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The Political Economy of Growth Coalitions

Lessons from Five Countries for South Africa

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Executive Summary

Poland doubled its GDP per capita in the twenty years after its 1992 reform onset. South Africa's per capita income has barely grown in two decades. What separates countries that sustain growth from those that stagnate? This paper examines five countries – Chile, Poland, India, Germany and Argentina – that faced critical junctures where coalition dynamics and reform trajectories diverged. Three lessons emerge for South Africa's Government of National Unity. Crises create reform windows, but only credible political settlements translate those windows into sustained investment and growth. Reform sequencing matters – infrastructure first, labour later. And institutional anchoring and coalition coherence determine whether reforms survive beyond the government that enacted them. Applied to the GNU, these lessons point to a clear prescription: deliver visibly on infrastructure, protect existing institutions and build coalition coherence around a shared reform scorecard.

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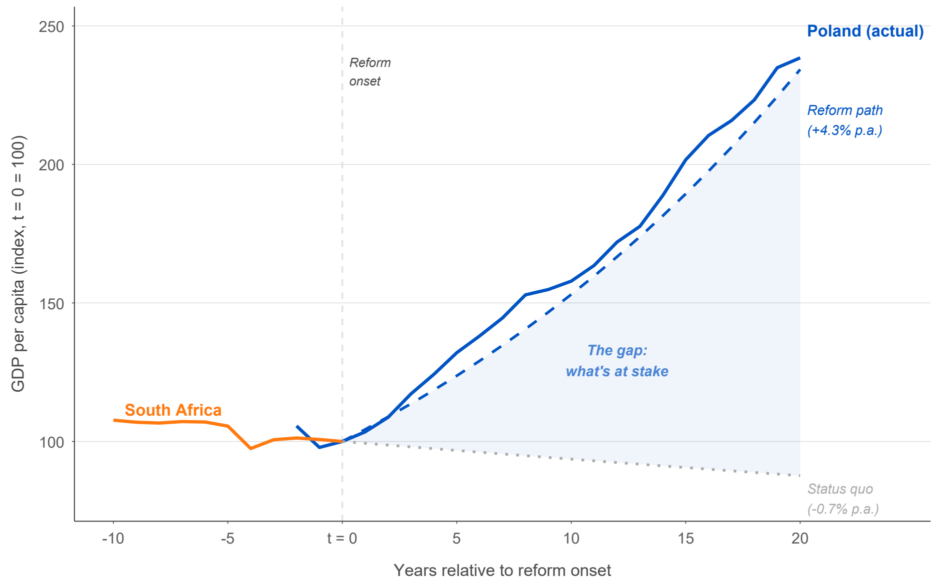
Introduction

When Poland embarked on its post-transition reforms in 1992, its GDP per capita was similar to South Africa's today. Twenty years later, Polish living standards had doubled. South Africa, by contrast, has averaged near-zero per capita growth over the past decade – a trajectory that, if sustained, would leave living standards essentially unchanged a generation from now. Figure 1 shows the gap between these two paths. That gap is what is at stake for South Africa's Government of National Unity (GNU).

Figure 1: GDP per capita indexed to 100 at reform onset. Poland's actual trajectory after 1992 compared with South Africa's recent stagnation and two projected scenarios.



Source: World Development Indicators; Penn World Table 10.01. Author's calculations.

This paper asks what political conditions enable sustained economic growth. We approach the question comparatively, examining five countries that faced critical junctures – Chile (1986), Poland (1992), India (2002), Germany (2005) and Argentina (2003) – where coalition dynamics and reform trajectories diverged.

Our selection seeks variation on the outcome. Chile, Poland, India and Germany represent Path A – countries that forged credible political settlements and sustained growth for a decade or more. Argentina is the Path B case: it experienced a genuine growth acceleration, but the acceleration reversed because the underlying settlement proved not durable. Germany adds a distinctive dimension: a centre-left Red-Green coalition under Chancellor Gerhard Schröder delivered comprehensive labour-market reform – Agenda 2010 and the Hartz reforms – that transformed Germany from the 'sick man of Europe' into the continent's leading economy (Dustmann et al., 2014). The parallel with South Africa's own Mbeki–Manuel–Mboweni reform era is sobering.

From these cases, we distil three lessons:

1. **Crises create windows, but only credible settlements sustain growth.** Deep crises lower the political cost of reform. But unless the resulting settlement reduces policy uncertainty and unlocks private investment, the window closes without lasting gains.
2. **Reform sequencing matters: infrastructure first, labour later.** Successful reformers start with high-visibility, broadly beneficial reforms that build political capital and defer the most politically costly changes until a growth dividend materialises.
3. **Institutional anchoring and coalition coherence determine durability.** Reforms survive beyond the government that enacted them only when institutional constraints make reversal costly and the coalition maintains operational coherence around a focal programme.

Our approach is deliberately descriptive rather than econometric. We identify growth acceleration episodes, compare key indicators before and after and use case narratives to provide causal interpretation. The ultimate test is employment: in every successful case, unemployment fell substantially in the decade after reform. South Africa, with unemployment above 32 per cent, has yet to begin that trajectory.

The Forked-Path Framework

All five cases experienced high political contestation – factional conflict, coalition fragmentation or ideological polarisation. Contestation is the starting condition, not the differentiator. **What matters is what happens next.**

Path A describes the sequence in which contesting factions reach a credible bargain. The bargain need not be formal or comprehensive; it must be credible – each faction must believe the others will honour their commitments. Credible bargains generate policy coherence, which reduces uncertainty. Lower uncertainty catalyses private investment, raising productivity, growth and employment. Chile, Poland, India and Germany followed this path. But the chain from policy coherence to reduced uncertainty depends on implementation capacity – the ability of state institutions to translate agreed policies into operational results. Where delivery systems are weak, even coherent policy may fail to reduce uncertainty. This mediating role of state capability is particularly relevant for South Africa.

Path B describes the alternative. An initial acceleration occurs – our data detect one in Argentina in 2003 – but the political settlement is not durable. Without credible commitment devices, the bargain unravels: subsequent governments reverse reforms, uncertainty returns and growth collapses. The distinction between Path A and Path B is not whether an acceleration occurs, but whether it is *sustained*. Figure 2 illustrates this divergence directly.

The framework draws on three strands of theory: the war-of-attrition model, where reform is delayed because each faction hopes the other will bear costs and occurs only when crisis makes delay costlier than concession (Alesina and Drazen, 1991); the status-quo bias result, where rational uncertainty about who gains from reform produces collective resistance (Fernandez and Rodrik, 1991); and the veto-player framework, where more veto players make change harder but reversal equally so (Tsebelis, 2002). Our contribution is to integrate these into a comparative diagnostic applied to five concrete cases and one learner.

Five Growth Episodes

We identify growth accelerations following Rodrik (2007): a sustained rise in GDP per capita growth of at least two percentage points, maintained for eight years or more. For mature economies such as Germany, where absolute growth rates are lower, we supplement statistical detection with case-informed judgement (Dustmann et al., 2014). The comparisons are descriptive – they document what happened, not why – and the case narratives provide causal interpretation.

Chile (1986; Path A). Chile's acceleration followed the severe 1982–83 banking crisis, which saw GDP per capita fall by nearly 19 per cent. Recovery came in two phases: fiscal consolidation and export promotion under Pinochet's second-wave technocrats, then the Concertación's deepening of the market-economy framework with a social dimension from 1990. Business accepted higher taxes in exchange for macroeconomic orthodoxy and central bank independence (1989); the left accepted the market economy in exchange for social spending. GDP per capita roughly doubled between 1983 and 1995. Chile is the clearest Path A case because the settlement *endured* across four successive governments.

Poland (1992; Path A). The Balcerowicz Plan's shock therapy triggered a sharp transformational recession (Balcerowicz, 1995; Sachs, 1993). Average per capita growth swung from -0.6 per cent before reform to 6.0 per cent after – the largest improvement among the five cases. The broad Solidarity coalition meant no single faction bore the full cost. EU accession in 2004 locked in institutional reforms. Unemployment rose during the transition, peaking above 20 per cent in the early 2000s, before falling sharply to around 7 per cent after EU accession in 2004. Poland was the only EU member state to avoid recession in 2008.

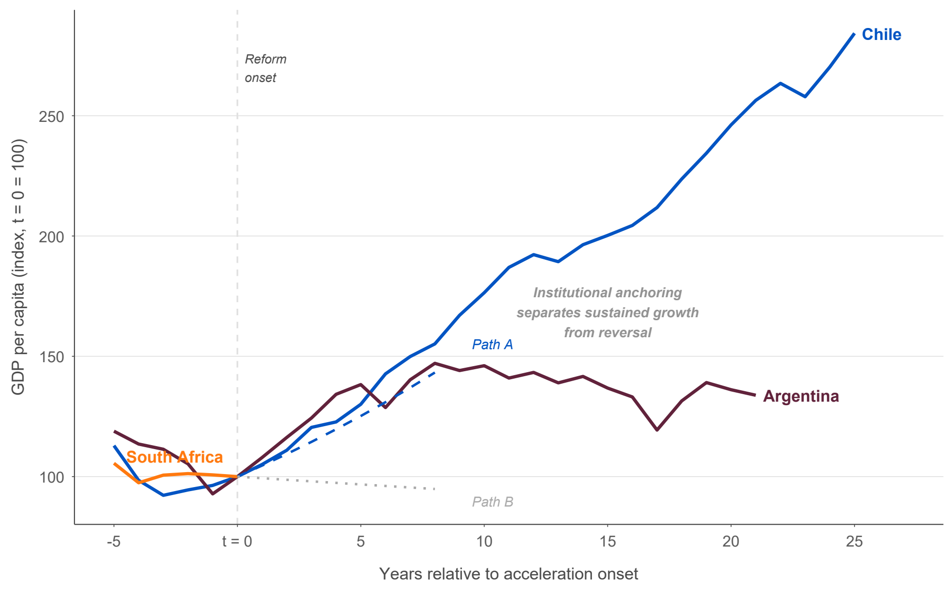
India (2002; Path A). The growth acceleration dates to 2002 by the detection methodology, but its political foundations were laid a decade earlier.

India's 1991 balance-of-payments crisis triggered liberalisation under Rao's minority Congress government (Kohli, 2006; Panagariya, 2008). Reform proceeded by stealth: tariff cuts and deregulation via executive discretion, without a formal parliamentary mandate. Growth rose from around 3 to above 5 per cent. India's federal institutions – independent courts, a free press, competitive elections – provided veto points that enhanced credibility even under fragmented coalitions. The settlement was more fragile than Chile's or Poland's, relying on tacit elite consensus rather than formal anchoring.

Germany (2005; Path A). By the early 2000s Germany was the 'sick man of Europe': unemployment above 11 per cent, anaemic growth and rigid labour markets (Dustmann et al., 2014). Schröder's Agenda 2010 – centred on the Hartz reforms (2003–05) – restructured unemployment insurance, tightened job-search requirements and created new categories of low-threshold employment (Jacobi and Kluve, 2007; Krebs and Scheffel, 2013). Unemployment halved from 11 to 5 per cent; 2.5 million jobs were created (Burda and Hunt, 2011). But the political cost was devastating: the SPD split and Schröder lost the 2005 election. A centre-left coalition delivered structural reform and sacrificed itself – a pattern directly relevant to South Africa's ANC under Mbeki.

Argentina (2003, reversed; Path B). Argentina's acceleration followed the 2001–02 default. The earlier Menem-era Convertibility Plan had delivered liberalisation, but Peronism's factional structure prevented a durable settlement. The Kirchner governments reversed market-oriented reforms; two decades of policy oscillation followed. Milei's presidency since 2023 – aggressive fiscal consolidation, sweeping deregulation – parallels Balcerowicz's shock therapy. The question our framework highlights is whether institutional anchors can be built before the window closes. Argentina's history prior to 2023 counsels scepticism.

Figure 2: The fork: GDP per capita indexed to 100 at acceleration onset. Chile sustained its growth; Argentina reversed. South Africa stands at the fork.



Source: World Development Indicators; Penn World Table 10.01. Author's calculations.

Three Lessons for South Africa

Crisis windows and credible settlements

The war-of-attrition model predicts that reform occurs when crisis makes the cost of delay exceed the cost of concession (Alesina and Drazen, 1991). But opening a window is not enough; what matters is whether the settlement that emerges reduces uncertainty enough to unlock investment (Bloom, 2009; Baker et al., 2016).

Chile's 1982–83 banking crisis destroyed the credibility of first-wave reforms and created space for a centrist convergence that endured through the democratic transition. The crisis was deep enough to discredit the military's initial economic model and the opposition's maximalist demands alike. Poland's collapse – hyperinflation, shortages, output decline – created overwhelming support for radical change. Balcerowicz explicitly exploited the 'period of extraordinary politics' when normal interest-group resistance is suspended (Balcerowicz, 1995). EU accession then locked in reforms, making reversal practically impossible. Germany's crisis was structural rather than acute: persistent mass unemployment and anaemic growth. Schröder framed it as existential – his March 2003 Bundestag speech warned explicitly of permanent decline. The framing provided cover for reforms that violated core social-democratic commitments. But the window was narrow; Schröder was out of office by late 2005.

Argentina has experienced repeated crises that each opened reform windows – 1989, 2001, 2023. Menem used the 1989 window aggressively; Milei is using the 2023 window with Balcerowicz-like intensity. But Argentina's past windows have consistently failed to produce durable settlements; whether the 2023 attempt breaks the pattern remains to be seen. The pattern is clear: using a crisis window is necessary but not sufficient. Without credible institutional anchoring, reforms are reversed when political conditions shift.

South Africa. The GNU's crisis is slow-burning rather than acute: a decade of stagnation, collapsing municipal infrastructure, youth unemployment above 60 per cent. The war-of-attrition logic suggests this makes reform harder. A slow crisis allows factions to hope the situation will improve without concessions. The GNU must construct urgency – through transparent communication about the cost of inaction and through early, visible delivery milestones. South Africa lacks an external anchor comparable to EU accession. The most promising credibility mechanism is delivery itself: stabilising Johannesburg's water infrastructure, clearing Transnet's port backlogs, accelerating renewable energy procurement. Each milestone signals that the coalition can translate agreement into action. Poland's experience shows how quickly the investment climate can shift when delivery is visible. Credibility accrues through demonstrated results, not grand announcements.

Reform sequencing: infrastructure first, labour later

Successful growth episodes follow a consistent sequencing pattern: macroeconomic stabilisation and trade liberalisation first, labour-market reform later. Macro stabilisation delivers visible results quickly, building political capital for harder reforms. Labour-market reform threatens core constituencies and is more likely to be effective once the growth dividend creates fiscal and political space (Rodrik, 2007).

Chile opened trade first – much of its liberalisation was already in place from the 1970s – then reformed finance pragmatically after the banking crisis forced re-regulation. Labour flexibility increased only gradually. India moved incrementally: tariffs were cut and industry deregulated through executive discretion, but labour reform was left untouched. Growth accelerated without it, confirming the sequencing prescription. Poland liberalised broadly and simultaneously under Solidarity's extraordinary political cover – the exception that proves the rule, since simultaneous reform was possible only because the collapse of the planned economy left no status quo to defend.

Germany presents a striking departure. As a mature OECD economy, trade, financial and product-market liberalisation were already complete. The binding constraint was labour-market rigidity – precisely the reform area that should come last. Schröder went directly to it because nothing else remained. This suggests an important qualification: the 'macro stabilisation and trade liberalisation first' sequence applies to countries at early stages of development; mature economies with specific structural bottlenecks may need to tackle the politically hardest reform first.

South Africa. The binding constraints are infrastructure and regulatory bottlenecks rather than traditional macro policy. Energy reform (independent procurement and transmission), logistics reform (port and rail concessioning) and State Owned Enterprises (SOE) reform (appointing stong, independent boards to SOEs) are South Africa's equivalent of macro stabilisation: high-visibility, broadly beneficial and achievable through executive action. Labour-market reform – the Labour Relations Act, collective bargaining structure, minimum wages – is the most politically costly area and should be deferred until infrastructure delivery has built political capital. Any such reform is also constitutionally constrained: Section 23 guarantees fair labour practices and collective bargaining. Chile and India both demonstrate that growth can accelerate before labour markets are reformed; the political space for those reforms expands once the growth dividend materialises.

But Germany and South Africa's own Mbeki era offer a sobering reminder: deferral should be strategic, not permanent. Two decades after Mbeki's macro stabilisation, the employment crisis remains unresolved.

Institutional anchoring and coalition coherence

Tsebelis (2002) shows that more veto players make policy change harder – but conditional on change, they make reversal harder too. This is what makes institutional constraints valuable as commitment devices: they reassure investors that the current direction will survive a change of government. Independent central banks, fiscal rules, constitutional protections and external treaty obligations all serve this function.

Poland's EU accession was the most powerful anchoring mechanism: external, peer-reviewed and practically irreversible. Chile built its institutional framework *during* the acceleration – central bank independence in 1989, the democratic transition in 1990, OECD peer review later – demonstrating that constraints need not be present at the onset. Germany's federal structure made the Hartz reforms difficult to enact but equally difficult to reverse: when Merkel's CDU succeeded Schröder, she preserved and extended the reforms because reversal would have required an equally broad consensus (Streeck, 2009). Argentina is the clearest counter-case: despite formal democratic institutions, the political culture did not respect constraints. The Central Bank was repeatedly subject to political direction; fiscal rules were adopted and abandoned.

But institutional anchoring alone is insufficient without coalition coherence – the ability to coordinate on a focal reform package. Chile's Concertación was broad but coherent: the parties had converged on a shared programme and delegated economic policy to bipartisan technocrats. India maintained reform direction across highly fragmented coalitions because key economic ministries were staffed by technocrats with a shared orientation. Germany's Red-Green coalition was formally narrow but operationally coherent: Schröder centralised reform in the Chancellor's office, and the Greens deferred on economic policy. Argentina's Peronism – the broadest movement in Argentine politics – destroyed coherence through radical policy discontinuity from one president to the next.

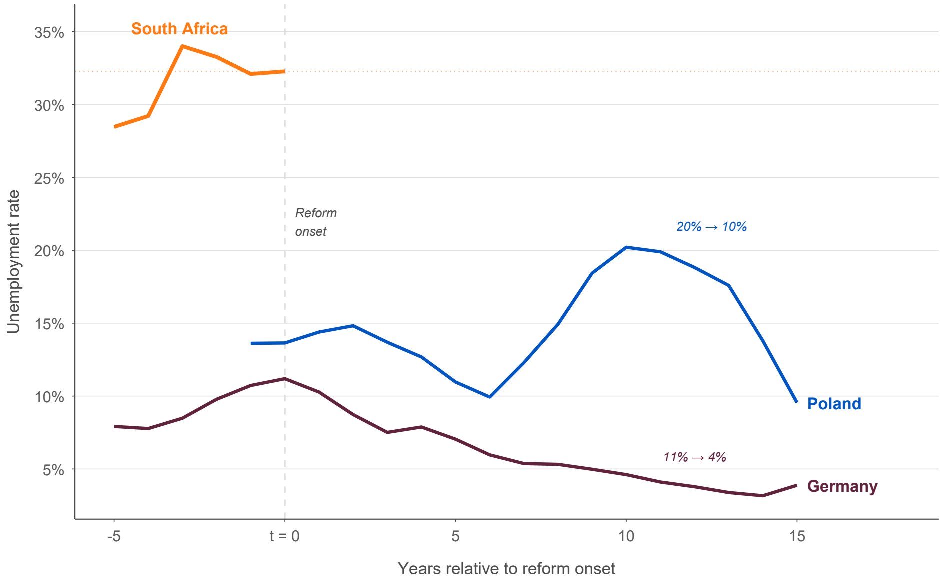
South Africa. The institutional stock is depleted but not destroyed. The Constitutional Court retains credibility. The Treasury's technical capacity is strained but intact. The SARB's independence is constitutionally protected. The NPA is rebuilding. The task is institutional *repair*, not creation – Chile's experience shows this is feasible and fast. But the GNU must also find operational coherence. It is broad – ANC, DA, IFP, Patriotic Alliance and smaller parties – which provides cross-racial and cross-ideological legitimacy. The critical question is whether it can coordinate on a focal reform package. The most natural candidate is infrastructure delivery: ideologically neutral, immediately visible and addressing the most binding constraints on growth. An infrastructure mandate would give the coalition a shared scorecard, reduce factional free-riding and provide a basis for public accountability. Without coherence, the GNU's breadth becomes a liability.

The Employment Payoff

The ultimate test of a growth coalition is jobs. Figure 3 shows unemployment trajectories for Poland, Germany and South Africa, centred on the reform onset. The pattern is unmistakable: in both successful cases unemployment fell dramatically – Poland from above 20 per cent to around 7 per cent, Germany from 11 per cent to 5 per cent. South Africa, at above 32 per cent on the narrow definition and above 42 per cent on the expanded definition, starts from a position far worse than any comparator's worst point.

The scale of South Africa's unemployment crisis makes the case for reform urgent – and the potential payoff enormous. If Poland could halve unemployment in a decade through sustained reform, the potential for South Africa is transformative.

Figure 3: Unemployment rate around reform onset. In every successful case, unemployment fell substantially within a decade. South Africa's unemployment far exceeds any comparator's worst.



Source: ILO modelled estimates via World Development Indicators. Author's calculations.

The Mbeki–Manuel–Mboweni precedent

South Africa has its own Agenda 2010 moment, though it is rarely framed that way. Between 1996 and 2008, the Mbeki presidency – with Trevor Manuel at Finance and Tito Mboweni at the Reserve Bank – delivered a comprehensive macroeconomic reform programme: GEAR replaced the RDP's expansionary fiscal stance; inflation targeting was achieved; trade was liberalised; the financial sector was modernised; public debt fell from over 40 per cent of GDP to under 28 per cent by 2008.

The parallels with Schröder's Germany are striking. Both were centre-left governments that delivered orthodox reform. Both faced fierce resistance from within their own labour constituencies. But where Schröder pushed through comprehensive labour-market restructuring via the Hartz package, Mbeki stopped short of that step. Both paid a political price: Mbeki was recalled in 2008; Schröder lost in 2005.

The critical difference is what followed. In Germany, Merkel's governments preserved and extended the Hartz reforms; the institutional framework endured. In South Africa, the Zuma presidency reversed the reform trajectory: state capture, fiscal deterioration and institutional erosion undid much of what Manuel and Mboweni had built. South Africa's experience is a hybrid of Path A and Path B: the initial reform was real, but the settlement was not anchored against reversal by a subsequent faction within the same governing party. The GNU's task is to learn from both – Germany's success in locking in reform and South Africa's own failure to do so.

A diagnostic scorecard

Based on the three lessons, we propose five questions for monitoring the GNU's trajectory:

1. **Crisis framing:** Has the GNU communicated a compelling narrative about the cost of inaction? Is there a visible reform champion?
2. **Delivery milestones:** Has the water crisis been stabilised? Have port turnaround times improved? Are the lights on?
3. **Sequencing discipline:** Is the coalition focusing on infrastructure and regulatory reform, or has it been drawn into politically divisive battles?
4. **Institutional integrity:** Are Chapter 9 institutions operating independently? Is the SARB's independence respected? Are procurement processes clean?
5. **Coalition coherence:** Is there a shared reform programme with clear deliverables, or are coalition members pursuing parallel agendas?

Positive answers place South Africa on Path A. Negative answers suggest a drift toward Path B – not necessarily a boom followed by reversal, but the slow accumulation of policy incoherence that prevents a sustained acceleration from taking hold.

Three risks could derail the trajectory. First, coalition fracture: if the ANC and DA cannot resolve disagreements on specific policies, the coalition could collapse – Argentina's pattern of reform followed by reversal. Second, reform fatigue: if early delivery is too slow, public patience may erode and populist alternatives may gain ground, narrowing the political space for reform. Third, external shocks: a global recession or commodity collapse could overwhelm the coalition's capacity before reforms produce results.

Conclusion

All five cases experienced growth accelerations. What separated them was what happened next. In Chile, Poland, India and Germany, the political settlement proved durable enough to sustain growth and – critically – to translate it into substantially lower unemployment. In Argentina, the settlement unravelled: reforms were reversed, institutions weakened and growth collapsed. The distinction is not academic. It is the difference between doubling living standards in a generation and going nowhere.

Three mechanisms separate sustained accelerations from reversals. Crises open reform windows, but only credible settlements – ones that reduce policy uncertainty and unlock private investment – translate those windows into lasting gains. Sequencing matters: the common pattern is macro and infrastructure reform first, labour reform later – though Germany shows that when labour rigidity is the binding constraint, this order may need to be reversed. And institutional anchoring and coalition coherence determine whether reforms survive beyond the government that enacted them.

Germany's Agenda 2010 adds a dimension absent from the other cases: the demonstration that centre-left coalitions can deliver painful structural reform. The parallel with the Mbeki–Manuel–Mboweni era is direct. The critical lesson is that reform durability depends on institutional anchoring: Germany's reforms survived the transition to Merkel; South Africa's were reversed under Zuma.

If the comparative evidence points to a short list of near-term priorities for the GNU, it is this:

1. **Deliver visibly on infrastructure** – energy, water and logistics – to build credibility and reduce policy uncertainty.
2. **Agree on a shared reform scorecard** that all coalition partners endorse publicly, and report progress regularly.
3. **Protect and repair institutions** – the Reserve Bank, the Treasury, the NPA, Chapter 9 bodies – because these are the commitment devices that make the coalition's bargain credible beyond the current electoral cycle.
4. **Defer politically divisive reforms** until the growth dividend from infrastructure delivery creates fiscal and political space – but do not defer indefinitely.

The framework is deliberately stylised. Every country's experience contains elements of both paths. South Africa's political economy is unique in important ways – the legacy of apartheid, the depth of inequality, the structure of the labour market – that limit the applicability of any single comparator. What the lessons offer is a structured way of thinking about the political prerequisites for growth: a lens for assessing whether the GNU is on a path toward prosperity or stagnation.

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