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**"INSTITUTIONAL CHANGE AND ECONOMIC GROWTH:
THE CASE OF SOUTH AFRICA"**

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STRUCTURE

ABSTRACT

The aim of this dissertation is to study the impact that an abrupt institutional change, in particular a democratic transition, can have on economic growth. Notably, my focus will be on the channels through which democracy affected economic development in a country which has recently undergone a process of democratization: South Africa.

To do that, I do not limit my study to the analysis of GDP growth, unemployment rate and total factor productivity trends. In fact, I also delve into the overall economic and human development of South Africa, emphasizing differences among the population. Moreover, I use the results of recent Afrobarometer surveys, conducted on a random sample of the population, to measure the public sentiment towards the way the democratic regime is ruling the country. Data confirm that democracy was crucial in reversing the declining trend and directing the country towards a path of sustained growth. However, even though beneficial, the democratic regime alone did not solve all the issues of South Africa. On the contrary, as time went by, the newly established government has shown some limitations and is now facing big challenges when it comes to poverty, inequality, unemployment and corruption. Solving these problems will be crucial both for economic prosperity and for the very survival of democracy.

L'obiettivo di questo elaborato è quello di studiare l'impatto che un radicale cambiamento a livello istituzionale (nello specifico una transizione democratica) può avere sulla crescita economica di un Paese. In particolare, l'analisi è concentrata sui canali attraverso cui il nuovo regime democratico ha influito sullo sviluppo economico di un Paese che ha recentemente attraversato un processo di democratizzazione: il Sudafrica.

L'analisi non si limita a un resoconto dei dati su PIL, disoccupazione e livelli di produttività, ma cerca di esaminare il più ampio concetto di sviluppo economico e umano nel Paese, enfatizzando le grandi differenze che tuttora esistono tra diversi ceti ed etnie, e misurando il sentimento pubblico tramite l'utilizzo di dati tratti da sondaggi (Afrobarometer surveys) sulla percezione dei cittadini riguardo al modo in cui il regime democratico sta guidando il Paese. Questi dati confermano che la svolta democratica è stata fondamentale per invertire il trend negativo dell'ultimo decennio di apartheid e indirizzare il Paese verso un percorso di crescita sostenuta. Tuttavia, nonostante l'impatto positivo, il passaggio ad un regime democratico non ha risolto tutti i problemi del Sudafrica. Con il passare del tempo, infatti, il nuovo governo ha mostrato alcuni limiti e sta affrontando ora grandi sfide riguardanti temi quali povertà, disuguaglianze, disoccupazione e corruzione. La risoluzione di tali problemi sarà cruciale, sia per la crescita economica del Paese, che per la sopravvivenza della democrazia stessa.

1. INSTITUTIONS, DEMOCRACY AND ECONOMIC GROWTH: A REVIEW

I. The importance of institutions in explaining economic growth

Economic growth is the most powerful tool for improving a country's living standards.
For most governments, this might be the be-all end-all of their mandate, upon which political legacy and external considerations are built. But what is it needed exactly to achieve growth? Different models have been adopted during the years to answer this very question.
Robert Solow (1956) developed the neoclassical growth model, so called because it assumes perfect competition and diminishing marginal product of capital (i.e., average capital productivity decreases as capital in the economy increases). Going into the details of the model is beyond the scope of this dissertation; its fundamental shortcoming, though, is that it is based on the assumption that growth is caused by technological change, which is assumed to happen exogenously. The external nature of technological progress implies that potential improvements in the machinery and equipment are outside of the single firm's control, thus making investments in R&D pointless. This hypothesis is obviously not very realistic.
According to the endogenous growth theory, differently from the Solow model, entrepreneurial innovation leads to endogenous technical change, which in turn drives growth. This new model, introduced by Romer (1990), emphasizes the importance of knowledge over human capital, since the latter is useless when an individual dies or becomes unproductive from an economic and social standpoint. Knowledge, on the other hand, exists in different shapes and forms (e.g., books, digital files, archives, patents, etc.), so that it goes beyond the existence of a single person or society, and can potentially grow boundlessly if enough resources are invested in research. It is very important, then, that adequate incentives are provided to foster innovation and allow knowledge to flourish.
In a nutshell, both models assume that technological progress, along with the accumulation of physical and human capital, play important roles in explaining a country's growth rate and cross-country income differences. However, these factors are only *proximate* causes of economic prosperity (Acemoglu 2008); in other words, they do not provide an explanation for differences across countries in their choices about investing in those factors, which then result in divergent economic outcomes. Acemoglu (2008) addresses this issue by investigating the *fundamental* causes of economic growth, and comes up with four hypotheses, namely:
luck, geography, culture and institutions. Despite all being potentially important (and to some extent complementary), Acemoglu (2008) argues that institutions are the most critical factor in shaping the incentives to invest in physical capital, human capital and technology, thereby explaining differences in economic performance among countries.

With this in mind, it is important now to define institutions, since it is a very broad concept. A frequently adopted definition is the one suggested by Nobel Prize winner in economics, Douglass North, who was a strong supporter of the view that institutions play a central role in explaining why some countries developed earlier than others. In his own words, "institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction" (North 1990, p.3). Therefore, institutions offer a framework of laws, policies, guidelines, and procedures that help people understand what outcomes they would experience as a result of their and other people's decisions.

Indeed, if we pay close attention to the workings of our society, we would certainly notice that our behaviours and freedom of choice are strongly affected by the different kinds of political, economic and legal institutions that have been set up in our country.

The causal link between institutions and growth has been shown by Acemoglu et al. (2001) in their seminal paper in which they use the settler mortality and the disease environment during the colonization period as an instrument to show causality between the level of protection against expropriation risks (used as a measure for economic institutions, more precisely, for property rights) and current level of GDP per capita. Differences in settler mortality among the European colonies led to the establishment of different types of institutions. Notably, extractive institutions were established in countries where settler mortality was high, with the sole purpose of exploiting their natural resources (especially in Africa and Latin America), whereas institutions protecting property rights were established in more hospitable areas, such as Australia, New Zealand, Canada and the US. In practice, Acemoglu et al. (2001) show through a 2SLS estimation that this difference led to long-lasting effects on GDP per capita in these former colonies, to the advantage of those that benefited from systems of checks and balances against government expropriation during the time of the European colonization.

After examining the institutions-growth relationship, Acemoglu and Johnson (2005) also investigated what types of institutions are most relevant in shaping economic outcomes by analysing the distinct effect of contracting and property rights institutions. Contracting institutions are about establishing the rules that regulate private contracts between citizens, whereas property rights institutions focus on the protection of citizens against government expropriation. To prevent potential overlapping between the two from impairing the results, a multiple instrumental variables strategy was implemented. The colonization period was again of great help. The legal system imposed by colonial powers had a great impact on contracting institutions while showing no significant effect on current property rights institution. On the contrary, European settlers' mortality rates and population density in the year 1500 significantly affected property rights institutions without influencing contracting institutions.

Using these exogenous sources of variation to adopt an instrumental variables approach, Acemoglu and Johnson (2005) show that countries with better rules against expropriation risk by politicians and powerful elites perform better in terms of long-term growth rates, investment rates and financial development. Conversely, contracting institutions are not as relevant: in fact, they only have a significant impact on the development of the stock market. The results from this paper seem to emphasize the importance of *economic institutions*: in order for a country's economy to flourish in terms of sustained growth and investments rates, secure property rights need to be provided to the citizens and a system of checks and balances is crucial to keep potential government threats of expropriation under control.

Indeed, it is no wonder that economic institutions, not only through property rights, but also through the regulation of the markets, play a fundamental role in shaping the incentives to invest in the previously-defined *proximate* causes of economic growth. Taking for granted that each country should aspire to the best configuration of economic institution to boost economic growth, the fact that some countries still adopt inefficient, and sometimes even downright growth-retarding, institutions might seem a bit counter-intuitive. After all, institutions are the only *fundamental* factor, among those suggested by Acemoglu (2008), that reflects a social choice dictated by people's free will, and can thus be changed. As it turns out, though, institutional change does not always happen smoothly and without hiccups.

More importantly, it is not possible to truly understand the dynamics of economic institutions without considering the influence of political institutions and the allocation of political power. As already pointed out, economic institutions emerge as a result of collective choices.

Since the decision making process often implies a social conflict between groups that hold different views about a particular set of economic institutions, the extent of *political power* (i.e., the ability of a group to prevail over another and obtain favourable policies) held by each group becomes the deciding factor.

To better understand its importance, it is useful to go back again to the work of Acemoglu (2008) that analysed the interaction between institutional change and political power in the context of democratization.

To start off, it is crucial to distinguish between *de jure* and *de facto* political power.

The former refers to the power arising from the established political institutions, which shape political incentives and constraints. If this was the only source of political power, however, institutional change would not be very frequent because the elite in charge would have no interest in changing the system that allowed them to gain authority in the first place. In other words, the transition from an autocratic regime to a democracy would be very unlikely.

A shift in the political regime is possible, though, if a sizeable group of citizens is able to organize effectively and has access to enough resources, exercising their *de facto* power. According to Acemoglu (2008, p.852), the distribution of de facto and de jure political power determines "what types of economic institutions emerge in equilibrium [and] whether there will be political reform leading to changes in future de jure power", which will in turn shape economic outcomes and the distribution of resources.

Following the model presented by Acemoglu (2006), in the process of democratization the starting point implies an autocratic regime governed by a small elite holding *de jure* power. In this scenario, if the citizens are somehow able to solve their collective action problem and have sufficient resources available, they can threaten a revolution (using their *de facto* power). If the threat is credible and the costs that the elite would have to bear to repress a potential revolution are substantial, then it is likely that some concessions will be made and democracy could possibly emerge as a result, thereby changing the distribution of *de jure* power. Democratization and its impact on economic performance is an interesting phenomenon, and it is also the focus of this dissertation. Notably, in the following sections 2 and 3, we narrow in on the case of South Africa to examine whether the 1994 democratic transition, that marked the end of the Apartheid system, was beneficial for the country's economic development. Before getting into this analysis, though, in the next subsegment I provide a brief review of the literature about the channels through which a democratic regime can positively impact economic outcomes.

II. Democracy and the channels through which it affects economic performance

"Democracy is the government of the people, by the people, for the people".

This definition given by Abraham Lincoln in 1863 in one of his most popular speeches is often cited in the literature, and rightly so, because it brings to light the key component of democracy, which is what, in its essence, distinguishes it from an autocratic regime: the power belongs to the people.

At first glance, the assumption that a political regime representing the will of its people would be better than one caring about the interests of a smaller subset of the population might seem quite embraceable. Arguably, a country that allows for free and fair elections, in which all citizens can vote, and where everybody can (or at least should be allowed to) participate in the political process, is preferable to one that only represents the narrow preferences of an "elite". From an economic standpoint, however, this hypothesis cannot be taken for granted, and this is the reason why a consistent body of research focuses its attention on the potential, positive impact that a democratic system may have on economic growth.

To offer a comprehensive assessment of the effort that was made during the years by researchers and to challenge the theretofore general consensus of an inconclusive relationship between democracy and growth, Doucouliagos and Ulubasoglu (2008) use meta-regression analysis to examine 483 estimates derived from 84 studies on democracy and growth, most of which were not able to find a positive and significant impact of the former on the latter.
The meta-regression approach allows them to overcome the limits placed by sampling error and research design differences, typical of individual studies, and uncover whether a relationship between the two variables exists or not. Their findings suggest that there is no proof of democracy having a negative effect on growth; overall, the evidence indicates "a zero direct effect on economic growth" (Doucouliagos & Ulubasoglu 2008, p.63).
On the other hand, results also show that it does have an indirect, positive effect on growth through the channel of human capital accumulation. Moreover, democracies are linked to higher levels of economic freedom, lower political instability, and lower inflation (*ibidem*).
A more recent paper by Acemoglu et al. (2019), however, finds that democracy does actually have a positive and significant impact on future GDP per capita. Notably, they show that "long-run GDP increases by about 20-25 percent in the 25 years following a democratization" (Acemoglu et al. 2019, p.96), and the driving forces of their results seem to be substantial investments in capital, education and health, in addition to lower social unrest.
Keeping these two different studies in mind, it is now worth examining the channels through which democracy influences growth, and *political stability* might be the perfect starting point. The uncertainty resulting from political instability tend to have a deleterious impact on growth and to discourage investments. Ghardallou and Sridi (2020) give an overview of the reasons why democratic institutions set the stage for greater political stability. First of all, they highlight the fact that alternation of parties in power happens with transparency, so that political power is transferred in a peaceful and regulated manner, without disrupting the dynamic of development. Even when problems arose during the handover, as was the case of the US Capitol attack when former-president Trump's supporters entered the Capitol Building to protest against the results of the elections and caused political turmoil, the order was re-established within hours. Furthermore, the power of politicians is limited by institutional constraints established in the Constitution, which prevent economic policies from changing abruptly and avoid a condition of unpredictability that would hinder investment.
Finally, it should also be emphasized that the stability of the political regime affects the relationship between democracy and property rights' protection (Ghardallou & Sridi 2020). We have already discussed about how the protection against the risk of expropriation is important for growth. Crucially, in a stable democracy, where a system of checks and

balances is properly implemented, this risk is significantly lower. Moreover, well-established democratic regimes are normally equipped with an independent judicial system, which allows to peacefully solve potential conflicts that may arise without undermining people's trust on the workings of the system. An independent and reliable judiciary is also important to ensure that politicians foster the respect of property rights and to impose high costs to those who infringe the rules, thereby deterring public servants from indulging in corrupt behaviours.
In support of this claim, there is evidence in the literature that corruption is ubiquitous in countries where the judicial system is weak and the bureaucratic machine is slow (Mo 2001). *Corruption* is in turn negatively associated with economic performance: notably, an increase of one percentage point in the level of corruption reduces the rate of growth by about 0.72%. Interestingly, the detrimental impact of corruption on growth is largely explained by political instability (*ibidem*). However, this negative effect seems to be mitigated in case of democratic systems, in which the electorate can replace corrupt officials at the next round of voting. Drury et al. (2006) show that while corruption has no significant impact on economic growth in democracies, it has a substantial, negative effect on the economies of non-democracies.
A successive study by Rock (2009) goes deeper into the analysis and further investigates the relationship between corruption and democracy. Using a panel data set for the period 1982-1997, he demonstrates that there is an inverted U relationship between the age of democracy and corruption, with the latter rising at the initial stages of the newly-established democracy, and then falling between the tenth and twelfth year, as the regime becomes consolidated.
Another channel through which democracy positively affects growth, as already mentioned above, is *human capital accumulation*. Democracies are characterized by policies that tend to account for the desires of the majority of the population. Acemoglu and Johnson (2006) argue that these pro-majority policies often correspond to pro-poor policies (indeed, democratization extends political rights to poorer subsets of the population, e.g. voting rights), which try to satisfy, among other things, redistribution requests. The satisfaction of these demands leads to the development of the education system, that becomes accessible to a broader audience, and to potential improvements of the overall quality of life, in particular with respect to health, which in turn result in a greater stock of human capital (Ghardallou & Sridi 2020).
Consistent with this idea are the results of Baum and Lake (2003) that, using data relative to 128 countries from 1967 to 1997, show a significant, indirect effect of democracy on growth through secondary enrolment ratios in rich countries, and through life expectancy in poor countries. In addition to that, since in a democratic regime the population can freely engage in periodic rounds of voting, the government is more likely to provide public services in order to obtain the support of the majority (Lake & Baum 2001).

Redistribution policies and widespread public services provision should be channels through which democracies try to achieve a more equal society in terms of rights and opportunities. However, the results found in the literature are often ambiguous or inconclusive. In fact, Acemoglu et al. (2015), despite confirming that democracies have a positive impact on secondary school enrolment, find that there is no evidence that democracy reduces inequality. On the contrary, there are cases in which *inequalities* tend to increase after democratization. This is worth noting since high inequalities may increase discontent among the less well-off, thereby fomenting a potential risk of political turmoil. This is not a bad thing in and of itself. The presence of an active civil society that legitimately keeps the government accountable and asks for reforms is at the heart of the democratic mechanism. However, inequalities are a threat to the consolidation process of a democracy because the governing elite might find less costly to orchestrate a coup than to agree to the redistribution requests (Acemoglu 2006). This authoritarian turn will then likely result in an even worse situation in terms of inequality, overall living standards and, possibly, economic performance.

Finally, another way for democracy to affect economic growth is through *technological innovation*. It should be clear from the initial discussion that technical progress plays a pivotal role in partially explaining divergent economic performance. The democratic environment, in which freedom of speech and expression is safeguarded, entry barriers are relatively low, and knowledge are shared rapidly through a free and open debate, contribute to promoting innovation and technological advancement by supporting the access of innovative firms to the market (Ghardallou & Sridi 2020).

Having now reviewed the relevant literature, the aim of next sections is to see some of the forces described above in action in the context of post-Apartheid South Africa, and to explore the overall effect of democratization on the country's economic performance, pointing out the benefits that this process has brought and the problems that still need to be solved.

Notably, the rest of the paper is organized as follows.

The second section examines the first years after the democratic transition of South Africa, that started in 1994 with the end of the racial segregation imposed by the Apartheid system, with a focus on the country's performance in terms of economic growth and policy change.

In the third and final section, more recent data are used to analyse the current situation in the country and draw some conclusions about the effect that the establishment of a democratic regime had on South Africa's economic development at large and the challenges that the country is still facing.

2. DEMOCRATIC TRANSITION IN POST-APARTHEID SOUTH AFRICA

I. From colonization to apartheid

The case of South Africa is well-suited to analyse the impact that a significant institutional change can have on the economic performance of a country. The democratic transition, which took place in 1994, put an end to the apartheid regime established in 1948 that consisted in a system where the white minority ruled over the Black majority of the people.

To understand the origins of this system and the reasons that made it possible we must go back once again to the colonial period.

The Dutch established their first settlements during the seventeenth century because they saw the southern tip of South Africa as the perfect spot to resupply ships coming from the Netherlands and headed towards the Asian continent. The strategic position of South Africa was particularly attractive in European's eyes, especially for the British, that engaged in armed conflicts against the Dutch and the local population to gain control of the country.

The discovery of gold mines contributed to intensifying the conflicts, that morphed into a full-blown war, which eventually saw the British gaining the upper hand in 1902. Through the *Act of Union*, the British created a single State – the *Union of South Africa* – in which political power was concentrated in the hands of a small minority represented by white men, whereas the Black majority was deprived of any political rights. Furthermore, the country was divided in white farming areas, that covered 87% of the country and in which Black people were not allowed to own land or property, and "African Reserves", which covered the rest.

Hence, since the conditions in the rural areas were dire, Black South Africans moved to the cities and tried to take advantage of the opportunities provided by the booming industrial sector. White business owners needed Black workers but, at the same time, they wanted to prevent a new and potentially large urban Black working class from gaining power and asking for better working and living conditions, thereby opening the doors to a possible revolution. The solution to this problem was represented by the establishment of the apartheid system in 1948, through which a separation based on ethnicity was implemented. The white minority had control over political power and economic wealth, while Black people were treated as second-class citizens. In particular, the latter had no voting rights; limited access to education prevented them from getting well-paid jobs; they were relegated in specific areas (*homelands*) that they could leave only for work, providing that they carried special "passes" showing that they were legally outside their designated area; and Black trade unions were illegal so that strikes were not allowed or ended up in violent suppressions. This overall context allowed firms to have cheap labour available, which in turn attracted foreign investment.

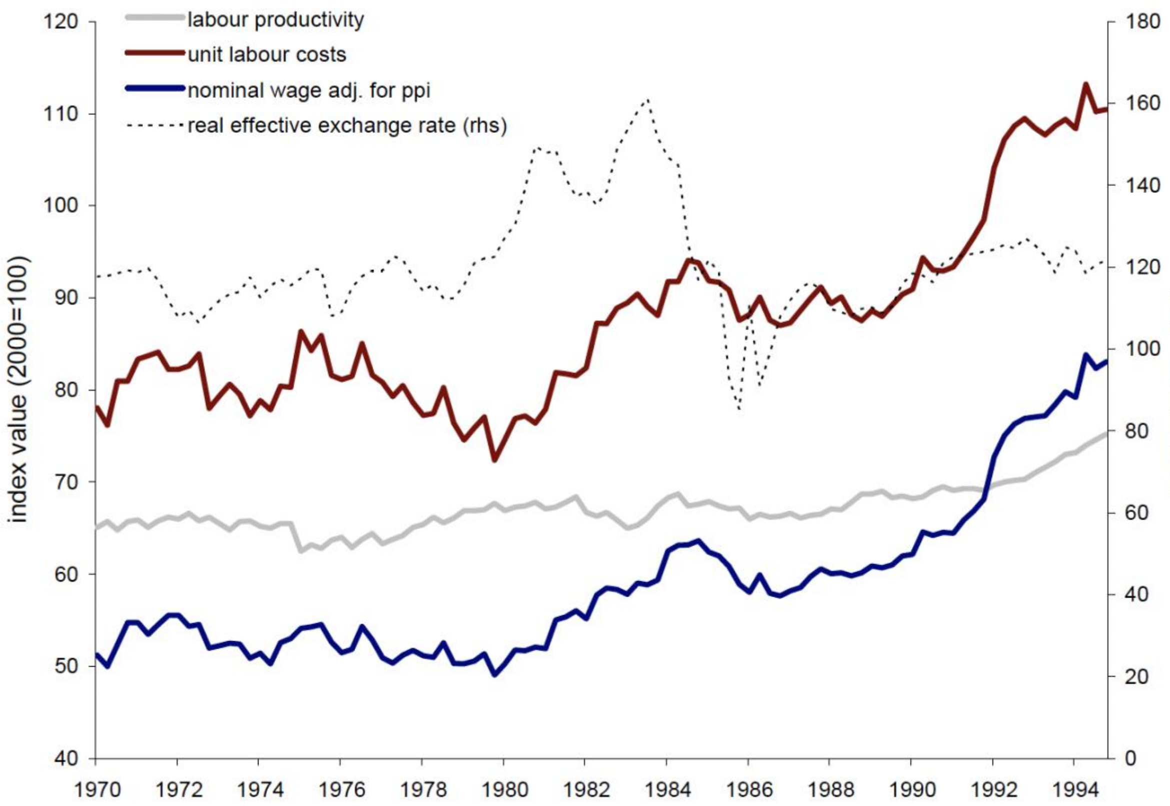
The result was that the beginning of apartheid coincided with a period of economic growth and a flourishing time full of opportunities and prosperity for white people.
This situation, however, did not last long.
The opposition to the apartheid government, led by the African National Congress (ANC), grew larger, and massive strikes were organized throughout the country. The government responded, once again, with violent repression; not only that, political leaders of the ANC were also imprisoned and their organization was deemed illegal.
Notwithstanding, the protests did not stop, and the economy started struggling.
Indeed, the government had to raise taxes to finance the military budget. On the other hand, this repressive behaviour caused many international partners to withdraw from economic relations with South Africa and to impose financial sanctions. This troublesome situation led to a period of economic decline, which is the focus of the next subsection.

II. South Africa's declining economic performance under the apartheid system

South Africa's economic performance have been quite remarkable until the 1970s; notably, the country could boast a growth rate among the highest in the world. The strengths of the economy were mainly linked to the price of gold, which was fixed to the US dollar, and to the manufacturing capabilities, especially in mining and energy. Since, up until 1971, the price of gold was fixed, the only factor that determined the size of profits was the cost of inputs.
The exploitation of Black workers under the apartheid regime was favourable to South Africa in this sense because wages were extremely low, and so were labour costs.
Under these circumstances, the country prospered even if high living standards were a luxury that was reserved to a small minority of the population.
However, exogenous changes, such as the end of the gold standard, together with the oil crisis and the subsequent global recession, contributed to inverting the trend and led South Africa toward a declining path. To these adverse external conditions we must add the fragile internal situation that the racially exclusive political and economic system had created, which was bound to further exacerbate the country's economic performance.
Faulkner and Loewald (2008) give an overview of the workings of the economy under the apartheid regime. Public sector corporations (i.e., *parastatals*) were in charge of providing crucial services, such as electricity and transports; they operated in a context sheltered from external competition that allowed them to provide low quality services at a low price.
Moreover, the monetary policy implemented in the 1980s consisted in negative real interest rates, which were possible thanks to exchange controls that prevented capital from leaving the country. Also, inflation was not a priority at the time and, indeed, it was consistently high.

At the same time, public spending increased significantly, both to finance military expenses and to invest in new infrastructures, thereby creating large budget deficits.
Public investment, that amounted to half of the share of total investment in the 1970s, was strongly limited by the financial sanctions imposed by South Africa's international partners, that were increasingly more reluctant to do business with the oppressive apartheid regime. The consequence was that the government had to borrow on the domestic market, in which interest rates were significantly higher. All in all, financial sanctions, political unrest, high inflation and interest rates, and other factors all worked together to increase the user cost of capital, stifle access to affordable sources of international finance, and foster pervasive uncertainty that discouraged investment (Faulkner & Loewald 2008).
The racial segregation imposed by the apartheid also affected the labour market.
As already mentioned, Black citizens were confined in geographically-isolated communities, that they were allowed to leave only for work-related reasons provided that they carried a special "pass" with them. Importantly enough, non-white citizens were legally prevented from accessing high-skilled jobs, and the type of education they received was aimed at reinforcing this status quo. As a matter of fact, through the 1959 *Extension of the University Act*, the government forbade Black Africans from attending "white universities" and created "black universities", which offered a radically different educational experience and curriculum. Black students were not allowed to enrol in certain courses so that they could not learn the specific skills needed to achieve positions of power in some of the most relevant fields, ranging from politics to business.
This division created two opposite situations in the labour market: the high-skill labour market, dominated by whites, suffered from excess demand and scarce supply due to the impossibility for Black people to compete for those positions; on the other hand, large excess supply, low productivity, and low pay characterized the lower-skill labour market (*ibidem*). This peculiar situation caused employment growth to constantly slow down to the point that, in the 1990s, labour even made a negative contribution to economic growth (Fedderke 2002). Among the reasons why employment growth diminished, the increase in real wages might be one of the most relevant. This was due to the fact that unions became increasingly more powerful in the 1980s and the government, given that the inflation rate skyrocketed during that period, had to make some concessions in order to allow people to keep up.
While this might not seem a controversial idea, the problem was that labour productivity did not rise as fast as real wages did, thereby causing unit labour costs for firms to increase dramatically (Figure 1).
The result was a substantial reduction in South Africa's international competitiveness.

Figure 1: Real wages, labour productivity, unit labour costs and real exchange rate 1970-1994



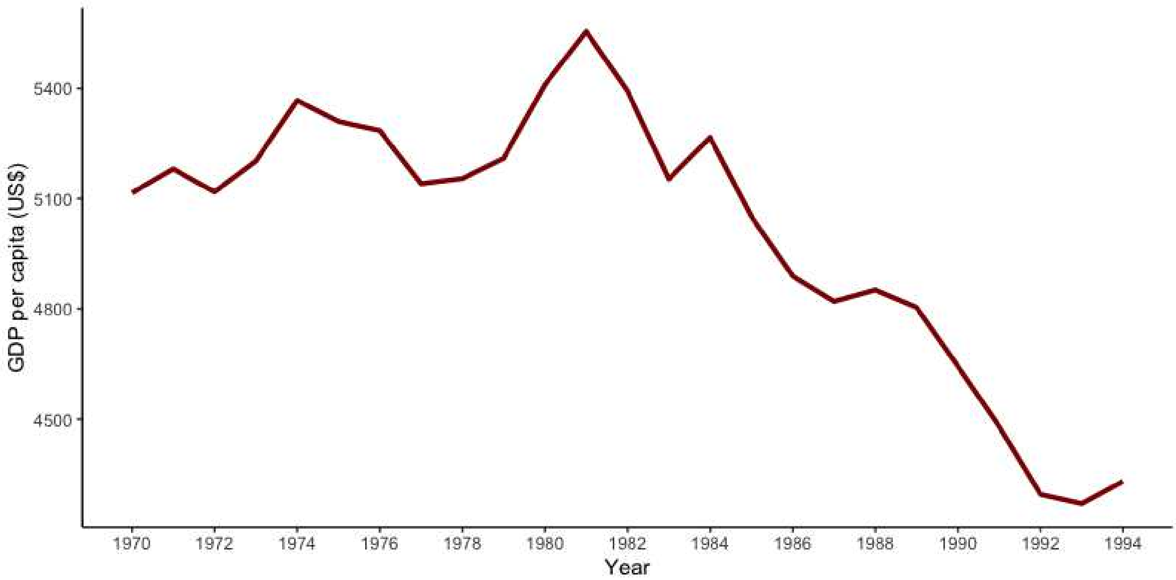
Source: South African Reserve Bank Quarterly Bulletin

In addition to that, competitiveness was further undermined by trade sanctions and import substitution, which consisted in the domestic production of goods that were previously imported through the imposition of high tariffs; at the same time, export volumes increased very slowly compared to the global trend. This trade strategy ended up being detrimental and led to high market concentration and to inefficient parastatals controlling key sectors (Faulkner & Loewald 2008). As a result, the economy was characterized by inefficiency, lack of internal competition, and weak incentives for innovation and productivity improvement. The combination of political instability, inadequate micro- and macroeconomic policy, and financial sanctions caused the South African economy to stagnate during the final decade of apartheid, and GDP per capita decreased by 22% between 1981-1994 (Figure 2).

This situation became unbearable even for the white minority, who initially benefitted from the racial policies implemented by the apartheid regime.

In the meantime, in the early 1990s, the government lifted the ban on the ANC and started negotiating with its leaders to create an interim constitution that would lead the country to its first democratic elections in which every citizen would be allowed to vote. The elections finally happened in 1994, and the ANC obtained the majority of the votes; Nelson Mandela became president and ushered in a new democratic chapter in the history of South Africa.

Figure 2: South Africa's GDP per capita 1970-1994 (constant 2015 US$)

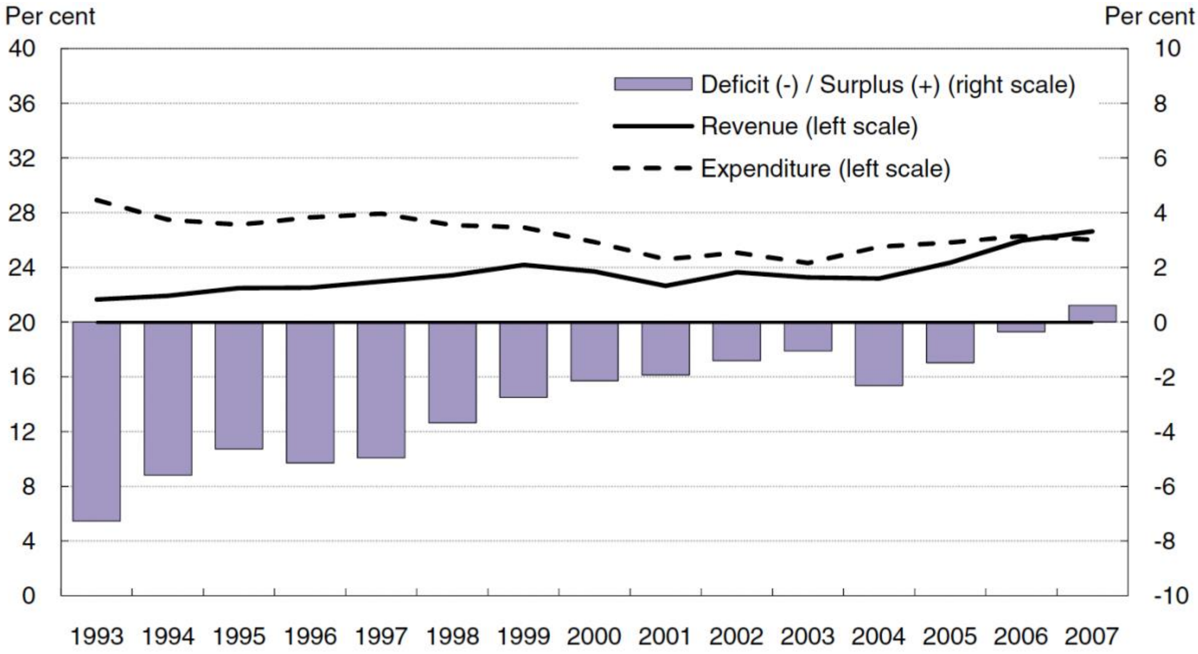


Source: The World Bank

III. Democratic transition, policy reform and improved growth trend

As evidenced by the data presented above, the initial conditions inherited by the newly-established democratic government were not ideal to jump start the economy. In fact, the South African economy had just experienced its worst-performing decade since the end of WWII, while the legacy of apartheid left the country with a high level of income inequality. White workers earned, on average, nine times more than Blacks, and 60% of the population lived in absolute poverty (Eynon 2017). Moreover, unequal access to high-quality education and other public services left the majority of the population on the fringes of the social ladder, thereby negatively impacting the labour market and the country's competitiveness (that was also hindered by high market concentration, high tariff barriers and inefficient monopolies).
To overcome this grim reality, which was further exacerbated by the financial sanctions and political isolation imposed by the international community, the ANC took the lead in the process of deciding upon a new macroeconomic plan to bring stability to the country.
This eventually resulted in the GEAR (Growth, Employment and Redistribution) strategy, which mainly aimed at reducing both government expenditures and state intervention in the economy through privatization and deregulation programs. Notably, under the auspices of the GEAR, the budget deficit, that represented 7% of GDP in 1993, shifted to a budget surplus in 2007 (Figure 3). Moreover, increasing attention was paid to the inflation rate (around 10% in 1994); the newly democratic South Africa was provided with a strong and independent central bank that, in 2002, adopted a pure inflation targeting regime, with a target range of 3-6%.

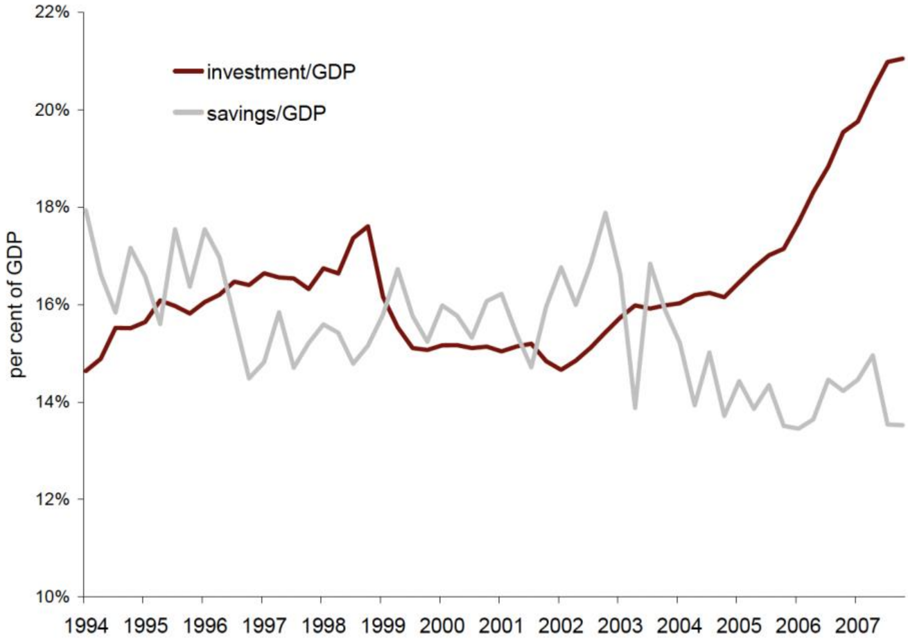
Figure 3: Evolution of public finances in South Africa



Source: South African Reserve Bank database

The adoption of inflation targeting, along with the fiscal consolidation, contributed to achieving macroeconomic stability and to reducing the cost of capital, which in turn helped the country improve its risk rating and reassured investors (Faulkner & Loewald 2008). Macroeconomic and political stability resulting from the peaceful democratic transition were particularly important for the recovery of investment, which are very sensitive to uncertainty. Low inflation led to lower interest rates, thereby encouraging private investment, that contrasted with the declining share of government investment expenditure. In fact, it is true that, on the one hand, public expenditure was limited by the new fiscal discipline imposed by the GEAR; on the other hand, though, public capital still played a significant role through the provision of infrastructure (e.g., renewal of transport network and telecommunications), which partially complemented the growing investment from the private sector (*ibidem*). Despite the clear improvement in domestic investment, however, a potential cause for concern was the low level of domestic savings. Political stability and lower uncertainty, paired with improved access to finance and raised incomes, disincentivized household saving and induced corporations to increase dividend distributions. Contrary to the apartheid period, the government became a net saver while private saving declined sharply (*ibidem*).
This situation resulted in a mismatch between domestic investment and domestic saving (Figure 4), which caused the economy to rely on foreign savings to bridge this gap. Again, macroeconomic stability and the end of the financial sanctions were crucial in encouraging foreign investment, which in turn fostered innovation, technical progress and TFP growth.

Figure 4: Gross saving and investment as a share of GDP, 1994-2007



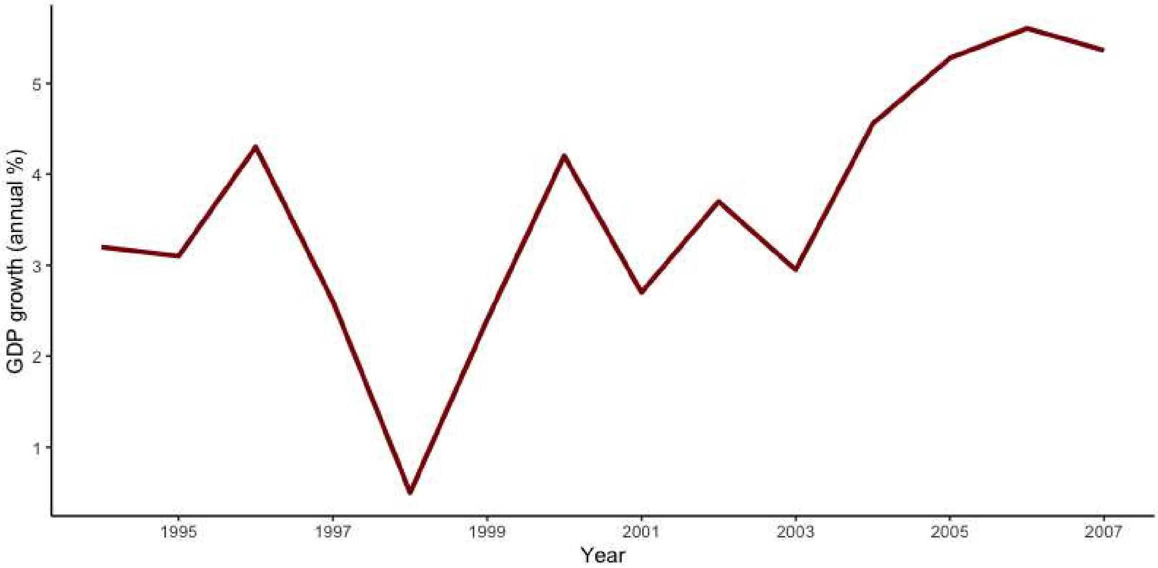
Source: South African Reserve Bank Quarterly Bulletin

The end of the apartheid regime also represented an opportunity for South Africa to change its trade policy and drift away from the import substitution strategy that was previously in place. Not surprisingly, tariffs were significantly reduced in 1994 following the Uruguay Round in the attempt to open the country to the world. As a matter of fact, trade liberalization was beneficial for the economy but, despite this remarkable improvement, South African export growth did not keep up with the pace of the rest of the world. Tariff protection continued to be high in some sectors, such as clothing, footwear and textiles, which showed poor export performance. On the other hand, the manufacturing sectors that liberalized the most were the ones that registered the best improvements in export results (Fedderke & Vaze 2001).

All in all, South Africa was able to leave its past behind and reverse the declining growth trend that characterized the last decade of apartheid. Indeed, the growth performance of the country accelerated over time (Figure 5); notably, the average growth rate for the last five years of the 1990s was around 2.6% while it reached an average of 4.3% in the 2000s, until 2007 (the year before the Great Recession).

Du Plessis and Smit (2007) analysed the pattern of South Africa's growth during the first democratic decade and identified the relative contribution made by capital, labour and TFP. Their results show that productivity growth, especially in the secondary and tertiary sectors, was the key factor in explaining the improved growth performance, and it dominated capital and labour (which both had a positive, although less significant impact) as proximate cause of the country's growth recovery.

Figure 5: South Africa's annual GDP growth 1994-2007 (annual % change)



Source: The World Bank

TFP growth's dominance as primary source of growth is a good signal since technological progress is crucial in leading an economy toward a high and sustainable growth trajectory. The positive shift in TFP is due to a multitude of complementary reasons. Trade liberalization and increased openness, together with macroeconomic and political stability, encouraged private investment and supported the free flow of new ideas, capital and technology.

That being said, it is important to notice that, since 2003, employment growth gathered pace, going from an average of 1.5% during the period 1995-2003 to a 3.3% between 2004-2007, and it was a major cause of the acceleration in growth performance since 2004 (OECD 2008).

Now that the major improvements and policy developments have been laid out, it is important to emphasize the fundamental cause that made this remarkable U-turn possible: the political transition to democracy and a completely different institutional framework were indeed crucial in reversing the declining growth trend that dominated the last decade of apartheid. The establishment of a democratic regime, that provided full political rights to the majority of the population and ended a grim period of racial segregation, put also an end to the civil-war climate threatening the country, and to the sanctions that were further harming its economy. The following period of political certainty set the stage for the macroeconomic and fiscal policies that brought stability, increased confidence (and therefore investment), and provided South Africa with the tools to pursue long-lasting economic growth.

Nevertheless, even though the democratization process was largely beneficial, the legacies of apartheid left the country with some problems of difficult solution, the reach of which is discussed in the following subsection.

IV. Unsolved problems and new challenges

- *Unemployment, education and labour market*

Despite the encouraging employment growth trend described above, unemployment was still high (above 25% in 2006), especially among young, less-skilled black workers (OECD 2008). The causes of South Africa's long-standing problem with unemployment are numerous.
First of all, labour force participation rates, despite remaining low compared to other middle-income countries, went from 46% in 1995 to 56.5% in 2007, with a sharp increase in women and young people's participation, who had a lower probability of finding a job (*ibidem*).
Another serious problem affecting unemployment was skill mismatch: unemployment proved to be high among unskilled workers; at the same time, there were shortages of skilled labour. The majority of the population was indeed unskilled, and this is partly a consequence of the apartheid era and its education system. Even if some progresses were made (increased public investment in education and higher enrolment rates), the average quality of teaching was inadequate and students' results from literacy and maths tests were poor (OECD 2008).
Conversely, on the demand side, the need for unskilled labour was limited. Mining and manufacturing were the main sectors employing less-skilled workers, and they were both experiencing periods of poor growth performance. While the former had to deal with the depletion of South Africa's gold reserves and low prices of commodities, the latter suffered the competition of countries like India and China, and their cheaper labour force (*ibidem)*.
Therefore, a strong excess supply of unskilled labour caused high unemployment rates, while the limitations of the education system prevented young people from getting high-skill jobs.
Furthermore, the functioning of the labour market was also hindered by its rigidity.
The absorption of low-skilled workers was hampered by the spatial allocation of the Black population, that was relegated to the remote "*homelands*" under the apartheid regime and was mostly still living outside city centres, where job opportunities were more widespread.
This situation implied higher search costs and reservation wages (*ibidem*).
Moreover, unions' bargaining power caused real wages: 1) to be higher than those normally paid in countries at a similar level of development (Faulkner & Loewald 2008); 2) to match the rate of growth in labour productivity, thereby impeding both reductions in unit labour costs and improvements in competitiveness (OECD 2008).

- *Competitiveness*

Despite trade liberalization and reduced tariffs, not many manufacturing sectors were competitive enough at the international level to export on a significant scale (OECD 2008).

In addition to that, the degree of competition in product markets was relatively weak.
In fact, the level of market concentration, although decreasing, remained quite high, especially in industries producing intermediate goods, which in turn caused higher input costs. Significant concentration also affected markups over production costs, which were higher in South African manufacturing industries then they were in the rest of the world: notably, a 10% reduction in markups in the manufacturing sector would have increased its productivity growth by 2 to 2.5% a year (Aghion et al. 2008).
It must be emphasized, however, that competitiveness in these sectors is largely influenced by the non-tradable sectors that provide them the necessary services. Under the apartheid system, state ownership and interference in the economy was pervasive, and it remained extensive with the democratic regime. Notably, state-owned firms controlled industries such as energy, transport and telecommunications, and the contestability of these markets was inhibited by large economies of scale and high legal entry barriers (OECD 2008). Hence, competition in network industries was basically non-existent, both from the domestic and international side. This lack of competition prevented the efficient development of these sectors in terms of productivity and innovation, with negative spill-over effect for the whole economy.
Indeed, inefficiency and unreliability of rail and port transports forced firms to rely on road freight, which was more expensive and thus imposed additional costs on producers (*ibidem*).
Lastly, another barrier that hindered competitiveness was represented by the disproportionate administrative burden for companies, which affected especially SMEs because their growth was threatened by exceedingly high bureaucratic costs with respect to their size (*ibidem*).
All in all, the high costs of doing business (including labour costs and strict regulations), high communication and transport costs, and supply bottlenecks caused by inadequate network infrastructure, continued to stifle South Africa's ability to compete internationally.

- *Poverty, inequality and social problems*

According to Bhorat and Van Der Westhuizen (2010), the first decade of democracy saw a reduction in poverty at the national level, with a decline in both absolute and relative poverty. Notably, they find declining headcount poverty and poverty gap ratio, especially for Black people, which still represented 93% of the poor though. In fact, they also emphasize that there were significant differences with respect to race and gender, with Africans accounting for the largest share of people living below the poverty line, and female-headed households being generally in worse conditions than their male-headed counterparts. Unfortunately, reductions in poverty levels have not been followed by improvements in income inequality, as shown by the increase in the Gini coefficient that went from 0.61 in 1996 to 0.65 in 2006.

Overall, South Africans experienced positive growth in their level of expenditure in the first democratic decade, with people at the bottom and very top of the distribution displaying the highest growth rates. The growth in the expenditure of the rich, however, was larger than that of the poor, which was mainly driven by the increased provision of social grants.
This divergence, along with the stagnation in expenditure growth in the middle of the distribution, fuelled the surge in income inequality (Bhorat & Van Der Westhuizen 2010).
To address long-standing inequities, the government explored the route of affirmative action. In particular, the Black Economic Empowerment initiative (BEE) was aimed at deracialising business ownership and enabling a substantial participation of Black people in the economy through a more equal management, employment and land distribution. The strategy consisted in using a scorecard including different categories to evaluate each firm's BEE compliance, granting benefits to those with the highest scores. This system, however, was criticised for enriching a tiny fraction of already well-off Blacks rather than raising the incomes of the poor (OECD 2008).
More broadly, high levels of inequality can reasonably have a negative impact on the quality of democracy and on economic performance, for example through the channels of higher crime rates and worse health conditions. It is no coincidence that South Africa ranked among the worst performing countries for the business costs of crime and violence, which in turn negatively impacted foreign investment and contributed to the emigration of high-skilled workers (OECD 2008). Moreover, the lack of skilled labour was further exacerbated by the prevalence of HIV/AIDS in the country that, besides being a human tragedy, had also a negative economic impact through high teachers and students' absenteeism in school, which seriously undermined the future supply of skilled labour (*ibidem*).

By and large, the effort made by the democratically elected governments that held power after the end of apartheid was impressive. As a matter of fact, taking a country that was on the verge of collapsing, wrecked by internal conflict and external sanctions, and turning it upside down was anything but easy. Nevertheless, even though South African growth rate improved considerably, it still lagged behind that of other middle-income countries (OECD 2008). Moreover, some of the weaknesses that characterized the apartheid system had not yet been solved and were still holding South Africa back. Notably, formidable economic challenges, such as unemployment, labour market reform and competition policy, intertwined with social problems (e.g., high inequality and crime rates, poor education and health care), required adequate intervention to preserve the sustainability of the country's growth in the long run.

3. SOUTH AFRICA'S CURRENT SITUATION AND CAUSES FOR CONCERN

I. Recent evolution of South Africa's economic performance

In the last fifteen years, the world's economy had to face the consequences of two huge shocks: the Great Recession and the Covid-19 pandemic.

The negative effects of these catastrophic events obviously affected South Africa too. Notably, the national lockdown imposed to deal with the coronavirus crisis has further undermined the weak South African economy, which had already been underperforming during the previous decade. Indeed, between 2008-2019, GDP growth only averaged 1.6% (Figure 6), while GDP per capita grew on average around 0.6% per year in the same period. GDP declined by 6.3% in 2020 because of the restrictions introduced during the pandemic period, but then it rebounded to 4.9% in 2021 and barely reached 2% in 2022. Interestingly, the projections for 2023 expect GDP growth to slow to 0.3% before improving to 1% in 2024 (OECD 2023), thereby corroborating the assumption that the reasons for South Africa's poor growth performance go beyond the negative impact of exogenous shocks.

In fact, over the last decade, economic growth has been hampered by declining productivity, which had been the driving force of growth acceleration in the early 2000s (Figure 6).

This decline can be ascribed to several factors, most of which have been negatively impacting South Africa's economic performance for a long time, and have not yet been neutralized.

We have observed above how poor infrastructures, for example, were already a problem that hindered competitiveness. Crucial industries (like transport, energy and telecommunications) were, and still are, under state control, and their conditions have worsened over time.

Road transport is still the main channel of trade, but poor and irregular maintenance weighed heavily on road quality, which has been further compromised by extreme weather events and heavy usage (OECD 2022). Moreover, telecommunication infrastructure is obsolete and broadband internet connection is costly and thus accessible for a tiny part of the population, so that the fruits of digitalization cannot be fully reaped.

The main problem, however, is the *energy crisis*. The failure of Eskom – the national power utility – to generate sufficient supply of electricity to meet demand has been a constant since 2007, and has now reached its lowest point, with outages often amounting to 4-8 hours a day.

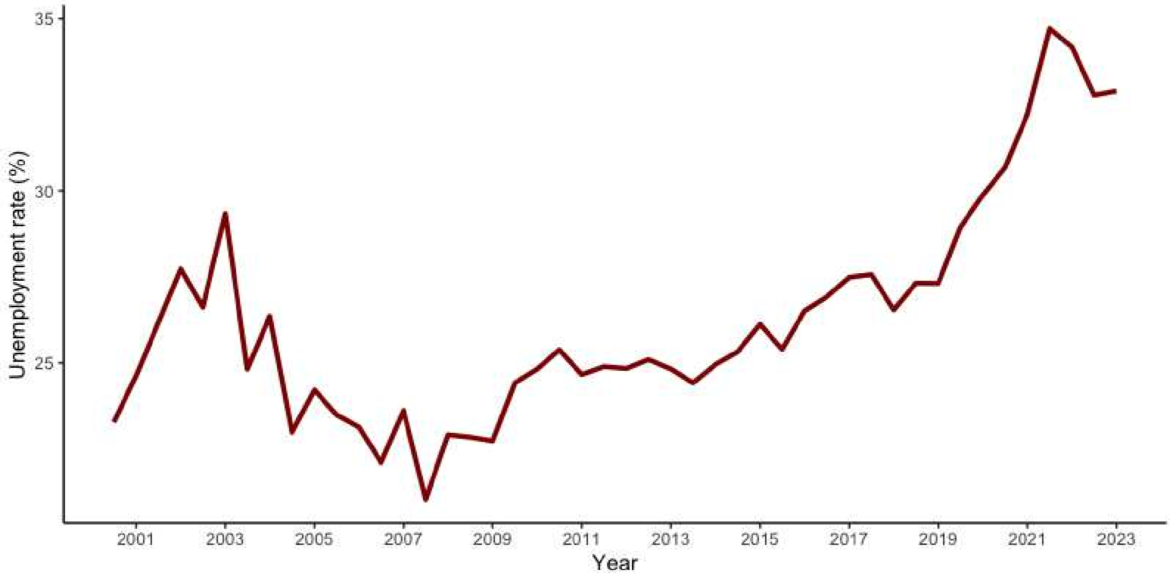
Load shedding is an improper solution implemented to deal with the fact that the available amount of energy produced by Eskom cannot meet the demand that businesses and ordinary citizens need to run their daily operations. The way it works is that Eskom essentially rotates supply by switching off power in certain areas and distributing it to different areas, and vice versa, so that each territory is guaranteed a certain amount of electricity every day.

Figure 6: South Africa’s GDP and productivity growth (2000-2019)

Source: OECD

On a political level, however, load shedding is the result of short-sighted policy choices that the ANC, which has been ruling since 1994, has made over time. More broadly, the scarcity of supply can be attributed to the government’s abandonment of its egalitarian stance on how to run the country, making way for a more neo-liberal approach that has led to a situation in which load shedding amplifies the various socio-economic issues that plague the country.
In particular, firms have a hard time conducting their daily operations and are forced to lay off members of their staff, thereby contributing to the huge problem that South Africa still has with unemployment, which in turn puts more pressure on the already stagnating trajectory in terms of economic growth.
Worryingly, South Africa's unemployment reached 32.9% in the first quarter of 2023, and it represents a source of major concern for the population. Notably, according to the most recent *Afrobarometer* round, consisting in public attitude surveys on democracy, governance, the economy, and society conducted on a random sample of 1600 individuals, unemployment is the most important problem that the country is facing, and it should be urgently addressed. Results also show that around 85% of the respondents thinks that the government is doing a poor job in creating new job opportunities.
The pandemic has clearly worsened the situation (Figure 7), but high unemployment is an issue that has haunted South Africa all through its modern history. We have already seen, for example, how the apartheid spatial patterns made it difficult for the Black majority to access job opportunities. If it is true, on the one hand, that the democratic government has managed to deliver more than 4 million houses since 1994, giving shelter to more than 20 million South Africans, it is also important to notice that most of these new homes have been built in areas far from economic activity, thereby reinforcing historical exclusion (World Bank 2018a).

Figure 7: South Africa's unemployment rate (2000-2023)



Source: OECD

The circumstances are even more burdensome for young people, whose unemployment rate is around 57%, and 30% of whom are not in education, employment or training (OECD 2022). Skill mismatch is still a pressing issue: low education levels are the norm among the majority of the workforce, while the lack of skilled workers has a negative impact on the country's productivity and competitiveness. Moreover, the pandemic crisis hit unskilled workers more severely than their high-skilled counterparts, who experienced less acute job losses (*ibidem*). A reform of the education system is urgently needed to close this long-standing gap. Not only should the quality of primary and secondary education be improved, but a full rethinking of higher education would also be helpful to increase students' enrolment (only 5.4% in 2019), and to drive down the costs preventing pupils from pursuing their studies. Besides, a tighter school-firm relationship would ease the school-to-job transition by ensuring that the content of the courses is useful for the work world, thereby reducing after school unemployment. Another priority should be to structurally reform the labour market in order to foster job creation and boost economic growth, which is necessary to induce stronger labour demand. Curbing labour market rigidities should be a focal point of the new policy framework, starting with wage increases linked to productivity growth and not to unions or industries bargaining. Also, reducing job search costs for people living far from economic activity would be crucial to increase their participation rate, but this requires a more substantial intervention consisting in maintenance work on the road network. Finally, the Labour Activation Programmes (LAP), established to provide training and reskilling opportunities for unemployment benefit recipients, ought to be reinforced to allow them to re-enter the labour market (OECD 2022).

Maintaining the credibility of monetary policy is also vital to boost South Africa's recovery. The Reserve Bank acted fast to curtail the impact of the pandemic on the economy and the financial system. Firstly, it reduced the repurchasing rate to foster consumer and business spending and investment during the early stages of the pandemic. Then, when restrictions were relaxed, it increased the policy rate to deal with spikes in inflation, which has been driven down to 5,4% in June 2023, falling below the upper limit of the target band of 3-6%. Besides, to uphold the efficiency of the financial markets and to improve the borrowing conditions of financial institutions, a sound fiscal policy is essential (OECD 2022).
As in most countries, the pandemic has increased public spending pressures, and the debt ceiling has been removed to give the government enough flexibility to deal with the crisis. Broad fiscal support has been given to firms in the depths of the emergency, but it must be scaled down now, and resources should mainly target the unemployed and struggling sectors. Furthermore, two additional problems are increasing the pressure on public finances: firstly, the government wage bill, which accounted for 34% of total spending in 2020; secondly, the high government exposure to state-owned enterprises (SOEs), which represents a serious risk to debt sustainability (*ibidem*). SOEs have been underperforming for a long time, mostly due to mismanagement, corruption and political patronage. Sadly, despite the changes in the managerial staff and the findings of the State Capture Commission, which pointed out significant governance failures, the situation has not improved yet (*ibidem*). Privatisation of SOEs operating in competitive markets could be the right strategy to curb the fiscal burden. Moreover, low levels of competition in key industries, including but not limited to energy, transport and telecommunications, deter growth and job creation, and keep prices high. Regulatory policies are still quite restrictive, resulting in product markets with high barriers to entry and poorly integrated into the global economy (World Bank 2018a). Consequently, this lack of openness prevents SMEs (above all) from trading internationally and thus growing. Also, the deterioration and the inefficiency of South African infrastructure represents, once again, a stumbling block that harms firms both in domestic and global markets (*ibidem*).
In a sense, the energy issue is the national crisis that will define South Africa's future since it somewhat encompasses all the matters presented so far, but it also represents an opportunity. Indeed, investing in the electricity sector is the key to reduce supply bottlenecks, improve the quality of infrastructure, and diversify energy sources by heavily homing in on the low-carbon transition through the admission of private provider of renewable energy. Reducing regulatory burdens and entry barriers would not only boost private investment, promote competition and increase supply, but it would also improve the quality of services and lower prices, benefiting poor households above all, and thereby helping to curb poverty and inequality (OECD 2023).

II. The state of South African democracy

The inability of the government to satisfy the needs of its citizens eventually poses an issue of legitimacy. If the democratic regime: 1) is not able to put the majority of the population in the position of living a dignified existence through the provision of adequate job opportunities; 2) cannot be trusted to fulfill basic needs and solve problems; 3) is not able to keep the lights on; 4) and cannot provide equal access to health care and education; then public support for the government and, possibly, for democracy will be weak and fickle.

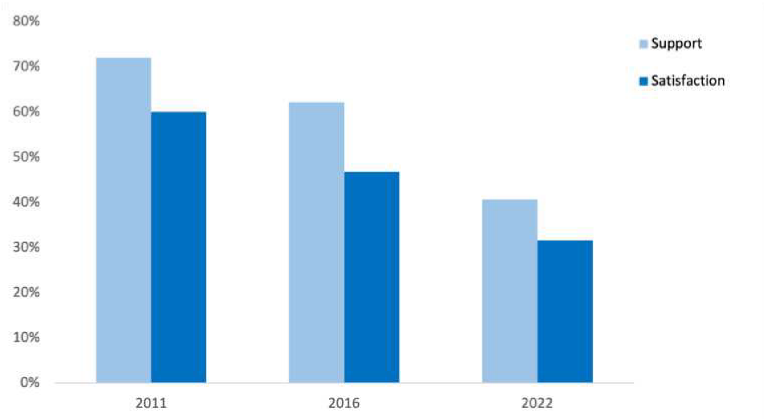
Looking at the Afrobarometer surveys, the citizens' support for democracy is experiencing a steady decline (Figure 8): in 2022, only 40.7% of the respondents argued that democracy is preferable to any other kind of government, as opposed to 72% in 2011. Likewise, satisfaction with democracy is also decreasing, going from 60% of the interviewees who were reportedly happy with the way democracy worked in South Africa in 2011, to less than 32% in 2022. People's discontent is also attested by the fact that the majority of those who took part in the survey in 2022 thinks that their views are never taken into account by elected representatives. This apparent lack of consideration might be related to South Africa's political regime.

Since 1994, the country has been constantly governed by the ANC in a system of dominant-party rule democratically appointed by the people, who choose their representatives from party lists, and not through direct election. This system, though, makes Members of the Parliament accountable to their parties rather than their constituency. Single-party dominance, fuelled by the fact that the ANC was seen as the liberation movement that freed South Africa from apartheid and thus enjoyed a large support, facilitated the misconduct of some members of the ruling party. Indeed, South Africa does have a problem with corruption, especially in the public sector, which threatens democratic institutions and the rule of law (Figure 9). Control of corruption shows a worryingly declining trend during the new democratic era due to state capture, i.e. a type of political corruption in which private firms collude with state officials and provide them with illicit economic rents in exchange for favourable regulations (OECD 2022). Also, according to the 2022 Afrobarometer survey, more than 70% of the respondents reported that the level of corruption has increased over the past year, and that ordinary people would risk retaliation if they were to speak out against corruption.

Under these circumstances, the ability of the citizens to make their voice heard and demand better policies and better enforcement of sanctions against corrupt behaviours is contingent on their participation in the political life of the country. In fact, civil society is a fundamental part of any democracy, since it reflects the degree to which all citizens engage in it.

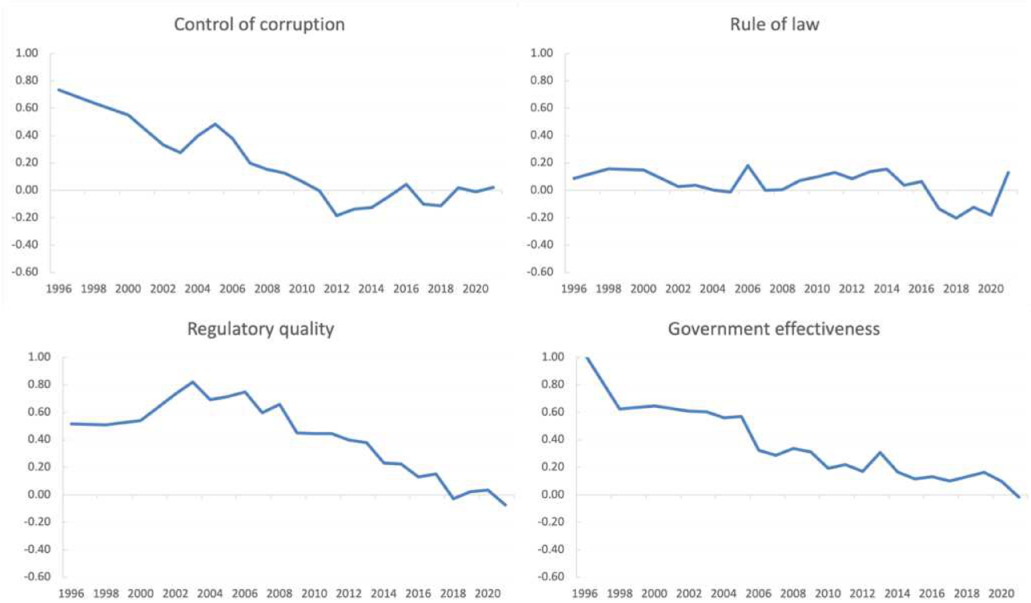
According to Friedman (2010), although South African civil society embodies a substantial breadth of views, it lacks depth, because large sections of society cannot access it.

Figure 8: South Africans' attitude towards democracy



Source: Afrobarometer (2011, 2016, 2022)[1]

Figure 9: Evolution of South Africa's governance indicators (1996-2021)



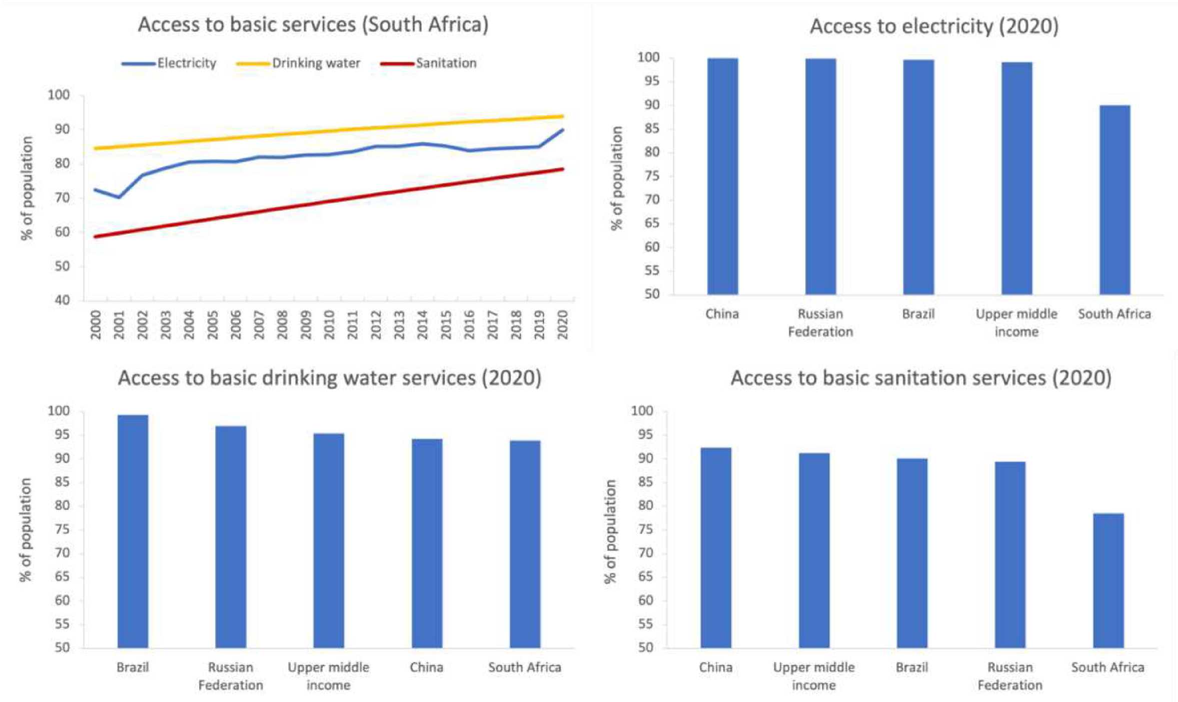
(Estimates of governance range from –2.5 (weak) to 2.5 (strong) governance performance)

Source: World Bank, World Governance Indicators (WGI)

This lack of representation affects primarily the poor, who are therefore unlikely to voice their concerns and have their needs met. Endemic poverty and inequality are persistent problems in South Africa; they can lead to social instability and undermine democratic quality. Despite the progresses made over the past two decades in reducing poverty, which resulted in a decline in multidimensional poverty that granted access to water, electricity and sanitation to a growing share of the population (Figure 10), South Africa still lags behind an average upper middle income country (World Bank 2018b), even in overall human development levels (Figure 11).

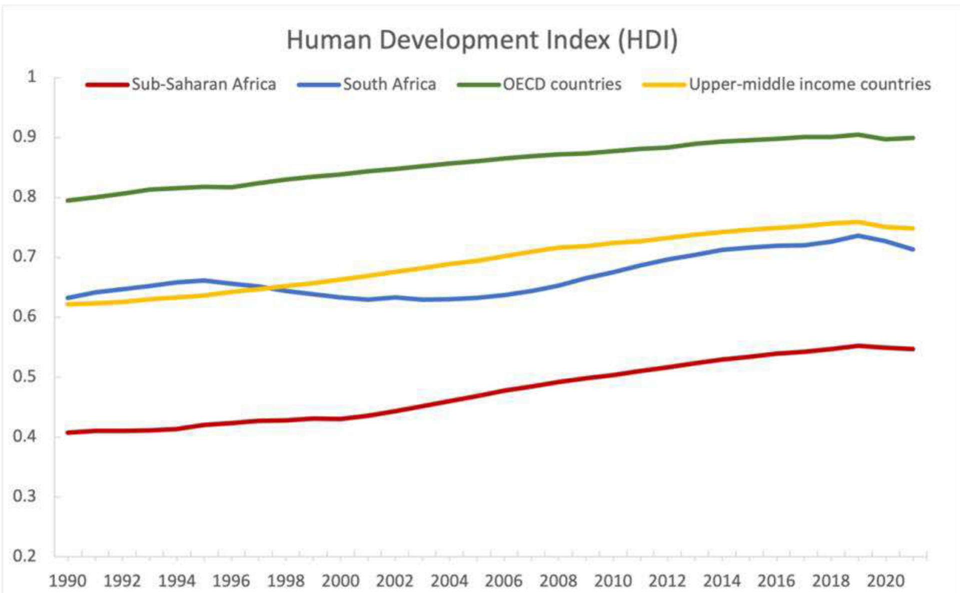
[1] Support for democracy is calculated based on the number of Afrobarometer surveys' respondents agreeing with the statement: "Democracy is preferable to any other kind of government". Satisfaction with democracy is calculated by adding up the number of interviewees answering "fairly satisfied" and "very satisfied" to the Afrobarometer surveys' question: "Overall, how satisfied are you with the way democracy works in South Africa?".

Figure 10: South Africa's access to basic services and comparison to other countries (2020)



Source: The World Bank, World Development Indicators (WDI)

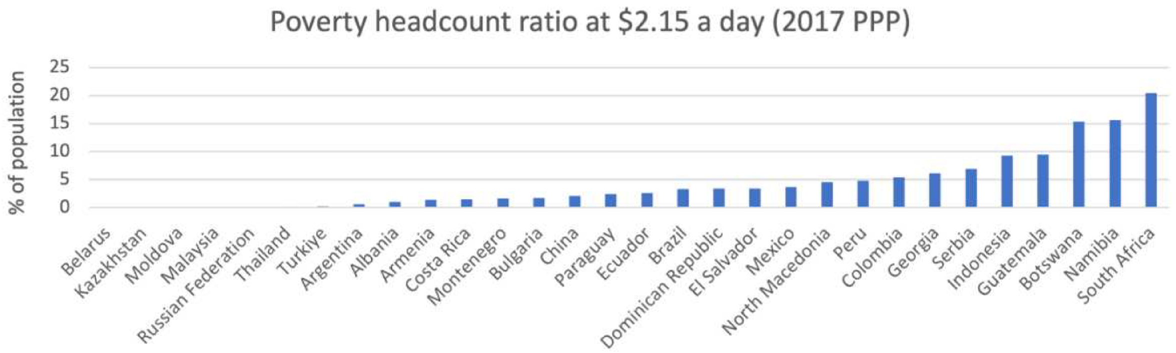
Figure 11: Human development outcomes (*health, education, and living standards*)



Source: United Nations Development Programme (UNDP), Human Development Index (HDI)

Besides, according to the most recent data available from the World Development Indicators (WDI), which is the primary World Bank collection of development indicators, the share of the population living below the international poverty line of $2.15 a day (in 2017 purchasing power parity terms) was 20.5% in South Africa in 2014, whereas the average for an upper middle income country was 3.2% (Figure 12). For instance, South Africa's poverty rate was extremely higher than that of two of its BRICS partners, Russia (0%) and China (2%).

Figure 12: Poverty headcount ratio for upper middle income countries (2014)



Source: The World Bank, World Development Indicators (WDI)

Not only that, but consumption expenditure data also show that South Africa was the most unequal country in the world in 2015, with a Gini coefficient of 0.63, which is higher than it was in 1994 (*ibidem*). Besides, income inequality is even higher than consumption inequality. Between 2003 and 2015, an annual 5.1% real income increase was recorded for the top 5% of income earners, which more than doubled the rate of growth of gross national income (GNI), while the incomes of the other 95% stagnated (Díaz Pabon et al. 2021). Sadly, these poverty and inequality dynamics still reflect the discriminatory legacy left by the apartheid system. Indeed, poverty levels are highest among Black South Africans, especially those living in rural areas, whereas inequality of opportunity is also significantly affected by race, through poor access to higher education and low labour market incomes among the Black population. High levels of poverty and inequality can negatively affect the quality of democracy, e.g. through clear-cut civil discord and possible social conflicts, that might potentially lead to the reversal of the democratic regime itself (Bhorat & Van Der Westhuizen 2010).

In the case of South Africa, it is difficult to say, without conducting a thorough empirical analysis, how much of the declining support for democracy is due to economic concerns, and how much other factors contribute to the citizens' discontent. However, 2022 Afrobarometer data suggest that a crisis of democratic legitimacy is underway, and its unfolding strongly depends on whether and how the most pressing problems of the country will be solved. Indeed, when asked if they would be willing to give up on regular elections if a non-elected leader could impose law and order, and deliver houses and jobs, more than 65% of survey's respondents answered affirmatively. These results speak to the vulnerability of the population to an authoritarian turn. If the democratic regime will not be able to guarantee decent living standards to its people and address the challenges mentioned above, then the citizens might be allured by an authoritarian figure who promise to resolve these concerns; in other words, the same unrest that led to the demise of apartheid might as well mark the end of democracy.

III. Conclusions

All in all, the democratic transition has been beneficial for South Africa, which was able to overcome a tough period characterized by declining economic growth and political isolation. Macroeconomic, fiscal and political stability, fostered by an independent central bank and judiciary along with a new democratically-elected government, were crucial in steering the country toward a sustainable growth path. However, as time went by, economic performance worsened, and the government has not been entirely able to face both long-standing internal problems and the external challenges to which a globalized economy is exposed.

If a sound macroeconomic policy has been maintained throughout the democratic period, the pace of fiscal consolidation is now being slowed by the fact that public investment are needed to face the energy crisis, to improve network infrastructure, and to support companies and citizens that have been severely hit by the aftermath of the pandemic.

Notably, the increase in the unemployment rate calls for a structural reform of both the labour market and the education system in order to remove rigidities and curtail the skill mismatch, which will in turn boost productivity and improve competitiveness.

Besides, leaving the legacies of apartheid behind was not easy; actually, the racially exclusive system, formally abandoned in 1994, still has a negative impact on the Black population.

In fact, the ideological and political change has not been enough to reduce inequality, which still represents a major challenge, along with poverty rates exceeding those expected for an upper middle income country.

Hence, it must be recognized that, almost thirty years into South Africa's democratization, political reform has not led to achieve broad-based prosperity. While the democratic transition may offer inherent benefits with respect to political rights and accountability, it provides no one-size-fits-all programme to accelerate economic growth and reduce poverty and inequality. This is not to say that the democratic regime has been irrelevant to economic outcomes. However, in the case of South Africa, the discrepancy between popular expectations and political actions fuelled social unrest and is undermining the consolidation of democracy, thereby challenging its legitimacy and possibly threatening its survival. Thus, the ability of the government to reassure its citizens, and eventually meet their demands and address the needs of the country will be crucial in defining South Africa's political and economic future.

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