

MAIN TOPIC: ECONOMIC PURSUITS – PAPER 1**TOPIC 9: ECONOMIC GROWTH AND DEVELOPMENT****SUBTOPICS:**

9.1 The demand-side approach

9.2 The supply-side approach

9.3 Approaches to growth and development policies used in SA

9.4 The North/South divide

Concepts:

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SOUTH AFRICA'S GROWTH AND DEVELOPMENT POLICIES**Introduction**

- **Economic growth** is the increase in the capacity of the economy to produce more goods and services.
- **Economic development** is the ability of the population to produce more goods and services which improve the standard of living of the people.
- **Economic growth does not always lead to economic development.**

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THE DIFFERENCE BETWEEN ECONOMIC GROWTH AND ECONOMIC DEVELOPMENT

Economic Growth	Economic Development
It is an increase in the production capacity of the economy to produce more goods and services over a period of time. It is measured in terms of an increase in Real GDP. It requires policies that empower the economy.	It is the process by which the standard of living of the people improves. It is measured in terms of Per Capita Real GDP (GDP per capita). It requires policies that empower people
<u>Goals:</u> • To increase production of goods and services.	<u>Relates to:</u> • Improve the quality of living of inhabitants and make sure that their basic needs are met. • Create a climate where the people's dignity and self-respect are promoted. • Increase the freedom of choice of people by providing them with opportunities. • E.g. Education, Health, Housing

Economic growth relates to Economic development in the following ways:

When an economy is growing the following may result:

- More jobs will be created
- More people will receive income
- The standard of living will improve
- You need economic growth for economic development to take place. Economic growth does not guarantee economic development

The relationship between economic growth and economic development.

- Economic growth should ensure more job opportunities and higher income to more households thus leading to improvement to the standards of living of the people

FACTORS NECESSARY FOR ECONOMIC GROWTH

- Improved Technology
- Increased in productivity
- Increase in factors of production, e.g. Capital
- Effective government policy and efficient administration
- Investment

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9.1 DEMAND SIDE APPROACH IN PROMOTING GROWTH AND DEVELOPMENT IN SOUTH AFRICA. (Discuss in detail)

The **demand-side approach** emphasizes the fact that for a country to have growth there is a need to increase aggregate demand by making discretionary changes to the monetary and fiscal policies of the country.

- A demand side approach includes discretionary changes in monetary and fiscal policies with the aim of changing the level of aggregate demand
- **Monetary policy** is driven by the South African Reserve Bank (SARB)
- It aims to stabilize prices by managing inflation
- **Fiscal policy** is driven by the Department of Finance
- It aims to facilitate government, political and economic objectives
- A demand side approach to economic growth and development does not only depend on fiscal and monetary policy
- It depends on all components of aggregate demand, that is C, I, X and G.

1. MONETARY POLICY

The South African Reserve Bank (SARB) as the central bank in South Africa formulates the monetary policy.

They use the following instruments:

- **Interest rate changes**
 - It is used to influence credit creation by making credit more expensive or cheaper.
 - The exchange rate is stabilized by encouraging inflow or outflows
- **Open market transactions**
 - To restrict credit the SARB sells securities
 - When banks buy these securities money flows from banks to the SARB
 - The banks have less money to borrow out and cannot extend as much credit as before.
 - To encourage credit creation the SARB buys securities
 - Money flows into the banking system
- **Moral persuasion**
 - The SARB consults with banks to act in a responsible manner based on the prevailing economic conditions.
- **Cash reserve requirements**
 - Banks are required to hold a certain minimum cash reserve in the central bank
 - Banks have a limit amount to give out as credit

2. FISCAL POLICY

South Africa's fiscal policy is put into practice through the budgetary process. The main purpose of fiscal policy is to stimulate macroeconomic growth and employment, and ensure redistribution of wealth.

The following instruments are used:

- **Progressive personal income tax**
 - Higher income earners are taxed at higher tax rates
 - These taxes are used to finance social development
 - The poor benefit more than those with higher incomes
- **Wealth taxes**
 - Properties are levied (taxed) according to their market values
 - Transfer duties are paid when properties are bought
 - Securities (shares and bonds) are taxed when traded
 - Capital gains tax is levied on gains on the sale of capital goods (e.g. properties, shares)
 - Estate duties are paid on the estate of the deceased
 - These taxes are used to finance development expenditures which benefits the poor more often
- **Cash benefits**
 - Old age pensions, disability grants, child support and unemployment insurance are cash grants
 - These are also known as social security payments
- **Benefits in kind (in natura benefits)**
 - These include the provision of healthcare, education, school meals, protection
 - When user fees are charged, poor or low income earners pay less or nothing
 - Limited quantities of free electricity and water are provided
- **Other redistribution**
 - Public works programme, e.g. the Strategic Integrated Projects (SIP), provides employment subsidies and other cash and financial benefits such as training, financing and export incentives.
- **Land restitution and land redistribution**
 - Land restitution is the return of land to those that have lost it due to discriminatory laws in the past.
 - Land redistribution focusses on land for residential (town) and production (farm) for previously disadvantaged groups.
 - The money for these programmes is provided in the main budget
- **Subsidies on properties**
 - It helps people to acquire ownership of fixed residential properties
 - E.g. government's housing subsidy schemes provide funding to all people earning less than R3500 per month.

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9.2 SUPPLY-SIDE APPROACH IN PROMOTING GROWTH AND DEVELOPMENT IN SOUTH AFRICA. (Discuss in detail)

Description

- Anything that can influence the supply of goods or resources is a supply-side measure
- Supply-side policies focus on supply and its microeconomic components, such as competition and potential output.

The supply-side explanations

- The supply-side explanations are based on the monetarist approach
- It maintains that government intervention in the economy is only necessary if it improves the smooth operations of markets
- Supply in the economy is fairly fixed particularly in the short term
- For the economy to produce more, more workers are needed/more machines need to be built and installed/more electricity needs to be produced/and better roads need to be provided.

The South African approach

- The South African government uses the supply-side approach complementing or in addition to a demand-side approach
- Its objective is growth and development, higher levels of employment and equity distribution (equity) that are embedded in the budget.
- The Medium Term Expenditure Framework (MTEF) was created to give certainty to the trend and emphasize the real magnitude of the expenditure
- The aim is to shift the supply curve to the right – important focus of growth and development is government's industrial development policy and maintenance, upgrading and creation of new infrastructure
- Supply-side policies are also designed to create an environment where businesses and markets can function optimally

1. The effectiveness and efficiency of markets

- If businesses accomplish their aims, (profitability and growth), the business is effective
- In South Africa, government imposes aims on markets by laws, which they are forced to follow and they become effective when they meet these aims together with their own aims which are in fact merged with their own

Effectiveness

- Government demands that markets function in a manner that ensures that more black people are absorbed into the mainstream economy because they were previously deliberately disadvantaged
- Two Acts were promulgated to enforce preference for black workers and the businesses of black people

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- The Employment Equity Act

- The Act prohibits discrimination and requires that the workforce reflects the racial and gender profile of the population at large enterprises have to file an employment equity plan with the Department of Labour, and inspectors from the department visit business sites to ensure compliance

- Broad-Based Black Economic Empowerment Act

- The Act provides the legal basis for the transformation of the South African economy. It requires redress so that the number of black people who won, manage and control businesses in the country can increase significantly and income inequalities can be decreased substantially

Efficiency

- Pareto efficiency means that given the constraints of the effectiveness parameters, it is not possible to change the allocation of resources in such a way that someone is made better off without making someone else worse off.
- It includes productive and allocative efficiency

Competition

- Competition in the markets was increased in three ways:
 - by establishing new businesses (small businesses)
 - Recruiting Foreign Direct Investment (FDI)
 - The reduction or removal of import restrictions that hampered competition from abroad
- In addition, the competition regulator network was created to enforce competitive practices among domestic businesses
- The Competition Act (1998) is aimed at anti-competition practices eliminating the abuse of dominant positions and strengthening merger controls
- The Act provides for the operation of the Competition Commission, a Competition Tribunal and a Competition Appeal Court and
- In spite of all these, the Global Competition Index shows that South Africa's competitiveness is slipping by

Deregulation

- Private sector causes imbalances that inhibit the free operation of markets have been revised and some were even abolished in the mid-1990s
- Government maintains it is committed to improving the ease of doing business in the country
- Exchange control measures were occasionally relaxed

2. Business efficiency

- Some measures serve as incentives to increase efficiency while others assist in establishing and improving efficiency and the end result is greater profitability

Taxes

- The corporate income tax rate is 28%
- Small business pays a lower rate as long as their income is less than the SARS income tax threshold
- Individual income tax starts at 18% and increases slightly as determined by SARS on tax review yearly
- The effect of tax bracket creeping on personal income tax has been attended to in almost every budget with adjustments to income tax brackets
- The increase for the individuals was 33%
- VAT changed in 2018 to 15%
- The level of taxation in South Africa are reasonable compared to developed countries
- As a developing country, lower tax rates would be helpful to promote economic growth

Capital formation

- Depreciation of capital goods used by businesses is designed to encourage investment e.g. new machinery may be depreciated over four years at 40% in the first year/and computers and electronic equipment over three years
- The government through the DTI and the IDC also promote capital and loans to SMMEs and bigger business
- This serve as an incentive to promote business efficiency

Human resources

- Education receives proportionally a bigger slice of the budget expenditure
- Sector Education and Training Authorities (SETAs) have to facilitate post-school, work-related training
- The labour relations Act that came into operation in 1998, promotes economic development, social justice, and peaceful labour relations in the promotion of efficiency

Free advisory services

- The development of export markets/managing and running SMMEs/agricultural production/ weather forecasts/and prevention and curing of animal diseases

3. Cost of doing business

- In South Africa government controls most physical infrastructure components
- The availability and cost of infrastructure services play an important role in the financial viability and profitability of businesses

Transport costs

- Transport options in air, road, rail and sea are available
- The government controls air and sea transport in South Africa.
- The government has committed to improving the efficiency and reliability of its rail transport services and to make it more affordable

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Communication costs

- Communication options are in cable, signal and mail
- The government controls cable (land or fixed lines) and mail communication services
- The cable communication services in South Africa is one of the most expensive in the world but reasonably efficient
- High costs make IT services for businesses and individuals expensive and inhibits global competitiveness

Energy costs

- Electricity and liquid fuels are the main sources of energy in South Africa
- Eskom is the only electricity supplier (monopoly)
- The government regulates the prices for petrol and paraffin
- The prices for imported crude oil are linked to international market prices, which are high
- High liquid energy prices undermine the efficiency of the economy

Factors of production

Growth

- It has to do with the expansion of the production capacity of the economy.
- **Supply factors include:.**

Natural resources

- These are things provided by nature.
- E.g. Water, Land, Minerals, etc.
- The supply of natural resources is limited and must be used sparingly.

Labour

- It consists of the physical and mental effort by people with the aim to earn an income.
- Labour is influenced by training, skills, education, health, etc.

Capitaal

- Capital is man-made resources used in the production of other goods and services.
- Capital is needed for the production of goods and services.
- The more capital we have, the more goods and services can be produced.
- For efficient production to occur, both human / social and physical capital are needed.
- Money Capital: Rand and cents to buy machines and tools.
- Real capital: machines, buildings, etc.
- Social Capital: Knowledge

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Technology

- This is new scientific knowledge in the form of new inventions and innovations.
- Sometimes it is referred to as the fifth factor of production.
- Sustained economic growth requires technological progress and innovation.
- Technological advances mean new kinds of capital goods and new production processes.
- Technological advances can lead to economic growth.

Entrepreneurskap

- Essential for development
- They combine capital, labour and natural resources to produce goods and services to satisfy the needs of the people.
- Entrepreneurs must be supported by good and ongoing education and training.

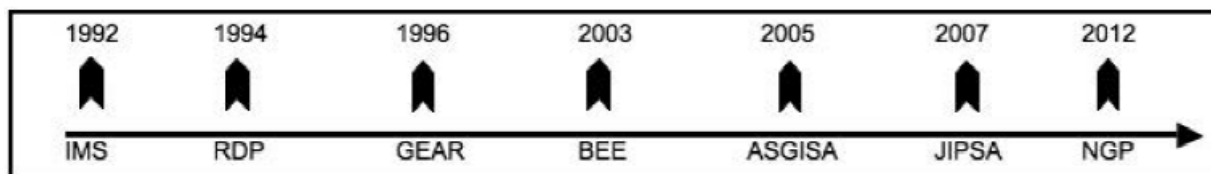
9.3 APPROACHES TO GROWTH AND DEVELOPMENT POLICIES USED IN SOUTH AFRICA

Growth	Development
Macroeconomic policies These include measures to achieve the following macroeconomic objectives: 1. Higher economic growth 2. High levels of employment 3. Price stability 4. Exchange rate stability 5. Economic equity Increased economic growth leads to more tax revenue which can be used to provide more social goods and services with the aim of achieving economic development. All the above measures should be evaluated in terms of international benchmarks.	Development policies These include measures aimed at achieving industrial, agricultural and human development: 1. Microeconomic initiatives • Facilitating increased competition, opening up resource markets, enabling land-use and environmental policy. 2. Social care • Social welfare and security and poverty alleviation • Policies to redress past inequalities, including Employment Equity and BEE/BBBEE • Affirmative action • Land redistribution and restitution 3. Macroeconomic characteristics and desired outcomes: • Standard of living low – increase the per capita income. • Unemployment high – create more employment, e.g. public sector work programme. • Productivity low – improve the level of knowledge, skills and motivation, e.g. JIPSA.

At certain periods, the South African government has focused its initiatives

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on economic growth, while at other points, policy emphasis has shifted to economic development (see figure below).



SOUTH AFRICA USES THE FOLLOWING GROWTH AND DEVELOPMENT POLICIES

The main growth and development policies are:

1. Reconstruction and Development Programme (RDP)

- Adopted as a development strategy in 1994 by the ANC government.
- **The main strategy** was to alleviate poverty and address the inequalities and shortfalls in social services by focusing on job creation, welfare, housing, transport, land reform, healthcare, education, training, water and sanitation.

Focus on:

- Improved service delivery to the poor.
- Creation of an enabling environment that is suitable for human development
- In 1996 it became part of the budgetary process.
- It serves as a road map for economic development in S.A.

Evaluation thus far:

- Meeting basic needs: Government creates an increased demand for goods and services.
- The expanded public works programmes were mostly labour intensive.
- This helped alleviate unemployment and poverty slightly.
- Some social achievements: building houses, providing clean water, electrification, land reform, and healthcare.
- Real GDP growth erratic since 1994, unemployment in formal sector increased.
- Key objectives of poverty reduction and improved service delivery hardly successful.

Role of the RDP in the improvement in the lives of people

The RDP:

- met the basic needs of people.
- increased infrastructure development.
- laid the foundation for sustained economic growth and job creation.
- developed human resources.
- ensured the safety and security of South Africa's citizens and the state.
- transformed the government to reflect development and people-centred nature of the democratic state

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2. Growth, Employment and Redistribution (GEAR)

- Introduced in June 1996 as South Africa's Macro economic policy
- **The main strategy** was to strengthen economic development, redistribute income and create socio-economic opportunities for the poor.

Objectives are:

- Promote Economic growth
- Job creation
- Redistribution of income
- Exchange rate stability
- Price stability (Inflation)

GEAR coincides with the international Macro Economic best practices.

Core programmes:

- Renewed focus on budget reform.
- Faster fiscal deficit reduction
- Exchange rate policy
- Consisted monetary policy
- Reduction in tariffs
- Tax incentives
- Intro flexibility into the labour market
- Expansion of trade

Evaluation thus far:

- Mixed outcomes.
- Brought greater financial discipline and macroeconomic stability.
- Real reduction in fiscal deficit (less than 3% in terms of international benchmarks).
- Inflation has dropped mostly to within inflation targets.
- Foreign exchange reserves increased in most regards.
- Failure to create sustainable job opportunities.
- Failure to redistribute wealth more evenly.

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3. National Skills Development Strategy (NSDS)

Description

The NSDS is the overarching strategic guide for skills development and provides direction to sector skills planning and implementation in the SETAs.

What is it

The National Skills Development Strategy (NSDS) is intended to radically transform education and training in South Africa by improving both the quality and quantity of training to support increased competitiveness of industry and improved quality of life for all South Africans.

Purpose

The National Skills Development Strategy (NSDS) is the tool used by the Department of Labour to drive the process of developing the skills of the South African labour force. Six conceptual pillars: Inclusion, Relevance, Sustainability, Creativity, Quality and Quantity inform its key aims and objectives.

4. Accelerated and Shared Growth Initiative for South Africa (ASGISA)

- In 2006 the government introduced Accelerated and shared Growth, Initiative for South Africa (Asgisa). It does NOT REPLACE GEAR
- **Its objective** is to co-ordinate government initiative to create economic development:

The key elements are:

- Halve unemployment and poverty by 2014.
- Accelerate economic growth to an average of 6% between 2010 and 2014.

Want to achieve it by:

- To improve and developed infrastructure.
- Industrial development
- Skills development
- Stimulation of the second economies (Informal sector)
- Improve state administration

Evaluation thus far:

- Growth in infrastructure investment, especially in the public sector.
- Employment growth has lagged behind economic growth – reason real wage increases are higher than productivity.
- The second economic strategy helped slightly to reduce unemployment through the Expanded public Works Programme.
- Poor economic growth and high unemployment for the youth.

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5. Joint Initiative on Priority Skills Acquisitions (JIPSA)

- It is the skills development arm of ASGISA. Focus is on skills development, especially through the SETAS.

6. Expanded Public Works Programme (EPWP)

- It is a nationwide government intervention to create employment using labour-intensive methods, and to give people skills they can use to find jobs when their work in the EPWP is done.
- **The Main aim:** Create employment using labour intensive methods / Give people skills that they can use to find jobs

The main objective:

- Provide people with better jobs,
- decent work for all
- and sustainable livelihood
- education
- health
- rural development
- food securities
- and land reforms
- and fight against crime
- and corruption.
- Give people skills
- that they can use to find better jobs.

Evaluation thus far: How successful?

- Although the number of unemployed people decreased, the economic growth is still decreasing/low.
- EPWP contributes toward supporting employment generation although it is of temporal nature.
- Training is provided to unskilled, unemployed people and should lead to a positive growth rate and development.
- The government uses more labour-intensive construction and maintenance methods in public infrastructure projects.
- Government was also successful in targeting women, the youth and people with disabilities e.g. through temporal employment.
- Helps to reduce the negative effects of unemployment, which include erosion of self-esteem, drug and alcohol abuse as well as loss of knowledge and skills.
- Those participated have a higher prosperity to participate in savings clubs, to use their personal resources to enhance social services and community assets and to use media as a source of information.

7. The New Growth Path (NGP)

- Its aim is to enhance growth, create employment and create greater equity.
- The strategy is to identify key sectors as “job drivers” and promote and support industries and sectors that can drive job creation.

Focus is to:

- Create 5 million jobs by 2020, reducing unemployment from 25% to 15%.

8. National Development Plan (NDP)

- It sets out to expand economic opportunities through investment in infrastructure, more innovation, private investment and entrepreneurship.

The main aim:

- Eliminate poverty and reduce inequality by 2030
- Reduce unemployment 14% by 2020 and 6% in 2030
- Grow an inclusive economy
- **Financed by:** NDP is funded by government tax.

The role of the state in the implementation of the NDP.

- The government role is to set up the framework for the private sector to function

Evaluate thus far: How successful?

The implementation of NDP will be successful due to the following reasons:

- A good progress has been made since 2014 in the construction of renewable energy sources e.g. solar farms and wind farms
- Standard of living might improve that will reduce poverty levels e.g. housing, social grants

AND / OR

The implementation of NDP will not be successful due to the following reasons:

- Since 2014 there has been no improvement in the unemployment rate and this scenario might continue to exist e.g. unemployment might increase even further
- The gap between rich and poor might increase further
- The following targets set out in the NDP will be difficult to reach: an economic growth rate of 5% (currently 0,8%) job creation of 5 million per annum

Positive elements of the NDP

- Infrastructure expansion with investment in five key physical and social infrastructure areas (namely in the energy, transport communication water and housing)
- The agricultural value chain by addressing the high costs of fertilizers and the inputs and the promotion of processing and export marketing
- Mining value-chain by increasing mineral extraction improving infrastructure, skills development and supporting the beneficiation on the final manufacture of consumer and capital goods

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- Green economy by expanding construction and production of technologies for solar energy, wind energy and bio fuels
- Manufacturing sector through innovation strong skills development, reduced input costs and increased research and development investment
- Tourism and certain high-level services

Aims of the NDP

Create jobs

- Expand infrastructure
- Use resources properly
- Inclusive planning
- Quality education
- Quality healthcare
- Build capable state
- Fight corruption
- Unite the nation
- Improve integration
- Reduce pollution
- Improve equality
- Improve safety

9. Small Business Development Promotion Programme (SBDPP)

- It was designed to deliver support and services to small, medium and micro enterprises.
- Department of Trade and Industry (DTI), Industrial Development Corporation (IDC) and the National Small Business Act offer these services.
- Laws are revised to help change power imbalances.

10. Black Economic Empowerment Programmes (BEE)

- The Black Empowerment Act and Employment Equity Act were designed to assist in the transformation and redress of previously disadvantaged groups.
- Measures are implemented to ensure redress and affirmative action in the workplace and business environment.

9.4 THE NORTH AND SOUTH DIVIDE

	Developed Countries (North)	Developing Countries (South)
Standard of Living	Real GDP Per capita income • It is high, approximately 87% of the world's total income is produced by 15% of the total population • People live in the economically developed regions of the world	Real GDP Per capita income • It is low • 85% of the world population lives on only one fifth of the world's income.

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	Life expectancy in developed countries life expectancy is high = 75 years	Life expectancy - In developing countries life expectancy is low due to problems such as malnutrition, disease and ill health. - Life expectancy is 48 years.
	Literacy levels - Literacy levels are high. - Most people are literate	Literacy levels - Literacy levels are low. - This relates to the low standard of living. - Only 46% adult literacy rate.
Globalisation	Globalization inequalities - Globalization inequalities = low Poverty Level - Poverty level is low Economic growth - Manufactured goods Production and Trade - Rich countries subsidise the production of agricultural products. - This makes it difficult for developing countries to compete	Globalization inequalities - Globalization inequalities = high Poverty level - Poverty level is high Economic growth - Raw materials Production and Trade - Agriculture/mining are not subsidized - There is an insistence that developing countries should remove tariffs on manufactured goods.
Environment Mass production and consumption damages the ozone layer, caused by pollution and toxic waste	Mass production and Consumption Mainly responsible for damaging the ozone layer	Mass production and Consumption Affects developing countries more negatively
Sustainable development The pattern of development that permits future generations to live as well as the current generation	Sustainable development Practices used in production are more in favour of sustainable development	Sustainable development Production practices do not promote sustainable development

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TOPIC: 10 REGIONAL DEVELOPMENT POLICIES IN SOUTH AFRICA

SUBTOPICS:

- 10.1 Industrial development in South Africa**
- 10.2 Regional development**
- 10.3 South Africa's endeavours**
- 10.4 Incentives to encourage industrial development**
- 10.5 Appropriateness of South Africa's industrial policies**
- 10.6 Appropriateness of SA's regional development policies in terms of benchmark criteria**
- 10.7 Small business development**
- 10.8 The appropriateness of BEE in SA economy.**

Concepts:

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10.1 Industrial development in South Africa

Concept

Industrial development related to planning and building new industries in certain areas, as well as to expand existing industries in certain area.

OR

Industrial development refers to planning for and building new industries in certain areas, as well as expanding existing industries in certain areas.

Aim of industrial development

An important aim of industrial development is to increase economic growth.

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