A DEVELOPMENTAL STATE:
South Africa’s developmental capacity
UCT Summer School

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28 January 2011
CORE THEMES

1. Is South Africa a developmental state?
2. Evolution of policy discourse on developmental state
3. Attributes of a developmental state
4. Storyline for a new growth trajectory
5. Critical challenges in building state capacity
While some advances made at Jobs Summit (1998) and Growth and Development Summit (2003), outcomes could have been better. Similarly, discourse on New Growth Path evinces deep fissures among social partners.
Concept of developmental state referred to in passing in ANC and related policy documents:

► *Ready to Govern*, 1992
► *State, property relations and social transformation*, 1998
► Preface to *ANC Strategy and Tactics* document, 2000

Only post-2004 does the notion of a developmental state find elaborate pride of place as an objective of policy in ANC and government documents, especially in the 2007 ANC Strategy and Tactics document.
“South Africa has set itself the unusual and challenging goal of becoming a developmental state. In principle, this is a unique and noble enterprise: unique in so far as no state has ever self-consciously set out to become a Developmental State; and noble in so far as such a project draws inspiration from the experience of certain countries that achieved ...growth with equity.”

Linda Weiss (The University of Sydney)
Transformative Capacity and Developmental States: Lessons for South Africa, 2010
EVOLUTION OF DISCOURSE

Macrosocial environment

Review of programmes demonstrates pedestrian nature of growth and unsustainability of macrosocial environment...

► Economy: 3% GDP growth for first ten years and above 4% from 2003. Yet structure of the economy did not change: increased services; low manufacturing capacity; low savings; low SME involvement

► Employment: low labour participation rate & sediment of unemployed and unemployable (youth and women)

► Income poverty: reduced somewhat c/o employment and social grants (2.5m in 1993 & 12m in 2008); but high (49% of pop. below R524/m); inequality not much reduced…
ATTRIBUTES

Capacities of developmental state

► Strategic orientation: development strategy and programmes based on high growth rates, restructuring of the economy and socio-economic inclusion

► Ideational capacity: leadership in defining a national vision and mobilising society to take part in its implementation, with effective systems of interaction with all social partners

► Organisational capacity: state structures and systems that facilitate the realisation of a set agenda, with appropriate macro-organisation of the state

► Technical capacity: translation of broad objectives into programmes and projects and capacity to ensure implementation, with proper training, orientation and leadership of the public service

Source: ANC Strategy and Tactics, 2007
Concern that ‘developmental citizenship’ is not an immediate and automatic consequence of high rates of economic growth.

Most of the developmental states had poor social security programmes: implied in the approach is a long-term ‘trickle-down’ mechanism (e.g. South Korea and China).

Besides Constitutional imperatives, given our levels of inequality and history of racial exclusion such an approach would be unsustainable, as sediment would remain excluded. Thus combine with ‘best attributes of social democracy’:

- social issues such as health, education and social safety net
- voluntary social partnership and strong relations with unions
- a democratic developmental state

Source: ANC Strategy and Tactics, 2007
GROWTH TRAJECTORY

Silver lining: towards a developmental state

1 National Strategic Planning – beyond ‘political miracle’, opportunity today together to develop a national vision and detailed long-term plans about the South African ideal (Vision 2025):
   - requiring identification of objectives, contribution, benefits, trade-offs and sacrifices – beyond lowest common denominator
   - choice for sector leaders (wait for draft NSP or pro-actively intervene)

2 Positives of high-growth years:
   - high rates of investment by both public and private sectors, with Gross Fixed Capital Formation approaching target of 25% of GDP
   - unemployment reduced from 31% (2003) to 23% in 2008, with employment elasticity of growth at about 0.8: if trend had continued would have reduced unemployment by 2014 to 13%
GROWTH TRAJECTORY

Integrating storyline

1. Multiplier effect of infrastructure programmes:
   ► Over R800bn has been budgeted as rolling investment every three years in infrastructure: energy, transport, communications, water, housing…
   ► Direct employment and crowding in of private sector but also potential for supplier industries: nuts and bolts, boilers, wagon wheels, locomotive breaks and other parts
   ► Even more is being spent in Sub-Saharan Africa in infrastructure and this will continue for 30 years and more

2. Aggregate demand and shared growth:
   ► Growth (SA and SSA) generates virtuous cycle, with profound opportunities for manufacturing, e.g. cellphones, plastic and rubber boots, television and monitors, kettles, microwave ovens, toasters, suitcases and bags
   ► Address structure of economy and constraints to manufacturing of such goods and agriculture, agro-processing, tourism and other IPAP2 sectors
   ► Ensure growth is shared: labour absorption, SME and value chains, rural development, education and skills
Mining in SA is more than a sunrise industry in relation to vagaries of commodity prices, but also in terms of:

- super-cycle anchored in demand from growth regions of the world which will sustain itself for many decades to come
- PGM as epicentre of search for new energy sources and a massive hydrogen economy that may approximate current strategic importance of hydrocarbons
- acting as a catalyst to a new wave of South African industrialisation for decades to come

Need mining sector strategy fully to take advantage of these opportunities. Everything we do, including extent of state involvement in the sector and BBBEE, should be subsumed to this central objective.

Besides these imperatives, industry has potential to catalyse economic recovery:

“For the foreseeable future, extraction and processing of minerals and related sectors…will remain critical…making support for its continued expansion and diversification…critical for development across the economy”. (MTSF, July 2009)
Finland has shown that it is possible to develop a mature industrial cluster using resource endowments through various phases:

- mere extraction with little local processing
- level of processing, local engineering services & production of low-technology inputs
- locally-based engineering services and some value-added products
- incorporate exports of technology & machinery, sophisticated resource-based products & engineering services

3...mining is more than a sunrise industry (cnt’d)

Opportunities in the Green Economy

While imperatives of the Green Economy do in the early years present variety of challenges, there are multitudes of opportunities:

- Includes biofuels, solar, wind, fuel cell technology, biomass: with forward and backward linkages and many job opportunities (inputs manufacturing, construction, management, public works)
- Require interventions such as R&D, building and other regulations, procurement, feed-in tariffs...
GROWTH TRAJECTORY

Some trade-offs and choices

Resources are finite and yet ‘needs’ and ‘wants’ can be limitless. Leadership & society need to make choices, e.g.:

**Price and access**

For sustainable services, prices charged cannot forever be lower than cost
Yet, for social services and even for business competitiveness, this may not always be sustainable…

**Savings and consumption**

To accumulate capital for investment purposes may require limiting short-term consumption
Aggregate Demand of local goods can be good for production, while luxury goods can be import-sensitive

**Contribution and reward in income distribution**

Executive packages can be excessive and worsen inequality; while high wage increases without productivity improvements can be unsustainable
Possible to strike balance: e.g. how do Japan & Sweden sustain lower inequality?
Insiders and outsiders

Companies dominant in a particular sector can use all kinds of mechanisms to block new entrants.

In pursuit of ‘decent work’, unions can negotiate small companies out of the market, e.g., dynamic in textile sector.

Long-term rewards and instant gratification

During boom years, government can be tempted to squander all high tax yields instead of adopting a counter-cyclical fiscal policy.

In the private sector, short-termism does express itself in a clamour for permanently high quarterly returns and distribution of dividends at the expense of long-term investment.

- It may be possible to find a compromise and pursue seemingly contradictory objectives at the same time, but this is often unlikely.
- There should also be a temporal dimension to making choices: emphasise one imperative in a particular phase.
- To address these kinds of issues requires strategic leadership.
BUILDING STATE CAPACITY

Improvements and challenges

A developmental state plays a critical role in leading economic development: policy-making, regulation, provision of public goods, procurement, R&D efforts...

Ramping up state capacity

Introduction of National Strategic Planning and M&E functions
Decisive intervention to address local government weaknesses (political & admin)
Require conduct that reinforces legitimacy of state and offices individuals occupy: dependent on activism in all terrains including private sector and civil society

Professionalism and stability in public service (esp. management)

Linda Weiss (ref above) argues for ‘professional insulation against corruption, political favours and special interests’ a.o. through ‘appropriate mode of recruitment and promotion’
Wholesale changes in management when political principals change, on the basis of inter-personal dynamics, does not assist in building a developmental state
Strategic planning is a long-term undertaking: post-electoral changes in policy or systems should not undermine basic structure and functionality of state
In giving leadership, also need to master the science and art of statecraft; and manage the ‘politics of distraction’:

► Address the anomaly of history: the majority of the political and state leadership and that of the business leadership have different backgrounds, culture, networks, outlooks…

► Proceed from premise that, beyond formality of elections, state legitimacy critically depends on all sectors being given voice

► Yet in a society with deep fissures contradictory interests can lead to paralysis: and leadership by the state becomes critical in making tough choices when & where sectoral leadership is unable to do so

► In a democracy, articulation of political views can lend itself to hyperbole, especially during universal election campaigns or intra-party leadership contests: ability to manage and discount ‘discourse outliers/white noise’ is critical for a strategic long-term developmental undertaking
In response to the question, is SA a developmental state, the answer is: no… not yet. We do have the potential to become one; and critical in this regard is the introduction of national strategic planning.

Progress depends not just on government or the state, but on all societal leaders: whether we do have the acumen to identify and contribute to a national vision, ensure its implementation and where necessary sacrifice for its realisation.

2011: CRITICAL MILESTONE
How the nation manages debate on the growth path and national strategic plan will determine whether we break out along a new path!
END