



Special article

The Challenge of South Africa to Reduce Its High Unemployment

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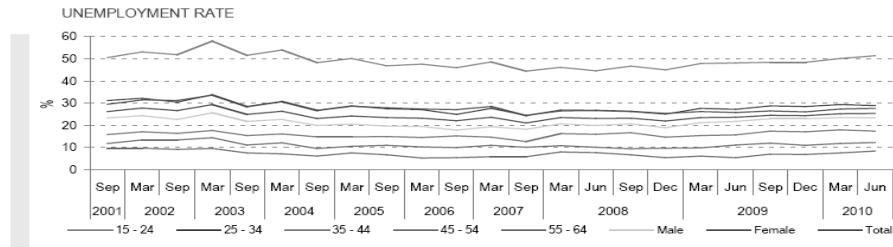
1. Introduction

The unemployment rate in South Africa has been in excess of 20% for many years. Various questions can be asked about policies and probable solutions to reduce unemployment. What is wrong with South African macroeconomic policies or is it rather what is wrong with economic and political coordination of policies? What is the probability of millions of South African inhabitants to rise out of poverty?

Table 1: South African Unemployment

UNEMPLOYMENT (BROAD AND NARROW)

	2002		2003		2004		2005		2006		2007		2008				2009				2010		
	Mar	Sep	Mar	Sep	Mar	Sep	Mar	Sep	Mar	Sep	Mar	Sep	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	
narrow (official)	27.7	26.6	29.3	24.8	26	26	23	24.2	23.6	23.1	22.1	23.6	21.0	23.6	23.1	23.2	21.9	23.5	23.6	24.5	24.3	25.2	25.3
broad (unofficial)	28.4	28.3	40.6	38.1	0	38.1	38.0	35.8	36.1	34.0	36.0	34.6	31.6	30.2	30.2	29.3	31.2	32.5	34.4	34.2	35.4	35.9	

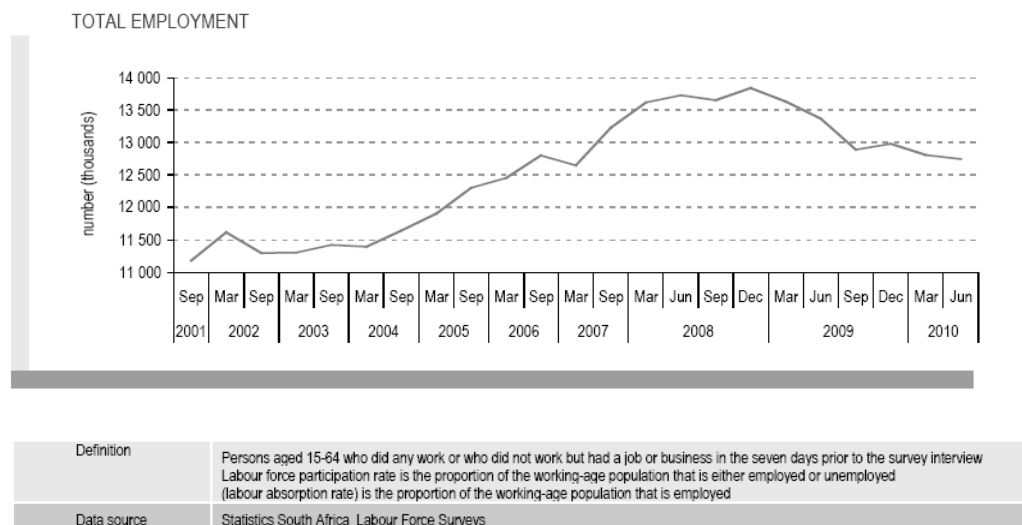


Definition	Narrow (official) - Number of people who were without work in the week preceding the interview have taken active steps to look for work and were available for work. Broad (unofficial) - Number of people who were without work in the week preceding the interview and were available for work
Data source	Statistics South Africa's Labour Force Survey and Quarterly Labour Force Surveys

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February 2010 was the commemoration of the speech of the previous president, (Mr) F W de Klerk, twenty years ago to legitimize the ANC political party. Sufficient jobs are not being created after the political change in 1994 when the black ANC government took over from the white minority NP government. The new government employed two new policies after 1994 with a strong focus on job creation. In the Growth, Employment and Redistribution strategy (Gear) and the Accelerated and Shared Growth Initiative for South Africa (ASGISA) the assumption is made that higher economic growth will ultimately create new job opportunities. This assumption is flawed because the unemployment rate stays uncomfortably high. President Zuma said in the State of the Nation Address in February 2009 that 500000 jobs will be created for the year, but the country lost about 900000 job opportunities in 2009.

Table 2: South African Employment



Possible solutions must be sought. The previous Minister of Treasury was frustrated that, in spite of pouring money into education, the system was not delivering results. The Minister stated (Green, 2008) that: *“the reality is that we have an education system that is highly deficient and we have a highly unequal society with a large number of comparatively unskilled people needing work”*. Regardless of billions of rand being allocated to education, it continues to be a whirlpool of low standards and weak outcomes.

Economically successful countries embrace certain economic pillars in the application of their policies to reduce unemployment. The previous Minister of Treasury commented according to (Green, 2008) that: *“SA could not afford to go the way of the*

soaring East Asian economies which pay slave wages and compete successfully internationally on the strength of that". Regardless of his viewpoint, the South African scenario should be compared to the fast growing economies of East Asia to find common ground for the implementation of new measures to accelerate growth in South Africa.

Studies were done by the World Bank in 2007 and the Harvard group of economists in 2008 to find solutions. In the mean time, the informal sector provides a safety net for the formally unemployed workers at subsistence income levels which is not a long term solution. The new labour laws implemented after 1994 protects the rights of workers but makes the market place rigid. The ability of workers to rise out of poverty is being constrained by the policies designed to create a better labour dispensation.

This paper firstly states the problem of weak sustainable economic growth and high unemployment in South Africa. Secondly, the inability of the South African dispensation to create new jobs will be analyzed relative to theory. Thirdly, reference is made to various government policies to see if it supports real growth or if political agendas cast a shadow on theoretical principles. Fourthly, the South African labour scenario is analyzed according to studies done by various international organizations as well as a few similar emerging countries in East Asia to find common ground to improve employment creation. In conclusion, recommendations are made to improve growth in South Africa.

2. What can South Africa learn from theory?

The well known Neoclassical growth theory describes a steady-state equilibrium where the economy reaches a long-run level of output. According to (Dornbush, 1998) an increase in the savings rate, firstly raises the long-term level of capital and output per head. Secondly, an increase in the population growth rate reduces the steady-state rate of growth of aggregate output. Thirdly, an increase in technology causes the steady-state to move to a higher per capita output.

The Neoclassical growth theory dominated economic thought for a long time but did not explain the details of the technological progress. According to (Dornbush, 1998) the endogenous growth theory developed to explain the theoretical and empirical problems associated with the Neoclassical theory by modifying the production function. This theory explains the role of human capital as well as research and development to increase long-run growth. These foundational economic elements should be incorporated in macro economic policies to create sustained economic growth and will be referred to later.

3. What policies influence employment and growth in South Africa?

Various policies were implemented after 1994 by the new ANC government. Firstly, it is important to analyze these policies to see if it supports real growth and secondly to analyze the broader political agenda of government.

3.1 Reconstruction and Development Policy

The first policy which must be referred to is the transformation policy of 1994. The goal of this policy is to build a democratic, non-racial and non-sexist future (RDP, 1994). The vision is a fundamental transformation of South Africa by means of:

- The development of strong and stable democratic institutions
- To ensure representation and participation of all
- To ensure that the country become fully democratic, non-racial and non-sexist
- To create sustainable growth and development

This policy has two goals, namely reconstruction and development on the one hand and growth on the other hand. It is stated clearly that government supports macro economic policies which promote RDP principles. This transformation incorporates every level of government, every department and every public institution. This policy is not a new set of projects, but a comprehensive redesign and reconstruction of all government activities. It also facilitates labour market reform and establishes collective bargaining rights for all.

3.2 Growth Employment and Redistribution Strategy

The second policy is the GEAR policy of 1996 (Department of National Treasury, 1996). Soon after taking power in 1994, government realized that the country needed new initiatives to create sustainable growth of greater than 3%. Objectives of government to reduce poverty, to redistribute income and to provide social services were not fulfilled. Government launched the GEAR strategy about rebuilding and restructuring the economy to reach the goals of the RDP. The RDP role in this economic strategy is reflected as follows: *“to successfully confront the challenges of meeting basic needs, developing human resources, increasing participation in democratic institutions of society and implementing the RDP in all its facets”* (Department of National Treasury, 1996).

The GEAR strategy identified structural weaknesses in the economy and focused on policy measures to address these imbalances. A reprioritization of the budget towards social spending was the first element focused on growth. All the other elements

focused on poverty and inequality, for example acceleration of the fiscal reform process, consolidation of trade and industrial reforms and public sector restructuring.

3.3 Accelerated and Shared Growth Initiative for South Africa

The third economic policy came into being in 2006 to reduce unemployment to below 15% and to halve poverty by 2014 according to (ASGISA, 2006). The government was not happy with the realized growth rate of the GEAR policy. Two important aspects had to be addressed, namely the relatively strong rand because of positive capital flows from abroad and the social grant programme that did not reduce poverty enough. The government identified binding constraints that hampered sustained growth, namely

- A volatile currency
- Efficiency and capacity of the national logistics system
- Shortage of suitably skilled labour
- Entry barriers and limited investment opportunities
- A regulatory environment that hampers the establishment of small businesses
- Deficiencies in state organizations, as well as capacity and leadership

Analyzing these constraints, it is clear that sustainable high growth is hampered because of structural problems in the economy. The last constraint is however a perfect example of an imperfection created by the RDP policy.

3.4 Labour Policies

Since the 1994 election of a democratic government in SA, a continuous debate exists in the economy regarding unemployment and the redistribution of wealth. During this period from 1994 to 2006 when the government tabled new policies with various degrees of economic elements (minimal with RDP to a relative big percentage in GEAR and ASGISA), numerous new labour laws were also tabled. In an economic environment where industries are exposed to competition from international markets, the nature of industrial relations determines whether an industry is productive which eventually determines economic survival or not.

These labour laws over protect the employee, which allows a situation to develop where employers reluctantly employ new workers. The new proposals of government during November 2010 to improve the protection of workers will only worsen the existing regulated market, for example that all employees should be permanently employed. Such measures will take all flexibility away from companies. For South

Africa to compete internationally such measures will make South Africa less competitive and will increase unemployment.

South Africa's re-emergence into the global market place coincided with a watershed in industrial relations. Like many highly protected economies South African employers and unions have lived in a bargaining environment where cooperation was an unpopular option in a largely conflict driven system. The additional burden of a political system that forced a racial division of labour has left a legacy of distrust which demanded a new dispensation regarding labour relationships. It is into this volatile world that the Government has introduced the following acts (Mellet, 2006):

- Labour Relations Act (66 of 1995)
- Basic Conditions of Employment Act (75 of 1997)
- Employment Equity Act (55 of 1998)
- Skills Development Act (97 of 1998)
- Broad-Based Black Economic Empowerment (53 of 2003)

The philosophy behind the Labour Relations Act is to create a spirit of industrial democracy and to encourage production and labour peace by means of joint decision making. The main features of this act are the recognition of collective bargaining as the most acceptable means of resolving disputes of mutual interest. It also recognizes that strikes and lockouts are an intrinsic part of the process of collective bargaining. It simplifies the dispute resolving procedures by replacing the Industrial Court with the Commission for Conciliation, Mediation and Arbitration to process disputes. Lastly, the most radical innovation of the Act is the introduction of the workplace forum. Elected employees have the right to consult with management and to reach joint agreement over matters defined in the Act.

The philosophy behind the Basic Conditions Act is to improve the basic working conditions of workers. Various aspects are covered, like 40 hours working week, overtime work, meal intervals, rest periods, work on Sundays, night work, annual leave, sick leave, maternity leave, termination of employment, prohibition of employment of children and written particulars of employment deductions from employee's remuneration.

The purpose of the Employment Equity Act is to achieve equity in the workplace. Equity is achieved by promoting equal opportunity and fair treatment in employment through the elimination of unfair discrimination. Affirmative action measures are implemented to redress the disadvantages in employment experienced by designated

groups to ensure their equitable representation in all occupational categories and levels in the workplace. This act requires employers to take positive action regarding the accommodation of people from designated groups, ensuring that black people enjoy representation and are equitably represented in the workplace.

The intention of the Skills Act is to provide the means to manage skills development on a national basis. Every employer who is registered with SARS for PAYE or has an annual payroll in excess of R250 000 has to pay a skills levy of 1% since April 2001. The Skills Act and the Employment Act work in tandem. The aim is to expand the knowledge and competencies of the labour force resulting in improvements in employability and productivity.

The philosophy behind the BEE legislative framework is the promotion of black economic empowerment (Broad-Based Black Economic Empowerment Act, 53/2003). South Africa's economy performs below its potential according to the ANC because of the low level of income earned and generated by the majority of its people. It therefore promotes equality of all people and increases the participation of black people in all spheres of the economy and equal access to government services. It also promotes the role of black women, namely to own and manage existing and new enterprises and to increase their access in economic activities.

BEE began as a defensive policy to address problems of the previous political dispensation. It however escalated to the core ideology of the ANC which enriches the black political elite. An attitude developed in the ANC that the previous disadvantaged people can use the state to improve their circumstances, rather than to use the state and its assets to serve the needs of the people. Therefore the saying amongst the black population developed: "*the system owes me*". The role of the state became distributive, rather than developmental. This ideology became disastrous for the South African economy, relative to the ideology in East Asia, namely the cultivation of virtue and the development of moral perfection.

3.5 New Economic Growth Path of 2010

The government announced a new economic plan end of November 2010 to address the high unemployment (Department of Economic Development, 2010). The goal is to create five million jobs over the next 10 years. Five job drivers were identified by government, namely increased public investment in infrastructure, targeting labour absorbing activities in main economic sectors, seeking advantages in the knowledge and green economies, to increase social capital and to foster rural development.

4. What do international research groups tell us?

4.1 Harvard International Panel

The Department of National Treasury, as representative of the government, engaged with an international team of experts to do research about the slow growth of the South African scenario. This group of experts, known as the Harvard international panel, visited South Africa various times in 2006 and 2007 (Department of National Treasury, 2008). The panel stated firstly that South Africa has a structural unemployment problem and that the binding constraints, as referred to in the ASGISA strategy, must be eliminated by government. Secondly, they recommended that the export sector, mainly because of declining trends in the mining-, agriculture- and manufacturing sectors, must be developed. Thirdly, they stated that growth in South Africa is driven by three sectors only, namely construction, transport and communication as well as the financial, real estate and business services.

4.2 World Bank

The Department of National Treasury, as representative of the government, also engaged with the World Bank in a Country Partnership Strategy (CPS) in 2007. The focus of this research is the reduction of poverty and inequality in Southern Africa (World Bank, 2007). According to this research, sound economic macroeconomic policies and sound fiscal discipline contributed to an average three percent annual growth during the first decade after 1994. (Van Aardt, 2009) argues that a positive relationship exists between formal-sector employment and household income per capita growth in South Africa. The problem however is that the low growth rate did not improve the social conditions of the majority of the population. The poverty levels did not reduce significantly, whilst the burden of the HIV disease remains high which increases the cost of production and decreases productivity.

4.3 Other structural constraints

According to (Banerjee et al, 2007) the increase in unemployment is due to structural changes in the economy and not to temporary negative shocks. These researchers found that the supply of labour increased after the fall of apartheid. These new entrants into the labor market tended to be relatively unskilled. Secondly, they found a low level of labor market participation and employment in rural areas. If employment rates are compared by age group and region between South Africa and Latin America and the Caribbean, it is observed that the differences are large mainly in the rural areas of South Africa.

5. What is the success story of East Asia?

In the following table the unemployment rate of a few East Asian countries are compared. It is clear if these countries are compared to South Africa (refer table in introduction) that the general level of unemployment are within the international norm of 5% whilst the South African level is about five times more than the international norm. It is a clear indication that these countries' macro economic policies are effective, whilst something is seriously wrong regarding the application of polices in South Africa.

Table 3: East Asian Unemployment Rate

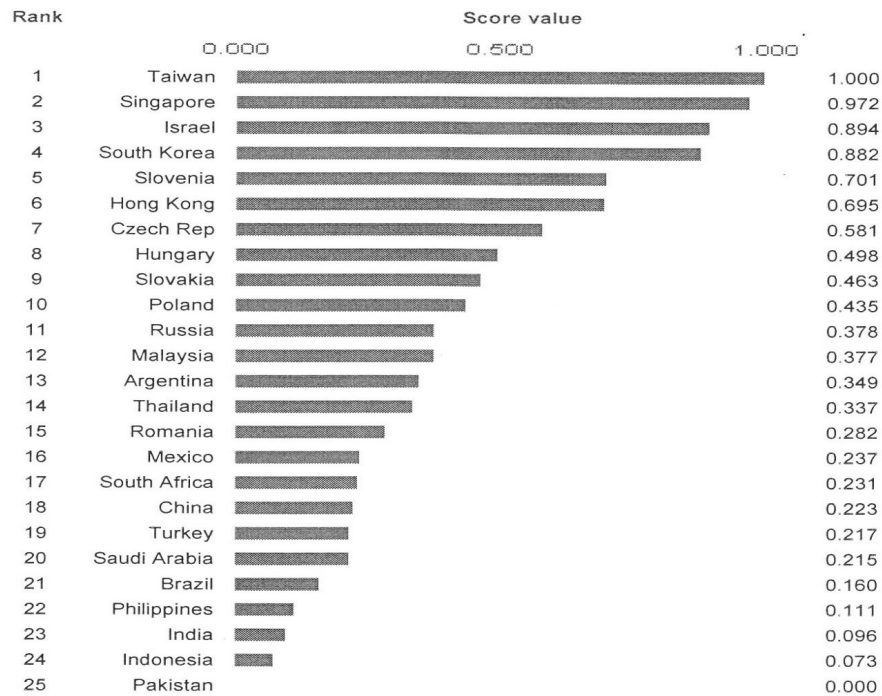
Country	2000	2001	2002	2003	2004	2005	2006	2007	2008
China	3.1	3.6	4.0	4.3	4.2	4.2	4.1	4.0	4.2
Japan	4.7	5.0	5.4	5.3	4.7	4.4	4.1	3.9	4.0
Malaysia	3.0	3.5	3.5	3.6	3.5	3.5	3.3	3.2	3.3
RepKorea	4.4	4.0	3.3	3.6	3.7	3.7	3.5	3.2	3.2
Taiwan	3.0	4.6	5.2	5.0	4.4	4.1	3.9	3.9	4.1
Thailand	2.4	2.6	1.8	1.5	1.5	1.4	1.2	1.2	1.2

Source: International Labour Organization

In the following tables various indicators of a spectrum of emerging countries are compared according to a business economics consultancy (Global-production, 2008) which specializes in emerging markets research, based in Switzerland. If this information for East Asia is compared to the rest of the world, it is clear that East Asian countries are the leaders regarding various economic indicators. For every indicator, an Asian country ranks the best although it may be a different country. If these various indicators are compared to other emerging countries, it is without a doubt clear why East Asian countries are the pivot of growth in the world. China for example compares poorly regarding industrial capacity and skill base. China however, ranks highly with regards to labour cost. The low labour cost in China and other East Asian countries is therefore a crucial factor in their phenomenal growth performance.

Table 4: Industrial Capability

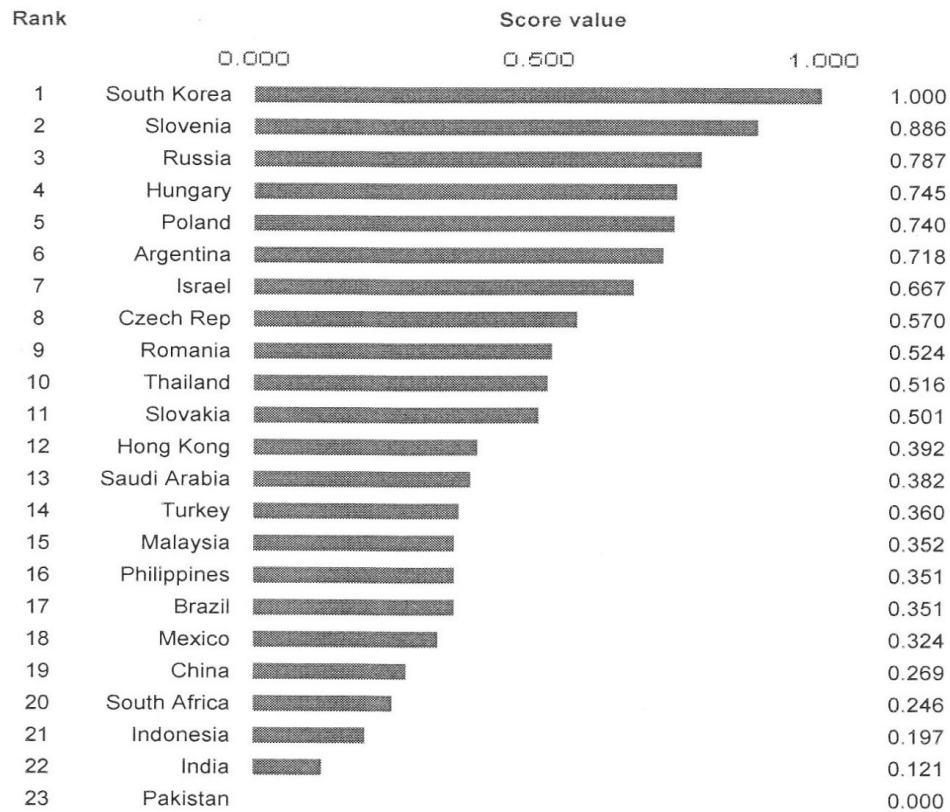
Metric is based using the following indicators; skill base, research and development capacity, infrastructure and government. It is calculated as the arithmetic mean of indicator values converted to score values from 0.0 to 1.0.



Source: Global-production

Table 5: Skill Base

The following table is about the availability of skilled manpower in the labour force. Metric is based on the Harbinson-Meyers Index values for enrolment in secondary and tertiary education. The index values are converted to score values ranging from 0.0 to 1.0.



Source: Global-production

Table 6: Labour Cost

The following table is about an index of hourly wage cost. The wage index is based on labour cost data for 14 widespread professions in major agglomerations. The index values are weighted by the share of each occupation in overall employment. Labour cost is defined to include holiday and vacation pay as well as taxes and social security contributions by the employer.



Source: Global-production

South Africa is for all the indicators in the wrong half of the spectrum and compares very poor to East Asian countries. South Africa rank 0.231 out of a possible 1.0 regarding industrial capability; whilst the ranking for skill base is 0.246 out of a possible 1.0. The ranking for labour cost in South Africa is 74.6 and very high relative to East Asian countries. Various other emerging countries also compare better than South Africa regarding these indicators. It can be concluded that the application and policy mix of South Africa is badly structured and managed.

6. Adjustments needed in South Africa

Various binding constraints exist in South Africa that hampers sustained growth and the reduction of unemployment. Various policy adjustments are needed to rectify this major problem. Firstly, recommendations of the various institutions and groups of researchers, as referred to in section four, will be addressed and secondly, lessons learned from East Asia will be addressed. These recommendations will summarize the required policy changes needed to improve growth and the creation of job opportunities in South Africa.

6.1 Harvard International Panel

The Harvard economist group refers to a non-tradable sector which employs relatively few unskilled people and a tradable sector like mining, agriculture and manufacturing that employs greater numbers of unskilled people (Green, 2009). The problem in SA is that the people are mainly unskilled and that there is a big supply of unskilled labour whilst there is a small supply of skilled labour. The panel made five policy recommendations (Department of National Treasury, 2008) to improve the growth and unemployment problem in South Africa:

- Macroeconomic policy: to reduce constraints of growth, fiscal policy must be counter-cyclical and must make a bigger contribution to national savings, existing restrictions on capital outflows must be eliminated, the current inflation targeting regime must be maintained and the level as well as the stability of the exchange rate must be addressed
- Trade and competition policy: a radical simplification of the tariff system with low or no tariffs on inputs, a review of the SACU arrangements, SA to lead African economic integration without unrealistic custom union agreements and changing to a pro-active approach regarding competition policy
- Labour market policies: to implement a wage subsidy for 18 year olds, the relaxation of SETA (skills education training authorities) regulations and the implementation of a high-skilled immigration approach of government
- Industrial policy: a shift in focus of the Industrial Development Corporation (IDC) from asset management to the financing of new activities, that the existing Customised Sector Programmes be substituted with an approach of self organization of the different actors, to create a special central budget for structural transformation, to change the Motor Industry Development Programme (MIDP) policy with a supplier based promotion scheme and lastly, that beneficiation should not be used as the basis for selective intervention and industrial promotion
- Public administration and Black Economic Empowerment: recommendations regarding public administration are two fold, namely a certification system for government entities which provides economic services and municipalities with poor capacity to use central bodies to procure municipal services. Regarding BEE three recommendations are stated, namely a review of the current BEE scorecard system to include elements to facilitate employment creation, learnerships and training, the development of a system to collect information regarding BEE and a mechanism to evaluate the progress of this policy. The panel also stated in a separate paper that the

negative impact of crime discourages growth of small and emerging businesses in poorer areas.

6.2 World Bank

The Country Partnership Strategy (CPS) developed between the World Bank and the Department of National Treasury focused on the eradication of poverty and the reduction of inequality in the Southern African region. This joint strategy proposed a theme consisting of two pillars (World Bank, 2007) to reduce the poverty and inequality problems:

- The first pillar of the CPS is about measures to improve urban and rural development. This pillar support key areas of ASGISA, for example urban and municipal development, land reform and agriculture, privates sector development, environment and infrastructure.
- The second pillar of the CPS is about measures to improve regional integration. This pillar proposes activities to support Africa, for example facilitation of South African companies' investments in Africa, building of regional communities in cooperation with the SADC countries and the sharing of knowledge to support Africa.

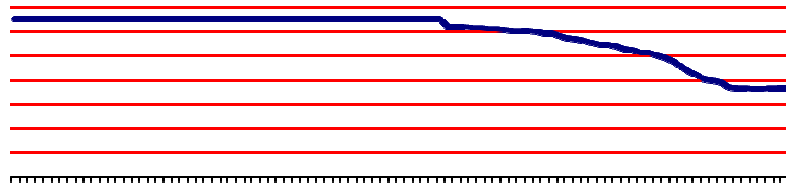
6.3 East Asia success stories

Lessons to be learned from East Asia, after a study tour in 2010 by the author, are numerous. Firstly, specific lessons of China will be referred to and secondly, general principles of other East Asian countries will be referred to. Various specific reasons are applicable to China. Firstly, the government of China made a decision to break with the communist ideology and to apply capitalistic principles which proved to be a use success. Secondly, the sheer size of China growing from a very low base and which opened various internal markets, created vast opportunities. Against the background of these foundational issues and regardless of a fairly weak ranking in industrial capability and skill base (refer section 5), the following specific factors are also driving high growth in China:

- The liberation of trade policies
- Very cheap labour cost in comparison to other countries
- Off shoring where sections of production processes of other countries are transferred to China

- The monetary authority which manage the Yuan not to appreciate

Graph 1: Yuan versus USA \$



Source: Peoples Bank of China

It is very clear in the graph above that the monetary authority did not allow the Yuan to appreciate in the last decade regardless of the phenomenal growth in exports and the creation of the biggest national reserves in the world in excess of \$2 trillion. The monetary authority only allowed a few minor ad hoc adjustments during 2006 – 2008 and 2010. The low labour cost and the authorities that does not allow the currency to appreciate in relation to the USA \$ has been the major cause of the phenomenal growth in their exports, massive current account surpluses and the highest national reserves in the world.

This managed float policy of the Chinese monetary authority were attacked during the World Economic Forum in Davos beginning of 2010 by political leaders, central bankers and international investors, including George Soros. According to (Hui, 2010), the international officials questioned the Chinese policies to keep the Yang weak against the USA \$. This policy was also attacked in the G20 meetings and the Korean meeting in November ended in a disagreement between China and the USA about the road forward. The general consensus was that a weak Chinese currency does not create fair trade in the world. It also creates imbalances in international trade which harms the recovery of other countries in the world after the international crises of 2008.

Growth plans in South Africa did not bear the expected results since inception and the latest new growth path was also severely criticized from various sources since the announcement late in 2010. General factors applicable to other East Asian countries from which South Africa can learn are firstly to shift from labour intensive (mainly agriculture) production to small- and medium manufacturing; secondly, to boost export manufacturing rather than to employ import substitution tactics; Thirdly, employment of low labour cost and fourthly to increase FDI to upgrade infrastructure;

Fifthly, the stimulation of local demand and supply that changed current account deficits into surpluses and, Lastly, the liberation of trade and other economic policies.

6.4 Other recommendations

The Harvard group of economists and the World Bank made certain recommendations in recent years to address the lack of growth in South Africa. Despite these recommendations, theoretical principles must also be employed in policies. Examples are to increase saving, to control the population growth, to employ technology in manufacturing, to improve productivity, to improve skills and to allocate more capital to research and development. Many of these aspects do not feature in the South African economy.

The saving rate in South Africa is stable at a relative low 15% of GDP (SARB, 2009), but the contribution from government fluctuates a lot and the contribution of consumers has been negative since 2006. The population growth does not stabilize and the South African authorities opened the northern borders beginning of 2009 allowing people of northern African countries to pour into South Africa. This change of policy caused the unemployed pool to escalate in South Africa. South Africa is an exporting country of mainly minerals according to absolute advantage principles. Comparative advantage and competitive advantage principles of international trade theory should be encouraged rather than to stick to the old theoretical principle of absolute advantage.

The investment in human capital is another case in point. According to the 2010 national budget (Department of National Treasury, 2010), R165 billion or 18% is budgeted for education (the biggest item in the budget) for the fiscal year 2010/11. The government pours billions of rands into the coffers of education, but the standard of education does not improve. The government began a few years ago to pay out social grants to children of poor families. In the 2010 national budget (Department of National Treasury, 2010), R89 billion rand is allocated to this portfolio and the grant was extended from 16 years to 18 years. These grants send the wrong signal to communities, because more children are borne simply for these families to qualify for grants. It also casts a shadow over the development of any entrepreneurial skills and creativity to find a job because government looks after the people. A wage subsidy for youthful workers that target the unemployed group that is in transition between school and work, should be the only grant to the youth. This grant was implemented in the 2010/11 national budget, according to advice of the Harvard group of economists.

BEE policies should be scrapped. This philosophy of government discourages new investment, it causes the acceleration of the skills flight of white people to other countries and only benefit very few black people. Regardless of the economic failure, a BEE Council was inaugurated on the 4th of February 2010. The president stated in his speech (Zuma, 2010): “.....*the story of black economic empowerment in the last 15 years has been a story dominated by a few individuals benefiting a lot. The vast*

majority of those who are truly marginalised: women, rural poor, workers, the unemployed, and the youth have often stood at the sidelines.”

Lastly, government should allow the rand to depreciate to support exports which are not competitively priced in the international community because of high labour costs. The ruling policy of government until the beginning of 2010 was not to intervene in the financial markets. This policy creates volatility because the rand is expressed to the USA \$ and the South African economy is influenced by the policies and activities of the USA. In the national budget speech of 2010 (Department of National Treasury, 2010) the minister employed a new policy, namely that government will not allow the rand to appreciate further (there is however a lack of details of this policy).

7. Conclusion

The political dispensation before 1994 was characterized by sanctions, global isolation, strikes, violence in the townships against the apartheid system, lack of foreign capital, a low growth rate, high inflation and capitalism. February 2010 was the commemoration of the speech of the previous president, (Mr) F W de Klerk, twenty years ago to release (Mr) Nelson Mandela and to legitimize the ANC political party. This historical speech paved the way to the first democratic elections in 1994.

In 2010, twenty years after this historical speech, the picture is vastly different. The South African economy is now characterized by violence in the townships against poor service delivery by municipalities, strikes organized by politically inclined labour unions to improve workers benefits, volatile foreign capital, a volatile growth rate, high unemployment, numerous structural problems in the macro economic environment, a sick educational system absorbing the biggest percentage of national budget funds, bad management and corruption in all three levels of government and a socialistic ideology in government.

These problems are summarized by a leading academic in South Africa and the brother of the previous ANC president who resigned from the ANC. Dr Eloff, vice chancellor of North West University, stated during the Afrikaans language deliberation in January 2010 that white Afrikaans people are bullied by a transformation ideology which is not written in the South African constitution. He stated according to (Malan, 2010) that tension exists between the constitution and transformation policy of the ANC.

According to (Mbeki, 2009), the solution to the crisis caused by the ANC government: *“can only come from the emergence of a leadership with meaningful policies for building a more inclusive society in South Africa. BEE, which benefit the black elite*

and the social welfare programmes which benefit the poor, do not lead to such inclusiveness; if anything, they entrench the inequalities inherited from the past and exacerbate new inequalities amongst the black population”. To achieve the real growth rate goal of 6% as stated in the ASGISA policy and to reduce the high unemployment in South Africa, various crucial policy changes must occur.

Theoretical principles must be employed in policies, for example to increase the savings rate and to address the population growth, the various structural problems identified in ASGISA and the new growth path must be addressed by government and principles of Asian success stories must be incorporated in the South African economy. Certain policies for example ASGISA have good foundations, but the main problem in South Africa is two-fold. Firstly, sustained high growth of 6% will not be achieved as long as economic principles are overshadowed by the political agenda of transformation in South Africa. Secondly, fundamental changes are needed in the South African economy and need urgent attention, but the lack of management at all levels in government to address the structural problems, handicap such changes. As long as there is no strong political opposition in parliament to control and stop wrong activities of the ruling political party, sustainable growth and the reduction of poverty will remain a dream.

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