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ECONOMICS NOTES
TOPIC 9: ECONOMIC GROWTH
&
DEVELOPMENT
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TOPIC 9: ECONOMIC GROWTH AND ECONOMIC DEVELOPMENT**ESSAYS**

- **Discuss in detail the demand-side approach in promoting growth and development in South Africa**
 - The monetary policy
 - The fiscal policy
- **Discuss in detail the following South African growth and development policies and strategic initiatives:**
 - Reconstruction and Development policy (RDP)
 - Growth, Employment and Redistribution Programme (GEAR)
 - National Skills Development Strategy (NSDS)
 - Accelerated and Shared Growth Initiative for South Africa (AsgiSA)
 - Joint Initiative on Priority Skills Acquisition (JIPSA)
 - Expanded Public Works Programme (EPWP)
 - The New Growth Path (NGP)
 - National Development Plan (NDP)
 - Small Business Development Promotion Programme
 - Black Economic Empowerment Programmes

ECONOMIC GROWTH

- It is an increase in the production capacity of a country over a period of time.
- It is measured by the real Gross Domestic Production of a country.
- Economic growth can lead to economic development.
- Sometimes economic growth fails to give rise to economic development due to population growth rate that is higher (than economic growth rate)
- This means for economic development to take place, economic growth rate should be higher than population growth rate.

ECONOMIC DEVELOPMENT

- It is an improvement in the quality of life of the majority of people in a country over a period of time.
- It is concerned with factors that show the level of standard of living i.e. education, health, job creation.
- It is measured by per capita income
- It depends on economic growth rate and population growth rate.

APPROACHES ON ECONOMIC GROWTH AND DEVELOPMENT

1. Demand side approach to economic growth and development (possible essay)

Demand-side approach includes discretionary changes in monetary and fiscal policies with the aim of changing the level of aggregate demand and supply (production).

1.1 Monetary policy

The South African Reserve Bank as the central bank in South Africa formulates the monetary policy. They use the following instruments:

Interest rate changes

- Interest rates are used to influence credit creation by making credit more expensive or cheaper.
- **To encourage credit creation**, interest rates can be reduced.
- This can result in an increase in aggregate demand as more people are likely to apply for loans. Increased aggregate demand leads to increased total production of goods and services.
- **To reduce credit creation**, repo rate can be increased.
- This can lead to a decrease in the number of loans, aggregate demand and production of goods and services.

Open market transactions

- **To restrict credit**: the SARB can sell securities to the banks.
- When banks buy these securities money flows from the banks to SARB.
- Banks will have less money to lend and cannot give as many loans as before. This can reduce aggregate demand and supply of goods and services.
- **To encourage credit creation**: the SARB buys securities from the banks.
- This result in money flowing into the banking system and aggregate demand and production increase.

Moral suasion

- The SARB consults with the banks and persuade them to act in a desirable manner suitable for prevailing economic conditions.
- **To reduce demand for loans**, banks can be encouraged to be stricter with loan extension. This can result in aggregate demand and supply decreasing.
- **To increase demand for loans**, the SARB can encourage the banks to be less strict in their requirements for one to qualify for a loan. This can lead to an increase in both aggregate consumption and production of goods and services.

Cash Reserve Requirements

- Banks are required to hold a certain minimum cash reserve in the central bank.
- **To reduce aggregate demand**, the amount of money needed as reserves in each bank's accounts with the SARB can be increased.
- This will result in banks having limited amounts of money to give out as credit.
- **To increase aggregate demand**, the SARB can reduce the amount of money needed as cash reserves in each bank's account with it. This will increase the amount to be given as credit.

1.2 Fiscal policy

Fiscal policy focuses on government spending and taxation to either stimulate or reduce aggregate demand. The **following instruments are used**:

- **Progressive personal income tax**
 - Higher income earners are taxed at higher tax rates than lower income groups.
 - These taxes are used to finance social development, therefore increasing quality of life of citizens.
 - The poor benefit more than those with higher incomes e.g. they receive free education, social grants etc.
- **Wealth taxes**
 - Wealth tax is levied on individual's personal assets e.g. shares, properties, estate etc.
 - **Properties** are taxed according to their market values, the higher the value the higher the tax rate. Transfer duties are paid when properties are bought.
 - **Securities (Shares)** are taxed when traded. Capital gains tax is levied on sale of capital goods (e.g. properties, shares).
 - Estate duties are paid on the **estates** of a deceased person.
 - These taxes are used to finance expenditures which improves the lives of people which benefit the poor more often.
- **Cash benefits / social security payment**
 - Old age pensions, disability grants, child support and unemployment insurance are cash grants.
 - They help the recipients to afford some basic goods and services, thus improving their quality of life
- **Benefits in kind (natural benefits)**
 - These include the provision of healthcare, education, school meals, protection, infrastructure etc.
 - When user fees are charged, low income earners pay less or nothing. Limited quantities of free electricity and water are provided.
- **Other redistributions**
 - Public works programmes, e.g. Strategic Integrated Projects (SIP) provide 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 focuses on land for residential and production farm for previously disadvantaged groups. The money for these programmes is provided in the main budget. The main objective is for the recipients to use the land to contribute towards production and employment.
- **Subsidies on properties**
 - It helps people to acquire ownership of fixed residential properties. E.g. government's housing subsidy scheme provides funding to all people earning less than R3 500 per month.

2. The supply-side approach on economic growth and development

A supply-side approach consists of factors that can influence the aggregate supply (production) of goods and services. **The following are some of those factors:**

- **Effectiveness and efficiency of markets**

- **Effectiveness**: Enterprises are effective when they are able to achieve their aims of making profit and growth of their businesses.
- markets are effective when they operate in accordance with the laws of the country while being able to achieve their aims.
- BBBEE and Employment Equity Act are some of the laws that the markets are required to comply with.
- Both of these Acts ensures that black people are included in the mainstream economy in large numbers.
- Employment Equity Act prohibits (disallow) discrimination in the work place, and it requires firms' workforce to reflect the population of the country (i.e. majority should be blacks)
- BBBEE aims to increase the number of black people who manage, own and control businesses.
- These measures are aimed at the increasing aggregate supply of goods and services.
- **Efficiency**: aggregate supply can increase if the market achieves both allocative and productive efficiency.
- To realise increased production different measures such as promotion of competition and deregulation can be used.
- **Competition** can be increased by encouraging establishment small businesses and recruiting Foreign Direct Investment (firms from foreign countries establishing their businesses in South Africa).
- The Competition Act of 1998 was established to encourage fair competition.
- **Deregulation**: government can contribute towards an increase in aggregate production by reducing regulations of industries.
- Removal of unnecessary laws can increase firms in the market and therefore total production can also increase.

- **Business efficiency**

- Business efficiency is concerned with how much output an enterprise produces for every input used.
- Various economic measures are often applied in the economy to establish and increase efficiency of businesses. **Some of the measures are:**
- **Taxes**: A reasonable level of taxes is important to encourage enterprises to increase production of goods and services.
- With the corporate tax rate of 28%, South Africa's tax rates are regarded as high as compared to other developing countries.

- Capital formation: the availability of capital is essential for enterprises to be productive.
- Government through the Department of Trade and Industry and the Industrial Development Corporation provides loans to SMMES and bigger businesses.
- These loans serve to encourage firms to want to increase their production in order to be able to pay the loans back.
- Human resources: the government often spend the highest amount of money (budget) on education and training.
- Skilled human resources are essential for businesses to increase their productivity.
- Free advisory services: Governments often provide businesses with some advisory services free of charge in order to encourage efficiency (productivity).
- Examples of free advisory services are weather forecast, prevention and curing animal diseases.
- **Cost of doing business**
 - In South Africa most physical infrastructure needed in doing business is controlled by the government.
 - The availability and cost of infrastructure services play a role towards a firm 'growth and profitability'. **Some of those costs are:**
 - Transport costs: various transport options are available to businesses to use in South Africa.
 - A large proportion of cargo (goods loads) is transported by road in South Africa and between South Africa and other African countries.
 - This result in high transport cost because of large distances involved.
 - Rail transport can be a cheaper alternative to road transport, but its availability is very limited in South Africa.
 - Communication costs:
 - Telecommunication (fixed lines, wireless, satellite) in South Africa is reasonably efficient but, expensive.
 - This makes Information Technology (IT) services for businesses expensive and therefore creating a barrier to economic growth.
 - Energy costs:
 - Electricity and liquid fuel are the main forms of energy in South Africa.
 - Eskom is the only supplier of electricity and sometimes it fails to meet the demands of electricity.
 - These factors can contribute toward a limited aggregate supply of goods and service

SOUTH AFRICA' GROWTH AND DEVELOPMENT POLICIES (POSSIBLE ESSAY)

The main growth and development policies used in South Africa are:

1. Reconstruction and Development Programme (RDP)

- The policy was introduced in 1994 as a development strategy for the government.
- The main aims were to alleviate poverty and address the inequalities and shortfalls in social services.
- It focused on job creation through public works, provision of housing, water and sanitation and electrification.
- It also aimed at creating an accountable and transparent processes for all levels of government.

Evaluation of RDP

- Successful: government created an increased demand for goods and services as it was providing basic social needs to previously disadvantaged people.
- The expanded public works programmes were mostly labour intensive. This helped to reduce unemployment and poverty slightly.
- Building of houses, providing clean water, electrification, and basic healthcare were some of its positive achievements.
- Unsuccessful: Real GDP growth was unstable since 1994,
- Unemployment in formal sector increased.
- Key objectives of poverty reduction and improved service delivery were not achieved.

2. Growth, Employment and Redistribution (GEAR)

- The main strategy was to strengthen economic development, redistribute income and create socio-economic opportunities for the poor.
- Key elements of the policy were:
- To have an exchange rate policy that can result in stability to the currency
- A consistent monetary policy to prevent an uncontrollable inflation.
- A reduction in tariffs to reduce the costs of inputs and facilitate industrial reforms.
- Tax incentives to stimulate new investments in labour intensive industries

Evaluation of GEAR

- Mixed outcomes were achieved.
- Positive outcome: 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.
- Negative outcome: It failed to create sustainable job opportunities, therefore unemployment remained high.
- Failure to redistribute wealth more evenly as inequality remained high.

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

- Its objective was to co-ordinate government initiative to create economic development. The key elements were:
- Halve unemployment and poverty by 2014.
- Accelerate economic growth to an average of 6% between 2010 and 2014.

- The government had planned to increase public sector investment in infrastructure in order
- To eliminate the second economy (informal sector) by developing it to the status of the formal economy.

Evaluation of ASGISA

- Successful: Growth in infrastructure investment, especially in the public sector was achieved.
- The second economic strategy helped slightly to reduce unemployment through the Expanded Public Works Programme.
- Unsuccessful: Employment growth had lagged behind economic growth – reason real wage increases were higher than productivity.
- Poor economic growth resulted in high unemployment for the youth.

4. Joint Initiative on Priority Skills Acquisitions (JIPSA)

It is the skills development arm of ASGISA.

Focus is on skills development, especially through the SETAS.

5. 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.

Evaluation of EPWP •

- Positives: The government uses more labour-intensive construction and maintenance methods in public infrastructure projects
- EPWP contributes toward supporting employment generation although it is of temporal nature.
- People involved are mostly unskilled, therefore it gives them an opportunity to gain some skills useful in the labour market.
- Government was also successful in targeting women and the youth.
- Negatives: Although the number of unemployed people decreased a slightly, the economic growth has been decreasing.

6. The New Growth Path (NGP)

Its aim was to enhance growth, create employment and create greater equity.

Its focus was to create 5million jobs by 2020 reducing unemployment from 25% to 15

7. National Development Plan (NDP)

- Its aim is to eliminate poverty and inequality by the year 2030.
- sets out to expand economic opportunities through investment in infrastructure, more innovation investment and entrepreneurship.

8. 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 imbalance.

9. Black Economic Empowerment Programmes (BEE)

- The BBBEE was designed to create economic opportunities for the previously disadvantaged groups.
- This means the government is creating conditions for increase in businesses that are owned and managed by black people.

Evaluation of BEE

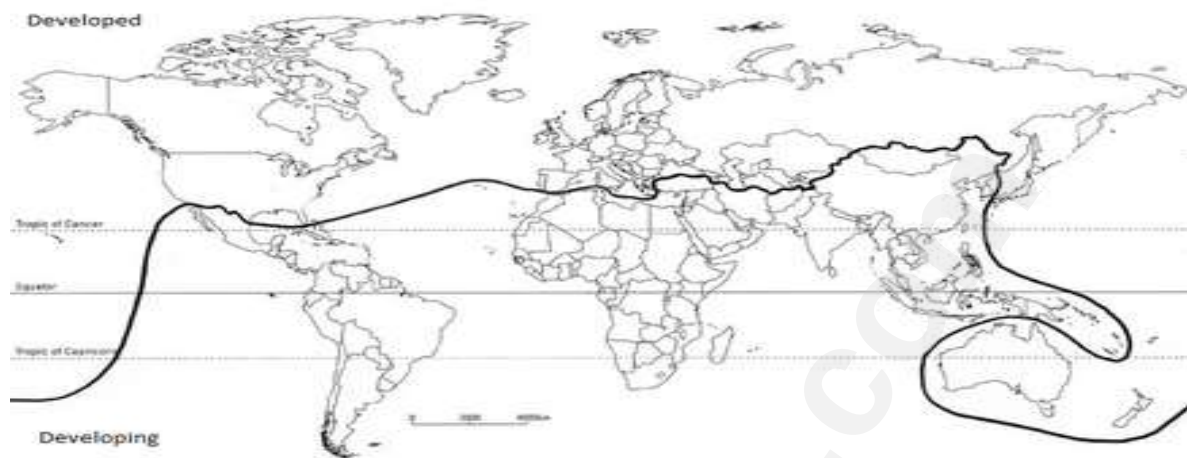
- **Unsuccessful:** corruption and nepotism has been a major shortcoming as some government officials often facilitated beneficiation of people who can pay bribes or whom they know.
- Some of firms that got awarded tenders often cannot survive without doing business with the government as the quality of their work is often low
- White firms often use black people as fronts in order to get business contract with government.

10. National Skills Development Strategy (NSDS)

- It is the main strategic guide for skills development and provides direction to sector skills planning and implementation in the SETAs.
- It is intended to radically transform education and training in South Africa by improving both the quality and quantity of training. This can support increased competitiveness of industry and improved quality of life for all South Africans.
- 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

THE NORTH / SOUTH DIVIDE

The map below shows different ways to distinguish between developed countries (in the North) and developing countries (in the South).



Source: <http://courses.arch.vt.edu/courses/wdunaway/gia8824/world-map.htm>

North/South divide refers to the developmental gap between the developed (North) and developing countries (South).

The divide relates to three areas which are:

1 Unequal standard of living

Standard of living is measured by the following indicators

1.1 Per capita income

- Developed countries own approximately 85% of the world's income. This entails that developing countries (South) which constitute 85% of the world's population own 15% of the world 'income.
- The income per person is very low in the developing countries.

1.2 Life expectancy

- Life expectancy in developing countries is lower due to factors such as malnutrition and diseases.
- HIV is a problem in many countries, even though treatment is available many developing countries cannot afford it.

1.3 Education

- Low living standard is linked to low level of education. The level and effectiveness of education is indicated by the adult literacy rate.
- Developed countries have literacy rate of 100% while developing countries have literacy rates of 60% to 80%.

2. GLOBALISATION CHALLENGES

Developing countries are facing the following **three challenges** that are related to globalisation

2.1 **Poverty**

- In many countries in Africa poverty and inequality have been increasing over the years.
- In South East Asia the number of poor people have been decreasing and this has been linked to the benefits of globalisation.

2.2 **Growth**

- Most developing countries struggle to attract foreign direct investment which is important for increasing economic growth.
- Even countries which run honest government with low inflation rates and balanced budgets they still struggle to grow economically compared to developed countries.

2.3 **Trade**

- Majority of developing countries 'farmers struggle to compete in international markets. This is because developed countries subsidise their farmers heavily therefore allowing them to charge very lower prices for their products.
- This take farmers from developing countries out of the market.
- Few developing countries such as China and India are succeeding in trade due to their comparative advantage in labour and technology.

3 THE ENVIRONMENT

- **Developed countries** are mostly industrialised economies and mass production of goods and services.
- These economies often burn a large amount of coal and gas, thereby causing air pollution.
- This pollution causes global warming and climate change
- **Developing countries** often have economies that are based on primary production.
- These countries contribute to environmental problems such as soil erosion, overgrazing and depletion of water resources.
- They often use methods of production that are not kind to the environment and some of these countries cannot produce enough food for their citizens.