self-imposed a structural adjustment programme that decreased the budget deficit and public debt burden to levels not even seen in developed countries. Government was also driven by the wish to demonstrate to foreign investors that it can be trusted with the economy and public purse. As a result government acquired the image of being fiscally very conservative, a perception that endeared it to the business community but placed it at odds with the trade union alliance. Through the GEAR policy government emphasised the unidirectional causality running from a prudent fiscal policy to human development via higher investment and growth. COSATU, in contrast, argued that causality runs the other way: higher levels of development spending will generate growth and investment, which will lead to the creation of more taxable resources.

However, with the public debt burden and deficits decreasing since 2000 and the track record of government firmly established as a prudent fiscal manager, there was increasingly more room for fiscal expansion. Without putting any upward pressure on the deficit or public debt burden (which continued to decrease), government increasingly rediscovered the bidirectional link between growth and development. As such it recognises the need to expand skills to support growth and improve other dimensions of human development, both as an end in itself, but also as a means to further growth. This need is reflected in ASGISA as well as the substantial expansion of the social welfare system to cover 25% of the South African population through grants. It is further reflected in plans to implement a fully-fledged social security tax and retirement system. Thus, government is steering South Africa in the direction of being a market-orientated welfare state. By doing this government has partially bridged the gap between itself and COSATU. COSATU approve of the policy changes, though it would like more radical changes. Given that these changes occurred amidst a continuing improvement in the budget deficit and the public debt burden (the deficit is budgeted to turn into a surplus in the 2007/8 fiscal year), government could partially bridge the gap with COSATU without causing a deterioration in its relationship with the business sector.

The improvement in public finances together with the expansion in the social security system, as well as plans to increase infrastructure significantly was to a large extend made possible by the significantly improved and still improving economic growth rate that occurred during the period since 2000. As Fourie and Burger (2003:815-8) argued, higher growth allows for the tension and supposed trade-off between sustainable fiscal policy and sustainable development to be eased.

Thus, South Africa now experiences the unfolding of a fully-fledged market-orientated welfare state amidst higher levels of economic growth. However, it still has significant unresolved issues that are undiminished despite thirteen years of economic policy since 1994. Unemployment still remains extremely high while significant doubt exists as to whether ASGISA will be able to halve unemployment and poverty by 2014. The unemployment situation lies at the foundation of the problem of social inequality and poverty. And while government can reduce some of the inequality and poverty by ensuring better access to services, inequality and poverty can ultimately only be eradicated through job creation. It would seem as if job creation in the formal sector is hampered by skills shortages, especially the high level skills of those with tertiary education. Skills shortages may also be a problem for job creation in the informal sector, though the level of skills required might be much less, entailing basic financial literacy and technical skills. A focus on the informal and small business sector allows for the possibility of creating growth and employment through the creation of a domestic market that is serviced by small businesses. In addition to skill augmentation, the informal sector also needs improved access to credit. The financial system in South Africa has made some headway in the provision of micro finance, though the cost of borrowing often is still quite prohibitive, while the provision of saving instruments for the poorer sections of the population is not yet well-developed. With respect to the latter, the South African banks in 2005 introduced a lower cost basic saving instrument in what is called Mzansi accounts (South Africa Info 2005). However, there is still room for improvement since the South African financial system in general is not well geared to service the poor. An improvement in the provision of saving and credit instruments, and the mobilisation of resources it implies, will also support an expansion of the informal sector and hence the employment of people in this sector.

The persistence of the unemployment problem in South Africa also highlights the need to review current labour market legislation. As shown above employment levels of the highly skilled, skilled and semi-skilled increased in lockstep with the employment levels of the unskilled. Given the shortages of highly skilled labour and the higher levels of unemployment among the skilled, semi-skilled and unskilled, the question is how to increase the proportion of skilled, semi-skilled and unskilled labour relative to that of highly skilled labour (who mostly consists of managers and professionals). With less rigid labour markets, where the lower levels of rigidity decreases employment costs, and freedom to pay lower wages (not set in a central bargaining system), the cost of skilled, semi-skilled and unskilled labour relative to that of highly skilled labour could be reduced and informal labour could be included into the formal labour market. With higher expected levels of profit due to lower labour cost, investment might increase, causing the level of employment to increase.

Some would argue that the reduction of wages would cause inequality and the income gap (as measured through, for instance, the Gini coefficient) to increase. However, this view might represent a fallacy of composition. It is true that with less rigid labour legislation the wage rate might be lower so that those who had a job, and thus earned the higher wage under the rigid labour law system, might be worse off. However, that lower wage might still be more than what a person earned who was unemployed under the rigid labour law system, but who now gets employed at the lower wage rate. Thus, paradoxically, lower wages might, through the higher levels of employment that result from them, cause inequality to decrease. The powerful impact of investment together with lower wages and relaxed labour laws is clearly demonstrated by the historically high economic growth rates that China and India currently experience. It is also demonstrated by the development that countries such as the US and the UK underwent when they were emerging as developed countries in the nineteenth and early twentieth century. Lower wage rates therefore do not imply that wage rates will remain low indefinitely. Rather it might require one generation to work at lower wages so that the following generations may get relatively better wages (compared with what wages would have been had rigid labour laws not been abandoned), thereby benefiting from the growth generated by the first generation.

Trade unions often oppose the relaxation of labour laws because the previously disadvantaged sections of the population (i.e. Blacks, women and people with disabilities) still constitute disproportionately large part of those employed in unskilled and semi-skilled jobs. As such, relatively lower wages will affect the previously disadvantaged more than others. Thus, in a labour market and a country where the intent of government is to eradicate the injustices of the past, allowing the wages of the semi-skilled and unskilled to decrease will seem to go against the intention of policy. However, this may again relate to the fallacy of composition mentioned above, since the lowering of wages and the possibility that employment might be higher as a result, might cause not only the overall distribution of income to improve, but also the distribution of income between population groups. In addition, government can augment a more relaxed labour market policy, with stronger skills development policies and its existing policy of broad-based black economic empowerment. Such policies can be aimed at increasingly rectifying the representation of the previously disadvantaged in highly skilled job categories and in the ownership and control structures of companies.

Relaxing labour laws might provide South Africa with the edge it needs to compete internationally. Currently it has neither the skill levels of the developed world nor the cheap unskilled labour of much of the developing world, so that both these factors undermine its unit labour costs. In short, it has rather expensive unskilled and semi-skilled labour. Developing skills together with a reduction in labour cost that results from a relaxation of labour legislation will both contribute to lower unit labour cost. This will make South Africa a more attractive investment destination, not just for foreign investment, but also for domestic investment. Higher investment then becomes the driver of higher employment levels and lower levels of poverty and inequality.

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