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South Africa’s GEAR versus NGP Macroeconomic Policies: Theoretical Basis and Financing Strategies

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Abstract: This article addresses four issues in relation to macroeconomic development and its ability to address the development challenges of inequality, poverty and unemployment in South Africa. Addressed first is a brief historical background to poverty, inequality and unemployment. This historical analysis is done using the deprivation approach and the sustainable livelihoods approach (SLA), arguing that South Africa’s development challenges are rooted in its history. The other three issues are the post-apartheid attempts at macroeconomic reconstruction, which looks at what has been happening in the country since 1994, and an analysis of the modernization theories of new growth and balanced growth; the analytic contrast of the two macroeconomic policies of Growth, Employment and Redistribution (GEAR) and New Growth Path (NGP); and the options open to finance South Africa’s development efforts. This paper argues that the theoretical underpinnings of these macroeconomic policies are fundamentally those of modernization (which, itself, is based on various growth theories). This paper therefore argues that, at the theoretical level, there is little difference between the old macroeconomic policy of GEAR and the newly adopted policy of NGP, in that NGP outcomes could prove difficult to achieve. This paper further argues that it is by no means clear how NGP will be financed and that South Africa could find itself borrowing heavily to finance its development path.

Key words: development; theory; South Africa; economic policy; inequality; poverty; unemployment

JEL codes: B00, E00, E02, E60, O10

1. Introduction

Political emancipation has enabled the majority of the South African population to enjoy freedoms and rights that, in the past, were designed for and allocated exclusively to the white minority. However, this political freedom has not been matched with economic freedom. South Africa still faces the developmental challenges of mass poverty, unemployment and inequality and, today, remains one of the world’s most unequal societies (Davids, 2009, p. 44). Although the country adopted the macroeconomic policy of Growth, Employment and Redistribution (GEAR) in 1996, which, according to Bank (2010, p. 187), was designed to speed up economic growth, attract foreign investment and improve competitiveness, these challenges remain. In 2009, the South African government once again approved a new macroeconomic policy that was aimed at addressing the country’s problems of unemployment and poverty. The new policy, NGP (New Growth Path), identifies drivers and the actual numbers of job opportunities that can be created in the various sectors that have been identified. Gordhan

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(2011b), the Minister of Finance, explained that the NGP is a set of policy measures and practical reforms aimed at creating employment opportunities and place the economy on a growth path.

This paper has four aspects: (1) to provide a brief historical background of inequality, poverty and unemployment in South Africa using the sustainable livelihoods and deprivation approaches; it further aims to analyze, and in certain cases contrast, (2) the validity of the theoretical premises upon which the government's thinking is based (in this regard, although not explicit in the macroeconomic framework of the NGP, two theoretical premises can be identified, namely the new growth theory and the balanced economic growth theory); (3) the extent to which the NGP differs from the previous GEAR strategy; and (4) the options open to South Africa to finance the stated goals. The analysis is based on a careful reading of literature, policies and official pronouncements on the South African macroeconomic policy as well as an observation of the country's socioeconomic environment. It is also the view of the National Planning Commission (NPC) that South Africa has the resources—in its people and the country's material wealth—to eliminate poverty and reduce inequality at least by the year 2030. The NPC considers both human and material capabilities as the country's assets.

2. Poverty, Inequality and Unemployment in South Africa: A Brief Historical Background

While poverty and unemployment are not unique to South Africa, they are unique in terms of their extent, severity and character. This uniqueness is, fundamentally, based on historical factors. Poverty and unemployment, which are particularly severe among young black people many of whom have never worked before (Vollgraaff, 2011, p. 3), are largely the intended results of both colonial and settler-colonial (apartheid) rules. That poverty and unemployment are particularly severe among the black majority cannot be seen merely as the 'nature of things': poverty and unemployment are the direct results of decades of economic exploitation, political subjugation, cultural denigration and marginalization and social exclusion by colonial and settler-colonial regimes. Any policy in South Africa today that ignores these factors is unlikely to make any meaningful contribution to development.

In the next few paragraphs, we will use the deprivation and the sustainable livelihoods approaches to understand the historic conditions of poverty and unemployment in South Africa. The approaches are rooted in the possession and/or ownership of specific capital assets that individuals need in order to lead satisfactory and valuable lives, as Sen (1999) would refer to. Relevant capital assets in this regard are natural (land), human (education), financial (money) and social (learned experiences). We argue that all these capital assets have a crucial role in the development of a country and that the deprivation thereof for the majority of the country's inhabitants during the colonial and settler-colonial administrations had negative effects, not only to those discriminated against but to the whole economy.

The South African 1913 Land Act (Natives Land Act, 1913), which Wilson (1971, p. 127) refers to as "the basis of the country's future policy of apartheid", for example, determined people's access to land—a fundamental asset in an agrarian society as South Africa was at the time. While the European descendant populations had control over 87% of the land, the indigenous African populations were restricted to 13% of the land, in the Bantustans, that they could not own under the Bantu Authorities Act of 1951 (De Villiers 1971, p. 411). The results included overcrowding, unsustainable subsistence farming, and heavy reliance on natural resource-based livelihoods such as handicrafts. The 1913 Land Act was, in effect, a culmination of land dispossession that had been legalized in the Glen Grey Act of 1894 (Ramutsindela & Mogashoa, 2013, p. 2). That Act imposed taxes of various kinds on

Africans in the Cape to force them into selling their labour power. Welsh (1971, pp. 181-182) posits that the Bantustans came to serve as labour reserves where congestion, landlessness and harvest failures were celebrated by whites while such were seen as national calamities if they happened to those of European descent.

Deprivation of this natural capital meant that the majority of the people did not have the means to provide for themselves. In fact, we should state here that the narrow definition of land as agricultural land is misleading. We see land as encompassing all land: for settlement, farming, mining and conservation. It is from such lands that the majority indigenous populations were forcefully removed through the Group Areas Act of 1950. These people were removed from all land that proved economically valuable to the white man. Forced removals therefore took place in both cities, for example District Six in Cape Town and Sophiatown in Johannesburg, and countryside, as happened to the Makuleke community near the Kruger National Park, to enable the European descendants to live there and enjoy the benefits that come with land ownership.

Human capital, as provided for through education, was also heavily suppressed under the apartheid discourse. It has since been recognized that Bantu education represented one formidable pillar of the apartheid system. The policy of Bantu education, enacted in 1953, ensured that the African population received an inferior education that was designed to ensure that Africans could only survive by serving the interests of white supremacy and capitalism. This was made clear by its architect, Verwoerd, when he declared in parliament that (Omond, 1985, p. 80; Welsh, 1971, p. 225).

> Native education should be controlled in such a way that it should be in accord with the policy of the state… If the native in South Africa today in any kind of school in existence is being taught to expect that he will live his adult life under a policy of equal rights, he is making a big mistake… There is no place for him in European community above the level of certain forms of labour.

The settler-colonial state in South Africa went to considerable trouble to ensure that Africans never rose to any level educationally. It established universities that exclusively served the "interests" of the black population as defined by the settler state—universities where there were no faculties of medicine or engineering. Non-whites who wished to study in those fields had to obtain special permission from the state to study in white universities, where European children had access to all forms of scientific knowledge. Today, in South Africa, the overwhelming lack of skills is largely the repercussion of this colonial and settler-colonial approach to "development". The result has not been poverty and inequality biased against Africans and the 6.7% unemployment rate among black university graduates compared to only 2% among white graduates (Centre for Development Enterprise (CDE) 2013, p. 1) but, instead, an entire economy that is dysfunctional. That kind of education, as Rodney (1973, p. 3) puts it, undermined the country's capacity to deal with the environment (both physical and economic), understand science and the extent to which that science was put into practice. This situation happened when, globally, modernization, with its emphasis on training and education, was at its apex. In South Africa, the results of that education can only be seen in non-economic growth and under-development.

Financial assets were also severely restricted under the colonial administration. Wages for African people were tightly controlled by the Wages Determination Act of 1925. Through this Act, wages for Africans were kept below those of other racial groups and this ensured that Africans remained in perpetual (income) poverty, making them unable to attain the same levels of wellbeing as their white counterparts. To ensure the effectiveness of the Wages Act, the Jobs Reservation Act was passed. This law was to give credence to the Wages Act in that no other racial group competed for the same position as those positions reserved for white people. It therefore became logical that white people would constantly earn high wages (Pheko, 1984, p. 26) as skilled jobs became their own preserve. This condition still characterizes labour in South Africa. Statistics South Africa (Stats SA, 2011) revealed that the majority of white South Africans' wages are still ten times higher than those of other racial groups and in particular those of indigenous Africans.

Also, because Africans had no property that they could call their own, a condition still prevalent in rural areas of South Africa and which Mazibuko (2007, p. 159) refers to as neo-feudalism, they could not even qualify to obtain credit from financial institutions, which toed the government line of excluding Africans from the general economy. Without proper education to provide them with skills, Africans turned to petty trading and hawking, petty production such as beer making and handicrafts, child-minding, and a few bought cars to serve as taxis (May, 1996, p. 13). Therefore, deprivation of natural capital combined with deprivation of financial capital to reinforce the conditions of inequality and poverty.

At the level of social capital, apartheid led to social exclusion. The different racial groups were, by law, not allowed to interact with each other. In this regard, social capital was badly affected as people could not benefit from each other's life experiences. The Group Areas Act of 1950, for example, determined where different racial groups should reside, while the Mixed Marriages Act of 1949 controlled people's lives even in their bedrooms, by banning inter-racial sex and marriages because the authorities believed inter-marriages would "produce inferior fruit" (Pheko, 1984, p. 13). Single-sex accommodation for those that had migrated to cities also ensured that families did not live together. The Urban Areas Act further lent support to the Group Areas Act by ensuring that as few as possible African people came to live in the cities. Only African males could come to the cities as sojourners. Any African could be allowed in the city on condition they proved their economic value by being employed either in the mines, factories or as domestic workers in the houses of European descendants. Employment was only understood as meaning working for the white person. There was no conceptualization of self-employment for the Africans. The pass laws came in to serve as controlling mechanism to keep Africans out of the white man's space—the cities and towns. The dompas, as the pass-book came to be called (Pheko, 1984, pp. 29-30), recorded the individuals' tribal origins, status of employment and whether the individual was allowed to be in a particular area permanently. Anything contrary to these conditions qualified the individual to be either arrested, given 72 hours to leave the area with the dompas stamped as such, or immediately deported to their tribal home as determined under the Group Areas Act. Consequently, Africans had their lives torn apart not only at a national level in terms of the economy, race and gender, but also at a family level. Ramphele (2002, p. 65) has this to say about the migrant labour system in South Africa:

> The migrant labour system expected African women to divide themselves into faithful wives who ran the rural household and mothers who nurtured the children that would become the economy's labour force. For eleven months of the year these women were to lead celibate lives and focus on mothering the children. Little consideration went into the difficulty of re-establishing intimacy between husband and wife…

At the risk of oversimplifying, the purpose of this section has been to show that the conditions of unemployment, poverty and inequality in South Africa are largely man-made. The positions enjoyed then by colonials and settler-colonials are still characteristic of present-day South Africa. In general, African livelihoods are dependent on subsistence food production in the rural areas, petty trading and working in the periphery of the national economy in the cities. The majority of the black population lacks the vital education, training and skills that could help them make a meaningful contribution to the national economy. The results have been weak economic development, unemployment, poverty and increasing inequalities between the racial groups as well as between the various social classes. According to the World Economic Forum (WEF) (2011, p. 8), South Africa ranked fourteenth in terms of gender disparities in the world. The WEF uses the Global Gender Gap Index to examine the gap between men and women in the four fundamental categories of economic participation and opportunity, educational attainment, health and survival, and political empowerment. South Africa's position has been in decline since 2009 when it was ranked 6th; in 2010 it was ranked 12th.

3. Post-Apartheid Attempts at Macroeconomic Reconstruction

Understanding the South African post-apartheid economic history is fundamental to understanding the conceptualization and practice of the macroeconomic policies that have been implemented so far. To begin with, we wish to state that macroeconomic policy debates began early in the 1990s before the democratic elections that led to the new dispensation in South Africa. One key element in that history was the Macroeconomic Research Group (MERG), which made key findings about the route the democratic economy had to take. This was followed by the Reconstruction and Development Programme (RDP). The RDP itself came to an end immediately after the implementation of the GEAR macroeconomic strategy in 1996.

3.1 Growth, Employment and Redistribution (GEAR)

Several attempts have been made since 1994 to address the twin evils of poverty and unemployment in South Africa. In 1996—the same year the RDP[1] office was closed—the Mandela government introduced the macroeconomic policy of GEAR. Aimed at creating an environment for human development, the RDP was more of a development strategy than a mere macroeconomic strategy. It was designed to increase government expenditure, for example, on education, health, welfare, safety and security, and infrastructure. Its primary purpose was to specifically address the legacy of apartheid. On the other hand, the GEAR strategy was aimed at building an economy that would experience fast growth and be competitive internationally. Broadly, GEAR aimed at reduced fiscal deficits, lower inflation, stable exchange rate, decreased barriers to trade and free capital flows. The CDE (1997, p. 6) indicates that GEAR was aimed at achieving a growth rate of 6%, reducing budget deficit from 6% to 3% and creating no less than 400 000 jobs by the year 2000. Despite all the good intentions, the CDE points out that unemployed recorded a 34% high by the end of 2011 and levels of inequality were no better than they were in 1995. At the same time, Stats SA (2011) indicates that informal economic activities grew by 112 000 jobs by the end of 2012.

However, the reality is that GEAR had no conceptualization of poverty and unemployment. Instead, it broadly referred to 'economic growth' in the hope that the trickle-down effect would take off and set the economy on a growth path that would create jobs and reduce poverty. Mazibuko (2000, p. 92) referred to GEAR as a home-grown kind of structural adjustment programme that was to have negative effects on public spending and consequently on social service delivery in South Africa. Davids (2009, p. 43) also labels GEAR as informed by the Washington Consensus policies imposed by the World Bank, International Monetary Fund (IMF) and the World Trade Organization (WTO) on developing countries. In the end, GEAR was denounced by two members of

[1] Though not a macroeconomic policy, the RDP was introduced in 1994 at independence. It was hailed as being more relevant to South African conditions than GEAR. The RDP was specifically designed to address the conditions created by colonialism and settler-colonialism and it gave South Africa the character of a more activist state than the liberal one under GEAR. The RDP was discontinued because it required too much fiscal expenditure. There has since been debate about existence of the RDP with government officials periodically referring to it when they address the poor.

the tripartite alliance—the Congress of South African Trade Unions (Cosatu) and the South African Communist Party (SACP)—as a neo-liberal macroeconomic model that led to shedding and casualization of jobs in the face of rising unemployment, poverty and inequality (Davids, 2009, p. 13).

It is probably unfortunate that, although the macroeconomic strategy of GEAR was conceptualized and implemented during the era of Mandela (Mbeki was the deputy president at the time), its fruit could only be realized under Mbeki's administration. In an attempt to revitalise GEAR, the Mbeki government adopted the Accelerated and Shared Growth Initiative of South Africa (Asgisa) and Joint Initiative on Priority Skills Acquisition (Jipsa) in 2006. According to the then State President, Mbeki (2003), Asgisa was only to "consist of a limited set of interventions that were intended to serve as catalysts to accelerated and shared growth and development". Asgisa and Jipsa were therefore not meant to replace GEAR. They were meant to augment the shortfalls of GEAR—to bring in the elements of job creation and poverty reduction which were missing in GEAR. Asgisa and Jipsa relied very much on the concept of the expanded public works programme (EPWP), which came into being in 2003 to address unemployment and poverty (Mbeki, 2003). The successes of EPWP have still not been properly quantified. However, there is no doubt that the EPWP provides many with much-needed jobs, although these are mainly of short duration and nothing more than safety nets against destitution.

When first introduced, Asgisa aimed at economic growth through investment in the country's infrastructure. It further identified specific economic sectors that would accelerate growth. These sectors were tourism, bio-fuels, chemicals, agriculture and agro-processing, clothing and textiles, metals and metallurgy and the creative sector. Realizing that these sectors have always suffered from a huge skills shortage, the Mbeki government created the Jipsa, which aimed to increase and improve especially the scientific skills—as noted by Rodney above—of the South African people (Mbeki, 2006). The realization was that, without relevant technical skills, it was going to be very difficult to position the country on its path to economic growth as envisaged in the GEAR macroeconomic strategy. To that effect, Mbeki (2006) announced the establishment of the Jipsa. Jipsa provided a means through which government, business, labour and civil society would act jointly to respond to the skills challenge in as practical a manner as possible.

In the 52nd African National Congress' (ANC) national elective congress, which took place in Polokwane in 2007, Mbeki was unseated by Zuma as the leader of the party. In the following year, he was "recalled" from the national parliament as president of the country and replaced by Motlanthe who was acting president until Zuma was officially inaugurated as State President. The ignominious end the Mbeki era meant that his efforts at economic growth were to receive very little (if any) acknowledgement in the new administration.

3.2 The New Growth Path (NGP)

By 2006, it became clear that structural inequality, poverty and unemployment were increasing. The African majority (79.4%) earned 41.2% of the country's total income (R747.6 billion) while the white minority (9.2%) earned 45.3% (South Africa, 2010) and unemployment grew to 36.4% (Stats SA 2013). The new political administration of Jacob Zuma came into power promising better development policies to address the challenges of poverty, inequality and unemployment in a more vigorous manner. The tripartite alliance (ANC-Cosatu-SACP) also called for renewed efforts to target the poor rather than focusing on growth. Consequently, in November 2009, Zuma announced the NGP. The NGP is better positioned as part of the post-Washington Consensus, which recognizes the state as an active player in development (Őnis, 2003, pp. 1-2), something that the tripartite alliance constantly complained about under the GEAR strategy. To better understand the NGP, it is important to first understand the key document—the Industrial Policy Action Plan (IPAP) (2010)—on which it is based.

The IPAP is critical because it outlines all the elements of the NGP framework. The IPAP identifies South Africa's problem as structural imbalances in the current growth path and the 2008/09 economic crisis. From there it outlines the Key Action Programmes (KAPs) and the Areas of Focus (which refer to various economic sectors). The KAPs also identify the key milestones required, the leading government departments, and existing opportunities and constraints. To this end, IPAP identifies eleven economic sectors where jobs are possible, namely green and energy-saving industries; agro-processing; automotives; clothing and textiles; bio-fuels; forestry; timber, paper, pulp and furniture; cultural industries (crafts, film and music); tourism; business process outsourcing, advanced manufacturing; and plastics, pharmaceuticals and chemicals.

The NGP framework is therefore a summary, in effect, of a number of policies that aim to help the economy grow in order to achieve the developmental goals of reducing poverty, unemployment and inequality. In particular, the NGP aims to improve innovation and new enterprise development, currency competitiveness, energy, infrastructure and logistics, and reduce balance-of-trade deficit and bottlenecks and backlogs in skills. Accordingly, the NGP is aimed at creating a sustained economic growth that is able to reduce poverty by raising incomes. To this end, the policy aims to achieve a target of five million jobs over a period of ten years in infrastructure development and housing, agriculture and agro-processing, mining, manufacturing, tourism, green economy, knowledge economy and social economy, as well as health, education policing and regional integration.

One major criticism that the NGP faces is that it fails to identify the root cause(s) of the unemployment problem (Vollgraaff, 2011, p. 3). The policy does identify lack of necessary skills, education and training as causes, but it fails to explain, as provided in this paper, for example, why the economy faces these shortages in the first place. In terms of the new growth theory, an economy requires technical skills in order to grow, even if it means trickle-down growth. Given South Africa's past administrations of job reservation and the provision of inferior education to the majority of its citizens, it is unsurprising that the economy has suffered enormously in terms of skills that are crucial for growth and development. Leading industrial countries, such as Japan, the USA and some European countries show that technological development is the new engine for macroeconomic growth.

4. The New Growth Theory

Originating in the 1980s, the new growth theory, also referred to as endogenous growth theory places, technology and education at the forefront of economic growth (Szirmai, 2005, pp. 86-87, 128). The new growth theory assumes that skilled labour is critical and central to economic growth and to this effect accumulation of knowledge ensures the effectiveness of labour (Romer, 2001, pp. 98-99). Accordingly, both Romer and Szirmai agree that the effectiveness of labour is evidenced through increased output, a growing research and development (R & D) sector in universities, other state-sponsored institutions and in the private business sector. Such research produces both highly abstract and extremely relevant knowledge, both of which are essential for economic growth.

Similarly, the South African economic policy of the NGP places strong emphasis on the importance of technology as the driver of economic growth without making any mention of it being based on this theory. However, the emphasis on innovation and skills development is a clear indicator of the fact that the country's new economic policymakers are heavily reliant on this theory. The policy calls upon more emphasis being placed on training and education, innovation, research and development. These elements are also the key tenets of the new growth theory (Romer, 2001, pp. 98-167).

In line with the new growth theory, South Africa is very much re-assessing the flexibility of its labour laws. Businesses have been complaining for some time now that the country's labour laws are too stringent, protective of labour and that these need to be loosened if the economy is to function at its best. This call has been repeatedly rejected by Cosatu, the country's biggest labour federation. Also, note that the Southern African Clothing and Textile Workers' Union (SACTWU), one of Cosatu's labour affiliates, entered into a labour agreement with employers to pay lower wages (30% lower than existing wages in urban areas and 20% in rural areas) at entry level for workers in the textile industries as part of efforts to revitalize the country's clothing manufacturing sector (Vollgraaff, 2011, p. 3; Minford & Peel, 2002, p. 236).

The business sector has hailed the agreement as a major milestone between labour and business and it is hoped that this measure will help facilitate employment for first-time entrants in the labour market and help to expand job opportunities. This practice fits well with the unemployment theory of contracting models, under which a firm may wish to lower wages for the workers, but is restrained by stated or unstated conditions of employment (Romer, 2001, pp. 432-436). This unemployment theory differs from the efficiency wage theory, which states that there are benefits and costs to paying lower wages. This theory, while not opposed to firms paying lower wages, warns that paying lower wages can harm the firm's profitability and the potential for economic growth (Romer, 2001, pp. 412-417).

5. The Balanced Growth Theory

This theory is one variation of the modernization theories that have been in existence since at least the 1960s. Szirmai (2005, p. 295) indicates that the balanced growth theory came after World War II. At that time, it was recognized that a country's growth could not be achieved in a situation where each economic sector was addressed separately. Development and growth required that all sectors be integrated. From the NGP, it appears that the determinants of growth are understood to be the integration of: (1) technology, (2) capital intensity and (3) institutional policies. With regards to technology, the balanced growth theory is no different from the new growth theory. Technology is seen as having something of the effect of a multiplier, whereby labour's value is multiplied in the production process. It is this process that makes individual firms profitable and that enables these firms to contribute to the country's economic growth.

Capital intensity refers to the stock of machines, equipment and buildings that are available to ensure that production happens (DeLong, 2001). DeLong argues that possession of technology without the necessary machines and so forth is not useful. Finally, just as modernization demands (Davids, 2009, pp. 9-12) institutional policies such as minimum wages, land reform and employment conditions must, as a matter of fact, be supportive of a country's macroeconomic growth policy. If, for example, labour becomes more expensive than its technological worth, profitability drops. It is therefore imperative to have good policies in place that are relevant if desired growth is to happen.

Under the NGP, the South African government takes the view that growth needs to happen in all industries at the same time if the country is to achieve its development needs. To this end, technical skills are required. Development is seen as expansion of markets, production and agriculture, with the emphasis on capital investment. In this instance, Szirmai (2005, pp. 295-296) points out that the balanced growth path was conceived in the first place with farming in mind to show that without growth in the farming sector in particular, development was likely to be difficult. Each economic sector serves as a market for the other, and may serve as a source for the other's need for growth. In this regard, the balanced growth theory emphasizes the need for integrated investment planning. To this effect, the NGP's intention to grow and develop rural economies is characteristic of the balanced growth theory. The importance of rural development is clear in that the NGP emphasizes land reform, and the balanced growth theory sees land and the existence of property rights as the baseline for economic growth (Romer, 2001, p. 17; De Soto, 2000).

6. NGP versus GEAR

While the goals of macroeconomic policies are always high employment, price stability, growth and sustainability (Williamson, 2005, p. 33; Prachowny, 1994, pp. 5-31), development theories can mainly be categorized into three groups: modernization theories, dependency theories and systems theories. Development policies lean wholly or partially towards each of these theories. However, the tendency in South Africa has been to avoid basing policy solely on any single theory. What is characteristic of GEAR and NGP as South Africa's economic policies is that they are both neo-liberal and they are based on modernization theories which advocate growth before distribution. Modernization theories postulate that the causes of underdevelopment are illiteracy, a traditional agrarian structure, traditional attitudes of populations, low division of labour, and a lack of communication and infrastructure. The proponents of modernization theories, therefore, regard change as the strategy for development. Modernization theories give little consideration to the colonial machinery which ensured that the economies of colonized territories served the interests of the metropolitan countries and not the colonized (i.e., as sources of labour, raw materials and markets) (Davids, 2009, pp. 9-12; Szirmai, 2005, pp. 6-8, 79-81).

Notwithstanding this, NGP can be considered as being conscious of the colonial machinery, although it says very little about decolonization of the economy. The colonial experience is only mentioned when the policy refers to rural development (South Africa 2011a). Unlike other formerly colonized states (e.g., Indonesia), which explicitly made economic decolonization their objective, in South Africa reference is made to economic democratization, black economic empowerment and affirmative action. These three concepts can be regarded as synonymous with concepts such as indigenization or nationalization because they all essentially mean that the indigenous peoples must have a stake in the economy. The difference is the extent to which locals are able to have a stake in the economy and the means used to achieve such objectives. To this end, the view considered here is that indigenization and nationalization represent the 'extremist' approach, while black economic empowerment and affirmative action represent the 'soft' approach to correcting colonial economic exclusions.

In contrast with GEAR, the NGP shifts from the ANC's philosophy that "the land belongs to all who live in it" (as stated in the Kliptown Freedom Charter of 1955). This shift represents a significant political paradigm within the ruling party. The Freedom Charter actually "refused" to see South Africa as being colonized. The Green Paper on Land Reform (South Africa 2011a) explicitly states that "all anti-colonial struggles are, at the core, about two things: repossession of land lost through force or deceit; and, restoring the centrality of indigenous culture". The government also recognizes "...the centrality of land ... as a fundamental element in the resolution of race, gender and class contradictions in South Africa". This point is in recognition of the fact that land reform in South Africa has been disappointing and has failed the dispossessed populations, thus forcing the government to consider reviewing the 'willing buyer-willing seller' clause. It is therefore arguable that the South African government is intent on putting in place policies that are relevant as dictated by the balanced growth theory.

7. Financing Economic Growth and Development

South Africa's democratic governments (since 1994) have ensured that poverty reduction remains at the core of their policies. However, development (or growth) requires money to set it in motion. While the NGP of the South African government is clear on what it hopes to achieve, what is unclear are the means to realize the objectives of the policy. In this regard, the government has a few options: foreign direct investment, taxation or borrowing (both internally and externally). But, again, what are the limits on government using these tools? To a large extent, in the South African situation, the limits will be dictated by the preferences of government and electors more than the demands of the economy—that is, if all parties act rationally as posited by Minford and Peel (2002, p. 212). The government's rationality is mainly motivated by the desire to win the next election and the government is more concerned about its popularity. In this case, any government that ignores the previously disadvantaged in South Africa is unlikely to enjoy popular support. As indicated earlier, unemployment, for example, affects the black majority in South Africa, and it is that section of the population that has the power to determine who stays in government. In other words, rationality on the part of the voters is limited to seeing government tackle unemployment rather than anything else (ibid, 218).

7.1 Foreign Direct Investment (FDI)

While emphasizing domestic investment, the NPC (2011, pp. 105-109) indicates that the country has the potential to attract investment from both the region of the Southern African Development Community (SADC) and the world at large. The NPC further points out that to attract these investments, the country needs sound infrastructure and capable people. In this regard, for an economy such as South Africa's that aspires to be knowledge and technology based, foreign direct investment (FDI) presents an opportunity to grow and develop. On the positive side, FDI is one of the cheaper ways of acquiring technology, for example multi-national corporations (MNCs) investing in developing countries bring their know-how with them. Their knowledge and skills are transferred to local populations. On the negative side, technology transfer includes licensing and company take-overs (Minford & Peel, 2002, p. 240; Cheru, 2010, p. 204). Davids (2009, p. 12) further argues that FDI could mean penetration of the poor countries by the rich in the form of neo-colonialism whereby colonialism is continued in disguised forms. The various G8 summits for example, show great interest in investing in South Africa and the continent generally. In fact, according to Ratha, Mohapatra and Plaza (2008, pp. 301-340), South Africa is a relatively preferred destination for FDI in the sub-Saharan region.

However, FDI is not as simple as it is sometimes portrayed. It may not just be a case of businesses coming to South Africa in order to invest in the country. Jacques (2009, p. 157) shows, for example, the challenges foreign competition presents for local industries' growth, which in some cases forces them to go under. FDI is also a highly political exercise that has as much potential to affect a country's sovereignty as its unemployment reduction. Foreign investors are known to come to developing countries with conditions attached (Szirmai, 2005, pp. 340-343). They dictate labour laws, demand tax holidays and choose where to invest. These factors may have real consequences for the host country, and these conditions are such that the foreign investment may have no effect on reducing unemployment. Instead, these conditions could well lead to further unemployment and the further casualization of labour.

A case in point of neo-colonialism is Walmart (a US retail giant) which has come to invest in South Africa and which is already taking over some retailers. The labour movement is up in arms in opposing these takeovers and demanding that the US giant concede to specific demands including: not retrenching workers, closing the apartheid wage gap, converting casual workers to full employment, local procurement and adhering to local labour laws. The labour movement's demands were based on the information that the giant retailer was a labour "basher" in the USA and all other countries where it had interests. To this effect, Meier (2001, p. 1) admits that on its own, aid is not a solution development and Cheru (2010, p. 196) warns postcolonial countries against adopting neoliberal globalization as a development strategy.

Moyo (2009, pp. 98-102) and Adefuye (2007, pp. 149-151) point out that, in many instances, foreign investors—shy away from corrupt countries. In those countries, government officials collude with some foreign companies in buying military hardware and building huge stadiums at the expense of basic social services. Politics influence court decisions as judicial officers and politicians collude against state assets. To this effect, South Africa is constantly in the news with corrupt public officials, some of whom are jailed, some dismissed and others simply suspended—on full pay. The South African government, however, well understands that corruption is an impediment to foreign investment (Maromo, 2013, p. 4; NPC, 2011, pp. 401-410).

7.2 Taxation

South Africa has a variety of tax regimes from which the government can draw to finance development. These tax regimes vary from personal, company, estate duty, capital gains, value added to fuel taxes. All other things being equal, South Africa is therefore in a good position to address the key underdevelopment challenges of poverty, inequality and unemployment. However, Williamson (2005, p. 37) explains that, while it is agreed that public expenditures are needed, this should not be done in such a way that it distorts prices as a result of high marginal taxes. Williamson argues that even the use of value added tax (VAT)—which is also used in South Africa—can have negative effects if it is used excessively. Logren and Diaz-Bonilla (2008, p. 291) also posit that tax increases may slow economic growth; as such, taxes have a negative impact on individual disposal incomes and thus on savings and investments. Added to these arguments is the fact that the majority of the adult South African population is either underpaid, unemployed, incapacitated or aged and therefore exempt from other kinds of taxation.

Consequently, given the smallness of the tax base, South Africa is likely to encounter some resistance if the authorities try to finance the new economic policy through more taxation. Indeed, there is a widespread belief that South African taxpayers are already overtaxed. An additional tax could have negative perceptions in spite of the fact that, under normal circumstances, the taxpayer cannot refuse to pay his or her taxes. However, the Minister of Finance (2011), Gordhan, has assured South Africans that taxation will be judicious and that "these Bills contain many fiscal measures that seek to facilitate growth by alleviating the burden on ordinary working citizens and by removing tax blockages that impede legitimate commercial goals".

7.3 Borrowing

Borrowing is another form of financing development. However, borrowing is limited by a number of factors, including global financial patterns. To quote Gordhan (2011) again: "The turmoil may also impact international funding conditions, which are important to South Africa given that we intend to borrow almost R450 billion to fund our fiscal deficit over the medium-term." This money the Minister intends to borrow is in addition to the R76.6 billion (South Africa, 2011b) the country already owes. The Minister further told parliament that he expected the country's debt target to be at 40% of the gross domestic product (GDP) by end of 2015/16 financial year. South Africa's national debt, according to the CDE, excludes debts by local governments. Taking this point into consideration, it means that we are not entirely sure what the country's total debt is. Borrowing is actually the kind of development financing encouraged by the IMF and the World Bank in the majority of cases where these institutions operate, and they operate mainly in the developing world. The fact that few, if any, of the developing countries ever succeeded with these policies presents us with one reason to reject development that is pinned on borrowing.

It is difficult to address the issues of financing development and/or growth in South Africa because authorities never talk about the sources of finance. One hardly hears mention of the Bretton Woods institutions by any government minister in South Africa. Of course, South Africa is not under any IMF mentorship. But the country's policies are strictly those of the IMF because that is where the money comes from. In fact, South Africa is merely acting ahead of the IMF and the World Bank, knowing what these institutions require if a country needs financial help, and thus the home grown structural adjustment referred to earlier.

Hoping to achieve the objectives of development by constantly rolling over debt could have serious implications for the future generations and could, in fact, ultimately lead to insolvency (Minford & Peel, 2002, p. 183). Africa has many examples of instances of limitless borrowing and what this practice has done to those countries. Borrowing by Third World countries, in many instances, leads to dependency and marginalization (Cheru, 2010, p. 196). Africa's "balance sheet" is effectively managed in the West, with serious implications on various countries' sovereignty as donors call for accountable governance. The latest trend is the use of the Budget Support as development aid, whereby donors make money directly available to treasuries to support individual budgets (Barkan, 2009, pp. 67-85; De Renzio, 2009, pp. 19-23). Increasingly, promises of more development aid are not honoured by the donors.

Heavy borrowing could, of course, also expose the country to an international financial crisis without recourse as happened in the cases of Indonesia, Korea and Thailand in the 1997/8 crisis. According to Arner, Lejot and Wang (2010, pp. 216-217), these countries became vulnerable to the policies of the Washington Consensus as espoused by the USA and the IMF. These countries could not address the crisis to the same extent as the People's Republic of China and Malaysia, both of whom had refused to remove trade and capital barriers (Jacque, 2009, p. 103) and who were thus less affected by depreciating currencies and the withdrawal of international credit. The Asian situation contrasts with that of Latin America where, in the 1980s, economic problems indicated that "at the structural level, there was a clear need to greatly deregulate markets, including the capital markets; reduce protection; and embark on a broad privatization scheme ... seen as necessary to compete internationally and regain growth through exports expansion" (Edwards, 1997, pp. 538-539). Edwards' view has since been known to be the structural adjustment programmes (SAPs) imposed by the IMF, World Bank and the USA on developing countries–with catastrophic results. In the African situation, Moyo (2009, pp. 74-76) argues that aid was never meant to encourage growth and development but dependency which has "killed" many countries. To this end, Moyo warns against aid addiction. This argument of Moyo's and that of Davids' on neo-colonialism are closely related. If development aid (whether financial or through FDI) creates dependency, it is used as a tool of penetration into the national resources of developing countries. To this effect, development aid and modernization are inseparable.

7.4 Cutting and Redirecting State Expenditure

Although the South African government aims at ensuring that all citizens should at least enjoy the minimum that a human life deserves, through the provision of comprehensive, integrated, sustainable and quality social-development services that address vulnerability and poverty, there should be limits to what the state can be expected to do. The author's opinion is that South Africa can reduce and/or redirect its expenditure. In other words, it can cut expenditure from some areas and redirect these savings to other deserving areas. The sustainability of the welfarist character, for example of the Department of Social Development, is placed under the spotlight here. The department provides various forms of social assistance grants such as the old age, disability, child support, foster care, care dependency and war veterans' grants, and temporary grant-in-aid relief. Expenditure on social security increased from R36.9 billion in 2003/04. This amount was expected to rise to R73 billion in the 2009/10 financial year. In 2008 alone, South Africa spent 3.1% of the GDP on state social grants (South Africa, 2010a).

From a development perspective, these expenditures have a very significant, positive impact on alleviating poverty. However, at the same time, there are other areas that can be used as sources of development finance. These areas are child support grants and housing grants. South Africa pays child support grants for children under the age of 18 whose parents earn less than a certain amount and builds houses for many poor households under the auspices of the RDP. We argue here that, while child support grants certainly have merit, it cannot be right that a grant is made available without checking the condition of the parents. A physically able parent should be able to take care of his/her children and not have to look to the state to support his/her children. Here, the state can save a lot of money and redirect such savings to other deserving areas with a view to fostering development in the country.

Equally deserving attention is the housing provided under the RDP scheme. Although there are currently no statistics available, many recipients of this grant can, in fact, afford to provide their own housing. The state can only assist with serviced sites and should let people undertake the construction of their own houses. There is ample evidence that people are capable of building themselves houses as long the basics are provided. Many of the eyesore squatter camps of yesteryear are evidence, today, that the poor do not always need state patronage. Orange Farm (south of Johannesburg) and Thembisa (north-east of Johannesburg) are examples of areas where people started as squatters and today are evidence of the ability of the poor to employ the resources at their disposal effectively. The continued state-funded 'free dispensary' of houses can only be seen as what Minford and Peel (2002, p. 212) refer to as "rent-seeking", as the ruling parties try to buy votes from certain constituencies rather than help provide real development. Furthermore, the Minister of Human Settlement has admitted that providing free houses is something that the country cannot sustain in the long-term and a policy that has to come to an end sooner or later.

The view put forward in this paper is that there are many other areas where cuts can still be made. The resulting savings on expenditure can then be redirected to productive areas of the economy (as referred to in the NGP). The primary purpose should be to get the nation working and not to create conditions of dependency where people start regarding the state as having unlimited resources at its disposal for their unlimited needs. As a developing country, South Africa should place more emphasis on productive earnings than on social welfare if the focus is to be on the country's long-term development.

Another area where cuts and redirection of expenditure are possible is in the area of corruption. Corruption does not end when the country's resources end up in certain people's hands; it has serious implications for development, simply because resources meant to improve lives are diverted into the pockets of, usually, wealthy individuals. Lodge (1998, pp. 157-187) paints a picture of South Africa as a country being rampant with, in particular, political corruption. At the time, Lodge pointed out that the democratic government in South Africa was exposed because, compared with the apartheid regime, it was (and is) transparent (note that the apartheid regime was just as corrupt, but lacked transparency). Although we do not have hard figures to present here, there is no doubt that corruption has cost the state dearly, not only through the stolen funds themselves, but also because of the long court proceedings that these cases involve. Maromo (2013, p. 4), for example, shows that in 2012 there were 21 convictions obtained against corrupt officials and that 218 officials are under investigation in 2013, with over R1 billion's worth of assets having been frozen. Corruption therefore represents a kind of spending that is not easily and quickly detected and results in wasteful expenditure as a result of the activities of dishonest state officials.

7.5 Encouraging Enterprising Families

The double standards of modernization theorists are further evidenced in their rejection of traditional values when it comes to developing countries, while the Western economies are rooted in the same family roles. The Ford family in the USA and the Mitsubishi family in Japan spring to mind. The fast-industrializing countries are also characterized by similar trends of families taking leading roles in economic growth. The Tata and the Gupta families in India, for example, show us that families are the major sources of wealth. In South Africa, it is the Oppenheimer family that dominates the mining industry, with the Motsepe family from the previously excluded groups in South Africa is making major strides in the same direction. This trend appears to cut across time and cultures. Jacques (2009, pp. 109-145) shows that the concept of modernity cannot be limited to the Western understanding. It is rather a contested concept that should be understood contextually. Similarly, the idea here is that the country should attempt to build healthy families, a cultural aspect not very different to that of China, for example, as explained by Jacques. The Green Paper on Families (South Africa, 2011c), for example, can be an effective instrument in shaping government's thinking and society towards grooming potential families to play leading industrial roles in the country's economic development. Therefore, we argue that families and cultural leanings are also important aspects of economic growth and development.

8. Conclusion

The theoretical basis of the NGP is not very different from that of GEAR. Both policies are based on the growth theories of modernization to varying degrees. The NGP differs from GEAR only to the extent to which it specifies and quantifies its objectives and envisaged outcomes. Also, the NGP does not make any specific preference between capital and labour, whereas GEAR was pro-capital.

This article has argued that development requires money, and a few areas of potential financing have been indicated. While the NGP is eloquent in detailing what it hopes to achieve, there is no indication of where the financial resources would come from. This article has therefore argued that, while the challenges of poverty, inequality and unemployment are real and need addressing, South African policymakers need to seriously consider the financial implications of development programmes to achieve the stated objectives. The article shows that, with the cost of the national debt being no less than 40% of the gross domestic product, South Africa could easily slide into a debt trap. Finally, the article has also referred to those areas of expenditure where cuts could be made, from South Africa's own resources, to finance development.

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