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CDE CONVERSATIONS

Public debates on key national policy issues convened by the Centre for Development and Enterprise

Shared growth and the role of the state

ON 21 FEBRUARY 2008, CDE hosted its second public conversation on key challenges facing South Africa. It focused on what the role of the state should be in improving the lives of South Africans. To open the conversation, CDE invited four influential South Africans to reflect on the concept of the developmental state in the face of South African realities. They were:

- **Gwede Mantashe**, secretary-general of the African National Congress and chairperson of the South African Communist Party;
- **Johann Baard**, executive director of the Cape Clothing Employers Association;
- **Paul Mashatile**, MEC for finance and economic affairs, Gauteng Provincial Government; and
- **Moeletsi Mbeki**, executive chairman of Endemol Productions

Opening remarks

Ann Bernstein, CDE's executive director, outlined the core theme as follows:

'There are tough questions and choices in South Africa confronting both those who want to limit the role of the state as well as those who want to extend it. The first group must make the case for how, in a country such as ours, small states and equality of opportunity can lead to a society with greater prosperity and much less poverty, ill health, and deprivation. This is a task that faces both black and white South Africans who believe in a market-driven approach.

Those who want a larger state – one that actively intervenes in many aspects of our society – have to explain how this could work in the context of current performance. The difficulties in this respect have become greater and not less:

- The state is struggling to deliver some of the most basic requirements, from crime prevention to education quality, to electricity and a range of services essential to sustaining and building the economic system.
- The state has 20 to 40 per cent vacancy rates in key departments, and at key levels of government.
- Other, competing countries are doing better than South Africa in many areas relating to economic performance and the provision of public goods.

In the light of such circumstances, the proponents of a larger, more interventionist state need to present compelling arguments about how such deficiencies can be overcome, and why even more responsibilities should be stacked on to already overloaded state institutions.

The aim is to promote a lively, constructive and frank conversation among South Africans concerned about the future of our country. Rather than take sides in an ideological conflict, we should focus on the actual costs and benefits of regulation. We should ask what we want to regulate, what capacity we have to implement particular regulations, and what impact the regulations will have. In addition, we should consider the possibility of unintended consequences, and whether the regulations will enhance markets, or encourage rent-seeking and hinder investment and risk-taking.'

PANELISTS' PRESENTATIONS

Gwede Mantashe

A society must be humane in its approach to life, and should be informed by the desire for a common prosperity, with every citizen trying to lift others as he or she rises. We need a more egalitarian society in which the gap between the rich and the poor is much smaller that it is at present. In South Africa, the most unequal society in the world, there can only be shared growth if there is a national consensus to deal with the most pressing challenges facing society, which are unemployment, inequality, and the prevalence of disease.

At the moment executives are benchmarked against their western counterparts, while general workers are benchmarked against workers elsewhere in Africa, and the most backward sections of other developing economies. This formula cannot lead to shared growth. At the same time, companies only commit themselves to uplifting communities in a limited way. Many businesses see this more as a function of a good annual report rather than a function of making an impact on society. A proper evaluation of whether social investments are actually making an impact on communities is not inherent in how we do business in South Africa.

What then is the role of the state? Primarily, its role is to redistribute income and wealth. We therefore need a more progressive tax system, and I see the moves to cut corporate tax as untenable in the long term. The state will be required to play a bigger role in the delivery of social products, such as education, health, housing, and various municipal services. This is not to deny that the challenges of a severe shortage of vital skills, an education system that does not respond adequately to the skills needs of the economy, the dysfunctional health system, and the need to fight crime will put pressure on the state as we move forward.

All of these issues have to be confronted as the state seeks to deliver shared growth. One solution may be that the state becomes an active shareholder in particular sectors. For example, it could partner with a private company in platinum mining, which will give it access to additional resources. In South Africa this is regarded as nationalisation, and a red flag is raised. But some companies that fear this in South Africa are comfortable doing the same in countries such as Botswana. And in China the state has a share in every venture in which one can invest. My argument, therefore, is that if we want the state to be more active it must be allowed to access the resources it needs.

Johann Baard

They say competitive advantage in today's impatient markets will not alone deliver on the promise of sustainable development. Unfettered, competitive forces encourage short-termism and profit-taking. Investors tend to focus on immediate returns, and customers intent on getting the lowest price often restrain longer-term business strategies from gaining traction in the market.

Today's engine of global trade continues to burden many poorer and weaker nations. They have become convinced that inadequate labour conditions and weak environmental controls are the necessary cost of accessing the benefits of globalisation. But, according

LESSONS FROM GERMANY

Prior to the debate the Konrad Adenauer Stiftung, which funded the evening's proceedings, launched a book entitled *Social market economy history, principles and implementation from A-Z*, edited by Rolf H Hasse, Hermann Schneider and Klaus Weigelt. Leo Roehrig, president of the Southern African-German Chamber of Commerce and Industry, commented as follows on its central message:

'The German social market economy was a framework that did away with all-encompassing government price controls and regulations; it removed the state's economic jurisdiction. It continues to be a framework that relies on the effectiveness of the free market, but recognises the significance of a social value orientation.'

The discussion around the social market economy and its role in producing the German economic miracle after World War Two helped to set the tone for the debate that followed.

to the International Labour Organisation, we are now witnessing the early stages of a governance revolution in how we manage our global affairs.

The Cape Clothing Employers Association has facilitated a joint co-operative venture between the South African Clothing and Textile Workers' Union and its sister union in the United States to explore opportunities for sourcing from the domestic clothing and textile market. Securing adequate labour standards as a competitive advantage in global markets may well come about because businesses join civil and labour organisations and public institutions in reshaping the rules under which products are produced, and then, most importantly, traded.

This is the kind of initiative that will help us reach the ideal of sustainable development. The developmental state should provide assistance to push us further towards that goal. There are three interconnected ways in which this could come about:

While the concept of the triple bottom line – people, profit, and the environment – has been bandied about in the business schools of the world for the past 15 years, little has been done to implement this slogan. The developmental state could start a huge leap forward by ensuring that companies actually commit themselves to this triple bottom line.

The case for responsible and sustainable competitiveness is irrefutable, which implies that the developmental state must promote fair trade, not unbridled free trade.

Industrial policy is the third crucial aspect of developmental state interventions. Industrial policy cannot allow our domestic manufacturing sector to fail. This would mean that we have lost the battle against poverty and unemployment and, most crucially, we have created the conditions from which revolutions evolve.

The developmental state worked well during the rise of the Asian Tigers. They created a bureaucracy that worked intimately with business in transforming these economies. The state identified the big picture, the macro targets, set macro policy frameworks, and then worked closely with business to achieve these targets and policy objectives in specific sectors of the economy. The state strongly supported those businesses that took the challenge seriously, but withdrew support from those who only paid lip service to the required undertakings.

Paul Mashatile

All of us agree that South Africa is a market economy. There is no debate about that. The ANC embraces the market economy, and wants it to work. But the state has a major role to play both in the process of social reconstruction and in economic development. One of the key tasks at the moment is building the organisation and capacity of the state.

We need to discover how the developmental state can allocate resources in such a way that it meets the challenge of stimulating growth while at the same time addressing issues such as the provision of social services. We need to ensure that more resources are allocated to education, health, fighting crime, and the provision of social grants. At the same time, resources must be directed at creating an environment that will attract investment and stimulate growth. We have to find a balance between these imperatives.

'Resources must be directed at creating an environment that will attract investment and stimulate growth'

In Gauteng the split between state spending on economic activity and state spending on social services is 31:69. That is an acceptable split. Some 69 per cent of our budget goes towards education, social development, health; and 31 per cent is being poured into the economy to stimulate growth. We need a developmental state that always looks for this kind of balance.

But the state cannot work by itself. There is a need for partnerships, and business has a role to play in stimulating growth and in ensuring that there is redistribution in society. The state must take the lead, and it must lead by example. The state must increase its investment in the economy, but cannot solve all our problems. A successful developmental state requires a partnership with the private sector.

Moeletsi Mbeki

Twenty years ago the South African footwear industry produced 80 per cent of the footwear that was sold in the country. Last year, 80 per cent of the footwear sold was imported from Asia. To understand this, we need to recognise that it is not the state that is the primary actor in capitalist societies. The primary actors are the elites. The state, in many respects, is an instrument used by the elites to achieve their objectives. In South Africa we have two dominant elites. We have a political elite, which has a very precise agenda, and an economic elite. Not all businesses are part of the economic elite. There are many small businesses in this country that are not part of the economic elite that sets policy.

The key driving ambition of the political elite in this country is to redress the income inequalities that we have inherited from the past. In practice this has

'We have no policy for developing the entrepreneurs who could run new industries'

turned into redressing the consumption inequalities between the races. When the state focuses on addressing consumption, one of the main casualties becomes production. Thus the political elite in this country has sacrificed the production capacity of South Africa, as illustrated by the example of footwear. By allowing cheap imports, it becomes possible for the poor to also consume. This is very different from the previous Afrikaner elite. Their agenda was to create jobs for poor whites, which is why they created Iscor, Sasol, and Phoscor. They had a production and not a consumption agenda.

The key economic elites in this country can be found in the finance sector and in the mineral/energy complex. As a result we have elites with certain characteristics, and whether we have a strong state or a weak state the fact remains that these elites do not have a production agenda. Is it coincidental that the Department of Trade and Industry is only now coming up with a so-called Industrial Policy Paper, 14 years after the ANC became the government?

The problem remains that we have no policy for developing the entrepreneurs who could run new industries. Black economic empowerment, which is a central programme of the political and the economic elite in this country, is not a programme for developing entrepreneurs. It is a variant of crony capitalism, and it is convenient for the mineral and finance leaders because it pacifies the new political elite. Black economic empowerment maintains the status quo; it does not give us entrepreneurs.

DISCUSSION

Following the presentations, members of the audience offered their own contributions. Three major themes emerged:

Concerns about expanded state intervention

- If the government decides to become a shareholder in private companies, it will receive dividends on top of the tax that it already collects. But, by becoming a shareholder, the government will then have to make shareholder contributions to companies seeking to expand, and will then need people to evaluate which deals are worthwhile and which are not. That will create new costs which may overburden an already fragile state. It would therefore be better for the government to focus on spending the tax it receives as efficiently as possible.
- The adoption of an 'industrial policy' that aims to expand the manufacturing sector is often presented as unambiguously positive. But there has been a lot of debate about whether an industrial policy is in fact efficient or necessary. Many experts have pointed out that it encourages rent-seeking (a technical term covering corruption and excessive lobbying), and often only benefits a few in the economy.
- The role of the state cannot be exclusively to redistribute wealth. The state should also create an enabling environment for the bakers who bake the cake that the state wishes to distribute. Without an enabling environment, the cake would shrink down to nothing.
- In Malaysia some of the interventions undertaken by the government have succeeded in addressing the ethnic inequalities that exist in that country. But if one aims to redistribute the wealth, then the economy must first grow. It is not fair to take from one ethnic group or racial group and give to the other group. The economy must first grow, and then only can one talk of redistribution, or sharing the wealth.

The need for a smart, effective state

- The key for an effective state is that it needs to be smart enough to know where it can do well, where it must hold back, where it must enable other players, and where it has weaknesses that need strengthening. Is the South African state able to do that? Do we have a state that is able to play that discerning, smart, value-adding role?
- The rand is weakening rapidly, capital is flowing out of the country, and inflation is spiralling. There is a huge deficit on the balance of payments, which in the past was financed by capital inflows; now there are net capital outflows. These are the economic challenges facing the country in the midst of a global meltdown. In this context business needs a state that is strong and stable. The most important question under these circumstances is how the envisaged developmental state is going to address the economic challenges facing the country. In light of the state's poor track record and lack of capacity, which has become a euphemism for sheer incompetence, business people, especially those running smaller businesses, have a right to be concerned.
- The government does not need more resources. There was an overcollection of taxes of almost R30 billion in the past financial year. The problem is not with the quantity of resources, but with the capacity to spend those resources. The issue that should be tackled is how to give government the capacity to spend the resources it has, rather than leveraging more resources that may not be spent at all.

Better state–business partnerships

- One of the unintended consequences of BEE is that industry has been forced to compete with the state at many different levels. Most importantly, this is happening in the area of skills. The state's capacity is contingent on experience and skills. But businesses are seeking to attract skilled people away from the state, and are paying salaries that the state cannot match. This is progressively undermining the capacity of the state to deliver. Therefore, the private sector must begin to complement the state's capacity. The state needs to look at the contribution that mining companies can make, not only to economic growth and job creation, but also to capacity at local government level and at various other government levels.

CAN SOUTH AFRICA REALLY BE A DEVELOPMENTAL STATE?

Now that the developmental states of East Asia have achieved many of their goals, there is a tendency to forget that the path they took was not easy, comfortable, or even democratic. South Korea under military rule was a developmental state. Sweden is not a developmental state. Developmental states are entirely different from social democratic states.

Scholars of the East Asian developmental states broadly agree that they had the following characteristics[1]:

- The industrial policies pursued by many of the Asian developmental states did not create comfortable breathing space for local industries. They did the opposite – they forced them to become internationally competitive.
- The developmental states placed a low priority on improving living standards. They enforced high savings rates (which meant low consumption) on their populations for decades while industrial capacity was built.
- Education systems were not designed to open learning and culture to all. They were highly elitist, using rigid streaming to produce literate factory workers and technically skilled engineers and managers with ruthless efficiency.
- Macroeconomic policy did not take social goals into account. Price stability and balance of payments surpluses came first.
- Free and vibrant trade unions were not usually permitted: 'sweetheart' unions helped bosses and the government to discipline workers.
- Politicians kept in place by the military or in dominant-party systems did not need to be sensitive to the democratic will of the people. They kept consistently to long-term plans in the face of popular opposition and economic downturns.

In short, these policies placed enormous demands on both state and society. Are such policies desirable – or even possible – in South Africa?

1 See, for instance, Alice Amsden, The Rise of the "Rest": Challenges to the West from Late-Industrializing Economies, Oxford, 2001

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- There is a massive current account deficit, which is creating a desperate need for foreign capital. Financing infrastructure with foreign capital reduces the benefits of that investment, as the country has to pay back the dividends in foreign currency. One problem, therefore, is that not enough focus has been placed on developing national savings, through, for example, popular savings banks. A core feature of the developmental states in Asia has been the availability of domestic savings to finance domestic investment. These countries have had very little foreign debt, or balance of payments deficits.
- The ANC's new leaders must move South Africa towards a state of common and shared interest between business and government. The situation should not exist where the state is advocating a developmental state and the business sector is still locked in an Anglo-Saxon type of capitalist system.

Care should be taken, however, that calls for partnership do not mask difficult choices that must be made. Frequently it would be better to ensure that markets operate more effectively or competitively rather than establish partnerships that are difficult to manage.

PANELISTS' RESPONSES

The presenters were then given a chance to respond to these comments and to reflect further on the future role of the state in generating shared growth.

Gwede Mantashe

The semi-revolt in Polokwane happened because members of the ANC appreciated that the current focus on tackling consumption inequality is not helpful. Polokwane was not a sign of decay, it was a sign of renewal. As a result, the debate on how to tackle poverty and inequality will be reopened.

My view is that developmental finance institutions, if used properly by the state, should be able to facilitate development, in partnership with the private sector. Such arrangements should allow the finance institutions to mitigate some of the risk, and then share in the proceeds of the investments.

The issues of redistribution and creating an enabling environment are not mutually exclusive. There is a problem in government, especially at the local level, with institutional capacity. This has to be attended to, but we cannot put our programmes on hold until after the issue is addressed. We have to engage in a process of building the state. And there are islands of success within the state. Every business person praises the National Treasury because it is an effective and efficient department. We have to ask ourselves why this is limited to the Treasury, and what we can do to create other, similar, pockets of success and efficiency. We should all invest in that process, because an efficient and effective state will be a useful partner for the private sector.

The crisis in Eskom highlights the way in which the partnership between a strong state and the private sector should take shape. President Thabo Mbeki was right to apologise for the decision not to develop new electricity generating capacity despite the projection that by 2007 surplus capacity would end. But this decision was partly influenced by the idea that the private sector would increase its role in electricity production. The private sector was invited to take over 30 per cent of the electricity generation infrastructure, but that never materialised. This proves that the state cannot wait for the private sector. It must invite the private sector to the party, but if the private sector does not accept the invitation then the state must press ahead on its own.

We have not paid sufficient attention to the needs of the poor. The huge amounts that are spent on social grants reflect a weakness, which is the lack of job creation. People would rather earn a living than depend on grants. So, without alienating business, we have to address the needs of the poor in the country. If we do not do that there will be a social rupture, and there will be revolts. We need to persuade everybody, including business, that we must look beyond the needs of the elite to build a cohesive society. We must ask how we can best address the needs of the poor.

It is good, though, that we are not shying away from discussing issues in South Africa, no matter how controversial they may seem. This is a trend we must build on.

Paul Mashatile

Today's worldwide economic problems are not due to the inefficiencies of the state. If the state does lack capacity in South Africa, then we need to capacitate the state. The government and the ANC are not trying to hide inefficiencies, but it is a reality that the kind of challenges that confront South Africa require that we increase the capacity of the state. At the same time, the state cannot tackle these challenges alone.

When we examine some of our problems, like the skills crisis, we have to ask, who is to blame. Many people will say the government is to blame, but why has the private sector not done more to develop skills? Resources were made available, but too few people have been trained, and improving our skill levels will be vital if we intend to increase our participation in export markets.

Government has done a lot to promote production in South Africa, albeit often in a small way. There have been many efforts to support small and medium enterprises, and to develop new entrepreneurs. Institutions have also been put in place to train people. We need to extend these initiatives further.

Currently, South Africa faces many challenges, but we don't need to panic. For example, Trevor Manuel has promised that inflation will come down to 4,9 per cent by next year, and this may in fact happen. There are mechanisms to manage problems such as inflation, and if we all act according to our mandates we will see better results in the coming years.

I would like to thank CDE for giving us this opportunity to debate key issues. I urge us to continue debating whether we have a shared vision and a common agenda across the social groups. We need to see whether we are marching together after the renewal in Polokwane. At the end of the day, we must meet the basic needs of the people, especially the poor.

Johann Baard

The clothing manufacturers of South Africa are not asking for protection to save an uncompetitive industry. For the past 15 years we have been asking for a level playing field, on which we will gladly compete. If we took the workers and managers in the best Chinese factories and set them up, together with their production lines and their equipment, in Salt River, Woodstock and Epping, but they operated under the same restrictions and regulatory controls that we have to operate under while we move our workers, our management, our supervisors and our factories to the regulatory environment in China, then we would come out on top. That is why we need a strong state to reconfigure the international trade policy environment. If that does not happen, we cannot fix our domestic manufacturing sector, across the board.

There has been a weak production agenda within the state. In particular, the Department of Trade and Industry under Alec Erwin had very little appetite for a production focus and for promoting manufacturing in South Africa. We need a better social contract between business and the state. The Irish success story, for example, was predicated on such a social contract among government, labour, and business.

A newspaper recently carried a photograph of policemen pointing rifles at people being evicted from their houses on the Cape Flats. One of the women clutching a baby in the picture was a shop steward retrenched from a clothing factory two weeks earlier. For such reasons we urgently need a new industrial policy, implemented in the context of a more balanced international trade policy.

'We urgently need a new industrial policy, implemented in the context of a more balanced international trade policy'

Moeletsi Mbeki

There are many weaknesses in our industrial policy. The new industrial policy as well as AsGiSA read like wish lists rather than plans.

According to the Malaysian High Commissioner, part of their industrialisation programme was to have 40 000 students studying outside Malaysia. China has hundreds of thousands of students in the United States, in the United Kingdom, and even in South Africa. If you think you can have an industrial policy, but you don't have a plan for developing engineers, then you are fooling yourself.

You cannot have an industrial policy without entrepreneurs, and, in today's context, many of your entrepreneurs have to be engineers. It doesn't matter how smart you think you are; you cannot have industrial development without engineers.

CONCLUDING REMARKS

The discussion has shown that there are many key areas relating to the role of the state and growth where there is broad agreement and a strong commitment to take action and find solutions. Almost all the participants agreed that:

- Opening up debate on these issues was vital for South Africa's future in this time of change and uncertainty. There was a strong commitment from all the speakers to enter this debate in an open and constructive manner.
- Levels of poverty and inequality are far too high, and something must be done to both increase prosperity and share it more equitably.
- There is a clear need for a strong, smart state.
- The skills shortage is affecting the state's performance as well as the economy's ability to compete on a world stage.
- The developmental state cannot achieve its goals unless it establishes an effective partnership with business.
- Creating more jobs for South Africa's poor is a far more desirable strategy than increasing people's dependence on welfare.

However, many of the points raised and opinions expressed beg numerous questions. Such questions must be tackled if we are to gain a deeper understanding of the challenges that currently inhibit faster and broader growth, and if we are to produce optimal solutions that minimise the cost of state intervention and maximise the scale of impact. Questions that should be taken into account are:

How easy, or even possible, will it be to 'capacitate the state' in the short to medium term? In answering this, we need to consider the following:

- Are sufficient skills available within South Africa?
- Will officials be able to acquire on the job experience and build up institutional memories in a short period of time?
- Are there sufficient incentives to encourage officials to acquire skills and improve their performance? Conversely, are their sufficient penalties for non-performance?
- Are we appointing the right people with the skills for the essential jobs, or is who you know more important than hard work and achievement?
- Are the current attempts to increase the supply of skills sufficient, or do we need a major over-haul of the entire education system, a completely different system of vocational and technical training, as well as a much more energetic approach to recruiting the skills we need for training, for managing projects and so forth, from elsewhere?

While partnerships between government and business should generally be regarded in a positive light, is a central area of concern not the terms under which business is expected to participate?

Finally, we should remember that most South Africans agree about the goals for which we should strive. The real issue is how, practically, we can achieve delivery in this country tomorrow as well as in ten and 20 years' time in the context of constraints that too many people tend to gloss over.

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Informing South African Policy

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