

Building the South African Developmental State: Elusive Pipe Dream?

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Presentation outline

- Methodological approach
- Brief background and synopsis of developmental state
- Analysis of socio-economic trends 1994 -2016
- FES strategic interventions

Methodological approach

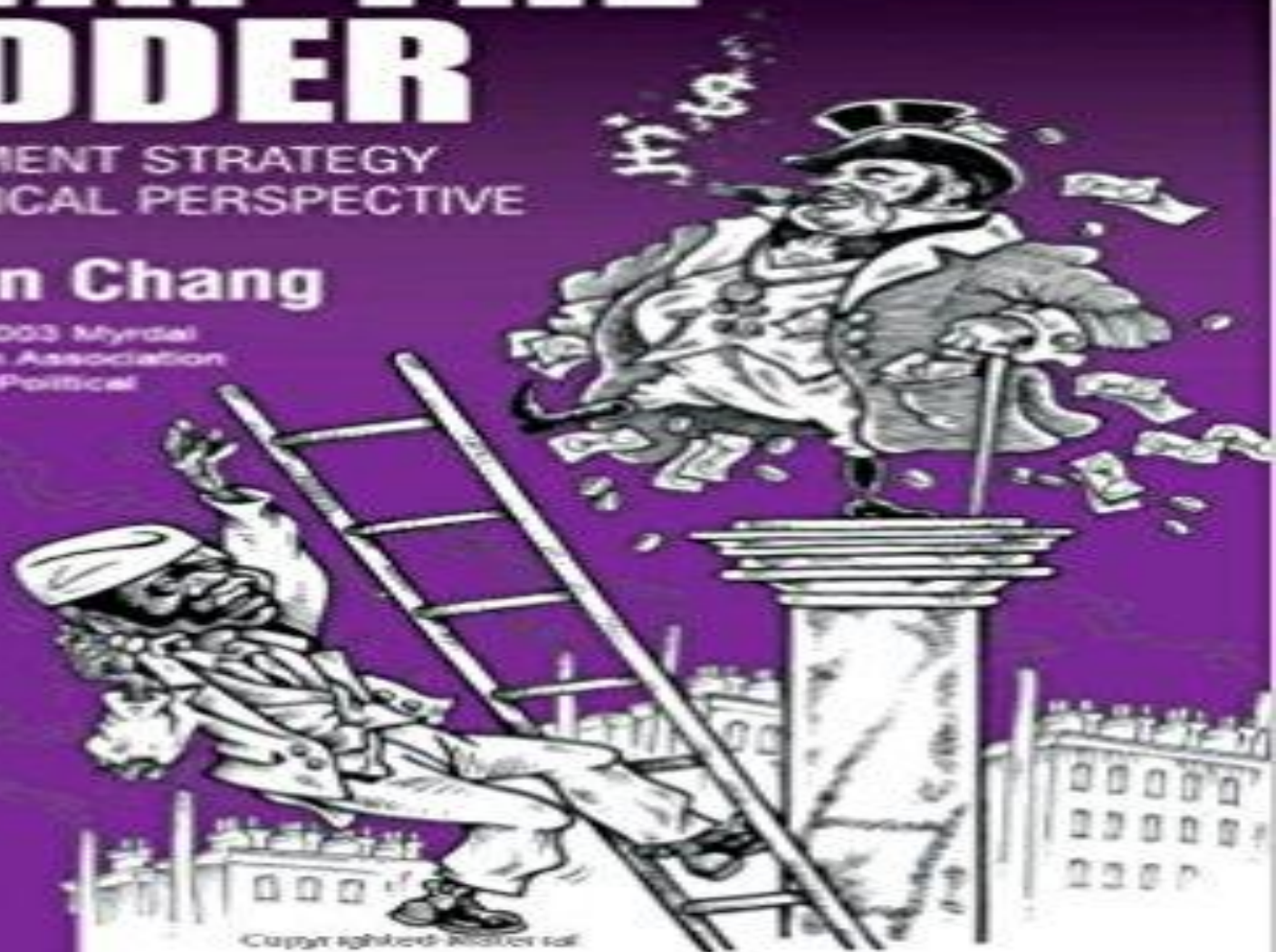
- Heterodox political economy approach
- Documented analysis: primary and secondary literature
- Interview data 2012-2014
- Comparative case study analysis
- Longitudinal analysis 1994-2016

KICKING AWAY THE LADDER

DEVELOPMENT STRATEGY
IN HISTORICAL PERSPECTIVE

Ha-Joon Chang

Winner of the 2003 Myrdal
Prize, European Association
of Evolutionary Political
Economy



Brief background and synopsis of developmental state (1)

- ANC policy documents 1992 to 2017
- **National Developmental Plan (2013)**
- New Growth Path (2010)
- Presidency Twenty Year Review (2014)
- Industrial Policy Action Plan (2007- 2017)
- “Developmental state with social democratic characteristics” (ANC 2005)

Brief background and synopsis of developmental state (2)

- State bureaucracies played a leading role in the development of their societies (Leftwich 1995/ 2008; Mkandawire 2005&2012)
- Rapid economic development between 1960 and 1980s (broad definition)
- Economic transformation characterized by structural change and human development (Amsden 1989; Chang 2010; Wade 1990)
- State intervention based on heterodox political economy (institutional)

Brief background and synopsis of developmental state (3)

- Nature of State Institutions: Johnson (1982; 1985)
 - Pilot agencies
 - Weberian organizational structures
 - Technocratic /legal-rational institutional ethos
- State and Society Relations (Evans 1995; Weiss 1998)
 - Embedded Autonomy
 - Autonomy: non-sectoral& capacity
 - Embedded: state & private capital relations
 - Social capital
- Economic Intervention:
 - State-led economic planning/coordination = strategic state-business nexus
 - Selective successful industrial policy and diversification of economic base
 - State ownership in certain key sectors (driven by industrialization/modernization goals not ideological)
 - Productivist social policy

Stronger State
Autonomy

Weaker State
Autonomy

Less
Patrimonial

More
Patrimonial

**Developmental
State**

*Laissez-Faire
Capitalism*

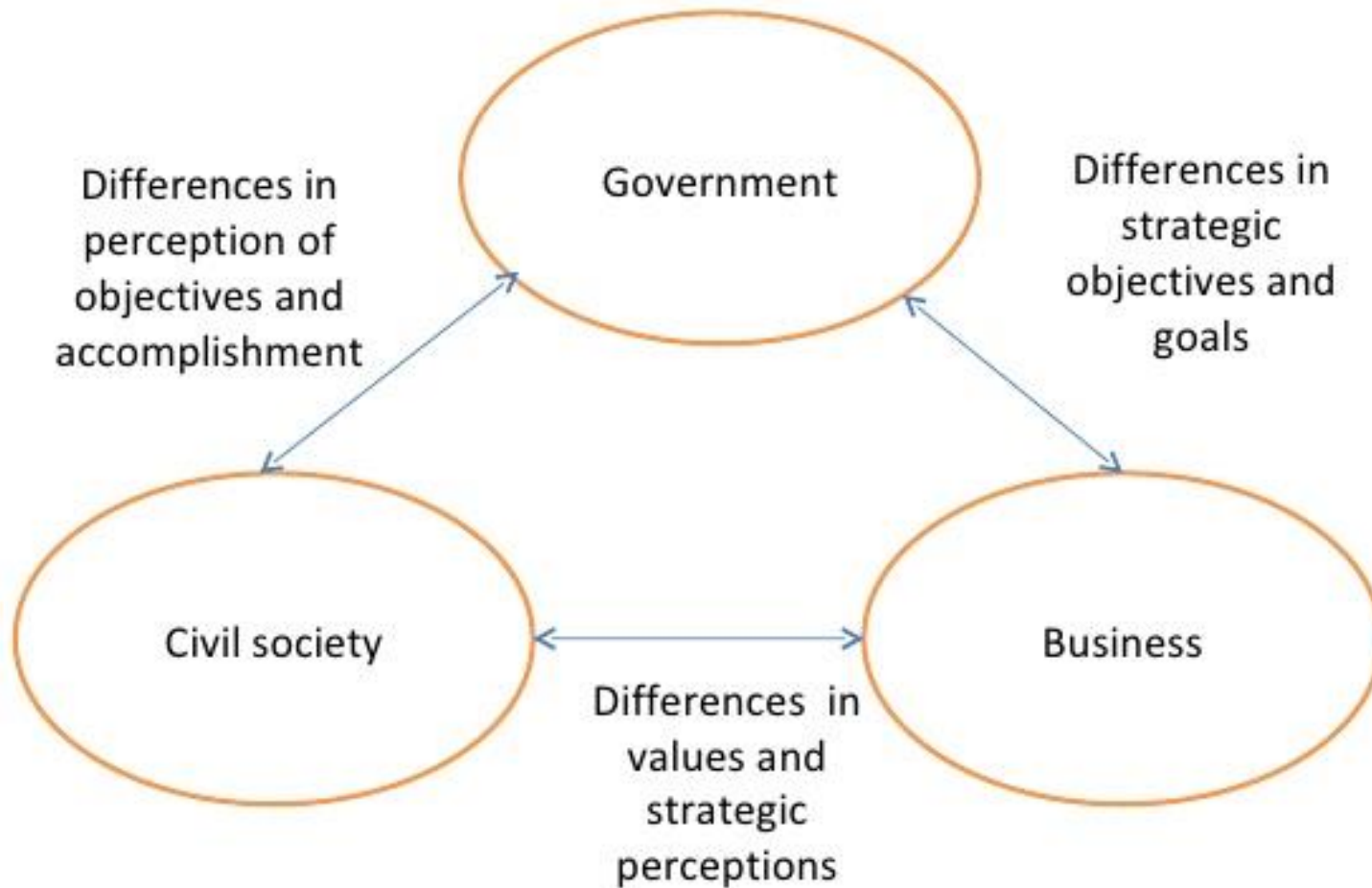
*Bureaucratic
Capitalism*

**Predatory
State**

Nature of State Institutions (1994-2016)

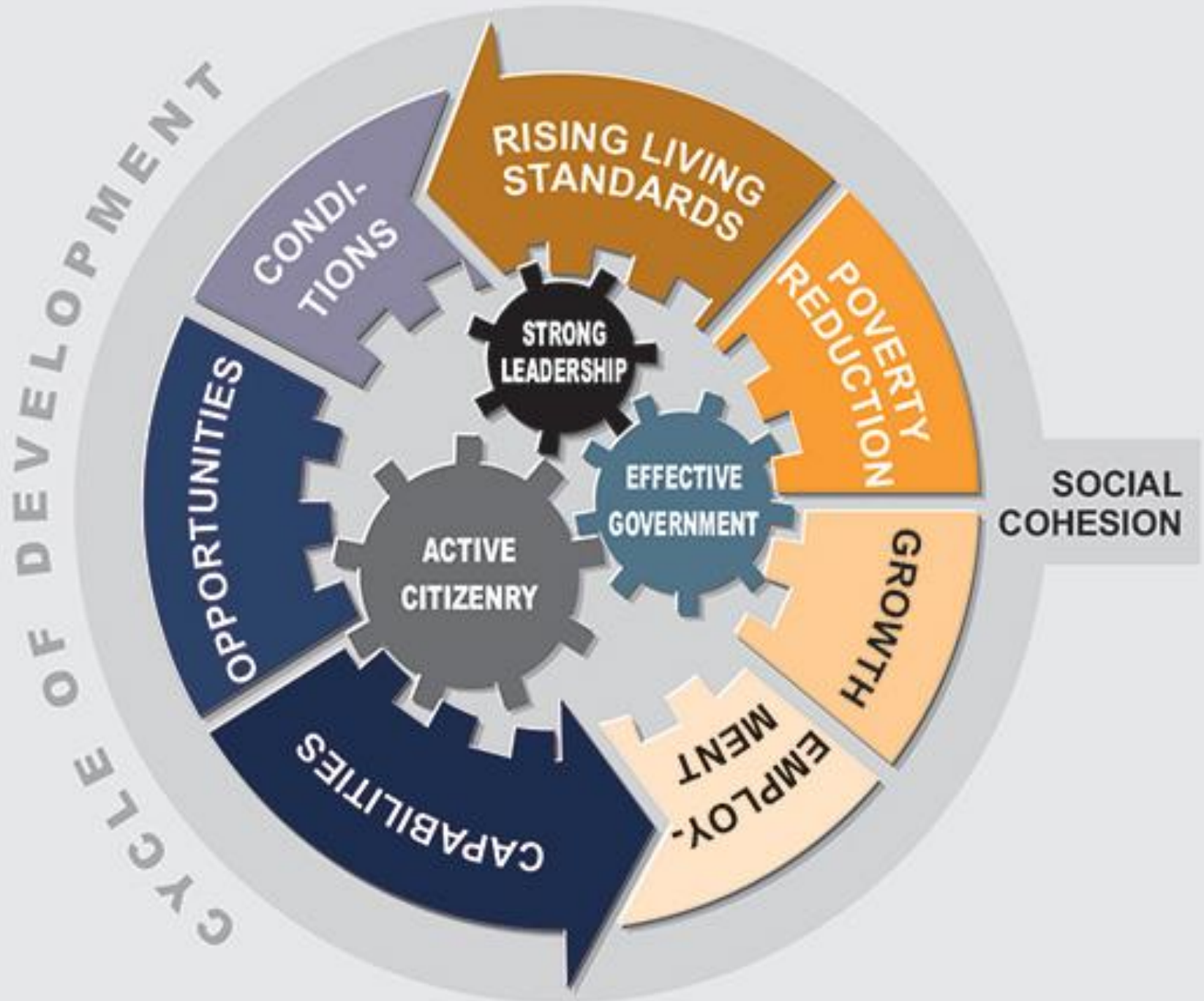
- Pilot agencies : RDP office, PCAS , DME, Intra-governmental outcome system
 - Lack policy instruments
 - Coordination challenges
 - Research capacity challenges
 - Insufficient political support
- Weberian technocratic ethos
 - State authority and legitimacy undermined by intra party contestations
 - Poor capacity; however three outliers: DTI, Treasury and EDD
 - Outsourcing of public service training develops individualism and neo-liberal human development strategy
 - Privatization and outsourcing erodes public interest in state machinery

The triangle of distrust



State and Society Relations (1994- 2016)

- The national question is unresolved in South Africa
- Domestic private capital has become international and has more autonomy in relation to the state
- There is no social compact (material and value/ trust level)
- SA is democracy and has a relatively strong political left. State must negotiate structural change without soft authoritarianism
- The debate on economic structural change includes transformation and redress



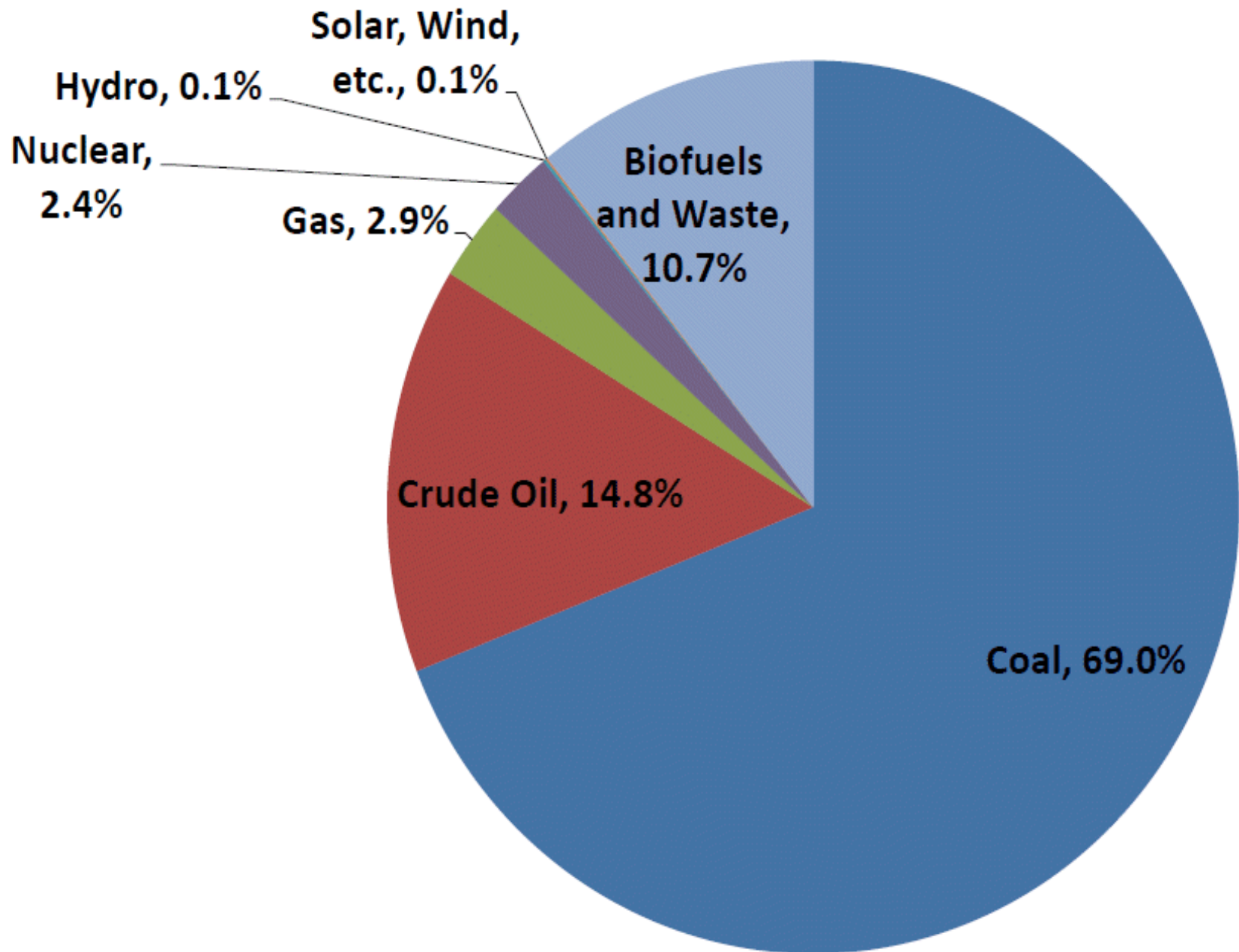
Macro-economic indicators (1): Structural Trends

- GDP:1993 - 2008 the average growth in the economy was 3%, and 3.1 percent btwn 2009-2012. The South African economy expanded by only 0.3% in 2016 (IDC 2017).
- Deindustrialisation: decline of real economy & growth of non-productive sectors. Manufacturing share of GDP dropped from 21% in 1994 to 10% in 2012 . Improved slightly to 13.7% by 2016 (Presidency 2014; IDC 2017)
- Telecommunications & financial/ business services = 7.5 % and 9 % annual growth rate 1994 - 2012
- Retail and mining grew faster than other sectors; mining value chain= over half of exports 1994-2014
- Minerals-Energy-Finance-Complex

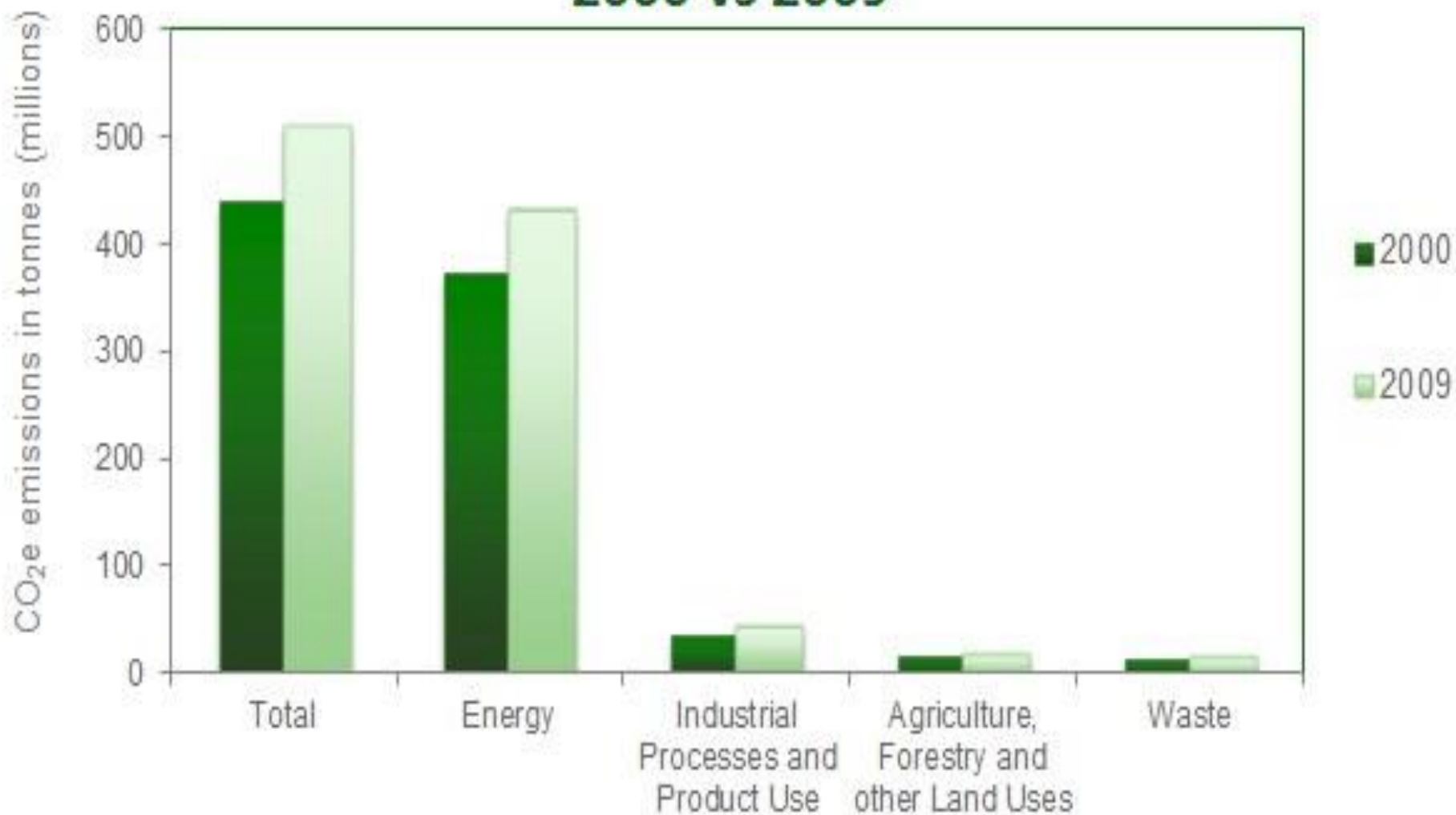
Energy Sector & Ecological Question

- South Africa is 13th largest emitter of GHGs in the world
- Produces 1.5 % of global emissions
- Produces almost half of the emissions on the continent
- Per capita emissions are nearly equal to those of the EU; but these countries are rated higher on HDI
- This indicates that the rich causes climate change & the working class bears the socio-economic externalities.

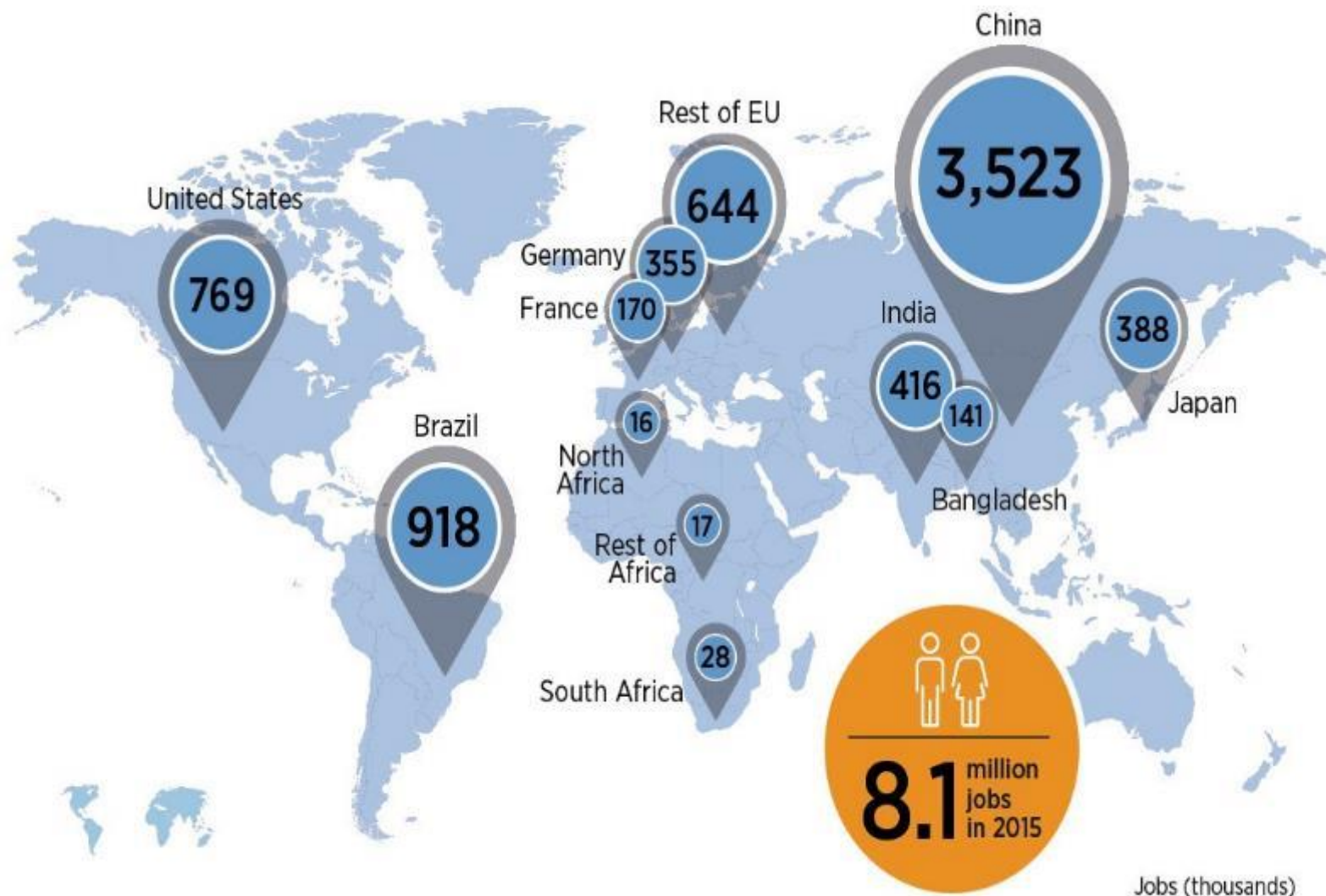
Total Primary Energy Supply in South Africa 2012 [% TPES]



Comparison of SA's greenhouse gas emissions 2000 vs 2009

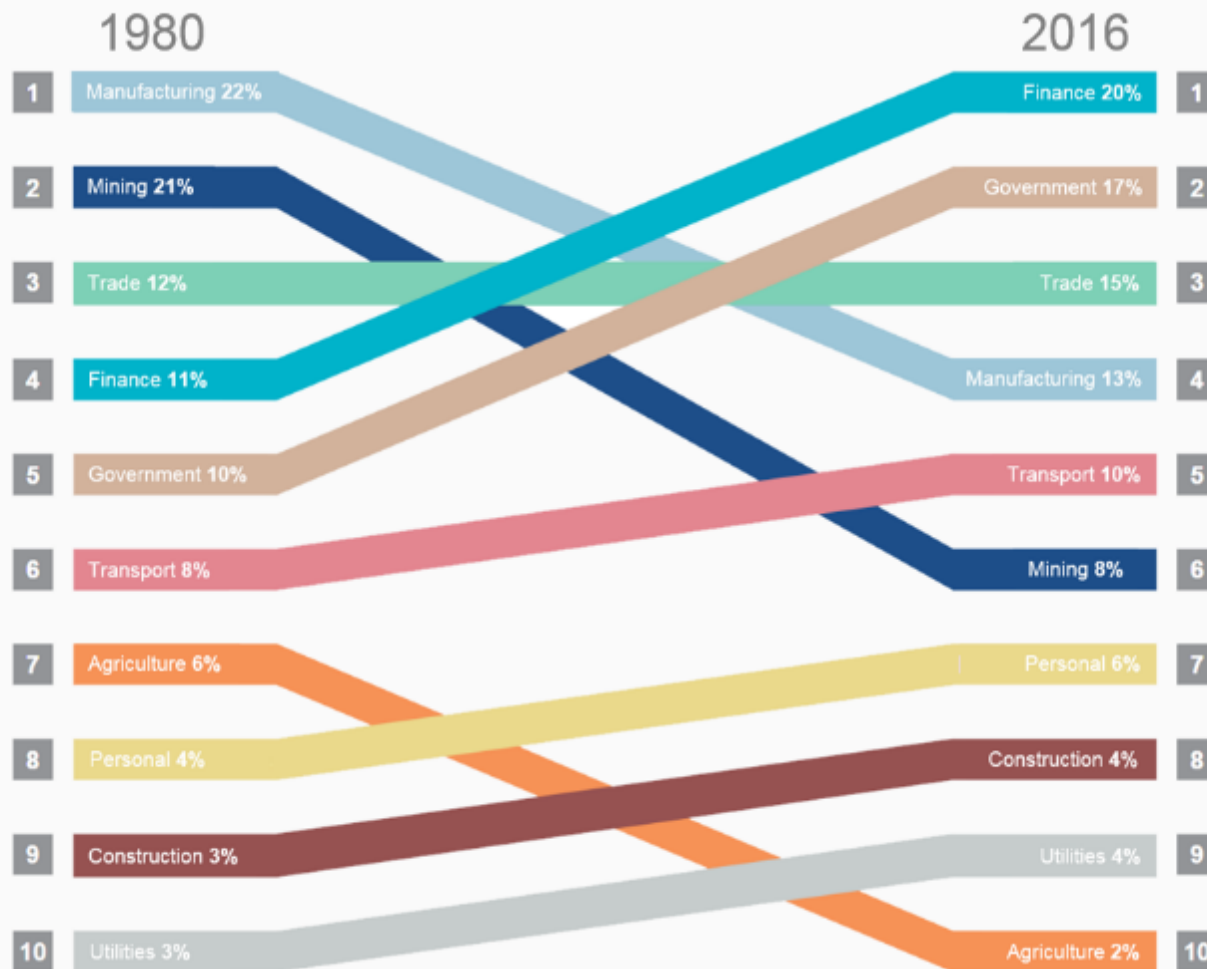


RENEWABLE ENERGY EMPLOYMENT IN SELECTED COUNTRIES AND REGIONS



The fall of mining and manufacturing in South Africa

Ranking of industries according to their percentage contribution to GDP, for the years 1980 and 2016



Powered by ZingChart

Sources: South African Statistics, 2015 and Gross domestic product (GDP), 4th quarter 2016

Macro-economic indicators (2): Fiscal & Monetary Policy

- **Financial liberalisation:**

- Short-term investment, associated with privatization, mergers and acquisitions (Ashman et al 2010; Marais 2011; Mohamed 2010). Withholding investment= R1. 4 trillion
- Currency volatility driven by in and outflow of short term capital and financial liberalisation (Ashman et al 2010; Economic Commission for Africa 2015)
- Financial liberalism: by early 2000 a number of private companies had moved their primary listings to foreign exchange markets (Mohammad 2010)
- Capital flight , tax evasion , profit shifting, Illicit flows (AIDC 2012/ 2017; Bond 2016; SARB 2016)

- **Fiscal policy trends:**

- Government managed to decrease its debt from 43.5% of GDP in 1994 to 22.3% in 2007
- Reduction of inflation between 1994- 2007: inflation targeting 3-6 % a year
- Systemic corporate tax reduction 36% in 2006 to 28% in 2017 (Trading Economics 2017)

SOUTH AFRICAN RAND



Macro-economic indicators (3): Competition, inequality and social policy

- Concentrated patterns of ownership and accumulation e.g. Wholesale and retail: 4 large retailers account for 90 % of the market share (Competition Commission 2015)2014)
- Intersectional Inequality: Race, Class and Gender
- 54% of the total population lives in poverty by 2015 (Statistics SA 2015)
- Gini-coefficient increased from 0.64 in 1995 to 0.69 in 2005; 0.65 in 2010 (Presidency 2014). 2015=0.69. OECD average of 0.32 (OECD 2011).
- Overwhelming majority (87%) of black African-headed households were earning less than R71 479 per annum (roughly R5 957 per month or R199 per day)
- The share of wages in the national income has declined since 1994: 55% in 1994 to 52% in 2012 (Presidency 2014)
- The national median is R3640. African median figure amounts to R3120 while the white one is R 11 441 (Isaacs 2016)
- Unemployment rate: increased from 17% in 1995 to 23% by 2003 (Hodge 2009). Current= 35% (wide definition)
- Labour Force Survey (2014): youth unemployment rate 67.4%

Income and expenditure for households of various socio-economic scenarios: January 2017

Household socio-economic scenarios	Household A	Household B	Household C	Household D	Household E	Household F	Household G
Total household income	R 1 800.00	R 2 230.00	R 2 362.00	R 3 500.00	R 4 500.00	R 6 000.00	R 8 000.00
Number of household members	5	5	5	5	5	5	5
MINUS Minimum Nutritional food basket	R 3 308.10	R 3 308.10	R 3 308.10	R 3 308.10	R 3 308.10	R 3 308.10	R 3 308.10
Monies left over AFTER FOOD to buy some essential household requirements*	R -1 508.10	R -1 078.10	R -946.10	R 191.90	R 1 191.90	R 2 691.90	R 4 691.90
MINUS Burial insurance	R 200.00	R 200.00	R 200.00	R 200.00	R 200.00	R 200.00	R 200.00
MINUS Electricity and water	R 573.70	R 573.70	R 573.70	R 573.70	R 573.70	R 573.70	R 573.70
MINUS Transport	R 720.00	R 720.00	R 720.00	R 720.00	R 720.00	R 720.00	R 720.00
MINUS Education	R 500.00	R 500.00	R 500.00	R 500.00	R 500.00	R 500.00	R 500.00
MINUS Communication and media	R 150.00	R 150.00	R 150.00	R 150.00	R 150.00	R 150.00	R 150.00
MINUS Clothing and footwear	R 416.66	R 416.66	R 416.66	R 416.66	R 416.66	R 416.66	R 416.66
MINUS Domestic & household hygiene items	R 604.41	R 604.41	R 604.41	R 604.41	R 604.41	R 604.41	R 604.41
MINUS Cultural obligations	R 350.00	R 350.00	R 350.00	R 350.00	R 350.00	R 350.00	R 350.00
Monies left over AFTER FOOD & SOME ESSENTIAL HOUSEHOLD REQUIREMENTS secured	R -5 022.87	R -4 592.87	R -4 460.87	R -3 322.87	R -2 322.87	R -822.87	R 1 177.13

* Please note expenditures in Table above exclude monies for debt repayments, health care, rent, emergencies, amongst others.

** Our research in Pietermaritzburg has shown that a household of five needs at least R8 000 a month to afford the expenditures that allow a family to live at a basic level of dignity (see "Household G").

FES Strategic Interventions

- Incomes policy
- Living wage
- Industrialisation and value chains
- Food-Water-Energy-livelihoods-Nexus
- Social policy
- Political agency for socio-economic transformation
- Heterodox political economy approaches
- Technology and changing nature of work
- Social compact