

**Impact of Policy Research on Economic Policy in South Africa:
The Case of the National Institute for Economic Policy**

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Abstract

The various research and policy centres in South Africa play an important role in the robust policy debates around the many complex problems confronting the post-apartheid state and society. However, in order to retain credibility policy research institutes have to consistently remain independent and objective in their participation in policy debates. Clearly, researchers cannot afford to be mere “detached observers”, especially during these times of transition and social change. Even if policy prescripts they advance may not always be palatable to policy makers or the government of the day, policy institutes have to remain uncompromising, principled and rigorous in their pursuit of the truth.

Résumé

Les différents centres de recherche et d'analyse de politiques en Afrique du sud jouent un rôle important dans le débat sur les politiques relatives aux nombreux et complexes problèmes auxquels la société post-apartheid se trouve confrontée. Cependant, pour que les centres de recherche en politiques puissent conserver leur crédibilité, ils doivent rester indépendants et objectifs dans le cadre de leur participation au débat sur les décisions publiques. Les chercheurs ne peuvent aucunement se permettre de rester comme simples observateurs du processus de prise des décisions publiques, notamment pendant cette période transitoire et de mutation sociale. Les instituts de recherche en politiques doivent demeurer fermes, avoir des principes rigoureux et ne jamais faire montre de complaisance dans la recherche de la vérité, même si leurs recommandations de politiques ne plaisent pas aux décideurs en face ou au gouvernement du moment.

I. Introduction

When South Africa's first democratically elected government took office in 1994, it inherited an economy which had experienced two decades of economic crisis, which was reflective of the broader crisis of the apartheid system in its twilight years. The key challenge facing the new government was to address poverty and inequality generated by apartheid rule and to place the economy on a new sustainable development path. Even before its accession to power in 1994, the African National Congress with its allies the Congress of South African Trade Unions (COSATU) and the South African Communist Party (SACP) and other contingents of the mass democratic movement, engaged in vigorous policy discourse on economic policy for the post-apartheid era. Policy research institutes have over the years become a valuable resource for policy analysis.

As early as June 1990 the International Development Research Centre (IDRC) provided support to efforts to develop institutional capacity for economic policy formulation in South Africa. A high-powered mission visited South Africa to assess existing capacity, identify key institutional and human resource requirements, and suggest steps to address capacity constraints. The mission gave a comprehensive Report on its findings in August 1991¹. One of the key outcomes of the mission was the establishment of a nation-wide economic research consortium – the Macroeconomic Research Group (MERG), which later became the National Institute for Economic Policy (NIEP) in 1993.

This paper examines the policy-making process in South Africa, identifying the formal institutional conduit for policymaking and the informal process and private and group interest that compete over policy. While the paper recognises the important contribution being made by the various policy institutions and units around the country it will, for the purpose of this study, limit itself to elucidation of the experience of NIEP. The paper thus seeks to examine the experience of the NIEP in as far as influencing economic policy making processes and analyse key challenges and opportunities for influencing policy.

II. Policy Making Process in South Africa

Policy-making has been defined as the process by which governments translate their political vision into programmes and actions to deliver outcomes and desired change. The process begins with policy discussion documents or Green Papers and White Papers from government ministries which are taken through consultative processes (public meetings, workshops, etc.). Policies are intended to balance interests of various sections of the populace, on the one hand, and to give focus and direction to broad or higher national goals and aspirations, on the other. Ramney (1968:7) defines policy as “a declaration and implementation of intent”. It is normally influenced and determined by historical circumstances, socio-economic factors, cultural dynamics and the institutional set-up of society [Meier, 1991; Walt and Gilson, 1994].

There are many approaches to the policymaking process and as Hanekom (1987:3) points out, “in practice it is quite possible that a blend of various theories or models could provide an acceptable answer to what the policy process entails”.

South Africa has made remarkable progress in overcoming some of the imbalances created by the apartheid system since the coming into power by the first democratic government in 1994. The Reconstruction and Development Programme (RDP) adopted by the new government lay a sound basis for implementation of a wide range of programmes to meet basic needs, accelerate economic growth, democratise the economy and develop the country's human resource potential and overcome imbalances created by Apartheid. A key element of government's economic transformation agenda has been promotion of black economic empowerment (BEE). The latter is seen as an indispensable condition for the future growth and development of the economy.

Over the ten years of democratic rule numerous policies and strategies have been put in place to raise the quality of life of ordinary people and overcome the legacy of the past. Government embarked on a massive housing programme, implemented a number of major infrastructure development programmes, including extension of roads, electricity, water, telecommunications and other critical services to underdeveloped areas.

In order to deliver on these programmes government had to put in place a macroeconomic framework to ensure that these programmes are sustainable and that they engender balanced economic growth and development. Thus a key feature of government's economic policy over the period has been the successful implementation of the growth, employment and redistribution (GEAR) programme. It is generally acknowledged

¹ Economic Analysis and Policy Formulation for Post-Apartheid South Africa. Mission Report. IDRC, August 1991.

that the latter has contributed significantly in stabilising the economy: reducing the huge budget deficit, bringing down inflation and cushioning the economy from external shocks. These stabilisation measures have made it possible for government to vigorously pursue its reconstruction and development programme.

Notwithstanding the remarkable achievements the country is still afflicted by the legacy of the apartheid system: unacceptably high levels of poverty and unemployment, rampant crime, illiteracy and disease. The distribution of income and wealth in South Africa is still amongst the most skewed in the world. Unemployment remains one of South Africa's most serious economic challenges with the official unemployment rate estimated at around 30% of the country's economically active population.

Problems confronting the South African economy are of a structural nature and require a fundamental restructuring of the economy and a long-term vision. South Africa has been described as a dual economy – with a highly developed “first-world” economy alongside a less developed “third world” economy. The reconciliation of these two worlds is perhaps the most fundamental economic challenge facing the South African authorities. The basic question: how to meet basic needs and achieve economic equity while at the same time growing the economy remains a key priority for policymakers in South Africa.

In South Africa the policy making process has experienced phenomenal transformation after the democratic elections of 1994. South Africa has adopted a system of participatory democracy out of a combination of different models. The country's participatory policymaking processes are entrenched in the Constitution and find articulation through all three spheres of government: national, provincial and local. The basic law of the country also provides for involvement of civil society through various stakeholder and advocacy platforms in the policymaking processes².

In South Africa legislative authority is vested in Parliament whose National Assembly seats are awarded to each political party in proportion to the outcome of the national election. Only cabinet members, deputy ministers, or a member of the National Assembly or a member or committee of National Council of Provinces (NCOP) - a body created to achieve co-operative governance and participatory democracy - may introduce legislation. Bills passed in the National Assembly must be referred to the NCOP for consideration, and then the NCOP may pass, propose amendments to or reject a Bill. A mediation committee exists to resolve any disagreements between the two houses. Bills amending the Constitution require a two-thirds majority in the National Assembly and a supporting vote of six of the nine provinces represented in the NCOP. The President assents to and signs all bills which become Acts of Parliament afterwards.

² Constitution of the Republic of South Africa, 1996 (Act 108 of 1996).

III. Role of NIEP in Informing the Policy Debate

The National Institute for Economic Policy (NIEP) has been in the very centre of policy debates relating to economic transformation in South Africa. NIEP is an independent economic policy institute established for the purpose of promoting economic development and strengthening democracy in South Africa through policy-oriented research and capacity building programmes.

NIEP was established in December 1993 as the successor to the Macroeconomic Research Group (MERG), which was set up by the democratic and labour movement to develop policy options for post-Apartheid South Africa. MERG assisted the Tripartite Alliance including the ruling party the African National Congress (ANC), the Congress of South African Trade Unions (COSATU) and the South African Communist Party (SACP) formulate economic policy options in the run up to the first democratic elections. It was responsible for the design of the macroeconomic framework *Making Democracy Work*. NIEP, the successor of MERG, played a major role in articulation as well as quantification of the Reconstruction and Development Programme (RDP).

Over the years, NIEP has completed numerous research assignments covering a wide range of macroeconomic issues in South Africa. NIEP has also contributed significantly in developing capacity of black economists through addressing the quality of economics education in historically disadvantaged universities, strengthening the research and policy analysis skills of black economists, and enhancing their contributions to the design of economic policies. NIEP also provides consultancy and advisory services to policymakers, community-based organisations, non-governmental organisations, business entities, academic institutions and other development practitioners.

In addition, NIEP produces a wide range of regular publications, including Research Report Series, Occasional Paper Series, and Quarterly Economic Bulletin – Ngqo! The Macro-Economic Research Group (MERG), the predecessor to NIEP, published a policy framework for the post-apartheid South Africa – a book titled *Making Democracy Work* in 1993. Research outputs are disseminated nationally through seminars, reports and publications.

The institute has now become a key player in shaping the policy agenda for economic transformation and sustainable development in South Africa. NIEP has also undertaken various training and capacity building projects for a variety of clients both within the public and private sector.

IV. Case Studies: NIEP Participation in Public Economic Policy Debate

Case 1: NIEP engagement in the GEAR policy debate

Since 1994 the South African government has followed a number of economic policies aimed at overcoming the legacy of apartheid and creating an equitable, multicultural society. In 1994 a Reconstruction and Development Programme (RDP) was released. This was followed by the adoption of Growth, Development and Redistribution (GEAR) strategy in 1996 - a five-year macroeconomic strategy for rebuilding and restructuring the South African economy to meet the goals set in the RDP. GEAR was based on promoting the free market and financial and fiscal discipline aiming at economic growth, job creation, and the development and distribution of basic services to all South Africans. The introduction of these policies stimulated some debates from both supporters and critics of GEAR.

The critics of the GEAR programme mainly came from the left and they included COSATU, the SACP and variety of other non-governmental bodies. GEAR was seen to be a departure from the RDP objectives of poverty reduction and income distribution. Similarities were drawn between GEAR and the Structural Adjustment Programs of the IMF and World Bank. Doubts were raised about the efficacy of the GEAR programme and its capacity to meet the country's development challenges.

NIEP, as an economic policy research institute invariably became embroiled in these debates. In February 1996 an occasional paper that was a critical of GEAR was produced by NIEP. The paper raised doubts about the capacity of GEAR to address the key development priorities such as i) substantially increasing the growth rate of the economy, ii) reducing the unemployment rate significantly and iii) achieving an equitable distribution of income and wealth. Again in 1999 NIEP published a review article of GEAR which dealt with the economic performance of the key targets of GEAR. The paper concluded that most target results were negative

and the few positive ones were weak indicating that “GEAR’s measures have failed to yield the expected outcomes” [Adelzadeh, 1999].

A number of articles highly critical of government’s GEAR programme appeared in the local media under NIEP’s name. As a result of these negative public statements on government policy, the relationship between government and NIEP deteriorated considerably. While NIEP was originally established to assist the new democratic government in formulating policy options for post-apartheid economic development, over the years the Institute became perceived as an opponent of the new government. In its recent analysis of the cause for the breakdown in relations with government, the NIEP Board found that the problem was not so much with the substance of the critical views on government’s macroeconomic policy. The main problem was the spirit in which this criticism was made and the channels that were used to publicise the views. The criticism was widely perceived as being negative and intended to embarrass rather than assist government³.

One of the negative effects of the breakdown in the relations with government was the loss of business for NIEP especially from the departments which were driving macroeconomic policy: the National Treasury and the Department of Trade and Industry. This affected staff morale within NIEP and the organisation lost a number of key personnel to the private sector and to government. Ironically, while the loss of some of the principal researchers had a debilitating effect on NIEP, many of its former researchers who now occupied influential positions in various government departments have become good ambassadors for NIEP and have helped to restore relations between NIEP and these departments. Although NIEP has made tremendous progress in terms of regaining its former position of influence in the policy research area the challenges it faces are still quite formidable. Over the years competition has grown from a number of quarters: private consultancy firms and research and academic institutions. And most government departments are developing their own in-house research capacity. Competition with all its challenges does have a positive side. For NIEP this has forced a reassessment by the Board and Management of NIEP’s role and purpose. The organisation’s 2003 Strategic Plan clearly indicates a firm resolution by NIEP to position itself to be the leading economic policy research institution providing relevant economic policy analysis on critical issues impacting on the South African economy and the first point of call and main repository of knowledge on development policy and economic transformation strategies and policies⁴.

Out of the experience with the GEAR debate NIEP has learnt a number of lessons on how policy institutes should engage with policy makers. At the Strategic Planning Workshop in November 2003 the NIEP Board and Management firmly committed themselves to taking serious steps to improve the organisation’s standing with government and to restore the latter’s trust and confidence without compromising its independence. The NIEP Board feels that in order to be effective in terms of influencing the policy processes it has to develop a relationship with government that is based on trust. NIEP, at the same time, recognises the importance of policy institutions to remain independent. Indeed, the document states: “the ruling party itself would not see any value in a relationship based on blind and uncritical support. The institute feels the best way it could demonstrate real support to the present government would be through production of sound, authentic and objective economic policy research⁵”.

The role of policy research institutions is primarily to stimulate critical analysis of economic problems and propose a most viable menu of options to assist the policymaking process. A policy research institution is not “an ivory tower” holding a monopoly of intellectual capital in any given country but rather a special repository of knowledge and experience accumulated within the nation. To be credible and effective, policy research institutions need to be independent, objective and unbiased but deeply involved in finding real solutions to development problems. The mandate of policy research institutes is such that the latter have to be both detached and engaged.

In his address at the University of West Indies, Kingston, Jamaica, South African President Thabo Mbeki rejected the notion that “political activism is not the task of scholarship, that such activism compromises the search for the truth by those whose profession is to expand the frontiers of knowledge”. He argued that “the African condition does not permit of an African intelligentsia that merely interprets the world, while doing nothing to change it⁶.”

³ NIEP Strategic Plan for 2004-2007

⁴ NIEP Strategic Plan for 2004-2007

⁵ Ibid.

⁶ Thabo Mbeki, Address at The University of West Indies, Kingston, Jamaica, 30 June 2003

NIEP has been more successful in influencing government policy debate in other areas, in particular, labour market policy. As the following case study will show this has largely been a result of strong relationships that had developed between NIEP researchers working on labour market issues with the Department of Labour.

Case 2: Contribution to agricultural minimum wage policy formulation

In May 2001 NIEP produced a research report: *Agricultural Minimum Wage and its Economic Impacts* for the Department of Labour. The study used an estimated wage elasticity of -0.10 and three minimum wage scenarios of R500, R667 and R1000 per month for the macro-simulation. Many observations were made in the study, including a declining trend of agricultural labour, continued rise in agricultural wage rate, and that agricultural labour was lowly paid compared to other sectors in the economy. Despite the importance of real agricultural wage to rural household and the fact that it constitutes on average 39% of rural incomes, it has ranged between R2.3 per hour to R3.4 per hour over the past three decades.

Although the study showed that increases in agricultural wage would have detrimental effects on employment, minimum wage is very important in reducing the wage gap between agriculture and other sectors of economy and improving rural livelihoods. Recommendations made in the research report include provision of incentives that will ensure the adoption of labour intensive farming technologies thereby increasing demand for labour relative to capital; and introduction of minimum wages in order to improve agricultural incomes and to provide decent wages to agricultural labour.

In December 2002 the Minister of Labour introduced minimum wages, conditions and guidelines for agricultural workers. The minimum rates were classified into two areas, ranging from R4.10 to R4.87 per hour for area A and R3.33 to R4.03 per hour for area B, and R800 to R949.58 per month for area A and R650 to 785.79 per month for area B. While the impact of the minimum wage policy is yet to be determined it could be cited as one of the successes on the part of NIEP in influencing policy.

V. Challenges and Opportunities for Influencing Policy

Although the democratic policy making process gives all citizens access to information and rights to contribute, some gaps in policy making process still exist. One of the problems is translation of the various excellent economic policies into a living reality. The key challenge facing policymakers today is not to develop new policies - great strides have been made in designing appropriate policies - but to see to the implementation of the huge and rich arsenal of policies that have been adopted since 1994 by developing the necessary institutional framework for implementation. Monitoring and evaluation of progress is another area that needs further attention.

NIEP has, over the years, been actively engaged in designing and running training and capacity building programmes to assist government and the non-governmental sector in translating some of the key economic policies into implementable programmes. In a fast-changing economic environment it is critical that the effectiveness of policies and strategies are reviewed and analysed. Through research, NIEP conducts qualitative and quantitative assessments and impact analyses with a view of suggesting alternative policy options for policymakers

NIEP is in the process of conducting a review of the performance of the South African economy since accession to power by the new government in 1994. This review is intended to give an objective assessment of the performance of the South African economy and offer policy recommendations for future development.

VI. Conclusion

NIEP has now become a key player in shaping the policy agenda for economic transformation and sustainable development in South Africa. Historically NIEP evolved as a close ally to the new democratic government but due to the manner in which the organisation engaged in the policy discourse it lost its special relationship with government. This relationship deteriorated not so much because of the substance of the critical comments from NIEP, but due to the failure of the latter to engage in a constructive manner. While policy research institutes need to be objective and independent in their participation in policy debates, in a highly politically charged environment like South Africa, researchers cannot afford to be mere “detached observers”. At the same time, while advocacy is not necessarily harmful to scientific objectivity, policy research institutes need to engage with policymakers through proper channels. Engaging the latter through the press may easily result in good policy recommendations being rejected. After all, although the work of policy institutes is ultimately intended to benefit the wider public, the principal or immediate users of their work are policy makers.

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