constructing a democratic developmental state in south africa

potentials and challenges

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Preface

This book is part of my larger concern about how Africa, including South Africa, can resolve its developmental deficits of high poverty, inequality, under- and unemployment; mal-governance; dependence on natural resources and mono-product economies; low industrial capacity; lack of global competitiveness; and marginalisation in the global political economy. Comparative experiences in the 20th century show that developing countries, such as those in East Asia, that were able to overcome their developmental crises were those that constructed developmental states. Their successes have inspired some in African policy and academic circles to begin to think about how developmental states can be constructed by countries on the continent. I am one of those who have drawn inspiration from the successes of developmental states elsewhere, believing that they could offer important lessons to Africa, including South Africa, on a possible development path that would ensure sustainable development and industrialisation. In fact, building a developmental state in South Africa is a necessary condition for it to grow its economy, reduce the high levels of poverty, inequality and unemployment in the country and be able to diversify an economy that is still largely mineral-dependent.

The Human Sciences Research Council (HSRC) provided me with space to explore these ideas. This resulted in the setting up of a research programme called Africa's Developmental State Initiative (ADSI). It was as part of this initiative that the HSRC hosted an international policy dialogue conference on *The Potentials for and Challenges of Constructing a Democratic Developmental State in South Africa* from 4–6 June 2008. The aim of this event was, among other things, to conceptualise and contextualise a developmental state that will meet the needs of South Africa; hence it grappled with both scholarly and policy issues. Outlines of the ideas that are developed in the chapters of this book were first presented at the conference.

This volume engages with conceptual, contextual and policy issues relating to the question of how South Africa can become a developmental state. It addresses the question of the institutional architecture that South Africa needs to construct to become a developmental state. In addition, the volume points to some of the policies that need to be promoted in order to address the current high levels of poverty, inequality and unemployment as well as to diversify the economy beyond its present dependence on mineral resources and reverse the process of deindustrialisation.

Though from a range of disciplinary backgrounds, the contributors all point to the fact that a developmental state in South Africa, unlike the 20th century developmental states in East Asia, will have to be anchored by the principles of democratic governance; and as in the Scandinavian developmental states, social transformation, and hence social policy, needs to occupy a prime place on the national agenda and in its policy arsenal. In effect, a developmental state in South Africa needs to be democratic and promote social inclusion.

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Abbreviations and acronyms

AIDS	Acquired Immune Deficiency Syndrome
ANC	African National Congress
ARPA	Advanced Research Projects Agency
AsgiSA	Accelerated and Shared Growth Initiative for South Africa
BEE	black economic empowerment
CEO	chief executive officer
CPI	consumer price index
DBSA	Development Bank of Southern Africa
EPB	Economic Planning Board [South Korea]
EU	European Union
FET	further education and training
GDP	gross domestic product
GNP	gross national product
HIV	Human Immunodeficiency Virus
HR	human resources
IDC	Industrial Development Corporation
IMF	International Monetary Fund
IT	information technology
kg	kilogram
kg/ha	kilograms per hectare
MEC	minerals–energy complex
MITI	Ministry of International Trade and Industry [Japan]
MPE	Ministry of Petroleum and Energy [Norway]
NIC	newly industrialised country
NIH	National Institutes of Health [USA]
NOK	Norwegian Krone
NPC	National Planning Commission
NPD	Norwegian Petroleum Directorate
OECD	Organisation for Economic Cooperation and Development
R&D	research and development
SADC	Southern African Development Community
SDFI	State's Direct Financial Interests [Norway]
SOE	state-owned enterprise
TVET	Technical and Vocational Education and Training
UNCTAD	United Nations Conference on Trade and Development
US	United States
USA	United States of America
WWII	World War 2

1 Constructing a democratic developmental state in South Africa: potentials and challenges

Omano Edigheji

By October 2008, the world was witnessing the worst financial crisis since the great depression in 1929. And by July 2009 it had turned into a full-blown global economic crisis. The economic crisis is testimony to the fact that unregulated markets are unworkable and unsustainable in the long run, not only for the improvement of human well-being but also for the markets. It has also reinforced the proposition that markets are not always self-regulating. More importantly, though, it has brought to the fore the importance of state interventions. The economic crisis has given credence to those who argue for state interventions and has made the case for developmental states more compelling.

A country like South Africa is better positioned than most late developers to construct a democratic developmental state because, even prior to the current global economic crisis that led to the resurgence of the state across the globe, the South African ruling party (the African National Congress or ANC) and the government had recognised that addressing the developmental challenges facing the country – including growing the economy and reducing the high rates of poverty, inequality and unemployment, as well as improving livelihoods of South Africans – requires a developmental state that is democratic and socially inclusive; a developmental state with the capacity to intervene to achieve the aforementioned goals. Specifically, the ANC at its National General Council in mid-2005 committed itself to constructing a developmental state that will intervene to restructure the South African economy (ANC 2005). This commitment was reiterated at the policy conference (ANC 2007a) and the 52nd national conference (in Polokwane, Limpopo Province), both in 2007, as well as in the ANC's manifesto for the 2009 general election (ANC 2009). Specifically, at the Polokwane conference the ANC pledged to build a developmental state that will play a central and strategic role by 'directly investing in underdeveloped areas and directing private sector investment', and will play a critical role in addressing the problems of high 'unemployment, poverty and inequality' (ANC 2007b: 19), as well as 'accelerate economic growth' and address 'the skewed patterns of ownership and production' (2007b: 17). The ANC's conference resolutions link the imperatives for economic growth with addressing the social challenges. Accordingly, the resolutions state that 'Whilst acting effectively to promote growth, efficiency and productivity, it [the developmental state] must be equally effective in addressing the social conditions of the masses of our people and realizing economic progress for the poor' (ANC 2007b: 18), including through the creation of decent work. The resolutions recognise that a democratic developmental state in South Africa has to be undergirded by the principles of democratic governance: 'Whilst engaging private capital strategically, our government must be rooted amongst the people and buttressed by the mass-based democratic movement' (ANC 2007b: 17). This emphasis on democratic governance contrasts with the emphasis of the authoritarian developmental states of East Asia.

The above imperatives have informed the government's approach to the developmental state. The government stipulates that the state will, among other things, speed up economic growth and transform the economy; fight poverty; and build social cohesion (PCAS 2008). It has articulated the strategic leadership role of a developmental state in South Africa as follows:

> the developmental state should have the capacity to give leadership in the definition of a common national agenda and in mobilising all sectors of society to participate in implementing that agenda. This includes the capacity to prioritise in a strategic way, to identify which goals and initiatives have the potential to unite the nation in an effort that catalyses the rest of the national agenda. In this capacity of national leadership, which would be informed by its popular mandate, the state will need to have effective systems for interactions with all social partners. (PCAS 2008: 119)

This commitment to constructing a democratic developmental state is a recurring theme in government policy documents. As an example, in the 2009 *Medium Term Strategic Framework* (Presidency 2009b), government reiterated its commitment to building a democratic developmental state, which among other things would ensure accountable government and an enhanced state capacity for growth and development – including enhanced capacity to provide basic services to all South Africans and to ensure long-term planning.

Expressing interest in a developmental state is one thing, however; actually constructing such a state is another. The real challenge is designing the requisite institutions for South Africa to be truly a developmental state, and formulating and implementing polices that will enable it to achieve its developmental goals. The key question that is addressed in this volume is: what are the potentials for and challenges of constructing a democratic developmental state in South Africa?

The South African government is one of the few governments in the world that has expressly committed itself to the construction of a developmental state. Most developmental states were labelled as such after the fact, not by government officials but by scholars. In effect, in the developmental states of Asia and Scandinavia their political leaders, while conscious of the need to be developmental, never proclaimed that they wanted to construct developmental states; the construction of developmental states was rather a product of historical circumstances to meet contextual conditions and, as Mkandawire (Chapter 3, this volume) points out, states were driven by the need to 'catch up'. The success of the Asian developmental states – in both social and economic terms – has focused global attention on the concept of the developmental state. It is therefore no surprise that countries like South Africa want to locate their development framework within the rubric of the developmental state.

The desire for and much of the debate around the developmental state in South Africa is that it is seen as a panacea for the country's social, economic and institutional problems. As an example, the developmental state is seen as a way of building the capacity of the state; it is envisaged as having the necessary capacity to provide basic goods to citizens and thus able to put an end to the spate of service delivery protests, in their thousands annually, that the country has witnessed in the last decade. The recognition of the importance of a democratic developmental state in addressing the economic, social and institutional deficits is not enough. The litmus test is the desire and ability on the part of the government to create a competent administrative apparatus within the state, and political leaders having the political will to ensure that the necessary resources are deployed, and that policy and programmes are developed and implemented. These are in addition to the political will to forge programmatic and reciprocal relationships with trade unions, business, community organisations and so on. In effect, democratic deliberations, including at the local level, will be central to enhancing the state capacity in addressing the country's developmental challenges.

There is, however, some scepticism about the potential for a developmental state in South Africa. One of the debates centres on whether a developmental state can take root in South Africa because of its constitutional democracy. This argument tends to assume that democracy and development cannot coexist because they are believed to be incompatible. The debate also assumes that it will be impossible for the state simultaneously to promote economic growth and address the social questions of high inequality, poverty and unemployment. This has led to discussion about what the objectives of a developmental state might be in South Africa. Questions are asked as to whether a democratic developmental state should have a single role or multiple objectives; and if the former, what should that role be? There is also concern about whether the state will be able to simultaneously effect policy reform and undertake institutional design. Because of the weak capacity of the South African state, the argument is made that policy reforms are likely to fail. This argument fails to take cognisance though of the fact that developmental/transformative institutions are established to overcome capacity weaknesses; hence, weak capacity of the state is not an excuse but rather a *motive* for constructing a developmental state.

Another point that has crept into the debate in South Africa is that because it is a mineral-rich country, the developmental state is unlikely to take root. The premise of this argument is that mineral-rich countries are prone to the 'Resource Curse'.[1] In terms of this logic, the developmental state is more likely to emerge in resource-poor countries. The case of East Asia is used to justify this assertion. How to utilise the mineral wealth of the country has therefore become part of the debate on the developmental state in South Africa, with the ANC Youth League calling for the nationalisation of the mines.

The increasing corruption in the public and private sectors – with South Africa ranked 55th among 180 countries in Transparency International's 2009 Corruption Perceptions Index – has caused some to argue against the feasibility of a developmental state in the country. Corruption, it is argued, will compromise the government's ability to build a democratic developmental state. Also, prior to the current global economic crisis, some questioned the feasibility of constructing a developmental state in the light of globalisation.

Some of the concerns about the feasibility of a developmental state in South Africa are informed by what Mkandawire (2001) refers to as the 'impossibility thesis', which maintains that, for a number of reasons, developmental states are not feasible in the African context. Furthermore, some of the debates may have been informed by a one-size-fits-all approach to the developmental state, or a misreading of the experiences of the developmental states, including those of East Asia and Scandinavia.

This volume, including this introductory chapter, engages with some of the issues raised. In doing so, it attempts to provide a definition of the democratic developmental state, its institutional underpinnings and its policy orientation.

Thinking about a democratic developmental state in South Africa

In thinking about constructing a developmental state in South Africa (as anywhere else), it is important to focus on the country's institutional architecture (the internal institutional configuration and the nature of its relations to non-state actors) and its policy orientation. It is institutions that will determine a democratic developmental state's capacity to formulate and implement its policy and programmes. By democratic developmental state we mean a state that could act authoritatively, credibly, legitimately and in a binding manner to formulate and implement its policies and programmes. This will entail possessing a developmentalist ideology. Such a state also has to be able to construct and deploy the institutional architecture within the state and mobilise society towards the realisation of its developmentalist project. In effect, we need to define a democratic developmental state in South Africa by both its ideological orientation and the institutional arrangements (administrative and political) that are constructed and deployed to underpin the realisation of the developmentalist project (see Mkandawire 2001; see also Edigheji 2005).

Thus, in thinking about a South African democratic developmental state the trick, it seems, to draw on Peter Evans's (1995) authoritative work, *Embedded Autonomy*, is to establish a connection between developmental impact and the structural characteristics of the state – its internal organisation and relations to society. The significance of this conceptualisation is that South Africa's policy-makers need to pay attention to the institutional design that should underpin the South African state's development policy and programmes. And such institutions have to be transformative, rather than constraining the capacity of the state. Although institutions may be specific to the South African context, across developmental states there are some common institutional characteristics. Empirical work by Edigheji (2007), Evans and Rauch (1997, 1999) and Henderson (2003) shows how the specific institutional attributes of a developmental state impact on socio-economic outcomes. The point therefore is that while developmental state institutions are context-specific, they share common characteristics that explain their superior economic performance. Getting the institution wrong in South Africa would therefore be a recipe for developmental failure.

The institutional architecture of democratic developmental states: capacity and economic governance

Central to an understanding of the democratic developmental state is a consideration of its capacity to intervene in the national development process. As noted above, it is institutions that determine the capacity of the state. In particular, it is the institutional arrangements that are in place that explain the state's capacity to define its developmental agenda and to formulate and implement policies in a legitimate and credible fashion towards the attainment of its goals. In designing institutions, however, a developmental state has to build distinctive capacities to achieve its various developmental goals. This is because the capacity required for industrial transformation and adjustment to global economic conditions is not the same as that required for provision of basic services. Provision of basic goods (redistributive capacity) requires much more complex and broad-based political and social coalitions than capacity for industrial transformation (transformative capacity),[2] where the coalition in the developmental states of Asia was limited to government and business. In addition, the capacity to redress historical injustices, including dispossession based on race, ethnicity, gender and religion, requires capacity for redress and is much more complex than redistributive and transformative capacities. To illustrate the point, it is generally acknowledged that in South Africa the management of macroeconomic affairs is better than the track record of health care provision. This speaks to the differing capacities of the post-1994 state. In thinking about state capacities in South Africa, therefore, it is most appropriate to conceive of them in terms of the roles that the state is expected to perform.

Policy-making, to a large extent, reveals much about the nature of the state, especially its institutional characteristics; that is, the internal institutional arrangements and the nature of the relationship that the state has with non-state actors, such as business, trade unions and broader civil society organisations. Similarly, a country's economic governance to a large extent reveals much about its development orientation. Countries that adopt a laissez-faire approach to economic governance tend to be those that locate their policy within a market-oriented approach to development, with a strong belief in the efficiency of the markets. In contrast, countries whose governments are more interventionist, such as China, Japan and other Asian developmental states, as well as the Nordic countries (including post-WWII Norway and Sweden), would be those whose policy orientations have tended to be developmentalist, with the state playing a central role in national development.

Therefore, the particular approach adopted by South Africa will have a huge impact on its quest to become a democratic developmental state.

It is also true that the economic governance regime that is in place in a country has considerable impact on the nature of democracy. As an example, a country that adopts a neoclassical approach to economic governance to a large degree erodes the capacity of elected officials to determine their economic policy. In such contexts, citizens' democracy is replaced by consumer and shareholders' democracy, as economic policy is increasingly ceded to institutional investors (a point eloquently articulated by Mohamed in Chapter 7, this volume), and access by citizens to basic services is largely based on the ability to pay. What is clear is that this approach tends to narrow 'good governance' to economic management and institutions that ensure macro-economic stabilisation, as well as economic performance measured in terms of economic growth, rather than human-centered development and equitable growth (E-growth).

In the light of the above, South Africa's approach to economic governance will not only reveal its policy orientation but will also pose major challenges for its attempts to construct a democratic developmental state that is at the same time socially inclusive. Both the institutional arrangements and the governance system determine the capacity of the state. As an example, countries like South Korea and Singapore, with strong internal institutional arrangements (measured by their levels of autonomy), and strong relationships with non-state actors (measured by the degree of embeddedness), have high degrees of state capacity. The state in these countries consequently had the capacity to formulate and implement its developmental goals in an authoritative and binding fashion (Schmitz 2005), with resulting improved economic performance. These countries transformed the structure of their economies, became globally competitive, achieved remarkable economic growth rates, reduced poverty and inequality, created jobs and widened human capabilities through massive investment in education, health and skills development, as well as infrastructure.[3] As a result, they have become high-income developing countries. The Nordic democratic developmental states such as Norway and Sweden have achieved similar feats and have ranked top in the United Nations Development Programme's Human Development Index.

The opposite tends to be true for countries with weak internal institutional arrangements and poor relationships with non-state actors, such as Kenya, Mexico and Nigeria. They generally have poor outcomes in most indicators of economic and social progress: low growth, low investment, high levels of illiteracy, lack of access to basic social services such as health and education, and poor physical infrastructure such as roads, electricity and so on. The point therefore is that institutions matters. Thus, for South Africa, establishing the right institutions will be a sine qua non for developmental success. And such institutions need to enhance rather than undermine the capacity of the state to promote its development efforts. For example, the management of public finance should not be 'geared towards getting a clean audit' at the expense of providing public goods to citizens, as this has tended to have a paralysing and disabling effect on the state. Rather, public finance management should be seen as a means to an end. Thus, the capacity problem often discussed in South Africa might be partly due to the implementation of the Public Finance Management Act (1999 as amended), and the 'obsession' with the war on corruption as an *end goal* rather than as part of the general efforts to enhance the capacity of the state as a means to achieve its developmental goals. It is an irony too that these private sector practices did not stop the greed in the international financial markets that led to the current global economic crisis, yet African states are implementing them religiously. To be sure, institutions matter, but as Mkandawire (Chapter 3, this volume) rightly argues, they should be those institutions that are transformative and will enhance the capacity of the state to achieve its developmentalist project.

Bureaucratic competence is a hallmark of most democratic developmental states. A critical source of bureaucratic competence is that they are recruited based on merit and have predictable and long-term career rewards. Another important factor is a central planning economic agency like the Economic Planning Board (EPB) in South Korea, the Economic Planning Unit (EPU) in Malaysia, the Economic Development Board (EDB) in Singapore, and the National Economic and Social Development Board (NESDB) in Thailand. The resourcing, composition and location of these agencies are critical factors for success. These central planning agencies were the nerve centres of development plans and policy-making, and those located in the office of the head of government, such as South Korea's EPB, have greater impact on national development. These agencies were able to translate national policies into development programmes. Most scholarly work on the developmental state has stressed the point that such agencies are well staffed with highly qualified and competent personnel (public servants), as a means of building the organisational and technical capacities of the state. These agencies were also insulated; that is to say they kept immediate distance from sectional interests to avoid state capture and the derailment of the developmental project. One advantage of such instititutional arrangements is that they enabled the state to take a long-term view of national development as well as enabling it to act as a coherent and collective entity. How the proposed National Planning Commission (NPC) in South Africa squares up to the central economic planning agencies of East Asia will be one important measure for assessing the government's commitment to constructing a developmental state. In addition, the ability to attract and retain the best and brightest South Africans to the public service will be a factor for success.

Democracy and the developmental state

In the debate on the developmental state in South Africa, as elsewhere in the world, misgivings have been voiced about the feasibility of constructing a developmental state in the context of a constitutional democracy. The assumption is that development and democracy are incompatible, and that democracy might undermine the quest for the developmental state. This has led to the kind of thinking that Kim (Chapter 5, this volume), quoting Lipset (1959), sums up as 'development first and democracy later', and what Carothers (2007) refers to as 'sequencing fallacy'. In terms of such logic, there is a trade-off between development and democracy. The concept of the developmental state gained worldwide attention because of the remarkable economic performance of the East Asian countries. Consequently, some analysts and policy-makers associated their authoritarian character with their development performance. Taking this perspective, the East Asian developmental states' success would have been impossible in democratic settings. The dominant scholarly work on the developmental state has as a result tended to be largely *apolitical* and technocratic. Competent and efficient bureaucracy is given prime emphasis in this analytical framework; that is to say, the emphasis is on the technical and administrative capacity of the state rather than on its ideational and political capacities. In terms of such logic, the ability of the state to define its developmental vision and to formulate policy to achieve that vision, as well as the implementation capacity of the developmental state, is erroneously conceptualised as being only a function of the administrative and technical capacity of the state. A competent bureaucracy is, however, a necessary but not sufficient condition for the developmental state. Equally important then is political capacity, which enables the state to act legitimately and in a manner that engenders both transparency and accountability. Political capacity also enhances the capacity of a developmental state to mobilise society and to build consensus around its developmentalist project.

The debate on the binary between development and democracy is therefore based on a wrong premise; there is, in fact, nothing irreconcilable between the two. Because development is multidimensional, political freedom – and hence democracy – is central to development. Thus, in thinking about the developmental state in South Africa, it is important to think about its political dimension, and not simply to conceptualise it in narrow economic terms.

That the Asian developmental states were born in the context of authoritarianism does not mean that all developmental states must be autocratic. In fact, there is no clear correlation between authoritarianism and development; the evidence about the relationship between authoritarian regimes and development is mixed. History is replete with examples of autocratic regimes characterised by developmental failures, just as there are democratic regimes (such as the Scandinavian countries) that have achieved remarkable developmental successes: social, economic and political freedom.

While embedded autonomy coupled with a developmentalist political elite was among the important factors that accounted for Asia's accelerated and sustained development performance for over three decades, this factor proved to be inadequate to sustain development. This points to one of the most important missing links with regard to the Asian developmental states – namely, the centrality of political institutions to sustain accelerated, equitable growth. Put differently, the Asian developmental states ran into crisis because they ignored the importance of political institutions, including those of public deliberation – such as consultative mechanisms – that would enable the broader citizenry to influence and even determine the development agenda. A top-down policy-making process and authoritarian developmental states are unsustainable in the long run, and hence it is important that would-be developmental states like South Africa think of building such a state to be anchored on democratic governance.

Development in a democratic developmental state in South Africa

Earlier, I pointed out that a key debate revolves around the question of whether a developmental state in South Africa should have a single goal or multiple goals. And if it has multiple goals, should they include poverty reduction, reduction of inequality, employment creation, economic growth?

We can begin to address this question by attempting to define developmentalism, which is one of the variables in defining a developmental state. Developmentalism implies that a developmental state aims to achieve industrialisation through active industrial policy, while simultaneously 'implementing policies to redistribute income (intended to minimise unequal distribution resulting from industrialization), to promote education, and to achieve other social and political goals' (Murakami 1992: xxiii). Consequently, social policy occupied a prime place in the developmental state policy armoury. Comparative experiences of the 20th century Asian developmental states and the Nordic democratic developmental states highlight the centrality of social policy to their development. Social policy comprises the 'collective interventions in the economy to influence the access to and the incidence of adequate and secure livelihoods and income' (Mkandawire 2004: 1). In the same vein, Adesina (2007) defines social policy as

> the collective public efforts at affecting and protecting the social well-being of the people within a given territory. Beyond immediate protection from social destitution, social policy might cover education and health care provision, habitat, food security, sanitation, guarantee some measure of labour market protection, and so on. The idea of a tolerable, minimum level of livelihood and decency is intuitive and socially constructed; and normative (ideological rather than technical). These define the links between economic and social policies; the desirable system of social relations and governance; and the specific instruments of achieving the perceived minimal level of well-being. (Adesina 2007: 1–2)

Social policy also denotes the 'specific and deliberate policies (enacted and pursued) that positively impact on social well-being and security' (Adesina 2007: 4). That most 20th century developmental states achieved equitable growth was therefore not an accident. Rather it was based on concerted efforts by the state to formulate and implement appropriate policies and to design institutions to achieve set goals. Almost all of the chapters in Part One of this volume make the point that even the Asian developmental states had a strong redistributive thrust in their social policy. Redistributive policy in these countries included programmes to transform and increase the skills of workers and the promotion of lifelong learning. Specifically, these countries' redistributive policies included the state's facilitating access to training programmes and in some instances subsidising training by firms, as well as initiatives that sustained self-employment. As an illustration, in Japan,

> the state seeks to ensure a strong measure of income support and income equality, with an emphasis on security of employment and measures to minimize the displacement of those threatened by market forces. Its overall efforts directed to subsidization of rice farmers, to financial and infrastructural support for small business, to employment maintenance programmes in time of acute crisis, and in particular to institutionalized measures for sunset industries are all far more indicative of the Japanese state's 'distributive' efforts than the provision of social security payments per se. (Weiss 1998: 162)

Measures such as universal access to education and health care as well as those to promote the equalisation of opportunity for social class mobility that were undertaken in most of the developmental states in Asia should therefore not be understood narrowly in economic terms, but as measures to redistribute income and wealth. In other words, these measures performed two crucial social policy roles: production and redistribution. Though introduced at different stages, social policy has become a central component of the Asian developmental states, to the extent that one can classify them as developmental welfare states.

Unfortunately, most scholars on the developmental state have not given much attention to the social policy component of developmental states, and by so doing unwittingly fall into the same category as neoliberal thinkers, who measure development mainly in terms of economic growth. In fact, the first generation work on the developmental state focused more on its 'productivist' aspects (Holliday 2000), to the neglect of social policy and the human capability expansion component. Social policy performs four key functions; namely, protection, production, reproduction and redistribution (Mkandawire 2004). This has to be central to our conception of the developmental state in general and of a democratic developmental state in South Africa in particular. The neglect in the dominant developmental state literature of social policy is partly because of a misreading of developmentalism, narrowing it to economic growth through industrialisation.

By and large, developmentalism entails promotion of human-centred development, and not just growth. However, even if the 'development' in the 20th century developmental states was conceived of in terms of industrialisation and not the improvement of human conditions, such a conception will still be inadequate in thinking about the 21st century developmental state in general and in South Africa in particular. Amartya Sen (1999), in his *Development as Freedom*, provides an important framework for thinking about the 21st century developmental state. He defines 'development as the process of expanding the real freedom that people enjoy' (Sen 1999: 3). Development is therefore a process that engenders social freedom, economic freedom, political freedom and environmental sustainability. In this regard, the developmental state in South Africa has to be conceptualised in a multidimensional and holistic manner, so that it might engender economic freedom, social freedom, political freedom and environmental sustainability. The present volume is framed by this multidimensional approach, although we focus predominantly on economic, social and political freedom. I refer to this as a democratic developmental state. Therefore, central to a developmental state in South Africa will be its ability to promote economic and social inclusion, as well as being underpinned by the principles of democratic governance, and being environmentally sustainable. To borrow from Evans (Chapter 2, this volume), the developmental state in South Africa must widen human capabilities and be a vehicle for making social choices and defining developmental goals.

This approach is in contrast not only to neoclassical economics – which gives little or no regard to equity, and even views it as a drag on growth – but also to the first generation of developmental state scholars, who believed, despite evidence to the contrary, that the developmental state's primary concern was economic growth.

One implication of this wider conceptualisation of the developmental state is that industrialisation should be one of the components of developmentalism in South Africa; there is a need for the envisaged developmental state to promote economic growth. An equally important component of developmentalism, however, which the developmental state must pursue in tandem with industrialisation, is social transformation, including reduction of poverty, inequality and high levels of unemployment. Investment in *capability expansion* will therefore be a key element of developmentalism in South Africa.

Developmental states in the context of rich mineral resources

The dominant work on the developmental state has focused on mineral-poor countries. And most literature on development in mineral-rich countries points to the Resource Curse. Consequently, how a developmental state in a resource-rich country avoids the Resource Curse and therefore utilises revenues from natural resources for developmental purposes has not been addressed; that is to say, how a mineral-rich country becomes a developmental state has not received much scholarly attention. Filling this intellectual gap is important because of its policy implications for a country like South Africa, a resource-rich country – rich in gold, diamonds and platinum – that aspires to being a developmental state. The structure of the South African economy will remain largely unchanged if there is no resolution of the question of how to utilise the mineral resources for developmental purposes. And if this challenge is not addressed, it will also compromise the ability of the government to provide public goods to citizens, and make nonsense of the aspiration in the Freedom Charter that all South African will share in the country's wealth.

The institutions in developmental states are important factors that account for their success. Most mineral-rich countries in the developing world are the opposite of developmental states as they are marked by weak institutions; that is to say, the institutions of policy-making and implementation are generally weak and there is considerable lack of accountability and transparency. Furthermore, in most mineral-rich countries in the developing world, political leaders in particular and policy-makers in general rely on mineral wealth as the main source of state revenue. Consequently, they have limited incentives to create developmentalist institutions that will enable the state to intervene to diversify the structure of the economy. It therefore comes as no surprise that the contribution of manufacturing to GDP in most mineral-rich developing countries is low. Thus, what sets developmental states apart from mineral-rich countries is primarily the nature of institutions, and consequently state capacity; developmental states have greater state capacity than most mineral-rich countries. As an example, in a sample of 12 developing countries in my study, Korea, Malaysia and Singapore scored higher on the autonomy and synergy scales than mineral-rich countries such as Mexico and Nigeria (Edigheji 2007).

Focusing on the institutional arrangements that underpin social and economic development in developmental states such as Norway therefore provides useful lessons for a mineral-rich country like South Africa that aspires to becoming a developmental state. (The Norwegian case is the subject of Moses's contribution in Chapter 6, this volume.)

Structure of the book: key scholarly and policy issues

The structure of the book reflects key issues related to the potentials for and challenges of constructing a democratic developmental state in South Africa. Although I have grouped the chapters into five categories, the issues covered are cross-cutting. As an example, the economic issues have bearing on the social policy issues, and vice versa. And, in turn, both sets of issues are underpinned by institutions. Part One covers the conceptual issues and comparative experiences from Africa, Asia and Northern Europe. However, the conceptual issues are not limited to Part One, as they are taken up in other sections. Therefore conceptualising the democratic developmental state is a current that runs through the book. Part Two addresses policy-making and economic governance in South Africa. It highlights both the potentials and challenges that current policy-making and economic governance pose for the construction of a democratic developmental state in South Africa. Part Three deals with South Africa's macroeconomic and industrial policy landscapes, pointing to appropriate macroeconomic policy for the democratic developmental state to adopt. Part Four focuses on social policy and its institutional underpinnings in the democratic South Africa, while Part Five deals with the question of agrarian reform and its role in the context of a democratic developmental state.

Conceptual issues and historical experiences

What is the conceptual framework, though, that should underpin the envisaged developmental state in South Africa (and other would-be developmental states), and what lessons can be drawn from experiences elsewhere? These are the tasks of this section.

Peter Evans, in Chapter 2, provides the theoretical grounding for the democratic developmental state – what he terms the 21st century developmental state. The 21st century developmental state that Evans articulates is a democratic developmental state. He starts the chapter with an analysis of developmental challenges facing South Africa, and the potential for constructing a developmental state in the country. Relying on the work of Arrighi et al., Evans draws attention to the history of 'dispossession' as one of the main development dilemmas facing South Africa; he writes of the historical process of dispossession that left the African population without enough land to sustain small-scale subsistence production, which had adverse effects both on the options available to workers and in terms of access to public services – education, health and social security – by the African population. In the light of these, then, Evans points out that the main development challenge facing South Africa is the legacy of dispossession. In this regard, investment in the welfare of the majority of the people in order to overcome this legacy would be crucial to South Africa becoming a 21st century developmental state. Furthermore, capability expansion will be a key factor for economic growth. Yet what are the potentials for South Africa to address this challenge? Still drawing on Arrighi et al., Evans notes that, as a mineral-rich country, South Africa could invest resource rents in capability expansion activities, such as health, education and so on (this squares well with the Norwegian case discussed by Moses in Chapter 6, this volume). Following this logic, service industries – rather than manufacturing – would be key to South Africa's socio-economic success/development. While these conclusions may have come from disparate intellectual traditions, it is important to ground the developmental state discourse within development theory. It is to this task that Evans turns.

He provides the theoretical perspective for understanding the developmental state, anchoring this on three strands of development theory: the 'new growth theory'; 'institutional approaches'; and the 'capability approach' or theory of capability expansion. Because of the convergence of these three strands of development theory, Evans's main proposition is that 'enhancing human capabilities' is the central goal of the 21st century developmental state. Enhancement of human capabilities is not, however, just a welfare goal but is also an important foundation for sustained economic growth: investment in human capital has the potential to lead to social inclusion and economic growth. From this premise, human capability enhancement is both a means and an end – in contrast to neoliberalism, which conceives of investment in human capability purely in narrow, economic terms. Neoliberalism also ignores the intrinsic value of capability enhancement as something that needs to be pursued in its own right. Evans's approach to the developmental states places prime emphasis on equity concerns as both a means and an end. This is empirically grounded. Elsewhere, I have shown (Edigheji 2007) that the developmental states of Asia had equity as a focal goal and designed institutional architectures and promoted policy to achieve that goal. That all of the developmental states in my study achieved equitable growth is thus not an accident. I define equitable growth as a high rate of economic growth combined with equitable distribution of income and wealth, with egalitarianism meaning that all segments of society are able to share in the benefits of growth.

What are the state capacities required for enhancement of human capabilities? Based on analysis of the 20th century developmental state, Evans offers some lessons for constructing 21st century developmental states, with a focus on the state structures and state–society relations. One of Evans's central arguments is that a successful 21st century developmental state will not only have all the capacities of the 20th century developmental state (including autonomy) but will require additional capacities in order to meet its central goal of capability expansion.

Capability expansion depends on efficient provision of collective goods. This in turn depends on both administrative capacity and political foundations that are anchored on 'active democratic structures'. The latter is also a foundation for effective economic management. Effective provision of public goods, including health, education, social welfare and the like, is a manifestation of social citizenship, enhancing the well-being of ordinary citizens; and public goods are themselves major economic infrastructure required by market agents. Weaving together the three strands of development theory on which his analysis is based, especially the work of Sen and Dani Rodrik, Evans notes that because development is about human well-being, 'development strategies and policy cannot be formulated by technocrats, but must be derived from democratically organised public deliberation'. Deliberative/participatory democratic institutions are therefore central to 21st century development. Given this analytical foundation, the 21st century developmental state is fundamentally different from the 20th century Asian developmental state; rather, it mirrors the 20th century Nordic democratic developmental state, where human welfare and public policy were driven by deliberative mechanisms that are more broad-based than those made up of government and capital – deliberative mechanisms that Evans refers to as 'encompassing embeddedness', or which could be termed synergistic state–society relations (Edigheji 2007).

Through synergy, the state enters networks of ties with civil society and taps into community norms, informal and formal, in its transformative project. Unlike embeddedness, whereby the state treats capital with mistrust and at arm's length, synergy involves state–society relations built on 'trust and reciprocity' (Evans 1997: 2) in pursuit of its transformative project: improving human welfare and enhancing productivity. In addition, synergy guarantees the autonomy of both the state and society, with the state providing the overall guidance. Trust and reciprocity, according to this framework, become the basis of the state's transformative capacity and are a major determinant of variations in developmental outcomes across countries. Rather than emphasising dominance over its social partners, synergy emphasises cooperative relations with civil society as the source of state autonomy and effectiveness (or transformative capacity) (Edigheji 2007).

One of the advantages of synergy is that it creates the institutional forms and political processes required for negotiating class compromises through which redistribution and growth are reconciled.

The emphasis on participatory political institutions highlights the importance of democracy to the 21st century developmental state. Here participation of citizens in democracy is not limited to the choice of decision-makers. Development, by its very nature, is a political process, and therefore cannot be treated in a technocratic fashion.

The analysis offered by Evans should quell the arguments that developmental states cannot take hold in the context of democracy. Besides the fact that such assertions are not empirically grounded, both Mkandawire and Chang (Chapters 3 and 4 respectively, this volume) have shown examples of developmental states in democratic settings, and Kim (Chapter 5, this volume) points to the unsustainablility of authoritarian developmental states – all of which underscores the need for would-be developmental states in the 21st century to be predicated on sound democratic principles. Consequently, constitutional democracy offers South Africa the potential to construct a democratic developmental state.

The three strands of development theory that Evans weaves together provide an important framework for defining the institutional architecture and the central goal of the 21st century developmental state. This fits squarely with the concept of synergistic autonomous states and equitable growth. The underlying argument – that capability expansion is the key driver of economic growth and there is thus a need to focus on capability-enhancing (public) institutions – makes great analytical sense and should command the attention of policy-makers in would-be developmental states such as South Africa.

Thus, Evans eloquently captures the central goal of the 21st century developmental state as enhancement of capabilities and mechanisms for making social choices and defining developmental goals. Furthermore, he identifies some of the transferable lessons from the 20th century developmental state for the 21st century developmental state. These include bureaucratic capacity – a main source of the autonomy of the state. Unlike in the 20th century developmental state, though, state–society relations have to be synergistic, and hence the importance of democratic deliberative institutions. An advantage of having synergistic state–society relations is that this minimises the chances of the state being captured by powerful interests. In addition, Evans points out that deliberative democratic institutions would enable the state to gather '[a]ccurate information on collective priorities at the community level', which he argues is 'the sine qua non for a successful 21st century developmental state'. However, here comes one of the major challenges that will face a country like South Africa, namely: the skills and organisational capacities required for synergistic state–society relations are much more complex and difficult to build because they are more political than technocratic, unlike in the 20th century developmental state. The difficulties could, however, be mitigated if South Africa's political process engenders what White (1998) refers to as 'institutional coherence'; that is, 'the distribution and use of political power, in relations between different sections of the bureaucratic apparatus, and in the nature of the party system in society' (1998: 30). This presupposes that political society creates 'channels of political participation, particularly the structure and social base of the party system' (1998: 31). The implication of this for South Africa is that the party system needs to engender programmatic relations, rather than patron–client relations, between citizens and political parties, and between citizens and government.

Evans also points to the problem of building close ties with capital, partly because of the growing influence of global capital and partly because of the intensified integration of local capital into transnational networks; he argues that these are challenges facing countries that aspire to constructing a democratic developmental state. However, the current global economic crisis may have brought home to capital the realisation that it needs the state even in the context of globalisation. There is also the realisation by governments across the globe that state interventions to drive development are imperative for well-being and even for the sustenance of market economies. These shifts in thinking offer some hope that strong ties with capital are possible for would-be democratic developmental states.

What then are some of the potential pitfalls of trying to construct a democratic developmental state? Evans articulates some of them. First, he points to the fact that political leaders might appropriate the label of a developmental state and apply it to building an institutional frame that, while politically expedient, 'ducks the difficulties of delivering capability expansion', with negative development consequences – a point that is echoed by Butler (Chapter 9, this volume) with respect to South Africa. Labelling a state 'developmental' does not necessarily make it so. What matters is building the institutional apparatuses within and outside the state that will enable it to achieve its developmental goal of human capability expansion, both as a means to achieving development and as an end in itself. By implication, it is what the South African state *does* – rather than proclamation by policy-makers – that will qualify it as a developmental state.

Second, Evans fears that some states, in their bid to become developmental, might attempt to implant earlier models of developmental states, without taking account of local historical legacies and conditions. The import of this is therefore the need to contextualise the developmental state in South Africa, to take into account local conditions and to respond to local developmental and institutional challenges facing the country. A cautionary note: building the institutional arrangements will be through a process of trial and error, and the institutional arrangements must evolve with time to respond to changing conditions. In effect, there is no room for South Africa to be a copycat in building its developmental state. In addition, institutional innovations will be required. As Evans points out, 'Successful construction of a developmental state must be a continually reflexive, "learning by doing" process'.

Third, a single-minded focus on state autonomy at the expense of synergy, and political capture by private sector partners and entrepreneurial elites, are other possible pitfalls for states that wish to construct a 21st century developmental state.

Evans concludes his chapter by highlighting three potential benefits of the successful construction of a democratic developmental state, namely: that it is 'a high growth strategy'; its 'structural features link high growth with broadly shared returns – in part because it is a naturally "labour-intensive" strategy' – and will thus expand employment; and it has a 'light ecological footprint', that is, it will have positive ecological consequences.

The chapter by Evans thus provides a useful starting point for thinking about a democratic developmental state in South Africa. Furthermore, it sets the 20th century Asian developmental states apart from the 21st century developmental state.

Many of the conceptual issues that Evans raises in his chapter are taken up by other chapters in Part One.

In Chapter 3 of the book, Thandika Mkandawire deals with state reforms in Africa and proposes some solutions for building developmental states on the continent. His central thesis is that the African state has been maladjusted since the 1980s. The maladjustment, he argues, takes two phases; namely, downsizing the state, and the collapse of public investment in physical and human capital. In the 1990s, in particular, Mkandawire observes that there were intellectual and policy shifts, with emphasis given to institutional reforms. He points out that while institutions matter to socio-economic outcomes, the institutions, such as independent central banks, stock markets, property rights, public–private partnership and the whole public sector reform agenda underpinned by the paradigm of 'new public management' promoted by the international financial institutions, were the wrong institutions for development. This was partly because these institutions were disembedded and were not context specific. A one-size-fits-all approach, which Evans (Chapter 2, this volume) cautions against, was the dominant approach with regard to institutional and policy regimes. Coupled with this, the new institutions that were promoted were those that engendered what Mkandawire refers to as monocropping and monotasking. The latter is an institutional reform that made institutions that previously had performed multiple tasks and served broad development agendas perform only one task. And many of these institutions were rendered impotent as development institutions. The whole institutional reform agenda has the primary task of serving the market, with the emphasis on attracting foreign investment and protection of private property.

These institutions and the policy milieu accompanying them had adverse consequences for the capacity of the African state. This was partly because they resulted in institutional incoherence and instability; insulation of the new institutions from the broad development agenda; and institutional dualism through the process of agentification whereby the new institutions that were designed around monotasking were ring-fenced and professionalised compared to other agencies or institutions within the state. This speaks to the issue that has been covered in the developmental state literature, especially by Evans (1995): that of *pockets of efficiency*. In effect, the reform agenda in Africa, compared to those undertaken in Korea, Malaysia, Singapore and even more recently Ireland, was such that states in Africa could not become developmental states. Mkandawire further observes that the new institutions were restraining rather than being transformative. Consequently the institutional reforms led to what was at best an 'anaemic regulatory state', designed merely for restraining social actors, especially the state; according to Mkandawire, the new institutions undermined rather than promoting development efforts. To be sure, institutions matter, but as Mkandawire rightly argues they should be institutions that are transformative and that will enhance the capacity of the state to achieve its developmentalist project.

To achieve the above, the states in Africa, including South Africa, have to be able to mobilise resources and investment, promote an industrialisation strategy that is based on a coherent industrial policy, anchor its developmental agenda on social policy both for its intrinsic value and instrumentalist role, and predicate its developmental agenda on democratic governance. The point on social policy is revisited throughout this chapter and in Part Four of this volume.

Like Evans (Chapter 2, this volume), Mkandawire raises the important issue of developmental states in the context of democracy. As noted earlier, democracy and development are not incompatible, since the former is an integral part of the latter. That the Asian developmental states were born in the context of authoritarianism does not mean that all developmental states are necessarily autocratic. Like Evans, then, Mkandawire stresses the importance of the 'infrastructural powers' of the developmental state – that is, the state's ability to persuade key stakeholders to support its developmental agenda. To buttress the point that there is no contradiction between developmental states and democracy, Mkandawire draws our attention to experiences of developmental states in contexts of democratic governance. These include Japan, the Nordic countries and two African countries, Botswana and Mauritius. Consequently, Mkandawire points out that there is no trade-off between developmental state and democratic governance. Hence, in the African context in the 21st century, the developmental states need to be anchored on democratic governance.

What are some of the conditions though for the construction of democratic developmental states in Africa? Mkandawire draws attention to Africa's rich natural resources, the continent's rich human resources endowment (the achievements of the postcolonial state in the education field), the collapse of the Washington Consensus, and the emergence of new global players, China, India and Russia, as among the conditions that make the climate more auspicious for the construction of democratic developmental states in Africa.

He emphasises the point that in constructing democratic developmental states in Africa, there is a need for originality, intelligent emulation and borrowing; there are no fixed prerequisites for the establishment of a developmental state and it has to happen through a process of trial and error. I would add that it is also a process of a protracted struggle and negotiations between competing classes. However, given that institutions are highly inelastic, there is a need for African countries like South Africa that aspire to becoming developmental states to pay careful attention to their institutional design in a manner that draws lessons from the experiences of developmental states elsewhere but at the same time meets their contextual conditions. In addition, there is a need to avoid a one-size-fits-all approach to institutional design. Importantly, Mkandawire observes that the need to catch up, driven by nationalism, needs to be the normative rationale for building developmental states in Africa.

In Chapter 4, Ha-Joon Chang takes on the challenge of how to construct a developmental state. Drawing on the experiences of a number of countries, including France, the USA, the Scandinavian countries and Asia, Chang argues that there is no single formula for constructing a developmental state; in this, he echoes the point made by both Evans and Mkandawire (in Chapters 2 and 3). According to Chang, developmentalism can be pursued in diverse political and organisational settings. Based on the analysis of these experiences, he offers some suggestions, including specific policy issues and institutional arrangements, for how South Africa can construct a developmental state. A common strand in the contributions by Evans, Mkandawire and Chang is that a one-size-fits-all approach to the construction of a developmental state will not work. Hence, the construction of a developmental state in South Africa, like elsewhere, needs to be contextualised, taking account of the country's specific historical, political, economic, ideological and institutional setting. The point, however, is that while the institutional arrangements might vary from country to country, Chang supports the general proposition in the developmental state literature that some kind of planning agency (and capacity) and government intervention are needed for success. He points to some factors that could enhance South Africa's capacity to construct a developmental state, namely: the strong mass party base of the ANC; and existing organisational architectures such as the Industrial Development Corporation (IDC), the Development Bank of Southern Africa (DBSA) and a number of state-owned enterprises (SOEs), as well as the Department of Trade and Industry (DTI). The IDC and DBSA have significant financial resources and analytical capacities, which can be mobilised for a developmentalist project in South Africa. The technological and business capabilities of other SOEs, which Chang believes are of international standard, can also be mobilised for a developmentalist project. One question that comes to mind, though, when reading Chang's reflection on the South African case is: why has the South African state been unable to translate the rich technological experience of the military industrial complex under apartheid, such as in Denel, into commercial use in the democratic dispensation? Not being able to harness this technological experience and turn it to commercial use is a missed opportunity for advancing a developmentalist project.

Chang also notes that while South Africa has the potentials to build a developmental state, the existence of strong minerals–energy conglomerates and the state's lack of control over the banks, unlike in the classical 20th century developmental states, have constrained the relative autonomy of the state, and consequently its capacity to be developmental. To overcome the lack of control over the banks and the challenges that this might pose for the developmentalist project, he recommends 'strengthening the development bank' and the 'establishment of other special-purpose banks (e.g. banks for small and medium-sized enterprises)'. Chang observes that the weakness of the agencies that are meant to promote R&D is a serious obstacle for the potential developmental state in South Africa.

Eun Mee Kim, in Chapter 5, examines what she terms the 'authoritarian developmental state' in South Korea. This label is based on the fact that the Korean state, while developmental, was also highly authoritarian – suppressing both political and civil rights. In fact, the Korean developmental state was launched under a military ruler, Major General Park Chung Hee – known as General Park. And most of the East Asian developmental states were launched under authoritarian regimes. Given the fact that the concept of the developmental state gained world attention precisely because of the miraculous economic performance of the East Asian developmental states – Hong Kong, South Korea, Singapore and Taiwan – some scholars and policy actors assumed that developmental states are necessarily authoritarian. In terms of this logic, authoritarianism is seen as a necessary condition for developmentalism. Kim takes up this issue by focusing on one of the most celebrated of the East Asian developmental states, South Korea. Addressing this question is important because, as I noted earlier, there are murmurs in some quarters that democracy will hamper the quest for a developmental state in South Africa.

So, Chapter 5 brings us to the old debate in political science about whether development leads to democracy. There is inconclusive evidence in this regard, as Kim reminds us. In her analysis of the South Korean case, she shows that authoritarian developmental states are unsustainable in the long run, for a number of reasons. Drawing on other cases, including Indonesia and the Philippines, she points out that authoritarian developmental states do not necessarily lead to better economic performance. In some cases, such as South Korea, the authoritarian developmental state did result in remarkable economic performance – achieving a high growth rate and income equality. Kim also shows, however, that in other instances – Indonesia and the Philippines – authoritarian developmental states have failed to achieve sustained economic performance.

Based on her analysis of the South Korean case, Kim offers some suggestions for South Africa. She suggests that South Africa needs to combine democratic rule with a developmental state – a suggestion that is equally relevant for other developing countries that wish to construct developmental states. Another salient point in Kim's analysis is that authoritarian developmental states are more vulnerable to external shocks, a point that is supported by Jonathon Moses in Chapter 6, when he observes that the democratic institutions and strong bureaucratic tradition in Norway made it easier for that country to adapt to changing global economic circumstances.

In Chapter 6, Moses focuses on the institutional and political context of, and the policy instruments used by, the Norwegian state in managing its oil resources and revenues in a manner that has ensured both the competitiveness of the economy and utilisation of the revenues to the benefit of every Norwegian citizen. Not only did the Norwegian developmental state set up regulatory regimes to manage its oil resources, it also established a state-owned company, Statoil (which owned a substantial percentage of the Norwegian oil reserves) to oversee the state's business function. All of this effective and professional management has been carried out within the context of democratic control. Moses also makes a contribution that is otherwise missing from the literature on the developmental state: he points to the role of *parliament* in a developmental state context. As he argues, the Norwegian parliament, through the parliamentary committees, has enabled politicians, across party lines, to generate consensus around the management of Norway's natural resources and revenues. According to Moses, the parliamentary committees are both the first and last stage in decision-making. They also enable other interests in society to contribute to the formulation of public policy, in addition to the embeddedness of the state to society in the form of the Contact Committee. An important aspect of the role of parliament and the corporatist institutions in Norway is that they have enabled the Norwegian developmental state to formulate public policies that are in the national interests rather than merely promoting narrow interests. The budget rule, which limits the Norwegian government to using not more than 4 per cent of the interest generated from its oil fortune each year, is a good example of parliamentary consensus placing long-term, national interests above particularistic, short-term interests. Therefore, the various organisational and institutional arrangements in place, namely a competent bureaucracy, its corporatist arrangements, and the role of parliament, have enabled the Norwegian state to avoid populist policies, which some scholars fear take root in democratic settings – a factor that such scholars use to argue that democracy is inimical to development.

Moses therefore shows that developmental states in mineral-rich countries, with the right institutional and organisational arrangements, can avoid both the Resource Curse and Dutch Disease.[4] Importantly, he points to how democratic institutions can enhance the developmental goal of a developmental state. A competent bureaucracy, a tradition of strong committees in parliament, and a strong corporatist regime – encompassing embeddedness – have enabled Norway to adapt to changing global circumstances. Of course, the policies and institutional arrangements underpinning the Norwegian success were not preordained but were rather a product of protracted struggles, negotiations and the accommodation of interests between competing parties – with institutions that represent specific interests being organised along both class and sectoral lines. In the end, though, the policies and institutional arrangements reflect the political interests of the dominant political class, represented by the Labour Party. This is a useful lesson for would-be developmental states like South Africa. A hegemonic political party like the ANC could potentially be advantageous to building a democratic developmental state in South Africa.

Policy-making and economic governance in South Africa

Seeraj Mohamed (in Chapter 7) examines South Africa's economic governance regime and its impacts on the country's ability to construct a developmental state. He shows that the country's economic governance regime is predicated upon the Anglo-Saxon model of corporate governance, which privileges the rights of shareholders in economic management. This model is over-sensitive to the interests of shareholders and institutional investors, and Mohamed argues that economic policy has largely been driven by the need to maximise shareholder value, and that the credibility of policy has been determined by rating agencies rather than citizens. The mantra of this model is that 'the fear of the markets is the beginning of wisdom'; in terms of this model, economic and other policies not according with 'the interests of investors' are frowned upon and the chief scare tactic is that countries ignoring the mantra will be punished by the 'market'. Mohamed points to the fact that this has been one of the main considerations for economic policy management in South Africa since 1994. This sensitivity has also allowed some South African conglomerates, including the largest, Anglo American Corporation, to disengage from the South African economy and move their primary listings offshore and their headquarters abroad (to London in the case of Anglo).

Here comes one of the major challenges facing South Africa in its efforts to construct a democratic developmental state. The questions that arise are: how does the state balance the protection of the rights of shareholders with meeting the basic needs of the majority of South Africans? And how will elected officials govern according to the wishes and mandates of the people, as well as transforming the structure of the economy, which is heavily mineral-dependent? There have been tensions regarding how to balance these competing interests, to ensure economic policies that are sensitive to the interests of both investors and the majority of South Africans. More and more, the government has ceded a considerable amount of policy-making to institutional investors, as obtaining good credibility ratings from (especially) international rating agencies has become a major consideration in economic management. Mohamed also shows that the adoption of this model of economic governance has constrained South Africa's ability to transfer assets and resources to higher productivity sectors, and consequently has entrenched the structure of the economy. Furthermore, by virtue of the listing of key South African conglomerates overseas, South Africa's government has lost influence over the conglomerates and stripped itself of resources that it could have used for its developmental purposes. My colleagues and I (Edigheji et al. 2008) have argued that a developmental state would not have allowed such listings overseas without extracting from such companies resources that would advance its developmentalist project.

One other point to make about this type of approach to economic management is that it takes a short-term view of economic development, without giving regard to deepening the economic base. Stock performance prices in the short run tend to drive economic policy and, as Mohamed shows in the South African case, pay little attention to the structural weaknesses in the economy, and the 'deindustrialisation and declining industrial diversity'. To be sure, financialisation and development of the market, and not economic development, have been among the unfortunate outcomes of post-1994 South Africa's economic governance regime, although accompanied by increased interventionism at the micro level. This is one of the main contentions of Ben Fine in Chapter 8.

Fine sees financialisation, which is an expression of the post-1994 policy orientation, as one of the main challenges facing South Africa in becoming a developmental state. The point is that the focus on financialisation does not take a long-term view of the economy. Consequently, little attention is paid to transforming the structure of the economy, in contrast to developmental states, which preoccupy themselves with transforming and diversifying the structure of their economies. Fine also points to the capacity problem as a second challenge facing South Africa in the construction of a developmental state. He cites the electricity crisis as an examplar of the lack of state capacity – that is, the capacity to adopt appropriate policies. Fine grounds his discussion in the developmental state paradigm, which he divides into the economic and political schools, both of which he finds inadequate; and hence he rejects the paradigm. In spite of these shortcomings, though, he suggests that the developmental state paradigm provides an analytical and organisational framework to examine *whether* the South African state can construct a developmental state, and *what* it has to do to become such a state. This includes industrial policy and the institutional configurations to formulate and implement appropriate policies, which have to be measured by, among other things, the ability to transform the structure of the economy from the minerals–energy complex, and to address the social problems facing the country (including health, education and other welfare concerns). On the basis of his analysis, he suggests that South Africa has a long way to go to becoming a developmental state.

Anthony Butler in Chapter 9 brings a different perspective to this volume – a sceptical view about South Africa's ability to build a developmental state.[5] In fact, the chapter can be located in what Mkandawire (2001) refers to as the 'impossibility thesis' of developmental states emerging in Africa. The core argument in the chapter is that, because of a litany of institutional and socio-economic deficits as well as resource constraints, South Africa is not currently a developmental state, and will not be able to construct a developmental state. Thus, apriostically, South Africa is ruled out as a developmental state. Consequently, Butler argues for what Evans (1995) refers to as 'pockets of efficiency' – the maintenance and expansion of existing efficiency within the state. Importantly, however, like Evans in Chapter 2 (this volume), Butler argues that enhancement of human capabilities needs to be given priority. In this respect, investment in health and education would be key to successful development.

Furthermore, Butler raises an issue that is often missed in the developmental state literature, namely, the sequencing of institutional reforms and policy reforms. The question is: what should come first? Butler tends to suggest that policy reforms – in his case, health and education – should come first. Kim (Chapter 5, this volume), quoting Lipset, terms this a 'development first and democracy later' hypothesis. Yet, if institutions are the independent variables, then countries like South Africa that wish to build developmental states might as well focus first on building the institutional infrastructure that will enable them to undertake policies that are developmental in nature. The history of developmental states tells us, though, that because the construction of developmental states is a process of trial and error, policy-makers simultaneously undertake institutional building and policy reforms until they find the right mix. This is an important lesson for South African policy-makers in their efforts to construct a democratic developmental state. As Butler cautions, policy-makers in South Africa (like elsewhere, I might add) should not use the excuse of constructing a developmental state to avoid making difficult policy decisions, for a state is developmental because of the nature of its institutional arrangements and its policy orientation.[6]

South Africa's macroeconomic and industrial policy landscapes

In Chapter 10, Kenneth Creamer takes on one of the most contentious policy issues in post-1994 South Africa, and an often neglected subject in the international literature on the developmental state, namely, macroeconomic policy. And in the context of the country's attempts to construct a democratic developmental state, Creamer raises the question: what would be an appropriate macroeconomic framework to facilitate the construction of a democratic developmental state in South Africa? To answer the question, he first addresses the nature of the developmental challenges facing South Africa, which he identifies as unemployment and social exclusion (which have racial connotations), as well as the need to integrate into the global economy. Thus, like Evans (Chapter 2, this volume), Creamer argues that a democratic developmental state in South Africa has the primary responsibility of transforming the structure of opportunities by, among other things, widening access to basic services and physical infrastructure. From a different perspective, Creamer thus reaches a similar conclusion to Evans regarding what should constitute the central goal of a democratic developmental state in South Africa. As Creamer argues: 'the state's wide and effective provision of social and economic infrastructure and services is a necessary precondition for broad-based participation in economic processes'. These developmental imperatives, he observes, should condition macroeconomic policy. In effect, Creamer argues, macroeconomic policy needs to respond to the major developmental challenge facing the country, which is the legacy of dispossession. The precise nature of this macroeconomic policy is the main focus of Creamer's contribution.

In Chapter 11, Simon Roberts addresses the important subject of competition policy, and its role in industrialisation and global competitiveness, including in contexts of developmental states. Though pointing to diversity in competition policy, even among the developmental states of East Asia, Roberts stresses the importance of competitive rivalry in industrial development, and the role that competition policy plays in ensuring such competitive rivalry, as well as the relationship between competition policy and industrial policy. He teases out how competition policy could be used to advance the developmental state's agenda. As an example, Roberts points to the fact that through competition policy, governments in the East Asian developmental states tied incentives and support to the private sector to performance targets. In effect, competition policy becomes a mechanism for what Linda Weiss (1998) terms 'discipline support', unlike the current situation in South Africa. On the basis of this analysis, he reflects on competition policy in South Africa, and the authorities that oversee the country's competition policies. Roberts concludes his chapter with recommendations on how the challenges facing the South African competition authorities can be addressed in order to advance the agenda of building a developmental state.

Social policy and its institutional underpinnings in South Africa: what hope for a developmental state?

Karl von Holdt and Salim Akoojee (Chapters 12 and 13 respectively) bring an important dimension to the discussion on the developmental state by focusing on social policy and its institutional underpinnings in South Africa. Specifically, they focus on the inner working of departments in the social cluster – or service delivery departments (those that the World Bank labels derogatorily as 'spending ministries') – and therefore begin to draw the attention of policy-makers to the type of institutional regimes required for effective provision of public goods.

Von Holdt (Chapter 12) focuses on the internal workings of the post-1994 South African state, using the health sector, with specific reference to the Department of Health and public hospitals, as a case study. He establishes a link between the internal workings of the health department and hospitals, which he describes as dysfunctional, fragmented, incoherent, and lacking cohesiveness and accountability – resulting in poor performance of the sector. Focusing on this sector and drawing on Evans's (1995) analytical framework, he argues that the South African state is closer to being an intermediate state (such as Brazil or India) than a developmental state. What is important here is not so much the labelling of the state as an intermediate state but that Von Holdt's analysis begins to focus attention onto the problems (both institutional and policy related) that will impede the efforts of the South African state to become developmental. Among the explanatory factors cited by Von Holdt for the poor state of the public health sector in particular, and the South African state in general, are the following: the absence of 'Weberianness' (namely, lack of meritocratic recruitment and rewarding career paths for public sector workers – the latter of which has resulted in high turnover of staff in the sector); the lack of skills in a number of areas in the health system administration (namely, understaffing, and running hospital units in silos rather than as part of a collective entity); and the introduction of the 'new public management' principles (which, among others things, emphasise 'accounting' rather than accountability, responsiveness and provision of services). All of these militate against the South African state behaving as a coherent and collective entity, a requirement so central to developmental states. These factors are coupled with the lack of both human and financial capacity within the sector. In general, Von Holdt points to poor organisational cultures and processes as important explanatory factors for the poor state of public health care provision in post-1994 South Africa. His analysis shows that these problems are not peculiar to the health sector but reflect the situation in the South African state as a whole. They have disabling effects on the South African state and therefore constitute obstacles to the state becoming developmental. To overcome this, Von Holdt proposes how the problems can be addressed, including restoring Weberian logic in the public service.

Salim Akoojee (Chapter 13), addresses an important development indicator – skills development in South Africa. Skills development is an issue that is given prime position by most developmental states because it is central to both capability enhancement and industrialisation, and ultimately to national prosperity. There is a general recognition that all developmental states, including those that aspire to be developmental, need to aggressively develop their skills base. In a context such as South Africa that intends to construct a democratic developmental state, and in the context of widespread shortage of skills – partly as a legacy of apartheid and the continued dysfunctionality of the South African education system – focusing scholarly and policy spotlights on skills formation becomes a very important exercise. This is because South Africa is unlikely to become a democratic developmental state if it cannot improve its skills base; for improvement in the skills base is both a means and an end, especially in the context of a human capability approach to the developmental state. Akoojee thus examines the role that the South African state has played in skills development, with a particular focus on further education and training (FET) colleges. He teases out the challenges facing the sector, including what he refers to as the mix of policy incoherence and 'structural disconnect' between policy goals and operational reality. These sectoral challenges have broader implications, as they also reflect the challenges that the South African state faces in trying to construct a democratic developmental state. Akoojee makes recommendations on how to address such challenges as a necessary condition for South Africa becoming a democratic developmental state. The recommendations are both scholarly and policy relevant.

The analysis of the education and health sectors respectively by Akoojee and Von Holdt supports the assertion that a developmentalist ideology is not sufficient to qualify a state as developmental. Rather, for a state to be developmental it has both to have a developmentalist ideology and to have established the institutions that will enable it to formulate and implement policies that will enable it to achieve its developmental objectives. Akoojee's and Von Holdt's analyses of the education and health sectors show that South Africa does not yet meet this standard.

Therefore, for South Africa to become a developmental state, it will have to establish and deploy its administrative and political apparatus to ensure effective provisioning of education, training and health care. To be sure, this is not an apolitical approach to the developmental state. For, as shown in various chapters in this volume, politics matters. Political dynamics, including the politics of the ANC-led alliance, do influence public policy in South Africa. The argument therefore is not one that promotes a technocratic approach to policy-making and implementation, but rather emphasises bureaucratic competence complemented by democratic deliberations.

Agrarian reform

One important policy tool that has been adopted by most developmental states to reduce poverty, address the legacy of dispossession, transform the structure of their economies and ensure equitable growth is agrarian reform. Therefore, how the agrarian question is tackled in South Africa would have a major impact on the country's capacity to become a democratic developmental state.

In Chapter 14, Moyo focuses on the agrarian question in southern Africa and what countries in the Southern African Development Community (SADC) region could do to address it in an effort to become developmental states. Moyo sketches the context for understanding the importance and centrality of the agrarian question to South Africa's developmental challenges, and the role that the states needs to play in addressing the problems of agrarian transformation. As with industrial policy, Moyo draws attention to the fact that agrarian reforms need to be undertaken in the wider context of a national developmental strategy. This point is important because some tend to frame the discussion on agrarian reform in South Africa as an addendum to the national developmental strategy, and as a reform that could be undertaken on its own without a broad national development plan; yet, by so doing, the synergies and complementarities between agrarian reforms and other economic and social policies are missed. Furthermore, Moyo points to the factors that have accounted for the states' failure to address the agrarian question in the region, with negative developmental consequences. Agrarian reforms, by definition, comprise land reform and agricultural reform components, both of which need to be implemented in tandem; when they are vigorously pursued, they have the potential to transform both national economies and the structures of rural societies, although it is a mistake to conceive of agrarian reform narrowly, as a rural development strategy. Furthermore, agrarian reform need not be narrowly conceptualised as a poverty reduction strategy. Although agrarian reform contributes to rural development and poverty reduction, it has wider ramifications as it has the potential to transform the structure of a society's economy.

Moyo reminds us that the role of agrarian reform in addressing the developmental challenges facing the southern African region, including South Africa, cannot be underestimated: it will play an important role in securing food security; in addressing the high levels of unemployment, poverty and inequality; in transforming the productive forces of the South African economy; and in industrialisation. It will also play a key role in economic, social and political transformation, and reducing vulnerability to the vagaries of global markets. This is partly because agrarian reform has the potential to satisfy basic food requirements, reduce social deprivation and enhance the accumulation process. A fact that is often neglected in the developmental state literature is that successful agrarian reform could help free up and secure resources for investment in other areas – health, education and physical infrastructure, and in industries. Therefore, the positive multiplier effects of agrarian reform are immense. I need to stress the fact that equitable growth, which should be the major aim of the democratic developmental state, would be near impossible without agrarian reform. It thus comes as no surprise that Moyo points out that, as is the case with other southern African states, South Africa is unlikely to become a developmental state without agrarian reform occupying a prime place in its policy arsenal. Similarly, given that the agrarian question in South Africa has important bearing on the entire southern African region, land and agricultural reforms in the country would also have important positive spin-offs for the entire region. Agrarian transformation is therefore necessarily at the heart of any transformative agenda in South Africa and other southern African countries. Unfortunately, this has not been the case in most countries in the region, as both a lack of regional integration and a piecemeal approach have characterised efforts at addressing the agrarian question thus far, with adverse social, economic and political effects in South Africa and the wider region. In fact, the Zimbabwe crisis is testimony to the failure of agrarian transformation in southern Africa. South Africa would thus be advised to vigorously pursue an agrarian reform strategy, if it is to avoid the type of social and economic crisis that has engulfed Zimbabwe, with adverse political consequences including political instability. The argument is that a concerted agrarian reform effort would be a sure guarantee of achieving social, economic and political stability in South Africa in particular and the southern African region in general. One lesson to which Moyo draws our attention is that agrarian reform, by its very nature, requires active state intervention. It cannot therefore be left to the whims and caprices of the market. Hence, a developmental state is a necessary condition for successful agrarian reform. This is similar to the conclusion of most of the chapters in this volume regarding other policy domains.

What then should be the institutional underpinnings of an agrarian reform strategy? This question is important because what sets developmental states apart from others is not merely the possession of a developmentalist ideology on the part of the political elites but the ability of those elites to build the institutional architecture to achieve their developmental goals. Under apartheid, agrarian reform had a narrow focus – namely, meeting the needs of white people – and was underpinned by a coalition between the state, large white farmer unions and agribusiness. The same was true in the former Rhodesia. So, what should be the institutional underpinnings of agrarian reform in the SADC region in general and South Africa in particular in the 21st century? Moyo points to the need for a competent bureaucracy, and political leadership that possesses a developmentalist ideology; this includes redirecting the state towards meeting popular demands for land redistribution and agrarian reform, and building a coalition for such a reform programme – including mobilisation of popular social forces for a social reform agenda. He therefore highlights the importance of anchoring agrarian reform on a popular, class base.

Moyo also draws attention to the global context, which he argues promotes policies that do not advance an agrarian strategy and autonomous development that will reduce poverty, inequality and unemployment. Consequently, such policies also do not enhance the agrarian productive forces in South Africa and the region. Addressing the negative global context, and building the right institutional arrangements, including a competent bureaucracy and a coalition to support such an agenda, are thus critical challenges facing South Africa and other SADC states in promoting agrarian reform. It comes as no surprise that white farmers have resisted, and to a large degree thwarted, the land reform programme in South Africa. The real challenge is for the state to ensure the cooperation of white farmers. In some instances, this will entail what Linda Weiss (1998) calls 'discipline support'. Therefore, disciplining white farmers to conform to the state agrarian reform agenda would be key to success. The support of white and large farmers must not be voluntary. As a last resort, coercion should therefore be considered as a possible weapon in the arsenal of the state.

Conclusion: the potentials for and challenges of constructing a democratic state in South Africa

The current global economic crisis has shown the hollowness of the 'efficient market hypothesis' and that of self-regulating markets. It has therefore strengthened the case for the revival of the role of the state in development. In fact, the case for a developmental state that is democratic and engenders social inclusiveness is more compelling now than ever. There are, however, both potentials and challenges for countries like South Africa that aspire to become a democratic developmental state. The chapters in this volume clearly elaborate the case for a democratic developmental state in South Africa. They also make the case that the central goal of such a state should be expansion of human capabilities, through investment in health, education and social welfare, both as a means of attaining equitable growth and as an end in itself. In this regard, economic policy, including macroeconomic policy, should be preoccupied with expanding human capabilities. In effect, for South Africa to become a developmental state, its macroeconomic policy needs to serve social objectives, rather than social transformation being held hostage to macroeconomic policy. And to this end, social policy needs to occupy a prime place as a policy tool in the hands of the state. Human capital development is one way to overcome the apartheid legacy of dispossession. This calls for massive investment in education and training, health care and infrastructure on a consistent and sustained basis.

Transforming the structure of the economy to, among other things, reduce the dependence on the minerals–energy complex and reverse deindustrialisation will be critical to South Africa's efforts to become a developmental state. Furthermore, the approach of enhancing human capabilities requires that the service sector be key to success. Promotion of green industries, through adoption of green technology and promotion of green products, is an important imperative, to ensure the kind of holistic development that a developmental state needs to engender. A bold and innovative approach to employment creation, beyond the current tame approach that relies on public works, also needs to be adopted. Agrarian reform needs to be central to a new approach, which among other things should entail setting up farms where those currently unemployed can be recruited to work and be co-owners. This will have a number of positive multiplier effects – creating jobs, reducing poverty and contributing to food security. That the state currently owns unused land and that there are millions of unemployed offers potential in terms of this proposal. The need to catch up, driven by nationalism, can be a potent normative framework or ideology to pursue such measures.

Both the theoretical and comparative chapters of this volume, as well as the chapters on South Africa, underscore the need for a developmental state in South Africa to be anchored on democracy. There is nothing in theory and practice that says that developmental states cannot be constructed in democracies; in fact, countries like Norway and Sweden are both democracies and developmental states. Therefore, democracy in South Africa, rather than undermining development, could actually enhance efforts to build a developmental state.

There are, however, enormous challenges and possible pitfalls facing South Africa in constructing a democratic developmental state. These include the fact that there is already a tendency among policy-makers to proclaim South Africa as a developmental state – even before undertaking the hard tasks of designing and strengthening developmentalist institutions and formulating and implementing policies that will enable it to achieve its developmentalist goals.

The volume clearly makes the case that would-be democratic developmental states like South Africa need to avoid a one-size-fits-all approach to the construction of such a state, especially in its institutional design. Consequently, a developmental state in South Africa will be context specific and at the same time based on reflexivity; that is, drawing lessons from other developmental states' experiences. Weakness of institutions – and hence the low degree of state capacity – especially as they pertain to planning and implementation, are among the challenges facing South Africa in constructing a developmental state. There is a need for building and strengthening institutions that are developmental and will therefore enable the state to behave coherently and collectively, as the basis for its capability expansion and equitable growth. The institutional design needs to be a process of learning by doing, and must adapt to changing conditions. Consequently, building a Weberian ethos in the public service will be a critical factor for South Africa to become a developmental state. Judging by the Green Paper on National Strategic Planning (Presidency 2009a), which proposes the establishment of an NPC made up of experts and intellectuals, South Africa is on the wrong track to constructing a developmental state. A central planning agency like the proposed NPC should be about enhancing the technical and organisational capacities of the state rather than outsourcing government planning capacity and authorities to external experts. Unwittingly, such a proposal is steeped in the ideology of anti-state intervention, and hence may fail to strengthen the capacity of the state to coordinate and integrate its policies and programmes. Worse still, the high turnover rate of public servants, especially top civil servants,points to the absence of long-term rewarding career paths in the South African bureaucracy, and is one of the challenges facing South Africa in its attempt to construct a democratic developmental state.[7] As noted earlier, establishing a system that ensures long-term, rewarding career paths for civil servants is a necessary condition for building the organisational and technical capacities of the South African state.

Yet there are potentials for South Africa to become a developmental state. South Africa is a mineral-rich country. Rents from the natural resources can be invested to expand human capabilities. Towards this end, South Africa could draw important lessons from Norway, which has used mineral rents very effectively for investment in human capability expansion. One important lesson that South Africa could draw from the Norwegian case is the need to establish a state mining company that could deploy its resources for development purposes.

In addition, that South Africa is already a democracy is an advantage in building a democratic developmental state. The country's democratic institutions, including parliament and other democratic deliberative institutions, will however have to be strengthened. This requires building deliberative institutions at the community level, to enable ordinary citizens to participate in the development process. It is also important that government foster competitive rivalry between firms and tie state supports/incentives to business to performance targets.

In addition, parliament needs to be strengthened to enable it to become a forum for building national consensus over the developmental agenda. This is one of the potentials that South Africa has in building a democratic developmental state.

In addition to resource rents that could be invested to advance the developmentalist project of the state, the capacities within existing institutions such as the DTI, DBSA, IDC and other SOEs could be enhanced as an important basis for incubating a developmental state. Equally important is the need for the establishment of a state bank that could channel resources for developmental purposes. Similarly, the current global economic crisis, which has seen the nationalisation of banks in the developed world including the US and UK, offers South Africa an opportunity to intervene in the banking sector to ensure the financing of development. Such an intervention should, among other things, ensure that banks direct credit to the real economy – rather than the current practice of engaging in speculative activities.

The analysis in this volume points to policy and institutional deficits, the latter of which have contributed to the low levels or lack of state capacity. In fact, the weak technical and administrative capacities of the South Africa state represent a major challenge for the construction of a developmental state. These could however be overcome by, among other things, the state recruiting and retaining the best and brightest South Africans into the public service. I have also pointed to some of the potentials for a developmental state in South Africa. Again, there is nothing in theory and practice that would make it impossible for South Africa to become a developmental state. After all, developmental states are built to respond to contextual developmental challenges, through a process of protracted struggles between competing interests, and through trial and error, learning by doing and institutional innovation. The current weak capacity of the state should therefore not be an excuse to avoid building development-oriented institutions within the state; rather, it makes a compelling case for such institutions.

Notes

1 Moses (in Chapter 6, this volume) explains that the Resource Curse 'considers how resource abundance can trigger corruption, distributional conflicts, rent-seeking behaviour and so on'.

2 I have adopted the concepts of redistributive and transformative capacities from Linda Weiss (1998).

3 Before the late 1990s Asian Financial Crisis, they had near zero unemployment rates.

4 Moses (in Chapter 6, this volume) defines Dutch Disease as follows: 'deindustrialisation of a nation's economy in response to the discovery of a natural resource. The wealth generated by this discovery appreciates the nation's currency, thereby undermining the competitiveness of that country's (manufactured) tradeables sector.'

5 Fine's contribution (Chapter 8) is another sceptical view in the volume.

6 Evans also points to this as being among the pitfalls facing countries that seek to construct democratic developmental states.

7 This includes, for example, the resignation of the head of the Policy Coordination and Advisory Services (PCAS) in the Presidency, Joel Netshitenze.

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Part One

Conceptual issues and historical experiences

2 Constructing the 21st century developmental state: potentialities and pitfalls

Peter B Evans

Neither theorists nor practising policy-makers can ignore the crucial role of state institutions in producing developmental success. History and development theory support the proposition 'no developmental state, no development'. The idea of a developmental state puts robust, competent public institutions at the centre of the developmental matrix. Unfortunately, translating these basic insights into concrete proposals for the construction of effective state institutions is anything but simple.

There is no fixed, universal model of how to build a developmental state; 21st century developmental states will draw on examples from other regions and other historical periods as well as on general theories of development, but unreflective imports of ready-made models are likely to fail. A 'cookie cutter' approach to the construction of developmental states – assuming that 'one size fits all' – will fail in the same way that neoliberal, one-size-fits-all, cookie-cutter approaches to building effective markets have failed. Successful construction of a developmental state must be a continually reflexive, 'learning by doing' process. Only a flexible, creative process of exploration and experimentation that pays careful attention to local institutional starting points will succeed.

My aim here is to contribute to the kind of debate that is the foundation of creative experimentation. I start with some provocative analyses of the South African case. The Marxist diagnosis of Giovanni Arrighi et al. (2008) – of the dilemmas of development in contemporary South Africa – sets out the problems that a 21st century developmental state must tackle in order to respond to the historical legacies of dispossession. Charlotte du Toit's (2008) diagnosis, starting from a more mainstream economic perspective and relying on more standard tools of economic analysis, converges with the conclusions of Arrighi et al.

Following the discussion of Arrighi et al. and Du Toit, the chapter shifts to general theoretical perspectives. Three very different strands of 'leading edge' development theory provide a theoretical foundation for thinking about the developmental state. They raise again issues that come to the fore in Arrighi et al. (2008) and Du Toit (2008). Practitioners of the 'new growth theory' use econometric evidence to support the proposition that growth depends primarily on human capital and ideas, and on institutions that encourage their effective utilisation. 'Institutionalist' economists studying long-term development use historical evidence to ground arguments about the detrimental effects of the dispossession produced by 'extractive institutions'.

Finally, Amartya Sen's (1999a) theory of capability expansion deepens analytical foundations and connects aggregate effects to individual well-being.

The theoretical discussion produces propositions about what a 21st century state must be able to do in order to be 'developmental'. The bottom line of these propositions is simple: a 21st century developmental state must be a 'capability-enhancing state'. Expanding the capabilities of the citizenry is not just a 'welfare' goal. It is the inescapable foundation of sustained growth in overall GDP.

If enhancing capabilities is the central goal of the 21st century developmental state, then a specific set of state capacities come to the fore. Capability expansion depends on the efficient provision of collective goods. Health and educational services are the most crucial. Infrastructure, such as water delivery, is closely connected to health. Other infrastructure – e.g. efficient, inexpensive public transportation – can be key to increasing access to education, training and the opportunity to use the skills acquired in a job. The administrative capacity to deliver collective goods and infrastructure efficiently has political foundations. Without accurate knowledge of what kinds of collective goods the citizenry needs and wants, states can invest vast resources but fail to enhance capabilities. Active democratic structures are the necessary foundation for effective economic action.

Development theory can define an agenda, but reconstructing administrative apparatuses is a path-dependent, political process. Learning from the historical experiences of others and thinking creatively about how to take advantage of apparent lessons is a start. Looking at 20th century developmental states helps us think about constructing concrete state structures. The fourth section of the chapter extracts some analytical lessons for building 21st century developmental states by examining the state structures and state–society relations in the key cases of the 20th century developmental state – the East Asian newly industrialised countries (NICs).

How does the institutional matrix of the 20th century developmental state fit with the 21st century agenda? The fifth section of the chapter looks at how internal structures and state–society ties will have to depart from 20th century models in order to deal with 21st century challenges and historical legacies that do not match East Asia's unique circumstances. My argument is that a successful 21st century developmental state will have to have all the capacities of the 20th century version and others in addition.

The concluding section of the chapter sums up the potentialities and pitfalls of trying to build a 21st century developmental state. Constructing a 21st century developmental state is a project of inestimable potential social return. Both historical examples and theoretical arguments point towards concrete strategies for realising this potential, but also make the difficulty of the task clear. As difficult as the task may be, though, there is no excuse for avoiding it. The positive returns of succeeding and the negative consequences of failing make this an unavoidable institutional challenge. Looking at the current dilemmas of South Africa sets both costs and potential in a concrete historical context.

Development and dispossession

In an important 2008 paper, Arrighi et al. argue against the long-standing consensus among Marxists and traditional economists that dispossessing workers and putting the resulting assets into the hands of capitalist elites leads to successful accumulation. Instead they make the case that 'such dispossession has in fact become the source of major developmental handicaps for at least some and possibly many countries of the global South' (Arrighi et al. 2008: 1).

Arrighi et al. (2008) do not explicitly reference any of the three general perspectives that I claim as theoretical foundations for understanding the role of the 21st century developmental state. Instead, they ground their argument in 40 years of researching development in southern Africa, on authors like Wolpe, Legassick and Hart who also look at southern Africa from this perspective, and on Arrighi's own (2007) analysis of the reasons for China's economic ascent. Arrighi et al. start from the observation that incomes in South Africa fell from over 25 per cent of first world income levels in 1960 to about one half of that proportion in 2005. They locate the roots of this developmental failure in the historical process of dispossession that left the African population without enough land to sustain small-scale subsistence production.

Two prongs of their argument are particularly relevant. First, they argue that the dispossession of black Africans reduces the resources available to ordinary workers by robbing workers of the possibility of using hybrid rural-urban family strategies and complementing their wages with subsistence production. Second, and even more germane, they follow Hirsch (2005) in focusing on the deleterious effects of the 'deterioration of access to public services such as education, health, and social security for Africans under apartheid' (2005: 182) and the difficulty that the African National Congress (ANC) regime has had in rebuilding the delivery of such collective services.

China is their comparison case. Here they follow Hart (2002), who argues that the successful development strategies of both China and Taiwan were grounded in the absence of dispossession. According to Hart, 'in both socialist and post-socialist China, and in "capitalist" Taiwan, the redistributive reforms that defined agrarian transformations were marked by rapid, decentralized industrial accumulation without dispossession from the land' (2002: 200). For Arrighi et al., China's developmental advantage 'must stem from differences in public transport, educational, health and social security facilities, policies and investments' (2008: 11).

The implications for policy are clearly stated: 'without structural reforms that re-invent the welfare state on foundations that can be generalized to the vast majority of the population, the economic and social performance of the South African state will continue to deteriorate' (Arrighi et al. 2008: 41). Therefore, they continue, 'the contention that massive investments in the welfare of the population may be a safer developmental bet than concessions to capital is particularly compelling in the case of South Africa where apartheid has left a legacy of narrow markets and a huge surplus of labor in poor health, with little formal education, and with limited or costly access to markets' (Arrighi et al. 2008: 41).

For Arrighi et al. (2008), the barriers to pursuing such possibilities are more political than economic. They point to signs of 'an incipient historic reversal in the terms of trade between manufacturing and natural-resource based production' and note that '[s]hould it materialize, such a reversal would provide natural-resource-rich South Africa with unique opportunities both to generate jobs, incomes, taxable surpluses, as well as preferential market arrangement' (2008: 41). Resource rents could be 'used to promote and generate activities capable of re-inventing the welfare state on foundations that can be generalised to the vast majority of the population. And from this point of view knowledge-based industries rather than manufacturing may well hold the greatest promise' (2008: 42).

Realising these economically promising possibilities is, however, contingent on avoiding the diversion of these rents to less developmentally productive purposes. Arrighi et al. are very aware that these rents may simply be 'appropriated by foreign capital' or 'squandered in expanding activities of little social or economic value' or 'used to consolidate the exclusive welfare state inherited from apartheid for the benefit of a multiracial minority' (2008: 42).

Others, building on disparate epistemological traditions, have come to surprisingly similar conclusions. For example, Du Toit's (2008) interpretation of the impediments to sustained growth in contemporary South Africa parallels key features of the Arrighi et al. (2008) analysis. Du Toit starts out by rejecting the idea that South Africa can expect to achieve 'the well-being of all' simply 'as a by-product of growth'. To the contrary, she suggests that the major key to growth is enhancing the capabilities of ordinary citizens, enabling them to make a productive contribution instead of being excluded by unemployment. Her analysis of what stands in the way of achieving this is almost identical to that of Arrighi et al.: 'inadequate access to health, education, transport, housing, water, sanitation and electricity' (Du Toit 2008). For Du Toit, 'The most important challenge for government is a redesign and redirection of its budget allocation priorities away from operational expenses towards investment in human capital and the socio-economic environment, which will improve productivity levels, increase the labour absorption capacity of the economy and raise its growth potential to ensure higher sustainable output growth and shared income' (2008).

Neither of these analyses of the South African case explicitly derives its arguments from endogenous growth theory, the institutionalist approach to growth theory, or Sen's capability approach. Yet, the general propositions of these approaches and the specific propositions that Arrighi et al. (2008) and Du Toit (2008) derive from their analysis of the South African case resonate with and reinforce each other. Before considering the implications of the Arrighi et al./Du Toit perspective for the structures and strategies of the developmental state, it makes sense to broaden the theoretical foundation by reviewing key strands of contemporary development theory.

Three strands of modern development theory

Modern development theory has come a long way from the ahistorical mid-20th century Harrod-Domar model and the ethnocentric arrogance of mid-20th century 'modernisation theory'. Three streams of current development theory are particularly relevant to a vision of constructing a 21st century developmental state:

- The 'new growth theory', as put forward by theorists like Lucas (1988) and Romer (1986, 1990, 1993a, 1993b, 1994) and developed by a range of economists like Aghion & Howitt (1998) and Helpman (2004).
- 'Institutional approaches' to development, as elaborated by a wide-ranging set of development economists, including Acemoglu and Robinson (2006; Acemoglu et al. 2002, 2005), Hoff and Stiglitz (2001) and Rodrik (1999; Rodrik et al. 2004), among others.
- The 'capability approach' to development, as pioneered theoretically by Amartya Sen (1981, 1995, 1999a, 1999b, 2001), and at a more practical level by Mahbub Ul Haq (1995).[1]

Just as Arrighi et al. (2008) and Du Toit (2008), departing from very different epistemological and methodological starting points, end up in very similar positions with respect to the South African case, these three strands of development theory have different starting points and travel down different methodological and empirical roads, but end up with a surprisingly similar set of implications for the agenda of a 21st century developmental state.

In the late 1980s, the new growth theory helped reorient theoretical discussions of growth.[2] The success of the new growth theory was based on more than technical virtuosity; it made intuitive sense. Since Solow's (1956) early work, it had been clear that the combination of physical capital and increased labour inputs could not account for increases in output. The new growth theory shifted attention to the role of ideas and human capital as keys to growth. This simple conceptual shift was backed up by empirical analysis. For example, Jones found, looking at the US economy, that 'between 1950 and 1993 improvements in educational attainments, which amounted to an increase of four years of schooling on average, explain 30% of the growth in output per hour. The remaining 70% is attributable to the rise in the stock of ideas …' (Jones 2002, cited in Helpman 2004: 48). The emphasis on ideas fits well with the capabilities approach, since the human brain is host to the existing stock of ideas, the main interface between ideas and implementation and the prime source of new ideas.

The new growth theory also provides a useful perspective on the contemporary evolution of the structure of employment. In the late 20th century, job growth moved to the service sector. Globally, in both North and South, the total number of manufacturing jobs shrank. Even in China, the new 'workshop of the world', manufacturing jobs were shrinking rather than growing (see Evans & Staveteig 2009). Manufacturing, traditionally considered the best place to grow good jobs, was no longer capable of playing that role – either in the North or the South. For the new growth theory, this makes sense. The service sector produces ideas and, even more clearly, human capabilities. Increased well-being depends on the service sector becoming not only a source of new jobs, but also a source of well-paying, good jobs that reflect the real productivity of workers in the sector.

Manufacturing remains a key element in any developing economy, just as agriculture does, but it is no longer the sector that drives change or the principal source of employment or of increased well-being. The centrality of services creates a new set of challenges for the developmental state, forcing the state to focus on people and their skills instead of machines and their owners.

The 'institutional turn' in development theory complements the new growth theory. The institutional turn emphasises the key role of enduring, shared normative expectations or 'rules of the game' in enabling forward-looking economic action. The ensemble of societal institutions that fosters (or fails to foster) investment and innovation 'trumps' both resource endowments and the accumulation of capital in explaining national differences in the growth of incomes.[3] If we put the new growth theory and the institutional turn together, the central question for growth becomes: what kind of institutional arrangements will best enable societies to build the organisations and networks needed to generate new skills along with new knowledge and ideas, and to diffuse and take advantage of these intangible assets?

The results of the search for developmentally effective institutional forms converge nicely with the arguments of Arrighi et al. (2008) and Du Toit (2008). Institutional theorists agree that dispossession has been historically detrimental to growth. 'Extractive institutions' that dispossess local populations in order to extract resource rents from colonies, first for colonial metropoles and then for local elites, may produce short-term windfalls but they do not produce long-run growth. Acemoglu et al. (2002) suggest that what is required instead is 'a cluster of institutions ensuring secure property rights for a broad cross section of society' (2002: 1235). Robinson's analysis of Central America, done jointly with Jeffrey Nugent (Nugent & Robinson 2001) provides a nice historical illustration of how insuring the property rights of 'a broad cross section of society' promotes growth.

Nugent and Robinson (2001) compare two pairs of Latin American coffee producers. In two of them (Guatemala and El Salvador) elite land grabs dispossess local populations. In the other two (Colombia and Costa Rica) a broader cross section of the population is allowed to retain property rights, and smallholder production persists. In the long term, the dispossession strategy leads to national income levels one half the national incomes enjoyed by the two countries with property institutions more favourable to a broader cross section of citizens.

Why should this be the case? According to Nugent and Robinson (2001), 'Colombia and Costa Rica are richer than El Salvador and Guatemala because their organisation of the coffee economy was more efficient and the structure of bargaining power that it induced generated more rapid human capital accumulation' (2001: 2). When extractive elites monopolise the land and force the rest of the population into the role of landless labourers, neither landowners nor workers have incentives to invest in human capital. The results are exactly what the new growth theory would predict, namely: diminished economic dynamism and lower overall growth rates.

This Central American comparison also illustrates the political implications of dispossession. As Mahoney (2002) points out, enforcing dispossession requires repression and leads easily to the hypertrophy of the repressive branches of the state apparatus. Thus, the Guatemalan military ends up dominating the state apparatus, whereas Costa Rica is able to sustain not only higher growth but also stable democratic political competition.

Just as they connect to the new growth theory, the arguments of the institutionalists are congruent with the 'capability approach', despite divergent intellectual roots. The capability approach's origins lie in social choice theory and the intersection of philosophy and economics, instead of historical analysis of the sort used by the institutionalists, or models of the sort on which the new growth theory relies. The capability approach's distinctive foundation makes correspondence between its conclusions and those of the other two strands of development theory all the more striking.

The capability approach is best known as an analytically powerful statement of the proposition that growth of GDP per capita is not an end in itself, but a proxy for improvements in human well-being.[4] This core feature is absolutely crucial to its overall contribution to development theory. While even conventional development theorists would agree in principle that income is a proxy for human well-being and not an end in itself, nonetheless when policy is being discussed income growth is treated as the goal – and the question of whether or not specific strategies for income growth are connected to increased well-being is left out of the discussion. The capability approach makes it clear that sidestepping well-being and slipping back from development theory is analytically untenable.

While this reassertion of the fundamental aims of development remains the capability approach's most prominent contribution to policy debates, two other aspects of the capability approach are central to its convergence with the other strands of modern development theory that are the focus here.

First, a political affinity with the institutionalists flows from Sen's (1999a) insistence that if development is about well-being and capabilities, then development strategies and policy cannot be formulated by technocrats, but must be derived from democratically organised public deliberation. Institutionalists also emphasise the importance of democratic decision-making processes. Rodrik, one of the most prominent of the institutionalists, argues (1999) that democracy is seen as a 'meta-institution', promoting the 'high-quality institutions', which in turn promote growth. For Rodrik, it is 'helpful to think of participatory political institutions as meta-institutions that elicit and aggregate local knowledge and thereby help build better institutions' (1999: 19).

The capability approach agrees with but goes further than the institutionalists. Democracy is not just a key means of promoting economically effective institutions.

It is also the only analytically defensible means of defining specific developmental goals. Sen is clear that 'we cannot in general take preferences as given independently of public discussion' (1999a: 153), and that 'a proper understanding of what economic needs are – their content and their force – requires discussion and exchange' (1999a: 153). The fact that capabilities cannot be reduced to 'one homogeneous good thing' (Sen 1999a: 77) makes democratic deliberation even more fundamental. The capability approach identifies 'public deliberation' as the only analytically defensible way of ordering capabilities, putting political institutions and civil society at the centre of developmental goal-setting.

Sen's characterisation of capabilities as both means and ends is most central to the capability approach's correspondence with the other two strands of development theory. Sen insists that the expansion of human capabilities is not only the obvious goal of development but also the most essential *means* of development. Not all capabilities are relevant to economic growth, but without an expansion of those capabilities that are relevant, sustained rapid growth is impossible.[5]

Focusing on capability expansion as the key driver of economic growth fits both the emphasis of the new growth theorists on the knowledge and skills embodied in the capabilities of individuals (and the networks that connect them) as key inputs to growth, and the emphasis of the institutionalists on the key role of institutional arrangements that foster investment in human capital. The capability approach is, however, more insistent than the new growth theorists on the centrality of public provision of capability-enhancing services.

Sen argues that 'supporting public assistance in providing basic education, health facilities and other public (or semipublic) goods' (1999a: 129) makes sense in efficiency terms as well as in equity terms. Like Arrighi (2007), Sen sees China's recent economic success as rooted in successful provision of collective goods. In Sen's view, 'Maoist policies of land reform, expansion of literacy, enlargement of public health care and so on had a very favorable effect on economic growth in post-reform China' (1999a: 260).

The convergence of these three strands of development theory produces a clear agenda for the 21st century developmental state. Accelerating economic growth in the 21st century requires expanding access to the existing stock of ideas, increasing effective utilisation of this stock and generating new ideas suited to a country's specific circumstances. All of this depends on the expansion of human capabilities.

To be developmental, a state must perform at least two general roles. It must support a distribution of basic rights that gives individuals incentives to invest in their own capabilities. Captured by an elite with an agenda of dispossession, the state becomes the instrument for wiping out those incentives – the antithesis of a developmental state. At the same time the state must offer, in Sen's words, 'a program of skillful social support for health care, education and other relevant social arrangements' (1999a: 46). In addition to being instruments of achieving societal goals, developmental states must be vehicles for making social choices and defining developmental goals.

It is this function that places effective participation in democratic deliberation at the top of the list of the capabilities that the developmental state must foster.[6]

Development theory sets up a demanding agenda for any nation trying to reconstruct its state apparatus with the aim of making it more developmental. What kind of state structures would be required to fulfil this agenda? What sorts of ties between the state and private interest groups, communities and other political actors would make it work politically? The 20th century developmental states offer a starting point for attacking the problem of institutional construction.

What lessons from the 20th century developmental states?

The 'East Asian Tigers' (including the 'City State Tigers' of Hong Kong and Singapore) managed to change their position in the world economic hierarchy, moving from 'underdeveloped' to 'developed' in the course of two generations. Not only did they enjoy increased incomes, they also transformed their economies into sophisticated combinations of highly productive agriculture and industry and, more recently, high value-added services. They expanded capabilities, moving up dramatically in terms of the UNDP Human Development Index (HDI). Their success is incontestable, whether the indicator is the HDI, growth of GDP per capita, or more specific measures of industrial competitiveness. This kind of shift is not only unprecedented among 20th century developing countries. It is exceptional even in a broader context that includes the historical experience of Europe and the Americas.

Analysts of this successful transformation agree overwhelmingly that the state was one of its institutional keystones.[7] Models of the 20th century developmental state were built around the studies of the archetypal cases of South Korea and Taiwan by Amsden (1989), Wade (1990) and, more recently, Chibber (2003) and Kohli (2004). Following the perspective that I laid out as far back as 1995 in *Embedded Autonomy*, I highlight here two facets of the 20th century developmental state: bureaucratic capacity and 'embeddedness'.[8]

To focus on the East Asian developmental states is to focus first of all on the capacity of public bureaucracies. Nearly everyone agrees that when East Asian public bureaucracies are compared with those of developing countries in other regions, they more closely approximate the ideal-typical Weberian bureaucracy. Meritocratic recruitment to public service and public service careers offering long-term rewards commensurate with those obtainable in the private sector were institutional cornerstones of the East Asian economic miracle. Meritocratic recruitment was important, not only to promote competence but to give state employees a sense of esprit de corps and belief in the worthiness of their profession. Long-term career rewards based on performance kept competent individuals from deserting the public service.

While the effects of bureaucratic capacity are most evident in the East Asian NICs, the positive developmental effects of competent cohesive bureaucracies seem to be a transferable lesson. A simple analysis of cross-national data confirms the importance of bureaucratic capacity (Evans & Rauch 1999; Rauch & Evans 2000). In a sample of developing countries, the results from investments in improving bureaucratic capacity were large. Roughly speaking, an increase of half a standard deviation in the 'Weberian score' (an indicator of bureaucratic capacity) is worth a 26 per cent increase in GDP from 1970–90 (controlling for human capital and initial GDP per capita). Likewise, an increase of one standard deviation in the Weberian score is roughly equivalent to a shift in average years of education in 1965 from three years to six years (controlling for initial GDP per capita).

Capable, cohesive bureaucracies are one key to giving the state the level of autonomy it needs to pursue a coherent national project, but the success of the 20th century developmental state must also be set in socio-political context.[9] First, the agrarian class structures confronted by the East Asian developmental states stand in contrast to would-be developmental states, such as contemporary South Africa, or Brazil in the 1970s. The absence of dispossession, stressed by both Arrighi (2007) and Hart (2002), is one side of the mid-20th century East Asian agrarian equation, but the political absence of agrarian elites was equally important.

The chaotic geopolitics and revolutionary violence of the mid-20th century had the developmentally propitious consequence in East Asia of wiping out landed elites as politically effective class actors in national politics. In Korea and Taiwan, the Japanese had already partially displaced local landlords in the inter-war period.[10] Then Japan's defeat wiped out Japanese landlords in their colonies. Taiwan's ruling party had already lost one country to the power of peasant unrest. North Korea's communist regime made sure that Korea remained acutely aware of the political dangers of dispossession. Land reform was the obvious order of the day.

Exceptionally thorough land reforms combined with effective state support for peasant agriculture in both Korea and Taiwan not only created the positive spread of property rights that Arrighi (2007), Hart (2002) and Nugent and Robinson (2001) underscore, but also relieved the state of having to deal with the kind of economically powerful, politically reactionary landed class that has plagued development efforts in so much of the global South, leaving the state free to focus its attention on local industrial elites.

The position of the state vis à vis industrial elites was equally propitious for the construction of a developmental state. First, local industrialists were economically weak. Concentrated in technologically backward sectors focused on domestic consumption goods, local capital knew that it could be crushed by global competition if left unprotected, and that it had little chance of becoming competitive in global markets without state support. Local industrialists also lacked alliances with Northern capital. European and American capital had never had a presence in Korea and Taiwan and neither country was attractive to foreign investors in the 1960s. The absence of a powerful agrarian elite left local industrial capital with no promising ally except the state.

Not having to deal with a powerful landlord class and starting from a position of strength vis à vis local capitalists put the state apparatus in a position to orchestrate a concrete national project of development, built on a dense set of concrete interpersonal ties that enabled specific agencies and enterprises to construct joint projects at the sectoral level. This 'embeddedness' was as central to the success of the 20th century developmental state as bureaucratic capacity.[11]

Embeddedness was never a tension-free symbiosis. Based on the prior performance of local business, state officials assumed that the private sector's 'natural' strategy was 'rent-seeking', looking for officially sanctioned niches that would allow them to buy cheap and sell dear without having to brave entry into newer, riskier sectors. State officials therefore assumed that they had to avoid political capture by their private partners in order to keep local capital oriented towards national projects of accumulation rather than their individual consumption. Avoiding capture and being able to discipline entrepreneurial elites is a defining feature of the 'embedded autonomy' of East Asian developmental states, distinguishing them from less successful states in Asia and Africa (see Amsden 1989; Kohli 2004).[12]

Focusing on the issue of state–society ties is a reminder that the late 20th century's most impressive success has a story with a surprising degree of family resemblance to the East Asian Tigers. The Chinese state was also nested in a favourable class structure. China had, of course, eliminated its landlord class even more thoroughly than Korea and Taiwan. As Arrighi (2007) and Hart (2002) point out, China reached the late 20th century with exceptionally low levels of dispossession.[13] Likewise, the Chinese state in 1985 did not face a politically powerful capitalist class. Local industrialists were only beginning to emerge and transnational capital had not become a powerful economic force.

China fits the 20th century developmental state model in other respects as well. For a state of continental dimensions, the Chinese bureaucracy had substantially more capacity than its counterparts elsewhere in the global South. As Sen emphasises (in Dreze & Sen 2002), China's state also made massive, broad-based, capability-expanding investments in health and education, laying the foundations of its subsequent ability to exploit industrial opportunities.[14] In short, China, in the period from 1985 to the turn of the century, looks like a variant on the 20th century developmental state, despite being ostensibly socialist (indeed, in part precisely because of its socialist legacies).

How do the strategies of 20th century developmental states accord with the three strands of development theory that have already been discussed? History helped them avoid the dispossession route and remain consistent with the prescriptions of the institutionalists (and Arrighi), despite their authoritarian politics and penchant for repression. They were also pioneers in capability expansion. The East Asian Tigers were renowned for their levels of investment in human capital. They began their periods of accelerated economic growth with education levels that made them outliers for countries at their income levels, and they continued to invest massively in the expansion of education throughout the period of their rapid expansion.

The 20th century developmental states also followed the admonitions of the new growth theory more closely than the standard narrative suggests. The literature on 20th century developmental states tends to highlight their role in promoting investment in the manufacturing plant and equipment necessary to expand and improve manufacturing production. They were, however, equally focused on accelerating the local production of ideas and expanding local access to the existing global stock of ideas. 'Industrial policy' in both South Korea and Taiwan was never restricted to subsidising investments in plant and equipment. It always focused on increasing the access of local firms to productive ideas and creating networks and incentives to push entrepreneurs towards a greater emphasis on the production of new knowledge. In addition to finding ways to transplant and exploit the stock of knowledge that was ostensibly the property of Northern corporations, the East Asian Tigers resisted the efforts of Northern corporations to enforce their monopoly control of intangible assets, leading to cries of 'piracy' from the North, but expanding the access of East Asian citizens to productive ideas.[15]

How can those trying to construct 21st century developmental states best benefit from these 20th century experiences? On the one hand, the correspondences between the strategies of 20th century developmental states and the agenda suggested by development theory provides historical reinforcement for the usefulness of general theoretical guideposts. At the same time, would-be developmental states must recognise the powerful contextual advantages that history conferred on 20th century developmental states. Unusual class structures allowed them greater autonomy and enabled their capable public bureaucracies to build forms of embeddedness consistent with a transformative project. Successful 21st century developmental states will need to invent construction plans to fit very different circumstances.

Building a 21st century developmental state

What kind of organisational structures and state–society ties would best enable a 21st century state to accomplish the agenda set out by modern development theory? If effective delivery of capability-expanding services is the cornerstone of 21st century development, then the ties and structures associated with efficient service delivery are a good place to start.

All modern states play a central role in the provision of health and education. The question is whether or not they undertake the task in the aggressive, entrepreneurial fashion warranted by its central role in driving both growth and well-being. Without competent, coherent public bureaucracies, capability-expanding public services will not be delivered. Building organisational capacities comparable to those of 20th century developmental states is, therefore, crucial to the success of a 21st century version. A 21st century developmental state requires new kinds of capacity as well. Most crucially it requires the ability to promote a more encompassing form of embeddedness.[16]

In the 20th century developmental state, embeddedness was important both as a source of information and because implementation of shared projects depended on private actors. Insofar as embeddedness aimed at industrialisation, the logic of constructing it was comparatively straightforward. The key information involved figuring out which industrial projects were feasible and what kind of incentives would be required to engage the energy of the relevant firms. The 'culture' of leading firms had to be reshaped so that competition was seen more in terms of innovation and risk-taking. The primary cast of partners was a small set of industrial elites with relatively well defined interests. Building ties on the basis of personal networks and administrative structure was a feasible project.

For a developmental state focused on capability expansion, the need for information and engagement from societal partners is even greater, but the interlocutors and the character of the networks are more complicated. Information must be gathered from constituencies that are more numerous and less organised. The value of a project cannot be assessed on the basis of a simple technocratic measure, such as rate of return on investment or projected market share. Whether a project is worthwhile depends on how well its results correspond to the collective preferences of the communities being served. Accurate information on collective priorities at the community level is a sine qua non for a successful 21st century developmental state. Without multiple channels getting accurate information, the developmental state will end up investing inefficiently and wasting precious public resources. The centrality of accurate information to state efficiency makes deliberative institutions key contributors to development as well as building blocks for democratic politics. In the 21st century, 'deliberative development' is the foundation of efficient economic strategy as well as effective public policy (see Evans 2004).

Engaging societal actors in implementation is as crucial to capability-expanding strategies as engaging firms is to industrial strategies. As Ostrom (1996) emphasises, capability-enhancing services are always co-produced by their 'recipients'. Education is co-produced by students (and their families). Health is co-produced by patients, their families and their communities. The state needs their active engagement in the delivery of those services in order to ensure that the investments produce the desired effects. Delivery to passive recipients produces results that are sub-optimal at best and sometimes counter-productive. The skills and organisational capacities required to stimulate this kind of engagement are more complex and harder to construct because they are more political than technocratic.

To create effective state–society linkages, the state must facilitate the organisation of counterparts in 'civil society'. The 20th century developmental state's interaction with industrial elites gave these elites a reason to become a more collectively coherent class. The 21st century developmental state must do the same for a much broader cross section of society. It will not be easy. Shared interests in capability expansion are broad and deep but articulating them is a very politically demanding task. 'Civil society' is a complicated beast, full of conflicting particular interests and rife with individuals and organisations claiming to represent the general interest.

In short, the biggest challenge to building a more encompassing embeddedness is enabling communities to construct shared coherent goals, whose concrete implementation can then be 'co-produced' by public agencies and the communities themselves. The central importance of this aspect of embeddedness is what makes democratic dialogue so crucial to the 21st century developmental state. Sen's (1999a) argument that democratic deliberation is the only way of adequately defining desired economic ends is compelling.

Arguments for a more encompassing version of embeddedness are reinforced by a parallel set of arguments that earlier forms of embeddedness, focused on industrial elites, have become increasingly problematic in relation to 21st century agendas. The growing power of global capital and the growing integration of local capital into transnational networks has made close ties with capital riskier and more difficult for a developmental state. Capture is more likely and maintaining the essential balance between autonomy and embeddedness is harder to sustain. At the same time, there is less overlap between the agenda of the 21st century state and the profit-maximising projects of capital.

The logic of private profit is harder to harness to capability expansion projects than to projects in which the increased production of tangible goods is the goal. Since social returns to the expansion of human capabilities are substantially higher than private returns, private markets consistently and perennially underinvest in human capabilities. Instead, markets channel investment to other areas where total returns are lower but private returns appear higher. This is particularly true in the case of the most fundamental capability-expanding services. Early childhood education, where the capabilities generated will have an impact on production only in the distant future, is the best example.

In the 20th century manufacturing-focused development project, the symbiosis between private profitability and a shared national project was easier to execute. Shared projects around industrialisation depended on counterbalancing private risk aversion and pushing private perspectives towards a longer time horizon, but the eventual productive capacity fitted nicely into a profitability-focused market logic. Capability expansion fits less easily into a shared project with private capital. Precisely because of the large 'collective goods' element in capability expansion, productive alliances with private capital are less easily constructed. Compensating private capital for the persistent gap between social and private returns is a bigger challenge than getting industrialists to face risks and think long term.

Looking at the 20th century development models, it was possible to imagine that 'growth policy' could be separated from 'social policy' or 'welfare policy', such that 'growth policy' could be built around partnerships between the state and capital – partnerships that did not have to concern themselves with well-being. The 21st century developmental state cannot afford such myopia. Policies that expand capabilities may look like 'social policy' or 'welfare policy' but they are essential to growth policy. This recognition requires reshaping ties to capital.

The internal organisational challenges that must be addressed in order to accomplish a 21st century agenda are formidable, but building a more encompassing embeddedness is the bigger hurdle. Since more efficient administrative structures ultimately depend on new forms of embeddedness, state–society ties are the crux of the problem of constructing a 21st century developmental state. State–society ties are also the area in which the pitfalls are most obvious.

Conclusion: pitfalls and potentialities

Building a 21st century developmental state promises immeasurable well-being gains, but it is also a project with pitfalls. Ten years ago, Scott (1998) forcefully reminded us that 'schemes to improve the human condition' can easily end up worsening the human condition instead, especially when they involve massive and powerful organisational apparatuses like the state. Trying to build a 21st century state is no exception. The temptation will be to appropriate the label and apply it to building an institutional frame that is politically expedient but ducks the difficulties of delivering capability expansion. The result could be a state that calls itself developmental but undermines both growth and well-being. Before reminding ourselves why building a real 21st century developmental state is worth trying, some cautionary notes on how the project could go awry are in order.

Trying to implant a model of the developmental state without taking into account local historical legacies is the most obvious trap. Alliances possible in post-WWII East Asia cannot be replicated today in Africa or Latin America. Capital cannot be brought into a state-directed national project in contemporary Africa and Latin America in the same way that it was brought into alliances in East Asian states four decades ago. Pretending that nothing has changed is an invitation to local capital and its transnational allies to construct their own agenda, deflecting state policy in directions that will allow them to capture resources and subsidise profits without contributing to capability expansion.

Allowing capture to masquerade as a developmental alliance is the biggest pitfall in the construction of the 21st century developmental state. It is a politically attractive pitfall. States that fall into the trap will be applauded by local private elites and global policy-makers alike (as long as such states avoid the most blatant and obvious forms of corruption). States that try to avoid the trap will be condemned by the same groups as not understanding the importance of 'partnering with private enterprise'.

The trap will be different depending on the specific configurations of power. The suspicions of Arrighi et al. (2008) of trying to build a 20th century state–capital alliance in the South African case have already been discussed. They express them in three ways. First, there is the general admonition that 'investments in the welfare of the population may be a safer developmental bet than concessions to capital' (2008: 39). Then, they criticise the ANC's early turn to capital. In the view of Arrighi et al, 'By "betting" on capital to solve the crisis, it forfeited the kind of investments in the welfare of the population (housing, public transport, health and, above all, mass lower and higher education) that would have been key developmental objectives in themselves and may well be the most essential, though by no means sufficient, condition of renewed economic expansion' (2008: 39). Finally, Arrighi et al. worry that the state will allow new resource rents to be 'appropriated by foreign capital' rather than being used to 'generate activities capable of re-inventing the welfare state on foundations that can be generalized to the vast majority of the population' (2008: 42).

The other obvious pitfall looks like the mirror image of the first. A single-minded focus on the 'autonomy/bureaucratic capacity' lessons from the 20th century developmental state could also undermine the project. Neglecting the key role of input and engagement on the part of the constituencies who must make use of capability-expanding services would be fatal to the 21st century developmental state's project, but even the best bureaucrats may fall into this trap. Deliberative procedures that deprive 'experts' of their privilege are hard for technocrats to accept. The 'new public management', with its emphasis on quasi market measures of success, makes matters worse. Sen (1999a) anticipates this problem, noting that 'a democratic search for agreement or a consensus can be extremely messy and many technocrats are sufficiently disgusted by its messiness to pine for some wonderful formula that would simply give us ready-made weights that are "just right"' (1999a: 79).

Ironically (and ominously), these two apparently opposed pitfalls may actually have a symbiotic relationship, each reinforcing the other. Technocrats are likely to feel more comfortable dealing with managers than with unruly community leaders. Alliances with capital become correspondingly more comfortable than engagement with civil society. The real threat of private capture, which comes from capital, is easily masked by an apparently shared project that actually serves capital at the expense of national development. Communities of ordinary citizens lack the power and resources to threaten the state's autonomy, but state officials may easily feel personally 'captured' when they are forced to take seriously hard-to-digest inputs from community groups.

These twin pitfalls define the most likely shape of the demise of the 21st century developmental state project. The resulting state could appear to replicate both the 20th century developmental state's construction of a Weberian bureaucracy and earlier versions of 'embeddedness', while being in reality the antithesis of the 20th century developmental state. Realising the potential of the 21st century developmental state will require avoiding the twin pitfalls of blind 'top down' relations with communities coupled with capture by capital.

Why not then just give up on the 21st century developmental state? The answer is: because the dictum 'no developmental state, no development' still applies, and the movement of history has cut off the possibility of returning to 20th century models. The rewards accruing to nations that succeed in constructing 21st century developmental states are worth an uphill political and institutional struggle.

Three components of the potential returns from the 21st century developmental state are worth underlining in conclusion. First, the development strategy that follows from constructing a 21st century developmental state is not a welfare strategy that neglects growth; it is a high-growth strategy. Second, it is a strategy whose structural features link high growth with broadly shared returns – in part because it is a naturally 'labour-intensive' strategy. Finally, in an era when many growth strategies carry with them environmental degradation and the threat of ecological collapse, the strategy that flows from the construction of a 21st century developmental state has a light ecological footprint.

The new growth theory tells us why a 21st century developmental state is a high-growth state. Investing in the capacity to take advantage of the existing stock of ideas and create new ideas is the best way to raise growth rates. The capability approach underlines why the provision of capability-expanding services is the foundation of a country's ability to take advantage of high-growth opportunities. Expenditures on health and education are much likelier to produce sustained high rates of growth than subsidising capital to build plants or buy machinery. Of course, high-growth outcomes depend on efficient allocation of investment, which is why bureaucratic capacity linked to encompassing embeddedness is so crucial to connecting the 21st century state to high-growth outcomes.

A 21st century developmental state is about employment as well as growth. It simultaneously creates twin routes to employment expansion. First, as Du Toit's (2008) 'supply side' growth paradigm emphasises, capability expansion is a sine qua non for transforming discouraged and unqualified potential workers into productive members of the labour force. Even more important, the delivery of capability-expanding services is in itself the most labour-intensive investment strategy possible. The unmet demand for teachers and health care workers is essentially unlimited and (again assuming an efficiently organised system of delivery) there is no reason to believe in diminishing returns. From the perspective of employment creation, there is no comparison between a 21st century investment strategy and one that focuses on subsidising purchases of imported machinery.

Positive ecological outcomes may, in the long run, be even more important than growth as employment expansion (cf. Swilling 2009). Yet, environmental consequences have traditionally been neglected in the developmental state debate. The environmental degradation associated with 20th century developmental states has not been counted against them. In the 21st century, ecological effects cannot be relegated to the background. Fortunately, positive ecological consequences can be counted among the potential benefits of successful construction of a 21st century developmental state.

Why should the type of autonomy and embeddedness associated with the 21st century developmental state lead to a lighter ecological footprint? To begin with, capable public institutions are as essential to reducing environmental degradation as they are to expanding capabilities. Individual economic actors can almost always benefit from ignoring negative environmental 'externalities'. Only when consequences are judged from a long-term collective perspective do ecological considerations get their due.

Unfortunately, effective public bureaucracies are not in themselves insurance that ecological costs and benefits will be taken into account. The behaviour of 20th century developmental states provides ample evidence of this. The shift in the pattern of embeddedness is what gives the 21st century variety an advantage over its predecessors. Communities pay the cost of environmental degradation and have long-run interests in sustainability. Their interests with regard to environmental issues are not simple (see Evans 2002), but embeddedness that focuses on communities is much likelier to produce ecologically sound policies. Making public interchange and deliberative goal-setting central to that embeddedness increases the likelihood that communities will be able to articulate and pursue their environmental interests.

The growth strategy of the 21st century developmental state is also conducive to a lighter ecological footprint. Investment in plant and equipment and reliance on expanding the production of tangible goods to increase incomes is a growth strategy with a heavy footprint. By contrast, a strategy of investing in human capabilities, the more effective use of existing knowledge and the generation of new ideas only tangentially entails consuming non-renewable resources or generating dangerous waste products.

If the 21st century developmental state can promise a combination of high growth, broad-based employment expansion and a lighter ecological footprint, it is worth prodigious effort to bring the required institutional transformation about. To be sure, taking on the task in no way ensures success. Building new institutions is always a perilous project and the pitfalls surrounding this particular piece of institutional construction are deep and hard to avoid. Declining the challenge, however, risks consignment to an unsustainable future in which low growth and diminished well-being are joined together like Siamese twins. Given the stakes, refusing to confront the daunting task of trying to construct a 21st century developmental state is not a real choice.

Notes

1 By creating the United Nations Development Programme's (UNDP) Human Development Report with its 'Human Development Index', Ul Haq transformed the concept of 'capabilities' into a standard empirical indicator (see Ul Haq 1995).

2 See Lucas (1988) and Romer (1986, 1990, 1993a, 1993b, 1994). For more recent summaries, see Aghion & Howitt (1998) and Easterly (2001).

3 See Acemoglu et al. (2005); Bardhan (2005); Chang & Evans (2005); Easterly & Levine (2003); Evans (2004, 2005, 2007); and Rodrik et al. (2004).

4 Sen (1999a) argues that we should evaluate development in terms of 'the expansion of the "capabilities" of people to lead the kind of lives they value – and have reason to value' (1999a: 18). Among Sen's massive bibliography, *Development as Freedom* (Sen 1999a) is perhaps the most accessible synthesis of his version of the capability approach.

5 Obviously, given the right institutional environment, the relationship between income growth and capabilities should run in both directions, with expanded capabilities driving income growth and income growth providing resources that allow further expansion of capabilities. In a very interesting paper, Boozer et al. (2003) capture this interaction in a quantitative analysis using longitudinal cross-national data.

6 In addition, since the capability of making choices is one of the most important of all human capabilities, 'processes of participation have to be understood as constitutive parts of the *ends* of development in themselves' (Sen 1999a: 291).

7 By the 1990s, even the World Bank (1993, 1997) had joined the consensus.

8 The literature on the 20th century developmental state is vast and I will not try to survey it here. In addition to work on Korea and Taiwan, Johnson's (1982) pioneering analysis of Japan should not be forgotten. For an interesting extension of the embedded autonomy theme, which introduces the related idea of the 'synergistic autonomous state', see Edigheji (2007).

9 This analysis applies primarily to South Korea and Taiwan. The City State Tigers – Hong Kong and Singapore – did not have to worry about the power of agrarian landlords. Nonetheless, their massive public housing programmes can be seen as the urban analog to land reform. State–society relations in China share more with the East Asian NICs than is often acknowledged (see discussion below).

10 See, for example, Kohli (2004, Chapter 2) on the Japanese in Korea.

11 In Evans (1995), I define embeddedness as consisting of 'a concrete set of social ties that binds the state to society and provides institutionalized channels for continual negotiation and re-negotiation of goals and policies' (1995: 12), adding that 'dense connecting networks without a robust internal structure would leave the state incapable of resolving "collective action" problems … Only when embeddedness and autonomy are joined together can a state be called developmental' (1995: 12).

12 This is particularly emphasised by Amsden (1989).

13 Whether the current acceleration of 'land grabs' of peasant holdings by urban elites will undermine some of this advantage is another question (see Arrighi 2007; Lee 2007).

14 See particularly Chapter 4 of Dreze and Sen (2002).

15 As Chang (2002) points out, 20th century developmental states followed the earlier historical practice of states in the North in this respect.

16 For an earlier discussion of the concept of 'encompassing embeddedness' see Evans (1995, Chapter 10).

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3 From maladjusted states to democratic developmental states in Africa

Thandika Mkandawire

In Africa, the state has been subjected to severe criticism ever since independence. Early on, it was attacked for being 'overdeveloped', 'dependent', 'neo-colonial', petty bourgeois' and so on. However, much of this earlier criticism was within a nationalist-developmentalist framework that allowed, and indeed insisted on, a more prominent role for the state in nation-building and development processes. The issue then was not to rein in, let alone dismantle, the state but rather to make it assume its rightful, urgent and imperative role in nation-building and development. In more recent years, a new suite of epithets has been used to characterise the African state. The underlying premise of many of these epithets is that the state cannot or must not play a central role in Africa. This perspective has sanctioned the weakening of already weak states.

After years of focus on stabilisation, it is now generally agreed that economic growth and development should be placed squarely back on the policy agenda in Africa. This is partly because high growth rates and structural change are essential both to extricating Africa from the quagmire of its 'lost decades' and to meeting the aspirations of an increasingly vocal citizenry clamouring for a decent livelihood. Such a social agenda demands serious reconsideration of the role of the state in the development of Africa. This in turn demands redress with regard to the many institutional and structural imbalances that adjustment and the lost decades have added to the state's historically problematic position in postcolonial Africa. In this chapter I argue that the slew of reforms of the 1980s and 1990s at best produced a maladjusted state – an anaemic regulatory state unlikely to perform the required functions of a developmental state. Because of the way that institutions have been evoked, designed and allocated tasks, there has been a tendency to present them largely as constraints on social actors (especially state actors) rather than as transformative instruments in the context of extreme poverty and underdevelopment. I indicate some of the consequences of these reforms. I argue for the need to move beyond the 'regulatory state' produced by these reforms towards a developmental democratic state. I also touch upon some of the factors that favour such a project.

Ideas and ideologies

Developmental states are not an end in themselves, but an instrument for attaining particular goals – in this case 'catching up', rapid economic transformation and growth. So what matters is the collective aspiration and intent to develop. History insists that it is the prior ideologies of catching up that have given birth to the need to forge instruments adequate to these tasks. It is this focus that provides the normative framework for institutional innovation, incentivises social actors and determines the adequacy of institutions. Since development – as a deliberate and intentional process of economic change and transformation, as opposed to simply a result of the blind forces of the market – has often been driven by notions of 'catching up' with countries perceived to be 'developed', it has involved some idea of how the 'pioneers' of development achieved their development. The interpretation of these experiences is as much empirical as it is ideological. A dominant position has held to some linear view of history, suggesting that countries would ineluctably pass through 'stages' of growth. The prior existence of advanced nations changes the context of 'late comers'. It can produce 'backwash effects' (Myrdal 1957) that retard development in the late comers (through domination and exploitation of the advantage of being pioneers), or it can provide useful lessons for the late comers. Both the fending off of the negative effects of lagging behind and the harnessing of the advantages of the late comers require deliberate societal effort. As underscored by Gerschenkron (1962), the very idea of 'catch-up' suggests nonlinearity, as learning and emulation will necessarily mean 'leapfrogging'. Lessons learnt by pioneers ex post appear as ex ante knowledge for the late comers. More significantly, the institutions appropriate to the catch-up process will differ radically from those used by the pioneers, or will appear at stages of development that may be quite different from those that prevailed in the pioneer countries when such institutions were created or adopted. This is particularly the case with both the capacity and role of the state as the prime collective instrument for achieving rapid rates of economic growth and structural transformation.

Nationalism

Driving the quest for catching up is nationalism, which has proved its enormous vitality despite the many predictions of its demise. Nationalism and accumulation have an uneasy relationship, at times contradictory and at times mutually reinforcing. In much of the neoclassical writing on policy formation in the third world, and in some of the current literature on Africa, only the negative relationship of nationalism to accumulation is highlighted. In the neoclassical theory, nationalism is taken as simply being 'irrational', preferring or inducing economic policies that lead to allocation inefficiency of all kinds. Nationalism is said to sacrifice material progress and undermine accumulation by its preference for 'psychic incomes' (obtained through confiscation of foreign property) and 'prestigious' projects (Johnson 1967a, 1967b, 1971). For Johnson (1967a), while nationalism appears, on the one hand, as a 'driving force' necessary for the less developed countries to accelerate their economic development by economic planning, it is also the major political influence responsible for the fact that many features of the policies, concept and methods of economic development planning in such countries either do not make economic sense, or would make economic sense only in certain specific and rather exceptional economic circumstances, the actual presence of which no one has felt it necessary to establish by empirical economic research (Johnson 1967a: 1). These same views are today expressed by 'globalists', who insist on the futility of nations seeking to carve out a place in the world other than the one dictated by 'market forces'.

In the processes of development, nationalism can serve as a means of both promoting development and coping with development. Development and accumulation can bring with them serious social dislocations and intensify social differentiation; they often spawn new elites, by whom nationalism may be regarded as a means of binding together the nation, 'providing identity and purpose' to the modernisers (Breuilly 1982). Furthermore, nationalism provides an ideological rationale to the indigenous classes in their own struggle against foreign domination. Finally, the ruling class needs nationalism not only to cover up the stark inequalities characterising society but also for the ruling class's own internal cohesion and discipline. History is replete with cases of the nationalism of the ruling class propelling economies towards particular styles or levels of accumulation. Nationalism has been used to impose enormous sacrifices on the citizenry to attain 'self-sufficiency' in things considered essential for national sovereignty (armaments, food, textiles etc.). It is the 'irrationality' of nationalism that has given utility to investments of great risk or long gestation periods that the market would be hard put to justify, given its 'myopic' vision. Indeed, as Felix (1977) notes, because of the 'leaps' that a late industrialiser must make, the investments will tend to violate market wisdom and so they 'must find some of their rationale and political support in prophetic, ideological visions of the long-run national interest' (Felix 1977: 203). The sacrifices demanded by the accumulation process may be given legitimacy by 'developmentalist' incantations and Churchillian appeals for 'national sacrifice', at least on the part of others. But they could also be attained through a democratic consensus over the national interests.

In Africa, nationalism has profoundly affected debates on development policy and is likely to continue to play an important role. In the light of some egregious cases of 'selling out', the nationalism assumption I make here may seem a rather heroic one to make. However, even today in its beleaguered state nationalism continues to influence perceptions of the 'national interest' and acceptability or non-acceptability of foreign interventions in African economic policy-making. Nationalism, bourgeois or otherwise, still remains probably the most potent political force in Africa – if for no other reason than that African nations are new and the process of kneading together these new states demands a heightened and deliberate sense of nationalism.

Developmentalism and economics ideas

In terms of 'big ideas' (Lindauer & Pritchett 2002) with regard to policies for economic growth, one of the major ideas that emerged from the reading of economic history and the development theory of the post-WWll era was the centrality of the state in the process of development, and the understanding that states can do many things in the development process (Lindauer & Pritchett 2002). For example, states can:

- influence private producers by providing incentives and enabling environments through a whole range of policies – including fiscal, monetary, investment and trade policies;

- assume regulatory roles by establishing the rules of the game and by ensuring that private gains are compatible with social objectives;
- serve as mediators in conflicts between various social actors and interests;
- assume welfare roles such as redistribution of wealth and protection of citizens against the vagaries of nature and the market;
- engage in directly productive activities by assuming an entrepreneurial role, taking on high-risk or high-capital projects; and
- help resolve a number of coordination problems through planning.

Quite early in the post-independence period in Africa, it became clear that the inherited state was inadequate to the task of development. Although, in the current revisionist history, the impression is given that Africans inherited strong states from erstwhile colonial masters, the fact is that the inherited colonial state was, in many parts of Africa, no more than a garrison stationed so as to protect trading outposts and routes that the imperial order had set up. Only in the white settler economies did the state have the institutional capacity to provide extensive services to the racially segregated society, and only in such cases did the state collect taxes that went beyond taxes on exports and poll taxes. With the expansion of demands on the state after independence to meet the economic and social needs of the new nations and the exigencies of statehood, there was a rapid expansion of the state both in administrative capacity and reach. Not surprisingly, ideas of 'development management', implying new roles for the state beyond the 'military outposts' role of the colonial state, became prevalent. Much of this expansion was accompanied and sustained by rapidly expanding economies until the 1970s, when first the 'oil crisis' and then the financial crisis (early 1980s) brought growth rates to a sudden halt.

Neoliberalism and a new role for the state

Both the ideological shifts in the countries that dominated the Bretton Woods Institutions and the crisis of Keynesian economics in the 1970s and resultant ascendancy of neoclassical economics produced a neoliberal reform agenda that revolved around the reduction of the role of the state in the economy. Most significantly, the neoliberal view led to the conceptualisation of development as something immanent in the market system and not as a goal that societies would strive to achieve through strategically deployed efforts. Such a conceptualisation of development thus put paid to the idea that nations would pursue 'strategies' that might speed up their catch-up. Even the statist developmental successes of East Asia were explained at the time as merely 'market conforming' or as much ado about nothing, since similar or higher rates of growth would have been achieved, the argument went, by 'market-led' industrialisation. The official mantra of the neoliberal view of the times was 'Get prices right'. This essentially involved liberalisation of markets. The other aspect of this new agenda was the reduction of demand, especially that of the state. The dominant view in this regard was that it was 'widely evident that the public sector is overextended given the present scarcities of financial resources, skilled manpower, and organizational capacity' (World Bank 1981: 5). This was to be remedied by the fiscal disarming of the state, by denying it access to trade taxes through trade liberalisation, by dismantling state monopsonies (such as marketing boards) and through retrenchment of the civil service.

During the first phase of adjustment, reining in the state was a central premise of policy. The 1980s and 1990s were decades of what Whitehead (1993) aptly describes as a 'veritable cannibalization of the state apparatus' (1993: 1381), brought about by untrammelled experimentation with half-baked ideas about how markets performed in Africa. The United Nations captured the final outcome of these reforms thus:

> … the public sector in sub-Saharan African countries has weakened during the past two decades. The share of government revenue in the gross domestic product (GDP) has fallen, the civil service has shrunk in size and real wages in the public sector have declined. Thus, the capacity of the public sector to plan and execute development policies and programmes and to manage the national economy remains limited. (UNDESA 2005: 4)

The neoliberal institutionalist turn

Already by the end of the 1980s it had become clear that the 'Get prices right' mantra was failing. The first foray by the World Bank outside the neoliberal analysis of the economy in Africa led to the conclusion that the main culprit was 'governance'. The World Bank (1989) concluded:

> Underlying the litany of Africa's development problems is a crisis of governance … Because the countervailing power has been lacking, state officials in many countries have served their own interests without fear of being called to account. In self-defence individuals have built up personal networks of influence rather than hold the all powerful state accountable for its systemic failures. In this way politics becomes personalised, and patronage becomes essential to maintain power. The leadership assumes broad discretionary power and loses its legitimacy. Information is controlled, and voluntary associations are co-opted or disbanded. (World Bank 1989: 60–61)

Couched in neo-Weberian terms, the 'good governance' agenda did not go down well with the economists in the financial institutions. It was only later, when the 'new institutional economics' reframed the good governance thesis in a manner that seemed to explain why private investment had responded poorly to liberalisation, that good governance became fully integrated into the corpus of the 'Washington Consensus'. Good institutions were now required to provide the protection of property and the predictability that would stimulate investment. The new institutions, pushed by the international financial institutions, were derived axiomatically from the neoclassical model and identified with idealised Anglo-Saxon institutions. In this new version, two characteristics of institutional reform triumphed. The first was what Evans (2004) calls 'monocropping', which essentially involved transferring ideal institutions (mainly Anglo-Saxon ones) to the developing countries. The second – which I have called 'institutional monotasking' – involved limiting the role of institutions to that of securing property rights, and reducing the space for discretionary measures by the state in order to ensure predictability (Mkandawire 2009b). The 'reconstruction of the African states', which went beyond retrenchment of the civil service, now appeared in official donor parlance as 'governance' or 'capacity building'. In its broadest sense, governance covers economic management and public administration, and the related questions of 'good government', efficiency and rationality in resource management, lack of corruption and 'an enabling environment' for the private sector. This is the technocratic sense of 'good governance'.

Restraining versus transformative institutions

The dominant institutional reform was about restraining the state and so a great deal of technical assistance has taken the form of strengthening watchdogs over the 'spending ministries' such as education and health, and 'infrastructure ministries' that are crucial for the development of human capital and infrastructure. Institutions for strategically allocating rents, such as development banks and other institutions that make up a nation's innovation systems and extension services, have often been paralysed or closed down. Central bank reforms, which restrict the banks' role to the management of inflation, have deprived countries of a major instrument for accelerating economic and social development.

Although institutions are often posited as constraining structures, we have to bear in mind the role of human agency in animating them and giving them social and moral purpose. For late comers, the developmental and transformative roles of institutions are crucial. Institutions are enabling devices and are also constitutive in the sense that they shape human agency (for example, by inculcating certain values) (Chang & Evans 2000).

Proliferation of tasks

One attraction of the Washington Consensus was that it told a tantalisingly simple story that suggested a simple solution that could be imposed by a limited number of institutions – the central bank and the finance ministry. However, the failure of the model and the demands of maintaining that particular paradigm have necessitated the endless addition of 'epicycles', to maintain the story that it is the sun that revolves around the earth. This has led to a state of disarray in policy thinking, which in turn has encouraged the production of a laundry list of what needs to be done by states. The eclectic list of elements of good governance has increased the tasks that states must carry out, without providing the means with which to do so, and has led to institutional reform overload and reform fatigue. For aid-dependent economies, all this has created 'an incentive to expand operations to include all the initiatives donors want to fund' (Brautigam & Knack 2004: 263). Both monotasking and monocropping facilitated the ring-fencing and surveillance of these institutions. This in turn has led to a proliferation of projects and greater monitoring by donors. Thus, in one year Tanzania was said to have filed 2 400 quarterly reports to donors and hosted 1 000 'missions' from donor officials to monitor project activities (Roodman 2006). The problem is not only confined to Tanzania but is widespread and might be getting worse. Furthermore, the 'new public management' approach insisted on creating new institutions to manage these tasks, or on further privatisation of sections of the state apparatus or functions. This in turn has demanded new state institutions since, as Hague (1996) observes, the process of privatisation itself creates the need for a different set of governmental activities – such as regulation (currency, prices, banking, licensing), administration (law, property rights), enforcement (police, surveillance), distribution (transfers, gifts), extraction (taxation, information gathering) and distribution (transfers, insurance) – which requires a large public sector.

To conclude, one of the unfortunate consequences of the above interpretation of both African capacities and the East Asian experience was the downplaying of agency in the process of development. The reform agenda confined itself to dealing with *how* states should govern and not *what* they should be doing. The reforms of the 1980s and 1990s produced what was at best an anaemic 'regulatory state', designed merely for restraining social actors, especially the state. The state was denied most facilitative and transformative roles. It definitely lost any entrepreneurial role it might previously have enjoyed and any capacities that would be constitutive of a dynamic domestic capitalist class. The institutions that were insisted upon were not those likely to come up with policy options or capacities to meet the specific needs of individual countries. They were definitely not up to the urgent task of constructing the stable, developmental, democratic and socially inclusive social orders that have thus far remained elusive in Africa. They bore little resemblance to those behind the East Asian miracle and China or for that matter behind any successful case of development in modern times. Indeed, among the successful 'late industrialisers' many of the institutions being pushed as prerequisites for development never actually served the functions attributed to them and in many cases were in fact assiduously avoided in all strategies of catching up. No wonder then that the insistence on these institutions today can thus be considered tantamount to 'kicking away the ladder', as poignantly captured in the title of Ha-Joon Chang's (2002) book.

Bringing the developmental state back in

The poor performance of African states that had adopted the recommended policies and institutions, the vast amount of research pointing to the importance of the state in development, and the very visible example of China undermined the Washington Consensus. The World Bank (1997) was compelled to concede that 'development requires an effective state, one that plays a catalytic, facilitating role, encouraging and complementing the activities of private businesses and individuals' (1997: iii). The Bank concluded that 'state-dominated development has failed. But so has stateless development … History has repeatedly shown that good government is not a luxury but a vital necessity' (World Bank 1997: iii). We noted above that 'catching up' and development theory assigned an important role to the developmental state. What then are some of the critical roles that developmental states will play in Africa? Here we discuss only a few generic roles, with the understanding that the specific tasks will have to be performed according to the capacity and needs of each country.

Resource mobilisation

In earlier development studies, the role of the state in mobilising savings was central (Gerschenkron 1962; Lewis 1954). The measures proposed included forced savings, use of 'labour surplus' for capital formation, attracting foreign resources and so on. The state could also manipulate interest rates in such a way as to direct available financial resources towards economic activities that it considered beneficial for long-run growth. With the advent of adjustment, most of these measures were seen as part of the 'financial repression', which the neoliberal theory claimed reduced savings through low or even negative interest rates and inefficient allocation of credit (McKinnon 1973). Financial liberalisation would do away with both of these negative effects of financial repression. In the meantime, the evidence from some of the 'high-performing' economies was that 'financial repression' had in fact played a central role. Singapore's extremely high levels of savings were achieved with a large dose of forced savings. Amsden and Euh (1993) report that one consideration that has guided Korea's Ministry of Finance is the view that low interest rates are necessary to stimulate investment, while high interest rates are not necessary to mobilise savings (Amsden & Euh 1993). And even the World Bank's (1993) 'East Asian miracle' study concedes that deliberate and highly interventionist policies by the state account for high rates of resource mobilisation and accumulation. The point here is that there is a key role to be played by the state in mobilising savings in African countries. We should also bear the following in mind: one of the implications of the limitations on the use of trade policy by globalisation and the arrangements of the General Agreement on Trades and Tariffs is that policies affecting savings and investment assume an even greater role in African countries than in the high-performing East Asian countries, which pursued trade policies within a less restrictive global trade regime.

Democratic governments in Africa will have to use public resources more efficiently than authoritarian governments have done, if only for the simple reason that the public is watching. More specifically, democratic states will have to exercise much greater fiscal self-discipline than their predecessors. This is so for at least two reasons: first, they will need to solve the fiscal crisis of the government they will be inheriting. It is essential for such regimes to move swiftly to deal with the fiscal crisis, not only by cutting wasteful expenditure but also by collecting taxes. The incidence of these spending cuts and tax collection will depend on the 'developmental coalitions' that the democratic processes spawn. However, harsh as spending cuts may seem, they need not lead to the kind of increased inequality or exclusion that seems to accompany current orthodox measures. Second, increased public savings will not only facilitate high investment but will also provide the state with leverage for 'crowding in' the private sector in a manner it considers appropriate. The budget surpluses thus generated will give the state considerable leverage in the development process.

Reconstructing the bureaucracy

I argued above that the jaundiced view of the Bretton Woods institutions towards the state in Africa has allowed policies and practices that have stripped state structures to their bare bones. Reconstructing the administrative apparatus of the state is therefore a central task.[1] Here we have to contend, on the one hand, with a tendency towards mystification regarding how East Asian bureaucracies came about – with suggestions that they either come from or are based on some Confucian bureaucratic sense – and, on the other hand, with the widespread denigration of the African civil services as irredeemable cesspools of corruption and incompetence. As students of Asia remind us, building these bureaucracies has been a hard battle. Both the East Asian and African experiences clearly suggest that it is not some cultural-ethnic attribute or some deeply rooted historicity that explains East Asian administrative performance, but specific institutional arrangements between states and different classes that have underpinned the high accumulation model. In the words of Evans (1997): 'East Asian bureaucracies are neither gifts from the past nor easy outgrowths of surrounding social organisation. They are hard won edifices constantly under construction' (1997: 72). The way forward does not lie in the wholesale neglect of existing capacities in the quest for 'new' ones, but rather in the utilisation, retooling and reinvigorating of existing capacities – including reversing the brain drain – and in rebuilding the educational and training institutions in the light of long-term developmental needs rather than in the ad hoc manner encouraged by new 'capacity-building' fads.

Addressing globalisation through regional developmentalism

Economic development takes place within an international context. One important issue that developmental states have to address is the establishment of a strategic link with global markets. This does not simply involve liberalising trade with policies whose sole instrument – devaluation – is permitted by neoliberal policies; devaluation is a totally inadequate tool. Rather, it involves identifying sectors likely to be competitive within a reasonable period and with the broadest positive externalities within the economy as a whole. Amsden (1997) reminds us that the developmental state was not so much (if at all) driven by considerations of 'market failure' as by a conscious response to the realisation that the country was not competitive in activities associated with high levels of income and knowledge. Openness to the world is not simply a means to attract foreign investment or to export more, but to have access to ideas, institutions, capital goods and services, which ultimately creates an economy that is competitive in a wide range of goods. Historically, this has involved sectoral policies and specific financial arrangements of such sectors. Central to success is an investment–export nexus that has produced the necessary dynamism in the export sector. For years the United Nations Conference on Trade and Development has argued for an investment–trade nexus, on the grounds that it is not trade but the accumulation of physical and human capital that is fundamental for economic growth. On the policy level many of the institutions that have elsewhere been used to support strategic engagement with world markets – development banks, trade banks and so on – were dismantled in the adjustment era. One consequence of this is that African countries have diminished capacity to translate a favourable international environment into growth. This is more visible in the economic recovery since the mid-1990s. While earlier commodity booms were associated with the expansion of domestic manufacturing activities, the recent one has been associated with greater consumption of imported manufactured goods rather than increased domestic production of these goods.

The post-WWII period produced a world economic system that allowed nation states considerable room for manoeuvre and to pursue a wide range of social objectives. This was the era of 'embedded liberalism', which Amsden (2001) characterises as 'laissez-faire' – not for markets but for states. While for the economies of the North this time allowed extensive fiscal interventionism that underpinned many welfare regimes, in the South it allowed various forms of market intervention that meant protection of nascent industrialisation, selective allocation of resources to priority sectors and greater national ownership of the development process.

One of the arguments raised by the World Bank against the wisdom of emulating East Asian industrial policy was that in this World Trade Organisation era, many of the policies would go against trade conventions, to which African governments are signatory. This may prove to be the most formidable constraint on the edification of developmental states in Africa and needs to be closely studied. One response to globalisation has been regionalism. Indeed, the fastest growing economies are not necessarily the globalisers but the regionalisers. Obviously then one urgent task is the creation of national and regional institutions that will facilitate advantageous repositioning of African countries in the international division of labour and wealth.

African countries need rapidly to reverse the deindustrialisation of the lost decades. This will involve both import substitution and export promotion. Given the Lilliputian markets of most African countries, regional cooperation is generally deemed essential for such a strategy. Attempts at regional integration have thus far been futile for a number of reasons, one major one being the authoritarian regimes that constituted potential partners in the various regional schemes. Serious regional integration requires both some degree of popular adhesion to the schemes, and transfer of some sovereignty – two elements that dictatorship would not facilitate. It is simply impossible to imagine any tinpot tyrant accepting a higher regional authority. In any case, nowhere has regional integration among dictatorships been sustainable without use of force and domination. To the extent that successful regional integration will have to be subject to some parliamentary and plebiscitary approval, democratisation opens new vistas for political integration that have thus far not been fully exploited.

Quite early in the process of industrialisation by import substitution it became clear that the size of most African economies was so small that they could not go beyond the most rudimentary levels of industrialisation on the basis of the domestic market. This was expressed in the Lagos Plan of Action, the most articulate statement of the need for regional integration. However, the plan was subsequently to be completely sidestepped, as each African state individually sought arrangements with external funding institutions. The new thinking about development must revive the developmentalist regionalism that informed the Lagos Plan of Action. However, if regional markets are to serve as a learning ground for global competition, then we will have to move away from the traditional African view of integration, which was based on the assumption of a coordination of national plans while ignoring the task of creating competitive conditions within a unified market.

Reconciling democracy and development

Many developmental states have been authoritarian, giving rise to the erroneous view that all development states have been, or are necessarily, authoritarian. Drawing on this understanding, there have been attempts to disempower new democracies by creating 'authoritarian enclaves' within them or by giving poor countries watered-down versions of the real thing – 'tropicalised' democracy, if you like. This largely draws from a cynical view of politics as simply a game of rent-seeking and neopatrimonialism. If the remit of democratic governance is a broad one, including equity and growth, then we have to address the question of whether, in such a context, the reduction of the state to Smithian 'night watchman' makes political sense. Democracy in its widest sense contests the hollowing out of the state. Both the social demands for improved welfare and the material exigencies of such demands need something more than what the regulatory state can provide, and therefore require the state to play a more developmental role. Providing the new democracies in Africa with such capability is a major political and intellectual challenge. While we should take into account some of the cautionary remarks about the dangers of 'capture' and 'rent-seeking', we need not embrace the heavy ideological baggage and debilitating cynicism that come with them.

As has been argued elsewhere, theorising about developmental states has only marginally concerned itself with issues of democratisation and is only now coming to terms with 'democratic developmentalism' (Sklar 1996; White 1998). There is a vast literature on 'developmental states' that says very little about democratisation, except perhaps to point to the oddity of 'democratic developmental states'. Outside the Latin American literature, which problematised the developmental states by stressing the 'bureaucratic authoritarian' features of such states and the socially exclusive nature of their policies, the developmental state literature rarely talked about problems of democratisation and human rights (Collier 1979; O'Donnell 1979). Even in the case of Latin America, as O'Donnell points out, the topic of democracy seemed at the time 'surrealistic' (O'Donnell 1979). Much of the literature on the East Asian developmental states tended to consider their authoritarian character as simply one aspect of 'the autonomy of the state', which was somehow made bearable by its 'embeddedness' and its spectacular success in development. The African literature focused on how to make authoritarian regimes stronger, more 'enlightened' and more developmental. Indeed, the high economic growth rates achieved by authoritarian regimes were used to support the view that the suspension of human rights was the price one had to pay in the process of development. This was part of the 'full belly thesis' ('you can't eat democracy'). African states themselves often claimed that there was a sequencing of rights, with the 'right to development' taking precedence. It was this same logic about the trade-off between democracy and development that was used to justify authoritarian rule in much of Africa, because the task ahead called for sacrifices that could only be imposed by a strong state. This view was reinforced by the spectacular success of some authoritarian regimes on the continent. Some achieved high rates of growth, which often concealed the fact that many other authoritarian regimes failed scandalously and that some democracies performed well. Interestingly, two of the most cited success cases were Botswana and Mauritius – both democracies. Initially, both the public choice and neopatrimonialism views called for the establishment of institutions that would be insulated from domestic entanglements by either placing them directly under foreign institutions or by ring-fencing them with a whole range of conditionalities that would guarantee their 'autonomy'.

The emergent democratic states in Africa have been faced with enormous problems as regards the use of the state apparatus for developmental goals. Having struggled not only to overthrow dictatorships but also to assume the reins of government, they have found themselves as the inheritors of empty coffers, demoralised bureaucracies and governments whose hands were tied by the debt incurred by their erstwhile oppressors and the impositions of international financial institutions. They inherit economies about which key decisions are taken by outsiders who are not elected by anybody at the national level, reducing them to a considerable degree to 'choiceless democracies' (Mkandawire 1999, 2004). On the ideological level they are ceaselessly reminded that the state has virtually no role to play beyond creating an 'enabling environment', the nature of which is itself a subject of contention. And yet neither their political mandate nor the economic exigencies of getting their countries back on the path of accumulation and economic development allow them the luxury of sitting back and watching the market perform the 'economic miracle'. New democratic states seeking to play developmental roles will have to forge new instruments for restraining consumption and encouraging investment that are functionally equivalent to those used by successful authoritarian states but that have an entirely different normative basis and political legitimacy.

Transformative social policy

Just as the subject of democracy is neglected in the dominant literature on the developmental state, so too is the question of social policy and social development. Social well-being plays an important transformative role in development policy.

It is not something that one does after 'development' but rather a constitutive instrument and an end of the development process. One widely recognised function of social policy is its role in ensuring the reproduction and production of 'human capital'. These policies also affect the participation of women in the labour market by reconciling the demands of reproduction with those of participation in wage employment. It is now widely acknowledged that such activities cannot be left to the market, not only because of the failure of markets to address issues of 'externalities' but also on normative grounds that certain forms of reproduction and production of labour are not acceptable and that education is a 'merit good' to which citizens must have access regardless of their means. We know that redistributive policies have huge implications for economic growth. We also know that even policies designed for 'social protection' have strong implications for economic development. For one, the 'forced savings' generated through such social protection measures as pensions can play an extremely important role in the development process, while various measures of protection can encourage small farmers to be less averse to risk and take on riskier but more lucrative activities. All of this suggests that 'developmental welfare state' must be one of the features of the reconstituted African state.

Addressing the 'social questions'

One of the more robust determinants of economic growth is political stability. Development is a highly disruptive process, with strong tendencies to generate centrifugal forces that can easily bring things to a halt. It often involves significant demographic shifts, as populations are pulled towards urban centres. It generates new forms of privilege, deprivation and social exclusion – as well as new forms of inclusion that are not always desirable. It produces new social classes and interests. From its early origins, social policy was intended to handle such social problems. While, in the early 'nation-building' phase, African governments were aware of the fissiparous pressures the new states faced, the demise of the nationalist movements and the ideological shifts of the 1980s, coupled with the fiscal incapacity to act on a number of social problems, produced conflicts that in many cases led to tragic losses of life and a reversal of many of the gains made in the past. Policy-making in Africa must once again pay attention to issues of nation-building and the new social questions that have emerged in the last half-century since 1960, the modal year of independence (Mkandawire 2009a).

Managing 'developmental pacts'

Development is a highly political affair as it involves both intra- and intertemporal distribution of tasks and resources. Consequently, even in contexts of authoritarian rule, development requires 'developmental coalitions' for political sustenance. One of the most trumpeted features of developmental states has been the 'autonomy' of the state from special interests. The state bureaucracy has often been seen as pursuing its developmental project unencumbered by local politics with its myopic focus. Indeed, the quintessential developmental states have tended to be authoritarian.

Much of this analysis has tended to confuse autonomy with capacity. A strong case has been made that the state can only translate its autonomy into effective capacity by being 'socially embedded', or at least being associated with 'developmental coalitions' that may or may not be mass-based or democratically constituted (Evans 1995). What has mattered in developmental states is not so much their despotic powers but their infrastructural powers – defined as 'capacity of the state to actually penetrate civil society and to implement logistically political decisions throughout the realm' (Mann 1993). Infrastructural power is the ability of the state to persuade key players to adhere to its developmental agenda. Historically, development has been sustained by a wide range of alliances, pacts or coalitions, which have involved various permutations of alliances among the state, national bourgeoisie, labour, peasants and foreign direct investment. In most authoritarian coalitions, labour and peasants were sidelined and brought into the development process largely through coercion. In democratic states, the alliances will have to bring in labour and peasants in an organic way in order to carry out both the agrarian transformation and the industrialisation required.

Africa remains largely rural and the majority of direct producers are still in the countryside. The nature of landownership in many parts of Africa has not encouraged the kind of peasant movements that have underpinned revolutionary movements in some parts of the world. Consequently, African governments have been sanguine about their relationship to the countryside. In many cases, like their erstwhile colonial masters, the ruling circles have treated the countryside as something from which one could extract economic surplus without much investment. In the case of rentier states, living off aid or mining, there has not been the compulsion to transform agriculture in a manner that would support industrialisation and agricultural development. And yet it is clear that for much of Africa, agrarian change must be at the core of the developmental effort. This will entail, among other things, inclusion of the rural populations of the countryside in the envisioned 'developmental pacts' – a point emphasised by Moyo (Chapter 14, this volume).

In capitalist economies the most salient political issue revolves around the production of economic surplus, and its distribution and allocation. In earlier development models – both classical and post-Keynesian – the assumption was that surplus would be placed in the hands of capitalists, who would then invest it. However, as writers such as Baran (1957) have argued, this is a politically contentious issue, especially if the capitalists are not 'patient' and expatriate the surplus or misuse it through various forms of conspicuous consumption. The challenge then has been how to establish 'social pacts' that would ensure the coexistence of 'patient capital' and 'patient labour' – the idea being that labour would forgo some of the gains in productivity on the grounds that capitalists would reinvest the profits to create further productive employment opportunities. All of this ultimately depends on the relations of the state to various social actors and the ability of the state to arbitrate the conflicts entailed by the process of accumulation.

Furthermore, with respect to the private sector, what are required are not simply pro-market policies but pro-business ones. Neoliberalism has tended to conflate being pro-market with being pro-business and has failed to understand that being globally pro-capitalist does not necessarily encourage entrepreneurship in individual country situations. Most significantly, the private sector demands a proactive policy towards business. Mkandawire and Soludo (1999) have argued that one of the problems of Africa has been the anti-business political culture. Structural adjustment, with its obsession with rent-seeking and its deprivation of the state of any means for engaging with business, actually continued with the same policies despite its ideological affinity with pro-capitalist ideology. The World Bank now acknowledges this, and argues that 'in focusing on improving the business environment it is important to make the distinction that Rodrik and Subramaniam make based on their analysis of India's growth revival since the 1980s "pro-market" and "pro-business" reforms' (Ndulu 2007: 21). Many of the institutions that elsewhere were used to support the investment–export nexus – development and trade banks, for example – were dismantled in the adjustment era. As a consequence, many governments had neither the carrots nor the sticks with which to steer the private sector into developmentally strategic areas.

We ought to stress here the importance of labour markets in the accumulation process and the peculiar class relations that prevail in the industrial sector. The management of these often contradictory relations constitutes one of the central tasks of developmental states. Orthodox policies tend to consider social policies – especially as they affect labour markets – as interference in the market processes, leading to 'distortions', with all that that negatively entails for price-setting, market-clearing mechanisms and overall allocation of resources.[2] Increasingly, the demands of competitiveness and 'labour market flexibility' are forcing states in Africa, as elsewhere, to reduce labour standards in order to make their economies attractive to foreign capital or their export sectors competitive. It should be pointed out, however, that if the intention is to attract foreign capital, then measures that increase social tension would be misguided.

While acknowledging that supply and demand will tend to keep wages low in Africa, it is important to stress that for a democratic developmental state the goal is not low wages but increased labour productivity, which can be ensured by social investment and social policies. A fixation on the 'cheap labour' advantage can be self-fulfilling by inducing the state to pay less attention to productivity-enhancing measures and concentrating instead on guaranteeing cheap and docile labour. Amsden (1992) has argued persuasively that low wages are an inadequate competitive asset. The dynamics of competition are such that countries with high wage costs will introduce a stream of innovations to retaliate for their loss of market; and in any case, labour markets in the developed countries are segmented, allowing countries to maintain even low-wage industries. What matters is reduction of unit labour costs by raising productivity, which usually requires short-term government support and administrative guidance (e.g. in technology) and, in the long run, investment in human capital.

In Africa, an approach whereby the state boasts not of cheap and docile labour but of skilled and productive labour will benefit from a strong labour movement, able to enter into meaningful 'social pacts' or 'developmental coalitions'; this will ensure continued acquisition of skills by the labour force and that the gains of higher productivity are shared equitably. Engaging labour in the decision-making process will thus be central to what will essentially be a 'social democratic corporatist' arrangement.

What prospects for democratic developmental states in Africa?

Assuming that we agree that we must put back onto the agenda economic development in its fullest meaning, the question then becomes: can Africa forge the means for accomplishing its mission? One instrument for doing so is what is commonly known as the 'developmental state', which emphasises getting the control mechanism right. To some, talk about 'developmental states' in Africa, let alone of '*democratic* developmental states', may seem no more than a pipe dream. Have we not been told that our neopatrimonial institutions, our ethnic diversity, our geographical location and globalisation, all make 'developmental states' simply unimaginable in Africa? However, we have only to consider the prognosis of the East Asian countries to see the truth in Hirschman's (1979) observation about phenomena that vanish as discomfiting facts pile up: 'As soon as a social phenomenon has been fully explained by a variety of converging approaches and is therefore understood in its majestic inevitability and perhaps even permanence, it vanishes' (Hirschman 1979: 98). While social scientists loudly pronounced the impossibility of development in East Asia, due to oriental mysticism and Confucian disdain for manual labour, East Asian societies had already embarked upon their spectacular economic growth. I have elsewhere argued on the historical experience and possibility of developmental states in Africa (Mkandawire 2001). In the light of this, what are the prospects for democratic developmental states in Africa? It is to this that the chapter now turns.

Ideological shifts

I noted above the importance of ideology in giving both meaning and direction to the collective will to pursue development and other social goals. I believe that nationalism is still an important driving force; however, it needs to be given a more democratic anchoring and a socially more inclusive purpose than has hitherto been the case (Mkandawire 2009a). The deep sense of crisis and embarrassment at lagging so far behind are providing a new impetus to the national developmentalist purpose in many African countries. A noticeable change in this respect is that African leaders now talk in terms of the growth of their economies, and increasingly there is a kind of healthy competition on economic performance. Part of this may reflect responses to globalisation and an awareness of Africa's low status in this global order. One of the most important changes in Africa has been the growing accountability of African leaders to local constituencies. This has been partly the result of democratisation but also the result of the end of the kind of clientelism that thrived under Cold War conditions.

One amazing outcome of the intellectual hegemony of the Washington institutions was the production of a whole generation of economists who could not think beyond stabilisation and who generally saw the state as distortive of the efficient operation of the market. We will need to produce a new generation of economists who are truly *developmental* in their paradigmatic vision and analytical capacities. In this respect, it is important to pay attention to the East Asian experience at the time of their 'take-off', because in a sense it illustrates the peculiarities of the African situation. Two things are striking about the East Asian countries. The first is that, starting with Japan, they have drawn their lessons from earlier 'late industrialisers' who were engaged in catching up. The second feature of policy-making in East Asia is the marginal role assigned to economists, especially of the Anglo-Saxon variety. Opposition to neoclassical economics was quite strident in all of these countries. As Wade (1991) notes, disillusionment with neoclassical economists came early in the 1950s, when these economists objected to the developmentalist thrust of economic policies largely on the basis of static comparative advantage arguments, a story that should be familiar to Africans. In South Korea, the US-trained economists, known as 'monetarists' or 'foreigners', tended to be critical of interventionist policies by government and later tried to downplay the central role of such interventions in the 'miracle' of their country, or argued that the performance would have been even better in the absence of intervention.[3] Amsden, in a paper, 'The Specter of Anglo-Saxonization is Haunting South Korea' (1994), notes that American-trained economists were strong critics of the chaebol – the form of corporate structure that would be crucial to the 'Korean success story'. In Taiwan, new-generation economists argued that Taiwan should import fabrics rather than yarn or raw cotton, on the grounds that comparative advantages recommended that cotton fabrics could be imported more cheaply from Japan than they could be domestically produced. In Japan, there were about 300 neoclassical economists, most of them 'busy learning theories that depended heavily on mathematics and had no time to conduct empirical studies of the Japanese economy' (Gao 1997: 242).

The policy-makers also felt that these theories did not stylise their economies properly and they rejected the idealised stylisation of Western economies.[4] As Sawa Takamitsu (1984) notes: 'Western economic theories, which were based on thorough individualism and quantitative methodology, might be an effective analytical tool for understanding Western Europe and North America. For comprehending the Japanese economy in the second half of the 1950s, however, they were simply what Schumpeter called a "toy gun" ' (Takamitsu 1984, cited in Gao 1997: 242).

If there are still economists enamoured by the 'Gospel according to Washington', there is little ground for looking to Washington for good ideas, given the acknowledgement by World Bank economists that they in fact had no clue about what the good policies for growth were:

> The central message of this volume is then that there is no unique universal set of rules. Sustained growth depends on key functions that need to be fulfilled over time: accumulation of physical and human

> capital, efficiency in the allocation of resources, adoption of technology, and the sharing of the benefits of growth. Which of these functions is the most critical at any given point in time, and hence which policies will need to be introduced, which institutions will need to be created for these functions to be fulfilled, and in which sequence, varies depending on initial conditions and the legacy of history. Thus we need to get away from formulae and the search for elusive 'best practices', and rely on deeper economic analysis to identify the binding constraints on growth. The choice of specific policy and institutional reforms should flow from these growth diagnostics. (World Bank 2005: xiii)

The state of disarray of the Washington Consensus opens room for serious reflection among economists and policy-makers, taking into account the many experiences of other countries and the specific context of African economies.

Africa's natural resources

Africa has vast resources that should facilitate its development endeavours. During the last few years, the improvements in terms of trade and increased investment in mining have improved growth rates in Africa. One major weakness of the strategy in Africa was the assumption that the capital equipment and intermediate products for industry could be acquired through continued export of primary products. Consequently, there were no efforts to push for exports of manufactured goods, despite declarations that one of the objectives of import substitution was the diversification of exports. We should contrast this with the East Asian case in which some, if not all, of the foreign exchange required for industrialisation was to be earned by the industrial sector itself. African policy-makers were persuaded that they could exploit their 'comparative advantage' in natural resources to eventually transform the production base and export structure. Projections made by the Bretton Woods institutions encouraged this view, in defiance of the robust view of Prebisch's (1959) thesis on the secular decline of terms of trade for products. One effect of this dependence on raw materials was the extreme vulnerability of African economies to external factors. We ought to avoid this error by operating as if we were informed by Prebisch. This would mean a deliberate use of African raw materials to reduce dependence on our mineral wealth. The case of Norway, as highlighted by Moses (Chapter 6, this volume) is an important example, from which mineral-rich African countries like South Africa can draw lessons. And as Evans argues (Chapter 2, this volume), effective utilisation of mineral rents to fund education, health care, infrastructure and so on, offers potentials for mineral-rich African countries to construct democratic developmental states.

One of the disturbing effects of maladjustment is that while, in earlier periods of growth, improvements in terms of trade were associated with expansion of the manufacturing sector, the recent favourable trade conditions seem to have a slow catalytic effect on industrialisation; and I argue that this is an outcome of the maladjustment of African economies and states.

Better human resources

One of the achievements of the postcolonial state was in the education field. Although during the period of structural adjustment African governments were faced with enormous pressures to reduce expenditure on tertiary education, many continued funding institutions of higher learning, and today Africa has much better human resources than at independence. To be sure, huge amounts of these resources now reside outside the continent and neoliberal policies on higher education have been devastating. Experience from elsewhere suggests that, with carefully designed policies and improved economic conditions, it is possible to access these human resources and even induce a reversal of migration. The new attention to higher education by both African governments and outside funders will play a positive role in this regard.

New global players

Globalisation and the emergence of new economic powerhouses such as China, India and Russia are providing entirely new economic opportunities. They are definitely providing possibilities for African countries to relax some of the ties that they have had with the erstwhile colonial powers, which have not provided the requisite external environmental conditions for the economic growth of African economies. However, here again it should be borne in mind that these new actors have their respective national interests, and that African states will have to find national and collective ways of maximising gains from these new relationships.

Conclusion

To be able to move ahead, there are a number of things to which Africa must pay attention. First, it is important to recuperate the progressive intent and élan of 'nation-building' of the nationalist movements. Second, it is necessary to understand the emergence of a number of non-developmental or even anti-developmental institutions that were established around the stabilisation and debt servicing agenda. While some of these may have been appropriate for those particular tasks – a dubious proposition though in the case of Africa – once these institutions are set up, inertia and path dependence can mean that they will have consequences far beyond their intended ones, and in many cases may actually stifle any new agenda.[5] Third, in thinking about developmental states in Africa we must avoid monocropping and 'best practice packages', which are often highly idealised and shorn of every contestation that may characterise them in their countries of origin. It must also be acknowledged that one way to economise in terms of human skills and institutions in the context of 'late industrialisation' is through multitasking. Fourth, Africa would need to exploit any new opportunities that come its way or that it creates. However, to benefit from these opportunities and to meet the new challenges, African countries will need *developmental* state–society relations.

Finally, we should avoid an idealised view of the developmental state as omnipotent and omniscient. Some of the 'developmental state' literature has tended to read, post factum, every practice of the developmental state as deliberately designed to serve developmental goals. In many ways, the discovery of the developmental state has tended to produce its own mystification of a non-corrupt, dedicated, omniscient bureaucracy that selflessly and patriotically manages economic transformation of its society. The 'all good things go together' view has sought to associate the East Asian growth miracles with whatever one thought was good – transparency, accountability, autonomy, non-corruption and so on. Against this idealised view of the developmental state, Africa's attempt to constitute or reconstitute such a state must seem a non-starter. However, close observation of 'real existing developmental states' tells a different story. These states are built over many years by trial and error, intelligent emulation and borrowing, new country-specific innovations – and even luck. Thus Morishima (1984) states that in Japan, 'there was never an accurate blueprint for the Meiji Revolution; the revolutionaries learnt what the issues and solutions were by repeating the process of trial and error and approached the correct ones step by step' (1984: 71). Ranis (1991) makes a similar point when he states that 'what happened in Taiwan was not Mandarins sitting around saying this is what we have to do now. There was a lot of bumbling and stumbling and going back and forth' (1991: 128–129). Aoki et al. (1997) observe that in looking at the experience of Japan there was much more serendipity in institutional design or choice than is often imagined, and that there was an unintended fit or complementarity between evolving organisations and the institutional framework, in whose emergence the government had played a central role. And finally, Pack and Westphal (1986) stress the importance of flexibility on the part of policy-makers, and make the following important point: 'That a government makes mistakes is inevitable. That it does not learn from those mistakes means that it needs to find ways to learn. Government learning, not government minimizing, is the object' (1986: 99).

In Africa, as elsewhere, originality and experimentation are important in devising new institutions. The lesson of history is that there is no one-size-fits-all developmental state model. Given the importance of context specificity, we should also bear in mind that there are no fixed prerequisites for the establishment of a developmental state. Each country will have to 'discover' its constraints and capacities, selectively and creatively learn from others and manage its destiny. And this will demand openness, a deliberative political culture, creativity and originality.

Notes

1 Edigheji, Evans and Von Holdt (Chapters 1, 2 and 12 respectively, this volume) point to some of the ways the bureaucracy can be reconstructed.

2 For a useful collection of articles on the effects of globalisation on labour standards see Sengenberger and Campbell (1994).

3 Writing about Taiwan, Wade (1991) notes: 'Having control of university funding and good international connections, this group organises international conferences on Taiwan's

economy to which like-minded Western economists are invited. In this way the argument is propagated that Taiwan has been successful because of the release of market forces' (1991: 221).

4 I have made similar appeals for a better 'stylisation' of African economies (Mkandawire 1996).

5 For an example of institutions outliving their intended purpose, see Watson (2002) on central bank independence.

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4 How to 'do' a developmental state: political, organisational and human resource requirements for the developmental state

Ha-Joon Chang

Why bother?

The developmental state literature has developed out of the experiences of the East Asian 'miracle' economies in the post-World War II period – Japan, (South) Korea, Taiwan and Singapore, with Hong Kong being the exception that proves the rule. (Johnson 1982 is the seminal work; Johnson 1999 is a reflection on the subsequent evolution of the debate.)

Defined in the narrowest way, a developmental state is one that derives political legitimacy from its record in economic development, which it tries to achieve mainly by means of selective industrial policy; and there is no point in discussing the developmental state in this narrow sense except as a phenomenon that once existed in a particular place (East Asia) at a particular time (the 1950s–80s). However, if we see it in this kind of narrow way, there is also no point in discussing any developmental success (or indeed failure) cases – or for that matter any historical experience. All experiences happen at a particular time and in a particular space, whose conditions cannot be exactly replicated in other contexts. To put it bluntly: South Africa is not South Korea, nor is it Japan.

I find such a narrow approach to the developmental state, while logically consistent and perhaps theoretically defensible, overly 'fundamentalist'. If we go down to the finest details, all experiences – individual, regional and national – are unique, making exact replication impossible. Does this mean though that we should never look at experiences that developed under conditions that are different from what we are facing? And I would say that the answer is clearly: no, this does not mean that.

On the contrary: we should still look at other experiences, if only because they shake us out of our usual assumptions regarding what is possible; for reality is often 'stranger than fiction'. For example, while it practises free trade and welcomes foreign direct investment (although selectively), the Singaporean government owns almost all of the land in the country, supplies 85 per cent of housing, produces 22 per cent of the GDP, and runs one of the most draconian forced saving schemes in the world (the Central Provident Fund). Unless you actually know these things about Singapore, it is difficult to break out of the conventional wisdom that free trade, private ownership of enterprises, and freedom of individual choice are all necessary for any economic success.

Looking at other experiences also teaches us more about who we are and exactly what conditions we are facing. What we take for granted can sometimes be a unique condition that does not exist in other contexts. For example, many South Africans may take the strong mass party base that the African National Congress (ANC) has for granted, but this is something that is hardly found in other developing countries, including the East Asian countries.

Especially if we drop the political condition ('deriving legitimacy from economic development') and broaden the definition of the developmental state to mean a state that intervenes to promote economic development by explicitly favouring certain sectors over others, we can talk about the developmental state in many more countries, as I show below. Looking at a more diverse range of experiences allows us to draw more detailed and nuanced lessons.

Of course, it may be objected that such broadening of the concept is unwarranted; then so be it. I am ultimately interested in practical policy lessons, so I do not really care if I remain faithful to a particular theory or not (not that I have been a particular proponent of the theory in the first place). If being unfaithful to a particular theory broadens our horizons and allows us to come up with more useful policy lessons, then that could be said to be good enough justification; after all, theories are there to serve us, not to enslave us.

Different models of the developmental state

The 'classical' developmental state is an ideal type derived from the East Asian – more specifically Japanese – experience between the 1950s and the 1980s.

There were of course variations, even within East Asia. Korea actually went further down the road than Japan did, although now it has moved to the opposite extreme, enthusiastically embracing neoliberalism. Between the 1960s and 1980s, the Korean state pursued some of the most market-defying selective industrial policies, using an extremely powerful pilot agency (the Economic Planning Board, or EPB) and total state ownership of the banking sector, both of which were missing in Japan. The Taiwanese state may have intervened in the affairs of the private sector less forcefully and dramatically than Japan or Korea did, but that was in part because there were no large, private sector firms in whose affairs the state felt the need to intervene. The other side of the coin of the weakness of the private sector in Taiwan was that state-owned enterprises (SOEs) – especially in upstream intermediate inputs industries, where scale economy (i.e. economies of scale) is crucial – and state-financed R&D played a more important role in Taiwan than in Korea or Japan. Singapore used yet another model, combining free trade, a welcoming (albeit carefully targeted) approach to foreign direct investment, and a massive SOE sector (one of the biggest in the non-oil-producing world, producing 22% of GDP, when the world average is 9–10%).

Even the classical developmental state was, however, *not* confined to East Asia. During the same period, under similar political conditions of nationalistic, interventionist rightwing hegemony, France used a very similar strategy of economic development, involving (indicative) planning by the Commissariat Général du Plan (CGP – the planning commission), sectoral industrial policy (of course, somewhat constrained by the imperatives of European integration) led by elite bureaucrats, and aggressive use of SOEs (Chang 1994; Cohen 1977; Hall 1986; Hayward 1986). There is even anecdotal evidence that Japanese bureaucrats stationed in France were reporting on French policy practice.

If we broaden our definition of the developmental state to include any state that deliberately intervenes to promote development, we could argue that the Scandinavian countries have also practised a variety of developmentalism, especially since the 1950s. Of course, in Scandinavia, except in Finland until the 1970s, political hegemony was with the left, and political legitimacy was derived from the welfare state and full employment, rather than rapid growth, so the Scandinavian countries do not fit the classical developmental state ideal type. However, there are a few good reasons to describe Scandinavian states as developmental states, if not of the classical variety.

First of all, while not as extensively as the East Asian states, the Scandinavian states also engaged in selective industrial policies. The Swedish state developed some strategic sectors through public–private partnership from very early on: iron and steel (mid-18th century), railways (1850s), telegraph and telephone (1880s), and hydroelectric power (1890s) (Chang 2002). In the late 19th and early 20th centuries, it also provided targeted protection for the emerging heavy industries (Chang 2002). From the 1930s onwards, the Danish state was deeply involved in the management of international marketing of agricultural exports, which were at the time the engine of growth (Murphy 1957). Finland and Norway also practised strong sectoral industrial policies (see Fargerberg et al. 1990 for Norway; and Vartiainen 1995 for Finland).

Second, the Scandinavian states have strongly promoted R&D. Support for R&D is often taken as a 'horizontal' or 'general' industrial policy that does not involve selectivity, but it is still highly selective in the sense that it favours technology-intensive industries. Moreover, one does not support R&D in general – one often supports particular projects looking for particular technological solutions for particular industries. In particular the Swedish state started promoting R&D from the 1820s onwards by establishing a series of research institutes, such as the Stockholm Institute of Technology, the Chalmers Institute of Technology (Gothenburg), the School of Mining (Filipstad), the Stockholm College of Forestry, and the Falun School of Mines (Chang & Kozul-Wright 1994). In the last few decades, all of the Scandinavian countries have been at the top of the world league in R&D spending (as a proportion of GDP), with public agencies playing a key role (the best example being Finland's Sitra – 'the Finnish innovation fund' – established in 1967).

Moreover, the Scandinavian welfare policy was closely integrated with strategies to promote structural change towards high-productivity sectors (Kuhnle & Hort 2004). A strong, universalist welfare state provided social insurance to workers against the risks emanating from structural changes, thus reducing their resistance to changes. Welfare policies were always tied up with policies of re-training and help with job searches (the so-called 'active labour market policy'), enabling workers not only to maintain their standards of living during the adjustment period but also to find new, more productive jobs. In the Swedish case, the so-called solidaristic wage policy (equal pay for equal work, regardless of the company or the industry) was used to promote structural change towards high-productivity sectors, as explained in the historical document by the trade union organisation, Landsorganisationen i Sverige (LO 1963). The policy forced low-productivity sectors to upgrade or fold, while allowing high-productivity sectors to earn higher profits than was possible under free labour market conditions and thus invest more aggressively.

The Scandinavian experience shows that the developmental state does not need a statist rightwing hegemony (with the partial exception of Finland). Developmentalism can emerge under different political conditions and (to an extent) be achieved through a combination of different tools (less sectoral industrial policy and more welfare-labour policies in Scandinavia than in East Asia).

The case of the US is even more interesting. Chalmers Johnson, in his original formulation of the developmental state theory, juxtaposed the Japanese developmental state with the 'regulatory state' of the US. In so doing, however, he unintentionally downplayed two important dimensions of the US experience.

First of all, the description of the US state during the post-WWII period as a 'regulatory' state, while not totally inaccurate (see below), gives the mistaken impression that the US state has always been like that. From its early days, the US was a pioneer of the developmental state model (Chang 2002, 2007; Rauchway 2007). The core of developmentalist theory – the infant industry argument – was invented by none other than the first American finance minister (treasury secretary), Alexander Hamilton, in his 1791 *Report on the Subject of Manufactures by the Treasury Secretary*. Although it took a few decades between the publication of the report and the pro-developmentalist faction in US politics becoming strong enough to implement Hamilton's programme, from the 1830s until WWII the USA remained the most protectionist country in the world. Although its tariff protection lacked the careful selectivity of its East Asian counterparts, it was not a blanket protection either. Especially between the mid-19th century and the mid-20th century, the US government also invested heavily in infrastructure, higher education (e.g. land grant colleges) and R&D (especially in agriculture), with a fair bit of explicit targeting – for example, the Pacific Railways, the Midwestern canals and agricultural research.

Even after WWII, when the country attained industrial supremacy and started championing the cause of free trade and the free market, the US developmental state survived. As Fred Block (2008) shows in an important paper, during the entire post-WWII period, the US has had a developmental state that is 'hidden'. Block argues that the US has had a very strong 'developmental network state' (as opposed to a 'developmental bureaucratic state' of the East Asian kind), which is focused on translating cutting-edge technological research into commercial use through cooperation between a network of people with high levels of technological expertise – variously situated in state agencies, industries, universities and other research institutes.

Once again, different political and economic conditions made the US developmental state very different from the classical ones – even more so than in the case of the Scandinavian ones. Given the dominance of free market ideology, the supporters of developmentalism have had to maintain a low profile. There was no question of creating an overarching super-agency like the Korean EPB. Given the political climate, it was not possible even for an existing agency to be given an explicitly developmentalist role, as in the case of Japan's Ministry of International Trade and Industry (MITI). Many of the developmentalist projects had to be pursued under the guise of 'defence' policy, through agencies like the Advanced Research Projects Agency (ARPA) of the Pentagon, or 'health' policy through the National Institutes of Health (NIH).

The US developmental state in the post-WWII period was limited in scope, and had various limitations due to its 'clandestine' nature: lack of legitimacy, unstable funding, lack of coordination, and excessive commoditisation of knowledge (Block 2008). However, on the whole, it has been quite successful, as testified to by the fact that many sectors where the US has international competitiveness have been developed through public funding of R&D and public procurement for 'defence' (computers, semiconductors, aircraft, Internet) and 'health' (drugs, genetic engineering) (Block 2008; Medeiros 2003).[1]

How to 'do' a developmental state

Having briefly outlined in the previous section different varieties of the developmental state, I would now like to discuss in greater detail the political, organisational and human resource conditions for the construction of a viable developmental state, and explore their implications for the possibility of doing so in South Africa.

Politics: state autonomy, democracy and social pacts

The fact that the Korean, Singaporean and Taiwanese states were all dictatorial has prompted many people to think that adopting a developmentalist model is practically rejecting democracy, and therefore unacceptable to a country committed to democracy, like South Africa.

However, this is not true – even in relation to the classical developmental states. We cannot question the democratic credentials of Japan and France in the post-WWII period. Even when we include Japan and France, however, some may still worry that endorsing a developmental state is endorsing rightwing hegemony. That this is not the case is shown by the Scandinavian examples.

Of course, this is not to say that politics does not matter – even for the classical developmental states of East Asia. In a way, one reason that economic development became such a key to maintaining political legitimacy in the East Asian countries was precisely that the 'leftwing' welfare-state solution was very difficult to implement, given Cold War politics that dominated these countries in the early post-WWII period. This meant that the East Asian countries had to make do with a system of patchwork protections for the 'small guys' (e.g. small retailers, small farmers) rather than a proper universalist welfare state. The central place that a strong universalist welfare state occupied in the Scandinavian political landscape meant that, unlike in East Asia, selective industrial policies took a secondary place in the policy universe. The limits imposed by free market ideology in the US restricted the scope and effectiveness of the US developmental state in the post-WWII period, although it was still very successful in many ways.

Politics greatly affects the kind of developmental state you can build. However, this does not mean that you are stuck with whatever political landscape history has bequeathed you. Even though they may have had some 'structural' potential conducive to the construction of the developmental state, the countries that we are talking about often had to take deliberate actions to realise that potential.

The post-WWII land reform, which is the most important thing that enhanced the autonomy of the East Asian states, did not automatically lead to the emergence of a developmental state. In the 1950s, the Korean state was controlled by a coalition that was not very interested in development, under a president who was so removed from the reality of Korean life (he came from an aristocratic family and was educated at Princeton before most Koreans knew that there was such a university) that he once famously complained that Korea had a rice shortage because people would not eat things like beef and wheat! It was only after the 1961 military coup led by General Park that the Korean state was transformed into a developmental state.

Until the 1960s, Japan's rightwing hegemony was not totally secure. It was under threat from serious socialist parties and militant communist trade unions.[2] These political conditions were changed deliberately. First, there was the merger in 1958 between the Liberal Party and the Democratic Party into the famous LDP, in an attempt to counter the merger of the two socialist parties in 1955. Then there were attempts by Japanese capitalists to reduce union militancy by providing lifetime employment, generous company welfare schemes, and more worker initiative in the labour process (e.g. the famous Toyota production system). Albeit confined to the 'core workers' (roughly the top two-thirds of the workers in large firms and top third of the workers in small firms), these changes, together with political repression of communist unions, definitely made it possible for Japan to weaken the radical labour movement and establish the political climate for the rightwing developmental state to thrive.

We think of a strong, Gaullist state as a 'natural' product of long French tradition, dating back to Jean-Baptiste Colbert, Louis XIV's finance minister. However, this was a tradition that had been very much discredited by the time of the fall of Napoleon. Between the end of Napoleonic rule and WWII, with the partial exception of the period under Napoleon III, the French policy 'tradition' was very much a laissez-faire one (Kuisel 1981). For example, in the first half of the 19th century, France was more 'free-trading' than Britain (Nye 1991), with minimal industrial policy (Kuisel 1981).[3] The dirigisme of the post-WWII period was very much a re-invention of an old political set-up that had looked 'dead' for nearly a century and a half (Cohen 1977).

The political basis of the Scandinavian 'developmentalist welfare state' was also laid through deliberate actions. The 'corporatist' compromise between the left–centre (red–green coalition) and the right (the capitalists), which was developed in the 1930s (Norway in 1935; Sweden in 1938), was the product of deliberate political actions, rather than being some inevitable outcome of an underlying 'structure', at least in the case of Sweden. In the 1920s, Sweden had literally the most contested industrial relations in the world – it lost the highest number of days per worker in industrial strikes in the world (Korpi 1983). Finland may have struck the corporatist compromise in the 1960s, with the rise of the socialist party, but it had a bitter history of left–right divide. Its independence from Russia in 1918 was started with a bloody civil war and the victorious right wing went so far as to deprive the communists of their voting rights until the end of WWII. If the Finnish left and right compromised with each other, it was definitely *not* out of some 'structural' conditions that made that compromise 'natural'.

The pre-WWII developmental state in the US was maintained only through violent conflict – in the form of the Civil War. The Civil War is often mistakenly known to have been fought only over the slavery issue, but there was actually much less disagreement on the issue of slavery between the North and the South than in the case of tariffs (and also free distribution of public land to the tillers) (Chang 2007). Slavery was *not* as divisive an issue in pre-Civil War US politics as most of us today believe it to have been. Abolitionists had a strong influence in some Northern states, especially Massachusetts, but the mainstream Northern view was not abolitionist. Many people who were opposed to slavery thought that black people were racially inferior and were thus against giving them full citizenship, including the right to vote. They believed the proposal by radicals for an immediate abolition of slavery to be highly unrealistic. Lincoln himself shared these views.

As I mentioned in the introductory section, South Africa has a uniquely strong mass party base. This means that the South African state can implement its policy much more thoroughly than most other countries, if it has the political will. While less unique than the party base, it also has highly developed organisational vehicles that can be used for a developmentalist project – the Development Bank of Southern Africa (DBSA), the Industrial Development Corporation (IDC), and a number of strong SOEs. These organisations should also increase the capability of the South African state to implement its policies: the threat to go ahead with some socially desirable project that the private sector is not keen to implement becomes much more credible when the state has the organisational means to execute that project itself.

Of course, South Africa has a unique negative political condition for the developmental state as well, in terms of its relative state autonomy: its energy-mineral conglomerates, with unusually globalised links and capabilities for firms from a developing country. This reduces the range of things that the state can do without facing major opposition from the capitalists – especially if it at some future point ends up fully liberalising the capital accounts.

I am not enough of an expert on South Africa to pronounce on how these two unique sets of conditions are going to play out against each other, but a lot depends on what the people of this country actually do. Even the experts will not be able to say anything definite, because social changes are determined not just by some 'objective' structure but also by human agency. In 1985, say, who would have predicted that apartheid would end in less than 10 years (Margaret Thatcher famously said that those who were fighting against apartheid were living in 'cloud cuckoo land')? Likewise, who could have predicted in the 1920s that Sweden would become a country famous for industrial peace within a generation? To paraphrase Marx, it is humans that make history, although not in the context of their own choosing.

Organisation: pilot agency, financial control and SOEs

The organisational methods of the developmental state were diverse across countries, partly reflecting structural constraints but also as a result of deliberate organisational choices and innovations.

Korea between the 1960s and 1980s probably provides the most 'extreme' case of the developmental state, in organisational terms. It had an all-powerful pilot agency in the form of the EPB, which not only oversaw the (indicative) planning exercise but also controlled the budget. The Ministry of Finance (MOF) – usually a guardian of 'prudence' controlling purse string against planning and other 'spending' ministries – collected taxes but had no control over their use. The EPB was the quintessential 'pilot agency' of the developmental state, coordinating the activities of the Ministry of Commerce and Industry (MCI, in charge of detailed sectoral policies), the banks (which were all state-owned between 1961 and 1983 and fully controlled by the government until the early 1990s, even after some of them were partially privatised), and SOEs.[4]

France came fairly close to Korea in terms of the organisational characteristics of the developmental state. The French CGP was not as powerful as the Korean EPB, but it was more powerful than the Japanese planning agency (see below).[5] Although certain divisions of the CGP were able to promote sectors in its charge quite effectively, the Ministry of Industry was weak and fragmented (Hayward 1986). In addition, the control over the banking sector was not as complete as in Korea. However, the French developmental state had a clear edge over the Korean developmental state in terms of its control over SOEs. While the Korean state was happy to set up SOEs when necessary (POSCO, the steel-maker, being the best example) and take over ailing private sector enterprises, there were few SOEs that were really crucial (except for steel and energy). In contrast, in France, most of the key firms were SOEs until the mid-1990s (and some still are) – the list included Renault (automobile), Alcatel (telecommunications), St Gobain (glass and building material), Usinor (steel), Thomson (electronics), Thales (defence electronics), Elf Aquitaine (oil) and Rhône-Poulenc (pharmaceutical).

While it was the template for the Korean one, the Japanese developmental state did not have as powerful a pilot agency as the Korean EPB. While Japan had its planning agency, the Economic Planning Agency (EPA), it was small and powerless (not least because it did not control the budget like the EPB did). The pilot agency was the MITI but its activities were constrained by the Ministry of Finance. The MITI's right to allocate scarce foreign exchange gave it serious financial clout in the early post-war years, when the country suffered from foreign exchange shortages, but that ended fairly soon with an improving balance of payments, and the MITI had always to tussle with the Ministry of Finance in order to secure the necessary funding for its programmes. However, given the political consensus on the need for selective industrial policy, the MITI was able to win many of the battles and play the leading role in the economic transformation of the country. Also, the fact that many of the MITI's industrial policies were not done through subsidies but coordination and regulation meant that the Finance Ministry's financial constraints were often not binding. Another difference between Japan, on the one hand, and Korea and France, on the other, is that the Japanese state never had the same degree of control over the banking sector that the Korean and the French states had, nor did it have more than a few significant SOEs (even the railways were mostly privately owned).[6]

Taiwan's pilot agency was even more constrained than the Japanese one. The role was played by the Industrial Development Bureau (IDB), a coordinating committee, rather than by a coherent ministry or agency. What constrained the IDB even more was the historical legacy of inefficient and corrupt bureaucracy of the Kuomintang (KMT, or the Nationalist Party). While it had shaped itself up dramatically after fleeing to Taiwan following the defeat by the Communists in 1949, the KMT bureaucracy was still corrupt and inefficient in the 1950s and 1960s, even by developing country standards. Therefore, the 'reformers' in Taiwan had to struggle to create 'islands of competence' in what was a generally incompetent and often corrupt bureaucracy. The IDB was a product of such a process, and thus was necessarily constrained in what it could do, given the jealousy it attracted from the rest of the bureaucracy. However, the Taiwanese developmental state had other, compensating organisational strengths. As in Korea, the banking sector was totally under state control. More than in Korea (and a bit like in France), the SOEs, concentrated in upstream industries (steel, chemicals etc.), played an extremely important role (16 per cent of GDP in Taiwan versus 10 per cent of GDP in Korea, and commanding all the key upstream sectors).[7] In an economy where there were few large private sector firms (largely an outcome of the KMT's mistrust of the 'Taiwanese' private sector), this gave the Taiwanese state enormous clout.

Given the relative paucity of English-language materials on the Scandinavian countries, my understanding of the organisational characteristics of Scandinavian developmental states is limited. However, it seems fair to say that there was no pilot agency like the EPB, CGP or MITI in the Scandinavian cases. This was partly because of the relatively weak influence of developmentalism in these countries, but also because upgrading policies were managed in a more 'structural' way, through labour market and welfare policies. However, Sweden's use of public–private partnerships in developing particular industries (hydroelectricity, telegraph, telephone), the Finnish state's extensive use of SOEs in industrial upgrading, and the Danish state's export marketing board all show that it is not as if there were no organisational vehicles in these countries. It is simply that these initiatives were pursued in a more diffused way than in France or East Asia.

In the US, what Block (2008) calls the developmental network state (DNS) had to operate in a highly constrained political environment. Although the US is the birthplace of the developmentalist economic theory (Hamilton's infant industry argument), it never had a proper organisational set-up for an effective developmental state of the classical variety. Even in the heydays of its developmentalism, there was no pilot agency, no attempt at planning was made, few banks were controlled by the state, and there were few SOEs. By the 1970s, free market ideology was in the ascendancy, so developmental activities became even more 'hidden' under the guises of 'defence' and 'health' research, through agencies like the ARPA and through the NIH. However, the US developmental state has produced some impressive outcomes, showing that a developmentalist project can be pursued under pretty adverse political and organisational conditions.

The above discussion shows that there is no single formula – in organisational terms – for 'doing' a developmental state. Different countries adopted different organisational formulae, according to their political, ideological and economic constraints. While having a powerful pilot planning agency (the EPB in Korea, or the CGP in France) is useful, developmentalist projects can also be pursued by a line ministry (the MITI in Japan), a coordinating committee (the IDB in Taiwan), sectoral agencies (ARPA, NIH in the US), or SOEs (in all countries, except for the US).

For various historical reasons, South Africa has built a wide range of organisations that are ingredients of a developmental state. The Department of Trade and Industry is in a position to play the role of the pilot agency, especially if it can closely coordinate its activities with the Presidency. There are also serious financial resources and analytical capacities in the DBSA and the IDC. Furthermore, there are significant numbers of SOEs with technological and business capabilities of international standards. All of these organisations, with due modifications, can be mobilised for a developmentalist project.

Of course, when compared to the classical cases, the lack of control over the banking sector (other than the DBSA) and the weakness of agencies that promote R&D are serious organisational shortcomings for a potential developmental state in South Africa. Bringing the banking sector under state control may not be feasible in South Africa's current political circumstances, but this can be partly countered by strengthening the development bank and by the establishment of other special-purpose banks (e.g. banks for small and medium-sized enterprises, which were quite important in Japan and Korea). Strengthening the R&D support function of the state is, over time, entirely feasible even in South Africa.

Human resources: lawyers, engineers and economists

One common reaction to arguments for some kind of developmental state in currently developing countries is that, even if they politically manage somehow to set up a developmental state, today's developing countries just do not have the people who can run it properly. Advising developing countries against interventionist trade/industrial policies, Alan Winters, a leading mainstream trade economist and a former employee of the World Bank, went as far as to say that 'the application of second-best economics [economics that allows for imperfect markets and therefore potentially beneficial government intervention] needs first-best economists, not its usual complement of third- and fourth-raters' (Winters 2003, cited in Stiglitz & Charlton 2005: 37).

It seems reasonable to argue that high performance can only come from high-quality people, but the rub is in defining what 'high quality' means in this context. The popular perception is that a well functioning developmental state needs a high-quality economic bureaucracy, which in turn needs to be staffed with, naturally, people who have advanced training in economics or management. However, the experiences of the East Asian developmental states suggest that this may be a wrong way of looking at the problem (in this section, I am looking only at East Asia, as I do not have enough knowledge about the historical experiences of the Scandinavian countries and the US in this respect).

To begin with, in many developing countries government officials are not highly trained. However, it is not as if the East Asian countries all started out with highly trained people. Except for Japan, all of the East Asian countries had, contrary to the prevailing myth, a rather poor human capital base at the beginning of the post-WWII period, and this was also reflected in the low quality of their bureaucrats.[8] Especially Korea, the poorest of the lot, used to send its bureaucrats for extra training to – of all places – Pakistan and the Philippines until the late 1960s.[9]

Moreover, the 'first-best economists' mentioned by Winters were conspicuously missing in these countries. Japanese economic officials may have been 'first-best', but they were certainly not economists – they were mostly lawyers by training. Until the 1980s, what little economics they knew was mostly of the 'wrong' kind. Japanese economics faculties were, until the 1980s, dominated by Marxists. Schumpeter and List were widely taught. There were few mainstream economists of high calibre, and consequently what little mainstream economics the lawyer-bureaucrats learnt was of poor quality.

Korea also had a high proportion of lawyers running the economic bureaucracy (more so in the earlier days). The brains behind Korea's famous (or infamous, depending on who you are) Heavy and Chemical Industrialisation (HCI) programme in the 1970s, Oh Won-Chul, was an engineer by training. During the Japanese colonial period (1910–45), Korean economics naturally had strong Marxist influences. While most Marxist economists went over to North Korea and the teaching of Marxist economics in universities was banned after the Korean War, Marxist thinking had a visible influence on Korean economic thinking. Even more interestingly, both General Park, the dictator who initiated the Korean 'miracle', and many of his lieutenants were also communist in their young days. This intellectual background was reflected in the policies. While the Park government was fiercely anti-communist and gave lip service to 'free enterprise', its developmental strategy was built upon Marxist (or at least classical) notions such as capital accumulation, technological upgrading, surplus extraction from the rural areas, and labour discipline in factories – and not neoclassical concepts like 'getting the prices right' and allowing maximum competition.

In Taiwan, the elite economic bureaucrats were mostly engineers by training (incidentally, that is also the case in China today). Moreover, the KMT was heavily influenced, through its Comintern membership in the 1920s, by the Soviet Communist Party. Its party constitution was apparently a copy of the latter's. (Therein lies the explanation for the sight of the professional hand-raisers for the geriatric members of the KMT Politburo, which amused the rest of the world so much in the 1980s.) Taiwan's second president, Chiang Ching-Kuo, who succeeded his father Chiang Kai-Shek as the leader of the party and the head of state, was a communist as a young man and studied in Moscow with future leaders of the Chinese Communist Party, including Deng Xiaoping. He met his Russian wife when he was studying in Moscow.

In the end, the competence that is needed in order to 'do' a successful developmental state seems to be, somewhat counter-intuitively, that of a generalist, rather than that of an economist (at least of the mainstream kind), as Johnson (1982) himself pointed out. This may be because what is most needed for a successful policy, even of the 'selective' kind, is the ability to make good judgements on main issues, and not specialist knowledge, which can be acquired by consulting relevant private sector actors, independent experts, and also through 'learning by doing' on the job.

All of this suggests that developing countries intent on developing a good economic bureaucracy should put more emphasis on recruiting people of generally high calibre, rather than looking for specialists in economics and other related subjects. Indeed, given the way that economics is dominated by neoliberal economics these days, it may be positively harmful for economic development if there are too many people who would be recognised as 'first-rate economists' by the likes of Winters. Indeed, the negative role that US-trained mainstream economists played in dismantling the Korean developmental state is an eloquent testimony to this (Chang & Evans 2005).[10]

South Africa is not like many other developing countries, which lack people with decent training – in anything. It has enough capable people to 'do' a developmental state.

Of course, this is not to say that everything is fine. The public–private sector salary gaps have resulted in the loss of human resources to the private sector. The cautious policies of the first 15 years of the ANC government have failed to sufficiently stretch the capabilities of the remaining people. I do not know enough about the current human resource situation, but I am sure that extra recruitment and extra training would help.

In trying to upgrade the human resources of the economic bureaucracy, the country is to be wary of the kind of argument put forward by Winters (in Stiglitz & Charlton 2005) and should not get hung up on hiring more 'first-best economists'. As the East Asian examples show, a successful developmental state does *not* need economists. Moreover, the economists should be those who have had as broad a training (in different schools of economics and in other, related subjects) as possible, rather than those with narrowly technical and ideologically biased education.

Conclusion

I have shown that there are many different ways to 'do' a developmental state. Experiences of Japan, Korea, Taiwan, Singapore, France, Sweden, Finland, Denmark, Norway, and the US were examined – admittedly with varying degrees of detail, reflecting the limits of my knowledge (only slightly excused by the paucity of English-language materials available about the Scandinavian countries). All of these countries 'did' a developmental state in different ways under diverse political, ideological and economic conditions, with different strengths and weaknesses.

After examining these experiences, I provided some suggestions for South Africa. While my limited knowledge of the country, which is outdated anyway (the last time I studied it systematically was over a decade ago – see Chang 1998), allowed me to make only broad and vague suggestions, I do hope that they have given some food for thought to those who are interested in constructing a developmental state in South Africa.

Notes

1 Semiconductors were first developed through US defence research funding. When the two main firms – Fairchild and Texas Instruments – subsequently got locked in costly patent suits, the US Department of Defense intervened to resolve the situation by imposing a patent pool between them (Perelman 2003). The US government gave the industry a further boost in 1987 by setting up SEMATECH, a joint venture of 14 firms with ARPA funding, set up as a means to fight off the Japanese technological challenge (see Block 2008 on SEMATECH).

2 Between 1955 and 1964, Japan lost more days per worker in industrial strikes than Britain or France, countries that were not known for peaceful industrial relations at the time (see Koike 1987: 292, Table 3).

3 The Ministry of Commerce and Industry, the potential pilot agency, concentrated largely on promoting exports and setting tariffs, and its industrial promotion activities 'other than a rare subsidy, consisted largely of organising exhibitions, looking after the Chambers of Commerce, gathering economic statistics, and distributing decorations to businessmen' (Kuisel 1981: 14).

4 With the rise of neoliberalism, the planning exercise was abolished in 1994 and the EPB was merged with the MOF, to form the Ministry of Finance and Economy. The MCI (expanded into the Ministry of International Trade, Industry and Energy – MOTIE – to include energy policy) lost its trade function to the Ministry of Foreign Affairs in 1998, and this was the nail in the coffin of the Korean developmental state in organisational terms. On the demise of the Korean developmental state and the accompanying organisational changes, see Chang and Evans (2005).

5 In the French case, the Planning Commission had to engage in interdepartmental competition with the Ministry of Finance, which had 'control over macroeconomic management, the flow of funds and all forms of public spending' (Hall 1986: 172). See Johnson (1982) for the conflict between MITI and the Ministry of Finance in Japan.

6 Although not as comprehensively as in the Korean case, the Japanese developmental state went into decline from the 1990s, the continuous restructuring of the MITI (now called the Ministry of Economy, Trade and Industry or METI) being the symbol of that decline.

7 This was a reflection of the KMT ideology; Dr Sun Yat-sen, the founder of the KMT, argued that all the key industries should be owned by the state.

8 In the late 1940s, the literacy ratio was 22 per cent in Korea (1945), 47 per cent in Singapore (1947), and 50 per cent in Taiwan (1950). South Africa's was 28 per cent (1946) and Zimbabwe's was 37 per cent (1945). See Chang (2006: Table 4.1).

9 Korea's per capita income in 1961 was US$82. In the same year, Ghana's was US$179 and South Africa's was US$396. Japan's was $402.

10 Alice Amsden (1991) first highlighted the potential danger to the Korean economic model of the rapid increase in the numbers and intellectual ascendancy of what she calls the A-TKEs (American-trained Korean economists). According to my count, in the annual listing of economics PhDs published between 1987 and 1995 in the *Journal of Economic Literature*, Korean names constitute approximately 9.7 per cent of all listed names (776 out of 8 040). This is an astonishing statistic, given that Korea accounts for only about 0.75 per cent of the world's population (and that very few of these names represent Korean Americans). An overwhelming proportion of these economists subsequently returned to Korea, steering university economics education increasingly in a neoliberal direction. In addition, many elite bureaucrats, increasingly educated along neoliberal lines in Korean universities, were sent to the US for advanced study; most eventually returned to their old jobs in the Korean government.

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5 Limits of the authoritarian developmental state of South Korea

Eun Mee Kim

South Korea's authoritarian and comprehensive developmental state produced remarkable results for economic development from the early 1960s–1980s (EM Kim 1997).[1] In less than three decades, South Korea was transformed from a war-stricken nation living under extreme poverty (GNP per capita in 1961 stood at US$81) to a bustling industrial economy with exports reaching all corners of the world (GNP per capita in 2007 was US$20 045; GDP was US$969.9 billion and South Korea was the 13th largest economy in the world).[2] Its continued rapid economic development recorded one of the most successful such cases even among the late-industrialising nations.

South Korea's rise from rag to riches in less than three decades, however, came with a big price tag in terms of suppression of democracy and curtailment of civil liberties. By the late 1980s, this had erupted into major struggles for democracy, and the South Korean political system was transformed from an authoritarian one to a nascent democracy – albeit more an institutional than a substantive democracy. Nevertheless, South Korea, in its typical compressed style, saw that democracy was quickly established, with a swift transfer of power from a military-backed regime to a civilian one in 1993, only six years after the June 1987 'Declaration for Democratic Transition of Power,' which signalled the era of democratic transition. And in 1998 there was the transfer of power from a conservative to a liberal/progressive regime with President Kim Dae Jung.

In addition to the tremendous conflicts and difficulties involved in the process of democratisation, South Korea has also suffered from poorly developed institutions to withstand external crisis, due to the sequential change of economic liberalisation and democratic transition. Delayed political development (democratisation) resulted in a weakening of the capacity of the developmental state to deal with external shocks; that is to say, if the developmental state had been developed within a more open political environment, it would have been exposed to global institutions and would have been better able to handle external shocks such as the Asian Financial Crisis (1997–99).

Thus, although rapid economic development has been an important outcome of the authoritarian developmental state, it is also important to point out the limits of this state type. This chapter draws lessons from South Korea with respect to the following questions: is an authoritarian developmental state justifiable in attaining economic development in spite of a severe sacrifice of democracy? And with regard to long-term economic development, crisis management and income inequality, what costs are involved in a sequential transition to economic liberalisation and democratisation?

In order to answer these questions, I examine the key institutions and actors in pursuit of economic development and democracy in South Korea, namely: the state, capital and labour, and the relationship between them. I also examine the effect of their interrelationship on economic development and income inequality. I begin from the premise that the political and economic orientations of the state should be analysed separately – i.e. authoritarian state and developmental state (EM Kim 1997). Furthermore, I examine the sequence of economic development and democratisation, and that of economic liberalisation and democratic transition. The South Korean case is an example of rapid economic development, followed later by democratisation at great cost to society. This sequential pattern affected the way in which South Korea became vulnerable to the vagaries of foreign capital in the late 1990s, which was the Asian Financial Crisis. I provide some lessons about crisis management, or lack thereof, due to the sequencing of South Korea's transitions in economic development and democracy.

Development and democracy

Does capitalist development lead to democracy? This is one of the quintessential questions in political economy. Its answers are as varied as the number of scholars discussing this issue. In this chapter I focus on the literature related to the sequence of capitalist development and democracy in developing countries.

Capitalist development and democracy

Many scholars, including Lipset (1959), argue that economic growth leads to democracy; and thus their argument can be summarised as 'development first and democracy later' (Lipset 1959). With his empirical comparison of Western and Latin American countries, Lipset shows that there is a strong and statistically significant positive correlation between GNP per capita and the level of democracy. He concludes that 'the more well-to-do a nation, the greater the chance that it will sustain democracy' (Lipset 1959: 75). Following Lipset, Almond reviews previous studies, including those by Robert Dahl, Daniel Lerner and Karl Deutsch, and demonstrates statistically that there is a correlation between economic development and democratic institutions (Almond 1991). Przeworski and Limongi (1997) emphasise the importance of development in shaping democracy and its persistence. They argue that democracy can survive in poor countries even when they have low GNP per capita, as long as there is sustained economic development.

Huntington (1968) proposes an alternative explanation of the development of democracy from the perspective of 'process', arguing that the outcome of economic development leads to political decay; and then the unstable political system moves toward democracy through, and after, institutionalisation (Huntington 1968). While investigating domestic political changes post-WWII in numerous Latin American countries, Huntington argues that although economic growth creates preconditions and opportunities for developing countries to evolve toward democracy, political structure or transformation under authoritarian regimes does not necessarily change.

Political decay and instability take place, since these regimes do not have institutions to 'digest' or respond to the requests and demands from discontented middle class and social groups (Huntington 1968; Pion-Berlin 2001). In order to deal with the problems of political instability and social disorder, the middle class sometimes turns to the military to take power. However, political decay and instability take place in the early stage of the process of transition; in the later stage, as Huntington argues, authoritarian regimes keep moving toward and reach democracy through institutionalisation (Huntington 1968).

Another theoretical explanation of the causality between development and democracy is 'development does not lead to democracy, but supports authoritarianism'. Contrary to the argument that economic development leads to democracy, Mesquita and Downs argue that over the past 50 years a number of authoritarian regimes have experienced dramatic economic development without corresponding political liberalisation and, in fact, political elites' power and positions in these countries were strengthened and consolidated thanks to economic development. They also criticise the fact that modernisationists and development theorists consistently ignore and understate the ability of authoritarian regimes to prevent the demands of democratisation (Mesquita & Downs 2005).

Democratic transition

Building on Lipset's earlier studies, Rueschemeyer et al. (1992) take up the challenge of filling in the remainder of the causal chain that was left unexplained. Their attempt to explain the relationship between capitalist development and democracy leads them to conclude that '… capitalist development is associated with democracy because it transforms the class structure, strengthening the working and middle classes and weakening the landed upper class. It was neither the capitalist market nor capitalists as the new dominant force, but rather the contradictions of capitalism that advanced the cause of democracy' (Rueschemeyer et al. 1992: 7). In their view, the working class is largely oriented towards democracy and the landed upper class is almost unanimously oriented towards the status quo. The propensity for democratisation, then, in any given state is a function of the balance of class power that emerges from development. Often, the working class is able to successfully attain democratisation only when it forms a coalition with the middle class (Rueschemeyer et al. 1992).

O'Donnell and Schmitter argue that 'there is no transition whose beginning is not the consequence – direct or indirect – of divisions within the authoritarian regime itself, principally along the fluctuating cleavage between hard-liners and soft-liners' (1986: 19). However, their contention that the outcome of transition is indeterminate and that 'political democracy … usually emerges from a nonlinear, highly uncertain, and imminently reversible process …' (O'Donnell & Schmitter 1986: 70) does not match to some cases, such as Mexico. On the other hand, Karl (1990) argues that political transitions are not as uncertain as O'Donnell and Schmitter (1986) claim. He shows that the existing 'socioeconomic structures and political institutions already present' (Karl 1990: 6) help us predict the nature of regime transition.

These various views on democratic transition focus on class struggle, class coalitions and political institutions. In the South Korean case, however, class dynamics were subsumed under the transformation of the key economic institution – i.e. the developmental state. South Korea's legacy of an authoritarian developmental state in the context of a weak class system in the early phase of economic development continues to colour even the political transformation of democratisation. And external shocks such as the financial crisis show the tenacity (inertia) of the developmental state.

Capitalist development and democracy in South Korea

The experience of South Korea's capitalist development and democracy has been a tumultuous one, with rapid rates of economic development unprecedented in recent world history, violent struggles for democracy, and democratic transition. Table 5.1 shows that the South Korean state transformed from an authoritarian developmental state (1961–81), went through a double transition of economic liberalisation and democratic transition (1982–2002), became a quasi welfare state (2003–07), and has recently changed to a new developmental state (2008 onwards). This last period is still evolving and it is too early even to provide a suitable name. Nevertheless, the new Lee Myung Bak government's (from 2008 onwards) proposed plans are included in Table 5.1. (See also the appendix to this chapter for the chronology of developments within the South Korean government.)

I examine the institutions of the state, capital and labour in pursuit of economic development and democracy. Levels and nature of economic growth and income inequality are provided as outcomes of the makeup and interrelationship of the above institutions. I am particularly interested in the broad sequence of economic development and democracy, and the transition sequence of economic liberalisation and democratisation with regard to their impact on sustained economic growth and income inequality.

Authoritarian developmental state (1961–81)

On 16 May 1961 Major General Park Chung Hee led a military coup, which established the basis for an authoritarian developmental state to achieve rapid industrialisation. Park's regime, which lasted until his assassination in 1979, was the key period in which South Korea propelled itself out of its third world status and transformed into a bustling industrialised economy in record time.

Throughout the Park regime (1961–79), the developmental state was the engine powering South Korea's rapid economic growth. The state allocated resources for investment, decreed prices and regulated capital movement – especially for off-shore investment (Amsden 1989). The state's Economic Planning Board (EPB) was given powers unprecedented in a system that described itself as based on the free market;

Table 5.1 South Korea's developmental state: 1961 to the present

Aspect	**Authoritarian developmental state (1961–81)**	**Double transition: economic liberalisation and democratic transition (1982–2002)**	**Quasi welfare state (2003–07)**	**New developmental state (2008 onwards)**
State	• Authoritarian developmental state • Economic Planning Board (EPB) • Korean Central Intelligence Agency (KCIA)	Economic liberalisation (1982 onwards) and democratic transition (1987 onwards)	• Welfare development • Participatory democracy and decentralisation	• New form of developmental state
Capital	• Growth of the chaebol • State control of finance	• Double transition • Regulatory developmental state • Increased power of the chaebol	• Welfare policies • Regulatory developmental state • Chaebol reform	• Developmental state and deregulation • Pro-market policies/growth of the chaebol?
Labour	Acceptance of low wages and long working hours during economic expansion	• Unionism • Korea Tripartite Commission (1998)	• Korea Tripartite Commission renamed Economic and Social Development Commission (2007)	Changes not yet clear
Economic growth (average annual growth rate)	Rapid growth (1971–81: 7.2%)	Rapid growth → Asian Financial Crisis (1997–99) → economic slow-down (1982–96: 8.5%; 1997–2002: 4.4%)	Slow growth (2003–07: 4.4%)	Changes not yet clear
Distribution (income inequality)	Relative income equality	Rising income inequality and expanding middle class	Bi-polarisation	Changes not yet clear
Lessons	Curtailment of democratic rights	Sequence of economic liberalisation → democratisation, and its problems	Slow economic growth, and rising income inequality despite welfare programmes	Renewed emphasis on economic growth?

Table 5.2 Main indices of economic performance (South Korea, 1970–2007)

Year	GDP (US$100 million)	GNI (US$100 million)	GNI per capita (US$)	GDP growth rate (%)	Export (%)	Import (%)	GDP deflator (2000 = 100)	GDP deflator growth rate (%)
1970	81	82	254	0.0	15.6	24.4	4.0	0.0
1971	95	95	290	8.2	16.6	26.7	4.6	14.5
1972	107	107	320	4.5	20.9	25.7	5.4	17.9
1973	137	137	401	12.0	30.1	33.5	6.2	15.4
1974	192	192	554	7.2	28.4	39.6	8.3	33.2
1975	215	212	602	5.9	28.3	37.9	10.5	26.0
1976	296	293	818	10.6	31.3	34.0	13.0	24.5
1977	379	377	1 034	10.0	31.9	33.4	15.2	16.7
1978	531	529	1 431	9.3	30.3	34.3	18.7	23.4
1979	633	629	1 676	6.8	28.5	36.3	22.5	20.1
1980	638	627	1 645	–1.5	35.1	44.9	27.9	24.0
1981	714	697	1 800	6.2	38.0	46.0	33.0	18.2
1982	762	744	1 893	7.3	36.9	41.8	35.2	6.7
1983	845	828	2 076	10.8	35.9	39.0	37.4	6.2
1984	932	912	2 257	8.1	36.3	38.8	39.6	6.0
1985	966	942	2 309	6.8	34.5	36.4	41.5	4.8
1986	1 113	1 089	2 643	10.6	38.0	35.0	43.8	5.5
1987	1 400	1 382	3 321	11.1	40.1	34.2	46.3	5.6
1988	1 877	1 864	4 435	10.6	37.6	31.1	49.8	7.6
1989	2 305	2 300	5 418	6.7	32.0	30.1	52.7	5.7
1990	2 637	2 635	6 147	9.2	29.1	30.2	58.2	10.5
1991	3 081	3 076	7 105	9.4	27.3	30.1	64.4	10.7
1992	3 298	3 293	7 527	5.9	27.4	28.7	69.3	7.6
1993	3 621	3 614	8 177	6.1	27.3	27.1	73.7	6.4
1994	4 233	4 223	9 459	8.5	27.4	28.4	79.5	7.8
1995	5 173	5 155	11 432	9.2	29.6	31.1	85.4	7.4
1996	5 574	5 553	12 197	7.0	28.7	32.5	89.8	5.1
1997	5 164	5 136	11 176	4.7	33.4	34.5	93.9	4.6
1998	3 461	3 404	7 355	–6.9	47.8	36.3	99.4	5.8
1999	4 452	4 400	9 438	9.5	40.3	34.7	99.3	–0.1
2000	5 118	5 096	10 841	8.5	42.3	39.6	100.0	0.7
2001	4 820	4 811	10 159	3.8	39.4	37.2	103.5	3.5
2002	5 469	5 475	11 497	7.0	36.6	35.1	106.5	2.8
2003	6 080	6 086	12 717	3.1	39.2	36.7	109.4	2.7
2004	6 809	6 824	14 206	4.7	45.4	40.9	112.3	2.7
2005	7 913	7 901	16 413	4.2	43.7	41.5	112.1	–0.2
2006	8 875	8 887	18 401	5.1	44.7	43.6	111.6	–0.5
2007	9 699	9 713	20 045	5.0	47.6	46.6	112.9	1.2

Source: Adapted from National Bureau of Statistics (various years) and *Korea Statistical Yearbook* and the head of the EPB was awarded the rank of deputy prime minister – second in the government hierarchy. Five months after the coup, the Park government nationalised the banking system, and by 1970 it controlled 96.4 per cent of the country's financial assets (White 1988: 74). This control allowed EPB planners to distribute resources to industrial sectors considered vital to industrial development. For businesses, access to low- or no-interest government loans was guaranteed so that they could quickly expand their production without much concern for immediate profitability.

How was the Park regime able to succeed in the dramatic industrial transformation of South Korea? Certainly it was an authoritarian state – but no more so than many other states found in developing countries. Its dirigisme policy orientation was also fairly common among developing countries. However, what was not common was the autonomy and capacity of the state to undertake industrial policies consistently with, at first, little effective challenge from the main classes of South Korean society (Minns 2001). The combined high levels of state autonomy and state capacity enabled the state to mobilise resources for industrialisation and to concentrate its efforts on government target sectors. It wielded tremendous power over private businesses, and was an effective mediator between domestic and foreign capital (EM Kim 1997).

The authoritarian developmental state during the Park regime was based on the following principles: private ownership of industry; state control of finance; state planning; and maintenance of low wages in spite of an expanding economy. It might be possible to interpret the private ownership principle as a sign of the state's insecurity and weakness vis-à-vis the private sector. However, a more apt analysis is that it is an indication of its great strength relative to the private capitalist class in the 1960s and 1970s. Capital could be left in the hands of private owners because Park knew that the state still had real discretion over them. State planning directives were carried out by the chaebol (South Korea's family-owned and family-managed business groups) just as if they were managers of state-owned enterprises (SOEs). Although the state eventually witnessed a tremendous growth of private businesses, to a level of which it could not have dreamt in the early 1960s, at least during the 1960s–70s the state had a clear upper hand with regard to the private sector. It was prepared to use coercion if necessary, and did often enough to warn potential rebels in the private sector. To maintain this position of dominance for over 20 years, the state utilised its control of the nationalised banks, and access to foreign capital through state-repayment guarantees for loans.

Another important aspect of the South Korean developmental state has been its oppression of labour in terms of curtailment of labour rights and suppression of wages. In 1970, in protest against the state's oppressive labour policies, Chun Tae Il, a 22-year-old worker working in the Peace Market sweatshop in the middle of downtown Seoul, set himself on fire during a labour protest against poor working conditions and lack of labour rights including unionisation (Ogle 1990). Chun's suicide ignited a series of massive demonstrations supported by factory workers, student movement groups and other anti-government forces.

Labour unionisation and labour assembly were illegal during the Park regime. The first independent union at the Peace Market – the Chonggye Garment Workers' Union – was founded, but it was illegal and was subject to constant harassment by the authorities during the 1970s. It was the first of many attempts to organise independent unions. In fact 46 per cent of all the major labour disputes between 1970 and 1979 were about the right of labour to organise (Koo 1989: 568).

Labour movements had strong political undertones and were often supported by other anti-government groups, including students, churches and other religious organisations. For example, the labour standoff in 1979 at the YH Trading Company, a wig producer in Seoul, saw the labour demonstrators seeking support and shelter from the opposition political party – the New Democratic Party (NDP). The women workers at the YH Trading Company founded a labour union after continued labour problems, and began a labour strike. When the company shut down parts of the factory and brought in the police, the workers moved their protest to the headquarters of the NDP. After just two days, approximately 1 000 police officers forcibly entered the NDP headquarters and ejected the workers. Many workers and NDP members were injured in the process and one female worker was killed (Lie 1998: 117). This and other labour disputes brought a great deal of attention to the brutality of the police in dealing with what appeared to be unarmed and defenceless workers. Not only were the political parties involved in such labour disputes, but the public was becoming increasingly aware of the oppressive nature of the Park regime.

When Park came to power, he quickly established his control over the nation's political affairs. He declared martial law, and dissolved the National Assembly and all political parties. The press was censored and demonstrations were made illegal. New anti-communist laws, which gave the state great power to arrest and convict opponents, were also passed. And a new organisation was established, which was to play a major role in both the political and economic life of South Koreans: the Korean Central Intelligence Agency (KCIA). Reflecting its importance in the new military regime, the KCIA grew quickly in size, from 3 000 at its founding in 1961 to 370 000 by 1964 (JA Kim 1976: 234). The Park regime instituted several constitutional reforms, including the Yushin Constitution (1972–79). This guaranteed a life-term presidency for Park; and political oppression intensified even in the midst of rapid economic development. Emergency measures (EMs) were strengthened to curtail the civil rights of citizens (see Table 5.3 for a list of EMs adopted during the Yushin period).

Anti-government forces began to work together to help topple the increasingly violent and authoritarian regime of President Park. Labour strikes and demonstrations on university campuses were rampant, despite being illegal and being met with harsh punishment. Amid disagreements within the government about how to respond to the growing public demand for democracy, the head of the KCIA, one of the most trusted of Park's men, shot Park dead at a dinner party on 26 October 1979.

The assassination was followed by a brief liberal interlude, which however came to an abrupt end in September 1980 when Chun Doo Hwan, a military general, was sworn in as president following a series of quasi coups in the military. Chun led

Table 5.3 Main content of emergency measures (EMs) (South Korea, 1974/75)

EM	Date of issue	Main content
1	8 January 1974	Prohibited discussion of the revision of the Yushin Constitution
2	8 January 1974	Specified the operation of the emergency military court prescribed in EM 1
3	14 January 1974	Regulated the economy and industry to stabilise people's daily lives
4	4 April 1974	Oppressed university students' anti-government protests
5	23 August 1974	Discharged EM 1 and 4
6	31 December 1974	Discharged EM 3
7	8 April 1975	Ordered the temporary closure of Korea University
8	13 May 1975	Discharged EM 7
9	13 May 1975	Prohibited any criticism of the government and the Yushin Constitution; enlarged and strengthened the content of EM 1 (ended 8 December 1979)

Source: Adapted from National Bureau of Statistics (various years) and *Korea Statistical Yearbook*

a group of military generals in a covert coup in December 1979 inside the military headquarters in Seoul, and also was largely responsible for the Kwangju massacre, in which many civilians were brutally murdered by the military. The city of Kwangju was the capital of the home province of the opposition party leader, Kim Dae Jung. The massacre began when the military was sent in on 18 May 1980 to quell the pro-democracy demonstrations. The official government report claimed that 200 citizens were killed, but the opposition party reported that up to 2 000 had died. With the inauguration of President Chun in 1980, another military-backed authoritarian regime was born in South Korea.

The developmental aspect of the state seems to have persisted in the first few years of the Chun administration. The developmental state began to change in significant ways by 1982, from a more comprehensive to a limited developmental state with economic liberalisation.

Double transition: economic liberalisation and democratic transition (1982–2002)

South Korea experienced a double transition of its economic and political arenas from the early 1980s–early 2000s. After two decades of phenomenal economic development under the leadership of an authoritarian developmental state, South Korea underwent economic liberalisation, partly due to the success of its earlier economic development, followed by massive struggles for democracy.

The 1980s were a tumultuous period in South Korea's political economy: the political system remained staunchly undemocratic and authoritarian, while the economy saw the expansion of private businesses (in particular, the chaebol) in both the domestic and global markets. Privatisation and economic liberalisation were carried out in part due to the growing influence of the chaebol both inside and outside of South Korea.

In the 1960s and 1970s, the state had established, supported and controlled the chaebol. However, the chaebol emerged as a major challenger to the state by the 1980s, due to the chaebol's phenomenal growth. The chaebol then began to push for economic and financial liberalisation under the banner of 'private sector-led economy' or 'market economy' by the early 1980s (Wang 2007). This was quite ironic, given that the chaebol in fact had little to do with the collapse of the authoritarian regime; they were conspicuously silent during the pro-democracy movement of the late 1980s. Nonetheless, the tide had turned and a new democratically elected president was in power; so the chaebol jumped on the bandwagon of 'economic liberalisation'.

The very success of the South Korean developmental state now began to undermine the basis of its power. South Korea's rapid industrialisation based on a partnership with the chaebol – and not with multinational corporations or SOEs – meant that the success of economic development would eventually lead to the growth of the private sector, which could become a major challenger to the state for its dirigisme policies in the market. The contradiction in the South Korean developmental state is that its success will eventually lead to its demise with the growth of its challenger (EM Kim 1997).

The chaebol had become formidable world businesses with global networks reaching all corners of the world. By the end of 1994, South Korean companies had begun 2 650 projects overseas, which involved investments of US$4.2 billion (YT Kim 1995: 12). The opening of South Korean markets to foreign investors also weakened the directive capabilities of the state. Measures to liberalise capital inflows began in 1981, when foreign securities firms were allowed to open offices in South Korea – although at this stage only very limited foreign investments were allowed on the Korean Stock Exchange (Brainard 1990). Obstacles to foreign investment were gradually removed, and by 1992 foreigners were allowed direct access to the stock market. By 1996 they owned 11.6 per cent of listed stocks (Smith 1998: 75).

A catalyst event that signified the shifting balance of power between the state and chaebol was the privatisation of banks and non-banking financial institutions in the early 1980s. Privatisation of banks began during the early years of the Chun regime in 1981, and by 1983 all five major government-owned commercial banks were privatised (Haggard 1990: 135).

The chaebol began to show their increased economic influence in the domestic and international markets with the growth of South Korean capitalism. Chey Jong Hyon, then chairman of the Federation of Korean Industries and of the Sun Kyung (later SK) chaebol, told the *Korean Business Weekly* in June 1993: '[T]he decade of the 1960s can be considered as the period of our economic infancy. The 1970s and 1980s were the adolescent years and the 1990s marked a crossing into maturity'. However, the basic structure of their businesses was still a product of state control. Rapid business growth was linked to easy access to credit, which had either been provided or guaranteed by the state. Relaxation of state discipline over the chaebol and the winding back of the state's role did not change its attitude towards credit. In fact, because the state's control over overseas and domestic borrowing was removed or relaxed, chaebol debt and debt/equity ratios increased enormously (Wade & Veneroso 1998). At least in the 1960s and 1970s, chaebol loans had been regulated and only approved by the state for specific purposes associated with the Five Year Economic Development Plans. Taking full advantage of the new freedom from these restrictions, chaebol borrowing rose in the 1980s, and in the 1990s ran out of control. These non-regulated foreign loans became one of the major causes of the financial crisis in the late 1990s (SJ Kang 2001; Mo & Moon 1998).

As they continued to expand, the chaebol were less willing to be subject to the South Korean state. For example, the Chun regime attempted to divert the banks' funds to small- and medium-sized enterprises (SMEs), but failed due to the chaebol's influence over the domestic banking sector (Rhee 1994). The developmental state was no longer able effectively to discipline or restructure the chaebol, until the Asian Financial Crisis of 1997–99. The chaebol's size, diversity, increasing control over non-banking financial institutions, and growing influence in the domestic and international markets had fundamentally shifted the power balance; the state was no longer in control of the private businesses.

Labour, on the other hand, grew increasingly volatile as labour oppression escalated. Chun supported pro-market reforms (economic liberalisation) and at the same time administered very oppressive labour policies. Between 1980 and 1983, all autonomous unions were disbanded, 500 journalists and 80 professors were jailed, and 500 politicians were either arrested or banned from politics (Lee 1988: 150–151). Amid growing political oppression, the public's demand for democracy continued to increase. Students, factory workers, the middle class, and many professional groups joined forces, demanding democratic rule in the country (see Table 5.4 for labour-related indicators from 1982–2005).

In what became known as the 'hot summer' of 1987, more than 3 700 labour conflicts took place. Between the beginning of the summer of 1987 and late 1989 there were more than 7 100 labour disputes, and the number of labour unions nearly doubled (Bello & Rosenfeld 1992: 41). Wages began to rise sharply, especially in heavy industry. South Korea no longer had a competitive advantage in many export products. In addition, South Korea was faced with important changes in the world's political economy, putting pressure on the country to change its 'old' industrial strategy. The US was exhibiting growing protectionism and pressuring South Korea, Japan and Taiwan, which had major trade surpluses, to open up their markets more for US imports. Also, many other nations were beginning to export cheap manufactured products to the world, and this undercut the price competitiveness of many South Korean products. These pressures came from China and other developing nations.

On the political front, turning a deaf ear to growing pro-democracy movements on the streets, on 13 April 1987 Chun, remaining steadfast in his political stance, announced that he would not accept a key demand of the pro-democracy movement – i.e. direct election of the president – and that he would select the next president. The people grew angrier, since the government defended itself with the use of brute

Table 5.4 Labour disputes and union membership (South Korea, 1982–2005)

Year	Number of unions	Union members ('000s)	Workers unionised (%)	Number of labour disputes	Working days lost (days)
1982	2 194	984	20.2	–	–
1983	2 238	1 010	19.4	–	–
1984	2 365	1 011	18.1	–	–
1985	2 534	1 004	16.9	–	–
1986	2 658	1 036	16.8	–	–
1987	4 086	1 267	18.5	3 749	–
1988	5 598	1 707	19.5	1 873	5 400 837
1989	7 861	1 932	19.8	1 616	6 351 443
1990	7 698	1 887	18.4	322	4 487 151
1991	7 656	1 803	17.2	234	3 271 334
1992	7 531	1 735	16.4	235	1 527 612
1993	7 147	1 667	15.6	144	1 308 326
1994	7 025	1 659	14.5	121	1 484 368
1995	6 606	1 615	13.8	88	392 581
1996	6 424	1 599	13.3	85	892 987
1997	5 733	1 484	12.2	78	444 720
1998	5 560	1 402	12.6	129	1 452 096
1999	5 637	1 481	11.9	198	1 366 281
2000	5 698	1 527	12.0	250	1 893 563
2001	6 150	1 569	12.0	235	1 083 079
2002	6 506	1 538	11.0	322	1 580 404
2003	6 257	1 550	11.0	320	1 298 663
2004	6 017	1 537	10.6	462	1 198 779
2005	5 971	1 506	10.3	287	847 697

Sources: Adapted from Ministry of Labor (various years), *Labor Union Summary* and *Yearbook of Labor Statistics*

force in pro-democracy demonstrations and increasingly on university campuses as well when dealing with demonstrations. Catalyst events that helped mobilise the opposition were the sexual torture of a female student activist by police in Inchon, and the torture death of a Seoul National University male student by the police (WJ Kang 1997: 124). These events led to a series of massive anti-government, pro-democracy demonstrations, beginning around 10 June 1987, which involved millions of people on the streets of South Korea. On 29 June 1987, Roh Tae Woo, chairman of the ruling Democratic Justice Party and the handpicked heir apparent to President Chun, announced that the next presidential election would be direct. Pro-democracy demonstrations subsided, and this marked a turning point in South Korea's political history: the beginning of the breakdown of the authoritarian regime and of democratic transition. In fact, following this tumultuous period of anti-government demonstrations – which had included students, religious groups and the middle class, labour strikes and widespread political unrest – there ensued democratic transition.

Although many labour-suppressive policies persisted even after a new government was democratically elected in 1988, its ability to control labour had begun to wane (HJ Park 2002). Democratisation has expanded the rights of labour, and the resultant increased labour movements led to increases in wages and weakened international competitiveness of export goods. Democracy meant that the state could no longer maintain a pseudo industrial peace based on suppression of labour, and saw an increase of transaction costs in state–labour and capital–labour conflicts.

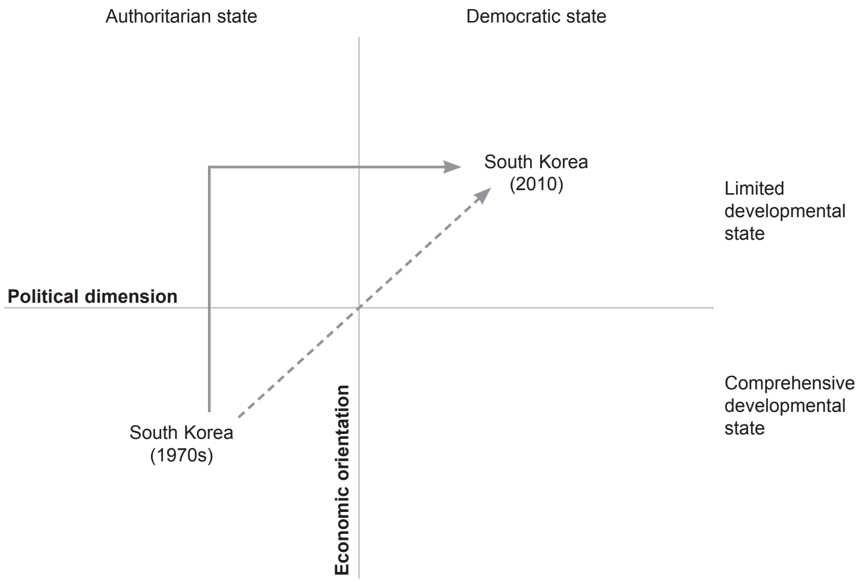
In the process of democratisation, state autonomy was challenged, not only by capital and labour but also from within the political system. The growing political and social space became the venue for newly institutionalised democratic competition and checking systems to take place, and helped the erosion of the power and autonomy of the state. Frequent confrontation between the ruling and opposition parties and between the administration and the National Assembly due to the unprecedented minority status of the ruling party not only led to a severe reduction in state autonomy but also to a decrease in state capacity. As the former power that enabled the 'plan rational' (Johnson 1982: 18), the developmental state lost consistency in government policies and implementation capability. Frequent labour strikes, tiresome confrontation of the ruling and opposition parties, and woes in the financial sector were symptomatic signs of the fall of the South Korean developmental state (Kong 2000).

The sequence of economic liberalisation to democratic transition left the state's developmental institutions weak in the face of global competition and external shocks. South Korea suffered greatly during the Asian Financial Crisis (1997–99), and sought the rescue package from the International Monetary Fund (IMF) in the face of impending national bankruptcy. What had once been a bustling industrial powerhouse was now seen as a victim of crony capitalism and rampant global capital flight, and its economic growth slowed down considerably; it has only recently recovered. Figure 5.1 summarises the key lessons from the South Korean case: the transition sequence of economic liberalisation and democratic transition bore the cost of slow economic growth and weak ability of the developmental state to withstand external shocks to its system.

Quasi welfare state (2003–07)

President Roh Moo Hyun was elected as the 16th president of the Republic of Korea in December 2002 and was inaugurated in February 2003. The 2002 presidential election was the second milestone election in the history of the young democracy in South Korea. The 2002 presidential election showed that the region-based political rivalry had been replaced by ideology-based politics in South Korea; while the 1997 presidential election had shown that the South Korean public was divided along lines of region-based loyalty, the 2002 election showed that people were voting for Roh, who was from the southeast, not as a regional candidate but as someone who would look after the interests of the working class regardless of their geographical background. Roh Moo Hyun represented liberals, favouring economic equality

Figure 5.1 Typology of developmental and authoritarian states



Source: EM Kim (1990: 44)
Note: The solid line indicates how the South Korean state evolved over time. The dotted line, I argue, would have allowed the developmental state to better handle external shocks, such as the Asian Financial Crisis.

and a more autonomous foreign policy (relative to the past), in which the Roh administration argued that the South Korean foreign policy was subservient to US foreign policy. The supporters favoured more direct and participatory democracy through demonstrations, online debates and Internet voting. They also demanded more decentralised decision-making in the workplace, at school and in other social organisations (Juang 2003).

When Roh took office, he promised prosperity, sustainable peace and new opportunities. He also professed that national integration was 'the most important task of our time'. This 'participatory' government announced the 'Twelve Policy Goals,' which included promotion of participatory democracy, prosperity, peace on the Korean peninsula, corruption-free society and improved government services, balanced national development, and improvement in welfare policies. South Korea has moved from an authoritarian state to a representative democracy, and now to a participatory democracy. Aided by the new Internet technology, political power appears to have been distributed more widely throughout the population.

In terms of the government bureaucracy, during both the Kim Dae Jung and Roh Moo Hyun administrations, South Korea maintained a big government, although the two administrations declared their commitment to an efficient government. This was declared amidst a global trend in which cries for more efficient public management took place from the late 1970s–mid-1990s (Kettl 1995). The core of government reform as found in advanced countries was the incorporation of entrepreneurial spirit and managerial skill into government (B-S Kim 1999).

Without a critical diagnosis of, and reflection on, what an efficient government organisation meant, the two administrations presided over the growth of the central government and civil servants, and resultant expansion of public finances. During the Roh administration the number of central government civil servants increased by about 66 000, and the total number of civil servants grew from 885 000 in 2003 to 951 000 in 2007. This increasing number of civil servants led to a rise in the number of regulations and regulatory costs, which negatively affected the GNP.[3] Thus, not only did the size of the government grow, but it also appeared that it was not even accompanied by improvement in the quality of services. As very critical accounts of government expansion became available during the last months of the Roh regime, many began to ask for a 'small but competent and capable government'.[4]

The socio-economic gap between the Seoul metropolitan area and the rest of South Korea has grown over time. Although the regional offices gained some autonomy from 1992 onwards, when regional elections were introduced, the system is far from perfect. In fact, the system is characterised as 'local autonomy deficient in decision-making rights, tax base and highly qualified human resources' (HK Kim 2006). The Roh administration introduced three bills related to decentralisation and balanced national development, which were passed by the National Assembly on 29 December 2003: the Special Act on Decentralisation; the Special Act on Balanced National Development; and the Special Act on Construction of the New Administrative Capital. Many measures to reinvigorate the regional economies were introduced, including tax incentives for SMEs establishing their headquarters in the regional districts, support for open-air traditional markets in rural districts and, most importantly, moving the capital metropolitan government offices to outside of Seoul, to support the growth of local autonomous districts.

Public spending on social welfare in South Korea has increased rapidly since the 1990s. And this especially became evident during the administration of Kim Dae Jung, who advocated 'productive welfare'. Subsequently, the Roh administration declared its intention 'to improve participatory welfare and the quality of life'. Thus, the share of the national budget on social expenditure grew very rapidly, from 19.9 per cent in 2002 to 27.9 per cent in 2006.

The South Korean economy under President Roh transformed from a manufacturing-based economy to a knowledge-based economy. The IT revolution in Korea has provided the impetus for growth in the post-financial crisis period. However, the rapid growth of IT-based technology-intensive industry has led to the decline of labour-intensive industries, resulting in the bi-polarisation of the manufacturing sector. In addition, South Korea's rigid labour market, strong unions in the chaebol companies, and the public sector's commitment to high wage rates and job security, have resulted in 'jobless growth' or 'growth with low job creation'. A large increase in non-regular (contract or temporary) workers, from 46.9 per cent of total workers in 2001 to 56.3 per cent in 2004, has also contributed greatly to this growing polarisation, even within the working class. Even if you put the figure at the 32.6 per cent announced by the Ministry of Labour, it is still very high and is affecting the division within the labour force (Im 2006).

The public's perception of the state's role in the economy was far from a liberal state. Although the Roh government distanced itself from a strong developmental state and tried to grant more freedom and autonomy to civil society and to local governments, it failed in the public's eyes in terms of truly shedding its authoritarian developmental roots. Many critics argue that the Roh administration did not provide true autonomy but a 'government-led' autonomy. Subsequent to being bailed out by the IMF during the Asian Financial Crisis, the South Korean government carried out various programmes to restructure South Korea's financial institutions and corporate governance, among other reforms. However, these were not very successful since the government – rather than the market forces – initiated these efforts. For example, they did not fully address fundamental problems in the chaebol's corporate governance (Chang 2003). In spite of the fact that the Roh government initiated many policies and programmes on economic growth, income distribution, welfare, real estate, and chaebol and financial sector reform, it met with great resistance and mistrust from the public. The Roh government's policies were unilateral 'orders' from the government, with little room for private initiatives. Outcries from the public fell on deaf ears, and people increasingly saw the so-called 'participatory democratic' Roh regime as an authoritarian welfare state. The policies and programmes were supposed to be good for the people; however, the problem was that these programmes were not initiated by the people. Rather, they were provided in a top-down fashion that was not very different from the past authoritarian regimes. The people did not seem to appreciate nor agree with these programmes. It was as if good welfare policies were dictated to the public in much the same way that the developmental state had previously dictated market-leading measures – without much consultation with, and initiatives from, the private sector. The legacy of the authoritarian developmental state seemed to have survived even in the midst of a very liberal welfare-oriented government.

New developmental state (2008 to the present)

The Lee Myung Bak administration (inaugurated in 2008) promises to carry out very different policies vis-à-vis the economy and foreign relations, to name but two. Due to the many policy failures of the previous Roh Moo Hyun administration, President Lee's campaign promises included market-friendly economic policies, restoring diplomatic relations with the US, Japan and other key foreign powers, and a pragmatic policy on North Korea. Many of the economic policies are based on growth-oriented policies and the idea of the free market economy, which are not necessarily easy to combine in the post-development and globalisation era. It will be interesting to examine how the new Lee administration will undertake economic measures based on the above principles. In particular, whether a Park-style developmental state will be revived is a big question among policy observers, although many are certain that it cannot be an authoritarian state. The Lee administration's economic policies and the transformation of the government bureaucracy it is pursuing will provide some interesting lessons for South Africa. This may well be the experiment that the South African developmental state needs: combining democratic rule with the developmental state.

Different conditions, different paths

Developmentalism – i.e. the use of an authoritarian developmental state in pursuit of economic development à la the South Korean example – has been used to justify authoritarian rule, especially in the Asia Pacific region. Autocrats in developing countries have utilised (or abused) such arguments, declaring democracy an unaffordable luxury until sufficient economic prosperity has been achieved (Thompson 2001). Combined with the anti-communist ideology of the Cold War, developmental dictatorships were established one after another in the region by replacing either weak democracies or economically lagging authoritarian regimes.

Most authoritarian regimes tried to legitimise their rule by stressing their performance, primarily in terms of faster economic growth and lower income inequality. While poor economic performance helped undermine many authoritarian regimes, Indonesia, Malaysia, Singapore and Thailand grew faster than most countries at similar income levels (Thompson 1993). The Indonesian economy grew at an average rate of 5.5 per cent in the 1980s, significantly higher than the 3.9 per cent average for other low-income countries (Thompson 2004). However, it fell helplessly in the face of the Asian Financial Crisis (1997–99).

In this section, I present two cases that show that the authoritarian developmental state does not provide sustained economic development nor help bring about democratic transition. Unlike the South Korean case, these cases highlight the fact that authoritarian developmental states may fail to bring about successful outcomes in economic development or democracy.

Indonesia

Indonesia has been touted as one of the most successful developmental states, but its vulnerability in disparate growth of the economy vis-à-vis its political system was revealed during the Asian Financial Crisis of the late 1990s. In spite of its massive human rights violations and political repression, the economy under the Suharto regime has been recognised as one of the successful Asian miracle economies (Emmerson 1999). It recorded 6.6 per cent annual real GDP growth on average over three decades, and per capita income grew from US$817 to US$3 346 in PPP dollars from 1965–95 (World Bank 1994: 12).[5] Income inequality was relatively low (Timmer 2004). Economic growth was accompanied by a dramatic increase in the Human Development Index and it recorded among the fastest growth in the world from 1975–97 (Emmerson 1999).

Nonetheless, Indonesia was hit most seriously during the Asian Financial Crisis in the late 1990s and it continues to struggle with slower economic recovery than other countries (Niles 2001). A number of factors contributed to the arrival of the crisis and the subsequent economic distress in Indonesia, including over-reliance on short-term foreign loans, and moral hazard resulting from crony relations between the government and big businesses in Indonesia (Horowitz & Heo 2001). Rising political turmoil seeking greater political freedom against the oppressive government was also seen as an important cause of the crisis (Emmerson 1999).

President Suharto maintained a dictatorship for 33 years (from October 1965), in the midst of extreme political instability and economic distress following an abortive leftist coup and internal conflicts. The Suharto regime can be characterised as an authoritarian regime marked by firmly centralised control (Freedman 2006). Suharto excluded political parties and provided the army with generous resources, personnel and equipment, which played an important role in maintaining social order. Corruption surrounding Suharto's family plagued the political system, and crony capitalism was the mode of economic relations from the government to local villages (Pincus & Ramli 1998). In 1995, Transparency International rated Indonesia as the most corrupt country in the world – ranked 41st among 41 countries (Transparency International 1995).

Suharto designed and launched a series of aggressive economic development policies, with the guidance of an informal group known as the Inter-governmental Group on Indonesia, composed of foreign-educated technocrats (Horowitz & Heo 2001). Economic development was attained in Indonesia under Suharto based on strong governmental control over the economy and it was far from being a laissez-faire state (Freedman 2006). A small number of Suharto's family and friends had a monopoly on key government contracts and licences, which led to a concentration of economic and political power in their hands and, finally, to widespread corruption (Horowitz & Heo 2001; Root 2002).

In Indonesia, 'Asian values' were held up as an ideology of developmentalism, claiming that until economic prosperity is achieved, democracy remains an unaffordable luxury (Freedman 2006). Asian values were similar to the 19th century Protestant work ethic discussed by Max Weber; they emphasised hard work, frugality, discipline and harmonised teamwork. And these were recognised as key factors in Indonesia's high growth rates, especially during the early stage of development (Thompson 2004). The regime claimed that such a disciplined labour force (in both economic and political terms) was necessary to create the stability required for rapid economic growth.

However, the seemingly successful Indonesian economy could not withstand the external shock created by the Asian Financial Crisis. The corruption of the Suharto regime was a significant underlying problem that had been ignored by both domestic actors and the international community (Radelet et al. 1998). Finally, the Asian Financial Crisis unleashed a surge of protests and resentment toward Suharto's 33 years of autocratic rule (Freedman 2006).

Indonesia's delayed and protracted reform process has shown that economic recovery is very difficult during a period of extreme political uncertainty, even after the resignation of the dictator (in this case, Suharto) (Niles 2001). Both the Indonesian economy and its political system nearly collapsed between December 1997 and October 1999. During this time, the nation was confronted with tremendous political and economic hardships and pressures from within and abroad: food shortages provoked by panic; the near collapse of the currency; extensive social uprisings and demonstrations; increasing separatist demands; and international criticism for the military's role in the violence in East Timor (Horowitz & Heo 2001).

The years of authoritarian rule under the Suharto regime left a legacy – a coercive and corrupt political and economic culture (Schwarz & Paris 1999). This legacy continues to plague the economy and sustain a sense of deep mistrust of the government (Freedman 2006). While the economic crisis and IMF supervision forced Indonesia to eradicate corruption and political–economic collusion, the economy continues to be dominated by a small number of large and well connected business interests.

The Indonesian case shows that an authoritarian developmental state has its set of problems; there may be high levels of corruption and concentration of wealth and power at the top that may block economic development and equitable distribution of income. Furthermore, such an authoritarian developmental state may be very vulnerable to external shocks. An institution that is rampant with corruption and cronyism will not be a viable one for the nation's economic development or for democracy.

The Philippines

The state–society and state–business relations that have persisted in the history of the Philippines have provided the context for corruption and have prevented it from moving towards a more efficient government (Moran 1999). The state and landed/business class formed a strong collusive relationship, which led to political monopoly and excluded economic reforms. The combination of a relatively weak state with powerful social interest groups composed of traditional landowning elites and new business communities has persisted. The landowning elites in the Philippines own a large share of the land, and have strong control over the nation's economic policies. The state could not gain autonomy from powerful social classes and failed to promote economic development.

When Ferdinand Marcos first took office in 1965, he began to centralise the country's political power by taking charge of the military, which became the basis of his dictatorial power (Moran 1999). Growing authoritarianism, corruption and inequality during the Marcos regime resulted in the spread of public dissatisfaction and frustration. Amidst political and economic instability during the early 1970s, a series of violent confrontations between police and students took place, and President Marcos declared martial law. During the early period of martial law, thousands of people related to mass movements against the government were arrested, sent to prison or killed (Montiel & Chiongbian 1991).

Faced with great domestic and international pressure, Marcos lifted martial law in January 1981, although his dominance in the Philippines society remained until 1983. In August 1983, Senator Aquino, in exile in the US, returned to the Philippines to try to persuade Marcos to hand over power peacefully. Aquino's assassination as soon as he arrived prompted a severe political and economic crisis. The Filipinos demanded the resignation of Marcos, and the business community, which until that time had been silent, also participated in the massive demonstrations against the Marcos regime (Lindsey 1984). This non-violent protest based on collective anger was popularly known as 'People's Power,' and it finally brought down the Marcos regime without bloodshed.

The Marcos regime's attempts at economic development only led to the development of cronyism (Moran 1999). Land reform was not successful, and Marcos allowed his supporters to keep monopoly control over important agricultural sectors, which led to poor economic output suffering from lack of investments. A large increase in the military budget from 1972 onwards also resulted in lack of investment in important infrastructure, including health and education (Moran 1999).

From 1965–89, even after the resignation of Marcos, the Philippines suffered from low economic growth, which remained at an average annual GNP growth rate of 1.6 per cent. There was rapid economic growth in certain areas, particularly during the post-Marcos period, but overall the economy suffered from high levels of poverty, economic stagnation and income inequality (Hill & Warr 2006).

Even once the long authoritarian regime had ended and the democratic transition had begun, political instability due to rampant corruption has been the legacy of the Philippine government. Frequent coup attempts have remained as a serious barrier to economic and political development in the Philippines (Hill & Warr 2006). These have resulted in capital flight and decline of foreign investment inflow.

The case of the Philippines is further testimony to the fact that an authoritarian developmental state may fail to be successful in bringing about economic development or democracy.

Conclusion: lessons for South Africa

South Korea's remarkable story of rising from the ashes of the Korean War (1950–53) and the resultant poverty (US$81 GNP per capita in 1961), to become the world's 13th largest economy with a GNP per capita of over US$20 000 (in 2007), is definitely cause for envy on the part of many aspiring developing nations.

Although I do not want to dwell on the negative lessons from the South Korean developmental state, it does raise some serious questions regarding an 'authoritarian' developmental state. 'Economic development first and political democracy [maybe] later' was used as a political slogan for many authoritarian regimes. In my analysis of several failed cases, I have seen that authoritarian developmental states do not always bring about economic development or democracy. Even in the economically successful case of South Korea, democratic transition came with decades of political oppression, massive struggles for democracy and violent retribution of the state, and later led to a developmental state that was not well equipped to handle external shocks.

An important lesson that we have learnt in South Korea is that a developmental state cannot be a sustainable form of government. If it fails at its core goal – i.e. economic development – it will be forced to change. On the other hand, even if it is successful, it will face tremendous challenges from society to relinquish its heavy-handed intervention in the economy. Even domestic large businesses, which received favourable treatment from the state, will ask for reductions in state intervention and greater freedom in the market. Labour and other social actors in society will also demand greater freedom.

The particular sequential transformation in South Korea – i.e. rapid economic development followed by democratisation – meant that societal actors and interest groups were slow to develop. Such social groups could potentially have acted as important watchdogs of the South Korean economy and politics, and could have sent out early warning signals when the Asian Financial Crisis was looming large in the late 1990s. On the other hand, although these societal groups were at the early stage, the South Korean government was no longer an authoritarian state, which perhaps helped South Korea overcome the financial crisis better than some of its counterparts in Southeast Asia. For example, Indonesia seemed to fare much worse in the aftermath of the Asian Financial Crisis, for which some partially blame the authoritarian political system of that country.

The Lee administration (2008 to the present) in South Korea has begun a new experiment in South Korea: a new developmental state that will combine democratic rule with growth-oriented policies or 'deregulation'. We will watch with great interest, and great hope that this new institution – with pro-growth but market-friendly (not market-leading) policies – is not an oxymoron in the South Korean context, and will provide better lessons for the 'democratic' 'developmental' state in South Africa.

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Notes

1 I developed the concepts of 'comprehensive' and 'limited' developmental state (EM Kim 1997) to discuss the differences between different types of developmental states. The former refers to a state that focuses on economic development as its primary policy objective, and utilises resources to attain this goal. Japan's Ministry of International Trade and Industry in the post-WWII period and South Korea's Economic Planning Board in the 1960s–70s are examples. This type of developmental state is a transitory form, and cannot sustain itself even with its success, since the seeds of its demise are contained in its success (see EM Kim 1997 for further discussion). On the other hand, 'limited' developmental state refers to a developmental state that accommodates policy goals other than economic development, and its regulatory function increases as its developmental (industrial) policies are weakened.

2 Korean Statistical Information Service, various years

3 Government reform: Evolution, not revolution, *Korea Herald* (24 March 2008)

4 Government reform: Evolution, not revolution, *Korea Herald* (24 March 2008)

5 PPP = purchasing power parity

Appendix

Chronology of developments within the South Korean government (1945–99)

1945	August	Independence begins with Japanese surrender.
	September	Partition and occupation of Korea by the United States and USSR begins; two zones divided at the 38th parallel.
		US military government established in South Korea.
1948	August	South Korean government established. Syngman Rhee becomes first president; authority transferred from US Military Government to newly established Republic of Korea (15 August).
1950	March	Land reform begins.
	June	Bank of Korea established.
		Korean War begins when North Korea invades South Korea; United States leads 16-country United Nations force to help South Korea.
	August	Monetary reform.
	December	UN Korea Reconstruction Agency (UNKRA) established.
1953	July	Korean War Armistice agreement signed in Panmunjom.
	December	National income data compiled for the first time in Korea.
1954	April	Korea Development Bank established.
1955	May	Korea joins IMF and IBRD.
	August	Stock market opens.
	September	First population census conducted.
1958	January	Illiteracy eradication campaign begins.
1959	June	Korea–Japan trade suspended.
1960	April	President Syngman Rhee toppled by the April 19 Student Revolution. Parliamentary government established. Chang Myon becomes prime minister. Korea–Japan trade reopened.
1961	May	May 16: Military Coup led by General Park Chung Hee, who takes over from the government of Prime Minister Chang Myon.
	July	Economic Planning Board established.
	September	OECD begins.
1962	January	First Five-Year Economic Development Plan (1962–66) begins.
	February	Construction of the Ulsan industrial complex begins.
	May	Korea Trade Promotion Corporation (KOTRA) established.
	June	Monetary reform. Korean monetary unit, the 'won', introduced.
	August	IBRD loans to Korea begin.
	December	President's Monthly Export Promotion Conference begins. Migration to Brazil begins.
1963	January	Export–import linkage scheme initiated; New Commercial Law begins.
	October	General Park elected president; the Third Republic begins.
	December	Manpower exports begin (132 miners sent to West Germany).
1964	May	Comprehensive economic policies announced.
		Korean won devalued.
1965	February	Korean soldiers join US forces in Vietnam War.
	March	Unitary exchange-rate system introduced.
	June	Treaty normalising relations with Japan signed.
	September	Interest rates reformed. Ceiling annual interest rate of 36.5% announced.

1966	February	Korea Institute for Science and Technology established.
	March	National Tax Office established.
	July	Law for the promotion of foreign investment enacted.
	August	Foreign capital inducement law enacted.
1967	January	Korea Foreign Exchange Bank established.
	March	Korea joins the GATT.
	April	Kuro export industrial complex established in Seoul.
		Ministry of Science and Technology established.
	June	First foreign bank (Chase Manhattan) opens branch office.
	August	ASEAN established. OPEC begins.
1968	January	USS Pueblo captured by North Koreans.
	April	Construction of Pohang iron and steel mill begins.
	October	Resident Registrations System begins.
	December	First National Wealth Survey begins.
1969	January	Ten-Year Plan for modernisation of rural areas formulated.
	March	Dual farm price policy begins.
	April	World Bank voices uncertainty about Korea's ability to repay foreign debt.
	May	Satellite-relay receiving station established at Kumsan.
	July	Seoul-Inchon Expressway opens.
	October	Constitutional Amendment passed to allow President Park to run for more than two terms.
		Free Trade Zones established.
	December	Law for the promotion of local industries enacted.
1970	July	Seoul–Pusan Expressway opens.
	August	Dual farm price system begins.
	December	Taejon–Chonju Expressway opens.
1971	March	Construction of first nuclear power plant begins.
		Korea Development Institute established.
	August	Saemaul Undong (New Village Movement) begins.
	September	First National Land Development Plan (1972–81) formulated.
	October	North and South Korea hold first talks.
	December	Opening of the Seoul–Kangnung Expressway.
1972	April	Korean Air opens trans-Pacific route.
	August	3 August Emergency Measure freezes informal debts of private companies.
	October	Martial law declared and National Assembly dissolved.
		Yushin (Revitalisation) Constitution introduced, President Park re-elected, and Fourth Republic begins.
1973	January	Long-term economic goals announced to achieve per capita GNP of US$1 000 and exports of US$10 billion by 1981.
		US grant aid ceases.
	May	Government plan for developing heavy and chemical industries (HCI Plan) announced.
	June	Family rituals standards announced. Central railway line (155.2 km) electrified. Green belts around major cities formed.
	July	Completion of Pohang iron and steel mill.
	October	First oil crisis begins.

1974	January	National Emergency Measures No. 1, No. 2, and No. 3 announced.
	March	Designation of six industrial bases nation-wide.
	August	Seoul subway (9.5 km) opened and railway lines in the Seoul region (98.6 km) electrified.
1975	April	US economic assistance programme phased out.
		Pusan port development plan implemented.
		General trading companies (GTCs) established.
	October	Yongdong–Tonghae expressway opened.
	December	Export of construction to Middle East promoted to recycle oil dollars.
1976	January	Asset formation savings scheme for wage earners enacted.
	February	Antitrust and Fair Trade Law enacted.
	April	Export–Import Bank established.
	September	National health insurance scheme introduced.
1977	March	Population Redistribution Plan for capital region begins.
	July	Value-added tax (VAT) system introduced.
	December	Export target of US$10 billion achieved four years ahead of schedule.
1978	May	First-stage import liberalisation begins.
	July	Completion of first nuclear power plant.
	September	Second-stage import liberalisation begins.
	October	Middle East construction boom reaches its peak. Measures for curbing real estate speculation enacted. First Korean guided missile produced.
	December	Third-stage import liberalisation begins.
1979	May	Rationalisation of heavy and chemical industries (HCI) begins.
	July	Second oil crisis begins.
	October	President Park assassinated by the head of the Korean Central Intelligence Agency and Prime Minister Choi Kyu-ha becomes acting president.
1980	January	New economic policy shifts emphasis away from sole economic growth to economic stability and equity.
	April	Riot at Sabuk coal mine.
	August	Korea–China relations normalised.
	May	General Chun Doo Hwan seizes power under martial law. Kwangju democratisation movement begins and lasts nine days. Special Committee for National Security Measures formed.
	July	4 992 government officials purged for corruption.
	August	Colour television broadcasting begins. Domestic sale of colour televisions permitted.
	October	World-wide poor harvest and food shortage hit Korean economy.
1981	January	Democratic Justice Party formed.
	March	President Chun Doo Hwan inaugurated and the Fifth Republic begins.
	May	Fair Trade Commission formed.
	August	Liberalisation of foreign trade begins.
	September	Seoul named host of 1986 Asian Games and 1988 Summer Olympics.
1982	January	37-year-old nightly curfew lifted.
	April	Production of supersonic jet aircraft.
	October	Second National Land Development Plan (1982–91) begins.

1983	July	Korean population reaches 40 million.
	September	Korean airliner shot down by USSR after straying off course.
	October	North Korean terrorist bombing in Rangoon, Burma, kills 17 senior South Korean Cabinet officials; President Chun narrowly escapes.
1984	June	Completion of Taegu–Kwangju Olympic Expressway.
	August	Korea Fund established.
	September	President Chun's state visit to Japan.
		Establishment of Korea Fund investment in Korean stock market.
1985	January	Three 'lows' – low oil price, low interest rates, and low US dollar value – spur export boom.
	September	Plaza Agreement to appreciate Japanese yen relative to US dollar.
1986	September	Asian Games held in Seoul.
	November	Exports exceed imports for the first time since development began.
	December	Savings exceed investment for the first time since the First Five-Year Plan began.
1987	March	Korea Europe Fund (KEF) established.
	June	29 June: democratisation declaration by ruling party presidential candidate Roh Tae-Woo.
	August	Labour disputes break out nationwide.
	October	New constitution becomes effective.
		Crisis of New York Stock Exchange (Black Monday).
1988	February	President Roh Tae-Woo inaugurated as president and the Sixth Republic begins. Land transaction needs government permission.
	July	Iran–Iraq War ends. Policy of limiting real estate transactions announced.
	October	Policy of opening up trade with North Korea announced.
	September	1988 Seoul Summer Olympics.
1989	April	Construction Plan for Two Million Housing Units begins.
	June	Comprehensive Land Tax System begins.
	November	First APEC meeting held in Australia.
1990	March	System of Land Use Based on Public Concept begins.
	October	Unification of Germany.
		Deregulation of land use in green belts.
1991	January	Gulf War begins.
	April	Import Liberalisation Plan (1992–94) begins. Korea Asia Fund (KAF) established. Direct North–South Korea Trade permitted.
	September	Both South and North Korea become member countries of the United Nations.
	October	Computerisation of residential lands in the six largest cities.
	December	Korea joins ILO.
		Collapse of USSR.
1992	January	Korean stock market opens to foreigners.
1993	February	President Kim Young Sam inaugurated and the Seventh Republic begins.
	March	New Economy 100-Day Plan begins.
	July	New Economy Five-Year Plan (1993–97) begins.
	August	Korea–China relations normalised.
		Real-Name-Financial-Transaction System begins.
		Taejon Expo begins.
		Seoul–Pusan express railroad (TGV) construction plan announced.

1994	January	NAFTA begins.
	April	Completion of Uruguay Round.
	July	Death of North Korean leader Kim Il Sung.
	October	Pohang Iron & Steel Co. (POSCO) becomes first Korean firm listing its shares on New York Stock Exchange.
	November	President Kim Young Sam's Declaration of Globalisation.
		APEC Summit Meeting in Indonesia.
	December	Crisis of Mexican peso.
		Reform of government organisations.
		Economic Planning Board (EPB) and Ministry of Finance (MOF) merged into Ministry of Finance and Economy (MOFE).
1995	January	WTO begins.
		Osaka earthquake causes severe congestion in Korean ports.
	March	IBRD loans to Korea ended. Deregulation of the green belt system begins.
	October	Exports pass the US$100 billion level.
	December	Per capita GNP passes US$10 000 mark.
1996	December	Korea joins OECD.
1997	January	Hanbo Group files for bankruptcy.
	July	Kia Group files for bankruptcy suspension accord.
	October	Moody's downgrades Korea's long-term sovereign credit and short-term rating.
		Korean Stock Price Index (KOSPI) falls to under 500 and won/dollar exchange rate rises.
	November	Government officially requests IMF financial support.
	December	Nine Korean merchant banking corporations close.
		Korean government and IMF reach an agreement on the terms and conditions of the IMF financial bailout (3 December).
		Moody's downgrades Korea's credit rating to junk bond status.
		Kim Dae Jung elected President of Korea.
1998	February	Kim Dae Jung inaugurated as 15th President.
	March	IBRD provides US$2 billion for economic restructuring.
	April	Financial Supervisory Commission launched.
	June	FSC announces five commercial banks to be closed.
	November	Hyundai Motor Co. takes over Kia Motors through open auction.
1999	January	The Euro is launched at 1 Euro = US$1.1812.
		Korean government permits foreign investment in SOC.
		S&P upgrades Korea's credit rating from 'Stable' to 'Positive'.

Source: Song (2003)

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6 Foiling the Resource Curse: wealth, equality, oil and the Norwegian state

Jonathon W Moses

Readers of this volume are fully aware that the key to an effective developmental state is state capacity, or the ability to formulate and implement developmental policies. Following Evans (1995) and Edigheji (2007), among others, this sort of capacity can be secured by a state that is both sufficiently embedded to exploit synergistic relations with civil society, and relatively autonomous from society's most powerful interests.

Creating states with both these characteristics is particularly difficult in areas blessed (or sometimes cursed) with natural resource abundance. There are two reasons for this. Most obviously, those interests that control the resource are often able to exert inordinate influence on, or even capture, the state. As Edmund Burke once reflected, 'the revenue of the state *is* the state' ([1790] 1969: 351, emphasis added). In addition, however, states have a tendency to become addicted to the revenues that are generated from these abundant resources. The resulting economies are too often marred by imbalances, inefficiencies and inequalities.

This chapter examines the nature of Norway's state capacity as it is applied to the petroleum sector. My aim is to provide a historical account that is useful for policy-makers in South Africa. To do this, my focus is twofold. First, I examine the nature of those institutions that the Norwegian authorities use to manage their natural resources. I then turn to examine the institutions used to manage the vast revenues that these resources generate. This approach largely builds on the existing literature, by highlighting the role played by a capable and professional state apparatus. However, my argument complements that literature in at least two ways.

First of all, the Norwegian example showcases the importance of external constraints and institutional change. As master over a small and open economy, the Norwegian state has always needed to engineer changes that would allow the economy to adjust to exogenous shocks. Yet the power of the state to manage and influence the resource (and the revenues generated by that resource) changes over time in the face of changing international contexts and changing balances of power (e.g. between the state and the commercial interests that control the resource, or between different class and/or sectoral interests within the state).

In addition, the Norwegian example highlights the role that institutional overlap can play in providing states with another means to secure the characteristics we associate with state capacity. By relying on institutions that represent important interests, organised along both class and sectoral lines, no particular interest is allowed to dominate. This institutional weave is embraced by all the players because it has proven an effective tool for facilitating rapid adjustments to changing international conditions. As we shall see, it has also proven useful for managing the challenges associated with resource abundance.

In this account, the Norwegian state shows itself to be an independent actor capable of managing new-found petroleum resources (as opposed to being managed by those resources). Over time, however – and with the growth of powerful domestic commercial interests – this capacity to manage these resources has begun to dwindle. More impressive, perhaps, is the capacity of the Norwegian authorities to manage the vast revenues generated from these resources in a way that has mostly immunised the country against Dutch Disease.[1] In short, Norway provides an interesting example of how resource-dependent states can develop institutions that provide 'embedded autonomy' (Evans 1995).

Resource management

The Norwegian economy has always relied heavily on nature. Each of its previous bouts of economic growth has drawn on an abundant natural resource: first it was timber and fish, then it was hydroelectric power, and now it is oil and gas (Moses 2005). For this reason, Norway's management of its offshore resources draws on a much longer tradition of natural resource management.

In particular, the Norwegians have developed a management system that combines effective and professional management with democratic control. This tricky blend of objectives is secured by steeping political decisions in institutional frameworks that encourage participants to think beyond their own parochial interests. The result is a management regime that prioritises the national over the particular, and the long-term horizon over the short.

To understand the nature of that management regime, we can break it up into two component parts: its political motivation (democracy and control); and the actual instruments through which management is secured. In this chapter, these diverse instruments are described in terms of political and policy issues, resource and safety management, and commercial interests.

Democracy and control

At the outset of Norway's petroleum adventure, the state played a remarkably minor and passive role. Given the enormous capital investments involved, and the even greater risks, the Norwegian authorities were reluctant to play an active role during the early, exploratory phase. Indeed, the Norwegian authorities initially seemed to bend over backwards for the oil companies: Norway's first licensing system provided companies with more flexibility (i.e. bigger blocks during the exploration phase), lower fees and royalties, and more lenient relinquishment requirements, compared to a concomitant British system (Nelsen 1992).

The resulting (initial) management regime was a jolting (if happy) surprise to the international oil industry. This was evident in an interview with a foreign oil man in the country's leading newspaper of record, the *Aftenposten*, in 1965:

> Those of us coming from abroad thought of Norway as a small country, with little relevant legislation or practical experience. Worse, the country was governed by a socialist government and had a reputation for being bureaucratic, heavily-taxed and offering few possibilities for commercial expansion. But what did we find? A country that was able to assemble, in record time, the most progressive and modern petroleum legislation; a country that met us with an uncommon openness and honesty – one that was willing to explain to us why things needed to be done in a particular way, or that was willing to take another look at the tax problem; and a country that managed to distribute its North Sea concessions in a uniquely short period of time and in a remarkably thorough way.[2]

Once oil was found off the Norwegian coast in 1969, however, the situation (and Norway's bargaining position) changed rather significantly. Norway's political authorities began to take note of the political and social consequences of these discoveries and began to design a management regime that drew on three particularly Norwegian characteristics: a tradition of strict concession laws, which required enterprises to apply for concessions from the state before developing natural resources;[3] a tradition of state interventionism and planning, associated with the influence of a dominant Labour Party;[4] and the lack of any established commercial interests that might influence the nascent management regime.[5]

At the core of the new Norwegian management strategy was a focus on democracy and control. These democratic objectives were made explicit in an industrial committee report to parliament in June 1971, in which the government was told to (among other things): secure government control over all petroleum activities; encourage the establishment and support of a domestic oil industry; and create a state oil company that could manage Norway's economic interests. This list of demands came to be known as the 10 Oil Commandments (covered in the following quotation from a parliamentary report of the time):

- National management and control for all activities on the Norwegian continental shelf.
- Aim for Norway to be as self-sufficient as possible in securing its oil supply.
- Establish new business activities in the petroleum sector.
- The development of the oil industry must be in accordance with already established industrial and environmental practices.
- In principle, gas flaring is prohibited.
- In principle, petroleum from the Norwegian Continental Shelf should be 'landed' in Norway.
- The state should be involved at all levels to ensure Norwegian interests and to promote the establishment of a Norwegian industrial oil cluster.
- A state oil company should be established to take care of the state's commercial interests.

- Extra care should be taken to protect the special conditions in the northern regions.
- The Norwegian petroleum discoveries will undoubtedly create new challenges for Norwegian foreign policy. (Norwegian Parliamentary Report 1970–71)

Two years later, in another parliamentary report, the Ministry of Finance again emphasised the need to maintain national control over the resource. In a chapter titled 'Democracy and Control', the report notes (among other things) that:

> Democratically elected institutions must have full control of all important aspects of petroleum policy: exploitation, rate of extraction, safety measures and localisation. It is important to have public direction and control of the exploitation of resources …
>
> Norwegian authorities have the full right of disposal over oil and natural gas resources, and it is their responsibility to ensure that these resources are used with due care, both with regard to Norwegian interests and in an international context …
>
> First and foremost the scope of the operations on the Continental Shelf must be controlled by regulating exploration activity … In order to regulate the level of production it is necessary to develop regulatory measures, so that the extraction operation itself is brought under control after a find has been made …
>
> [and]
>
> In order to ensure the democratically elected institutions an increasing control of the restructurization which will follow in the wake of the petroleum operations and the utilization of revenues derived therefrom, it may be considered feasible to use part of the government revenue to buy up ownership interests in Norwegian industry. The increased foreign exchange earnings may make it possible to buy up some foreign ownership interests. (Royal Norwegian Ministry of Finance 1973–74: 9–11)

Thus, as the oil industry was just beginning to see the potential lying beneath the Norwegian Continental Shelf, the state was positioning itself to manage this resource in a way that could: maximise the nation's economic gain from the resource; contribute to Norway's social and economic development; develop and maintain strong environmental and safety standards; and develop the resource in a slow, careful and deliberate manner. These became the core political objectives of the new management regime that developed in the mid-1970s.

While the political objectives were relatively clear and easy to articulate, it was not at all evident how they might be secured in practice. In 1970, a government committee was established to draft the organisation of the nation's future petroleum administration.[6] This committee concluded that the state had responsibility for three important functions: a centralised control function (i.e. a political or policy task); an administrative function (for inspecting and surveying); and a business function. These three functions provide the organisational framework for the rest of this section, as each function is housed in a particular institution. Thus, the Ministry of Petroleum and Energy (MPE) is responsible for the political function, the Norwegian Petroleum Directorate (NPD) is responsible for the administrative function, and Statoil was created to oversee the state's business function.

Political and policy issues

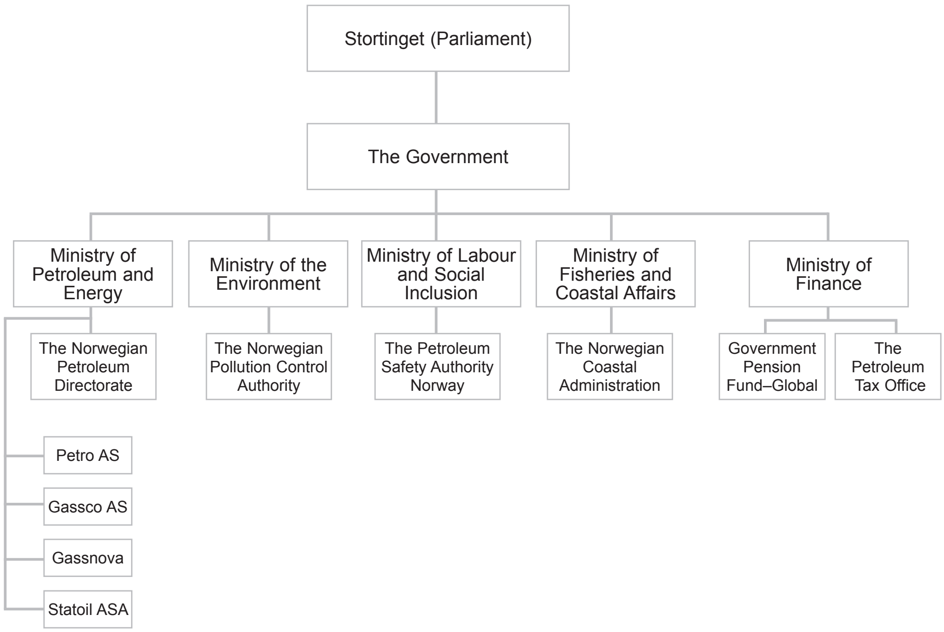
At the very outset, the management of Norway's new resource lacked a permanent institutional home. There are at least two reasons for this. The first is the nature of the original dialogue between the Norwegian authorities and international oil concerns (i.e. legal clarification about ownership issues on the Norwegian Continental Shelf). In addition, the Ministry of Industry was still reeling from an earlier disaster involving a state-owned firm in King's Bay (Svalbard). For these reasons, the political foundation for the Norwegian management regime was first laid in the legal department of the Norwegian Ministry of Foreign Affairs, while the Ministry of Industry was responsible for the first round of production licences (in 1965).

As the potential for developing a fully fledged oil industry became more evident, however, a series of new institutions were created. A Division for Petroleum and Mining was first established in the Ministry of Industry. Eventually, this division grew to be a fully fledged Ministry of Petroleum and Energy (MPE) in 1978. It is the MPE that is mainly responsible for administering the state's political control over the resource, although some areas of authority have been delegated to other ministries, as evident in Figure 6.1.

This new political influence was evident in the second round of licensing (which began in the early 1970s). Here the state strengthened its claims on a number of fronts. The most visible of these was the fact that the duration of licences was shortened, while fees and royalties were raised on several fields. More important, however, was a change in the state's position with respect to influencing future developments. In this new licensing round, the state claimed the right to participate in future offshore licences, secured a special (carried) interest for the state in each licence until commercial discoveries were made,[7] and ensured that it could slow the pace of future development (e.g. by controlling the allocation of licences, the power to set the date of production, and the right to approve production plans).

These new licensing regulations provided the groundwork for subsequent state involvement. With that groundwork in place, the Norwegian state then began to bargain with individual companies to secure additional gains. Thus, every new licence required a minimum level of state participation (50%). On top of that, however, the state employed a 'sliding scale' to secure a larger share for the state, should the field prove to be commercially viable. Eventually, the state – through its various control instruments – came to own as much as 80 per cent of all the operations on the Shelf (Andersen & Austvik 2000).

Figure 6.1 National organisation of the petroleum sector (Norway, 2007)



Source: NPD (2007: 18)

Finally, subsequent concession rounds began to include non-economic or technical conditions that secured a broader Norwegian contribution and became the core of a new industrial policy. For example, in 1972 the Ministry of Industry established a Goods and Service Office that monitored the contracting and procurement process to ensure that qualified Norwegian firms were on the various tenders lists, and that bids included a sufficiently large Norwegian content (measured in personnel and monetary terms).[8] In addition, the government imposed a number of transfer-of-knowledge requirements, to encourage the development of Norwegian skills and special competences (see Noreng 2004). Together, these political conditions were used to secure the use of Norwegian partners, develop local competences and create jobs in Norway.[9]

The result was a management regime that secured significant political control over the resource. In the early years, this control was transferred to a newly established, fully state-owned company (Statoil), which was responsible for managing the state business interests (see more below). The administration of that resource rested with the NPD.

Resource and safety management

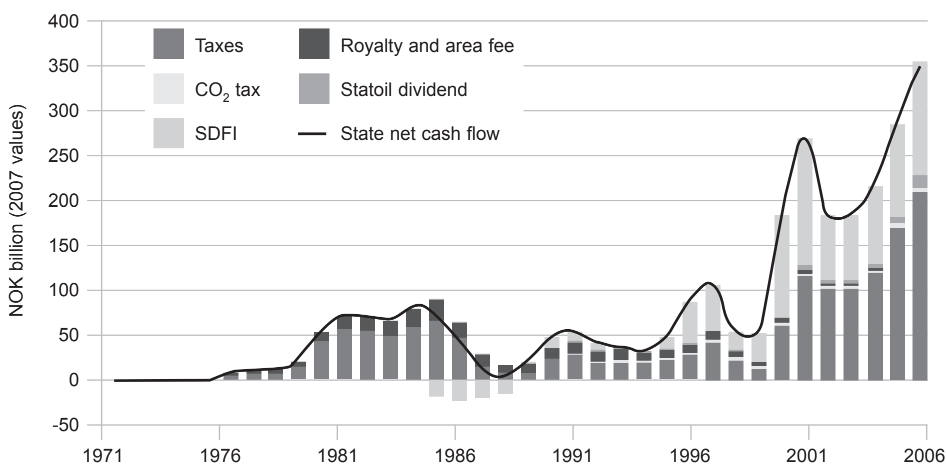
From the very outset, the Norwegian authorities were concerned about the environmental and safety hazards associated with extracting oil under difficult conditions offshore. Indeed, Norway's 1967 law is said to be the world's first attempt to provide detailed safety regulations for oil exploration at sea (Hanisch 1992). While the law itself may impress, the state at first lacked any apparatus to enforce it.

The answer to this problem was the NPD. Established by parliament in 1972, the NPD was to administer Norway's growing oil sector. In 2007 it described its responsibilities in this way:

> Norway has established a system whereby oil companies carry out the technical work required to recover the resources, but their activities also require approval by the authorities. The approval of the authorities is required in all stages of the petroleum activities, in connection with exploration drilling, plans for development and operation, and decommissioning plans for fields. In this system, the oil companies create the necessary technical solutions to recover the resources, while the Norwegian authorities ensure that these solutions concur with the goal of maximizing the values of the Norwegian society as a whole. (NPD 2007: 19)

While environmental and safety regulations play an important role in the NPD's early work, this section focuses on how it maximises the sector's economic value.[10] As shown in Figure 6.2, which is taken from the NPD's annual (2007) survey of the sector, most of the government's oil revenues are secured by means of taxing petroleum activity and the State's Direct Financial Interests (SDFI). In addition, the government receives a smaller income from other forms of taxes (such as royalties, a CO_2 tax etc.) and dividends from Statoil. In 2006, these revenues constituted about

Figure 6.2 Net government cash flow from petroleum activities (Norway, 1971–2006)



Source: NPD (2007: 62)
Note: The particular breakdown for 2006 is as follows. Direct taxes = NOK211.9 billion; Royalties and CO_2 tax = NOK4 billion; SDFI = NOK126.7 billion; Statoil dividend = NOK14 billion; Total = NOK356.5 billion.

356.5 billion Norwegian Krone (NOK), and we can see that they have been growing significantly in recent years.[11]

Whereas the other three sources of government revenue (taxes, royalties and dividends) will be familiar to the reader, I might elaborate on the SDFI. The SDFI was established on 1 January 1985 to gather and simplify the state's economic holdings in the oil sector. As the government owns all of the resources on and under the Norwegian Continental Shelf, the SDFI collects these interests in a portfolio of the government's directly owned exploration and production licences for petroleum and natural gas.[12] In 2001, a fully state-owned company – Petoro – was created to manage the SDFI on behalf of the government.[13] Petoro functions solely as a manager for the Norwegian government and does not directly own the licences for (nor is it an operator in) any of the fields. In addition, Petoro surveys Statoil's production on behalf of the government.

In short, the management of this resource is affected by a portfolio of licences that is steered with an eye on maximising economic return. While the state continues to use the NPD to regulate the sector (even though many of the safety and environmental regulatory responsibilities have now been shifted to other ministries), its power to control that sector – as the owner of the underlying assets – is remarkably restrained. Indeed, this power was at first delegated to the third and final channel of state influence: Statoil.

Commercial interests

The last, but not least, of the state's main channels of influence concerns its direct commercial interests in the oil sector. At the outset (1972), all of the state's interests were collected in a single entity: the Norwegian State Oil Company (Statoil). This company was expected to answer directly to the relevant political authorities and act as an independent operator engaged in both the technical exploration for, and the extraction of, petroleum.

Its leading position on the Norwegian Continental Shelf was secured in the second round of concessions by a number of specific conditions or requirements, as described above. As a consequence of these favourable conditions, Statoil came to dominate the commercial activity on the Shelf. After all, Statoil was able to exploit the 'carrying' clause to avoid investing during the risky (and expensive) exploration phase of activity. Indeed, all of the other (private) companies were forced to carry Statoil's costs during this initial phase. It was only after profitable discoveries had been made that Statoil would jump in and participate. As a consequence, Statoil came to manage more than 70 per cent of the value of Norwegian petroleum production (Tamnes 1997: 192).

By the early 1980s, however, there was growing concern about the inordinate amount of influence that Statoil was beginning to amass. As the prime minister at the time, Kåre Willoch, later recalled (in his memoirs), 'The aim was to prevent Statoil from growing beyond reasonable limits and exercise disproportionate influence' (Willoch

1990: 289). Willoch's new (1982, Conservative-Centre coalition) government appointed a commission to recommend changes to how the state participated in the petroleum sector. This commission recommended that the future growth of Statoil be reduced, and that the state's direct shares be separated from those controlled by Statoil.[14] This compromise introduced a radical reorganisation of the Norwegian state's economic interests in the petroleum sector (as described above). It is this reorganisation that introduced the SFDI as a separate juridical entity, to inherit the interests that had previously been managed by Statoil.

This was the beginning of a long devolution of formal state influence in the commercial realm. The state's position unravelled even further in the spring of 2001, when the parliament voted to sell 21.5 per cent of the SDFI's assets. Of these assets, 15 per cent were sold to Statoil (while the remainder went to other licence-holders). By securing these additional assets, Statoil became a more attractive investment object, and in June of that year (2001) Statoil was partially privatised (20%) and listed on the New York and Oslo stock exchanges. More recently, in October 2007, Statoil merged with another central actor in the Norwegian energy sector, Norsk Hydro, to create a monolithic new actor, StatoilHydro (now just Statoil). The Norwegian parliament approved the merger plan in June 2007, and the new company has both the size and strength to expand internationally. During the course of 2009, the 'Hydro' part of the name was dropped and the (still merged) company is now simply Statoil.

In short, Statoil has outgrown the Norwegian Continental Shelf and its political masters. Although the Norwegian state owns over 62 per cent of the new company's stock, it seldom uses its influence in an overtly political way.[15]

In concluding this section, I wish to emphasise the changing nature of the regulatory regime over time. Not only did the ambitions of the political authorities change, but so too did the tools that they had at their disposal. While many of the institutions remained in place, their roles changed significantly over time. Nowhere is this more evident than in the role played by Statoil.

Once a fully owned state corporation, enjoying the protection and support of Norway's regulatory regime, Statoil came to outgrow the very regime that had provided protection and nourishment during its nascent development. With privatisation (and despite majority control by the Norwegian state), Statoil has increasingly acted like any other private corporation, as it seeks to exploit international markets and compete with the very players from which it once sought protection. In its practices abroad, Statoil offers a corporate example of Chang's (2002) *Kicking away the Ladder*.

At the most general level it is possible to detect a downward trend in formal state influence, with a corresponding rise in commercial interests, as exemplified by Statoil. While the state still manages to reap significant economic reward from its offshore assets, it is less able (or willing) to control these assets in an overtly political manner.

Revenue management

The second important task of the developmental state is to manage the country's wealth in a way that benefits the broader (national) interest. This task is particularly difficult in states that enjoy a bounty in natural resources, as a resource boom can deliver a whole host of negative economic conditions, such as an appreciation of the real exchange rate and/or a diversion of capital and labour away from the traditional export sectors and into the new booming resource sector.

I argue that the Norwegian state has avoided the worst of these difficulties by relying on a network of overlapping institutions. These institutions were largely developed during an earlier (pre-oil) era, but their motivation remains constant: as a small open economy, Norway needs to maintain competitiveness and the ability to adapt rapidly to changes that emanate from the international economy.

For the purposes of this chapter, I focus on three particular institutional constellations: fiscal conservatism; external adjustment tools; and the government's petroleum investment fund. Each of these institutional constellations plays an important role in protecting the national economy from Dutch Disease.

Fiscal conservatism

Fiscal conservatism is not usually the first thing that comes to mind when one thinks of socialist (or social democratic) governance. Too frequently the left is accused of pursuing unsustainable economic policies out of a desire to tax and spend, and/or exploiting Keynesian-style, counter-cyclical macroeconomic policies to flatten out the business cycle.

Indeed, as we shall see in the section that follows, the Norwegian state does play an active role in facilitating adjustment by providing a broad welfare net and active retraining schemes. This is the essence of Scandinavian 'flexicurity', the latest popular import in American policy circles (see, for example, Kuttner 2008). Yet small, open economies need to produce this flexicurity without straining the fiscal budget. Indeed, the Norwegian record on this account is astonishingly orthodox.[16]

This sort of fiscal conservatism has an economic, as well as a political, explanation. Economically, it would be difficult for Norway to maintain its external balance or international confidence in its economy (and with it the exchange rate) if it were to run large, or long-lasting, budget deficits. Politically, it has been possible to engineer a high degree of consensus over the need to defer to the external balance. This consensus is a result of the sort of state capacity referred to in the introductory section.

Norway's political power is generated in a number of competing and overlapping institutional venues, each of which relies on a bureaucracy that is expert, professional and autonomous. There are two ways in which we might map out this institutional weave. On the one hand, we might think of it as a tangent to Montesquieu's theory of separation of powers. Yet, rather than power being divided across legislative, executive and judicial branches of government, the focus is on creating independent sources of influence and support across three distinct (but related) channels: a strong and independent bureaucratic tradition; a tradition of strong committees in parliament; and a strong corporatist channel of influence. The first two channels of influence are discussed now; the third is the subject of the section that follows.

The first of these channels is already very familiar to students of the developmental state. Norway enjoys a remarkably professional, inclusive, accountable and transparent civil service; indeed one of Norway's leading political scientists, Johan P Olsen (1983), has described Norway as 'a typical civil servants' state' (1983: 122). Karl's admiration of the open and participatory nature of Norwegian democracy is exemplary: 'In this exceptionally favourable environment, the prevailing policy style emphasized caution in the face of change, respect for standard operating procedures, segmentation according to issue areas, consensus building and egalitarianism' (Karl 1997: 217).

Perhaps less well known is the way that power is distributed within the Norwegian parliament in 'a matrix-like organisation with the party caucuses and the committees as building blocks' (Olsen 1983: 72).[17] In Norway, the authority of parliamentary power is largely derived from the influence of the opposition and the role of committees. Through parliamentary standing committees, Norwegian politicians are able to generate expertise in a context that relies heavily on expert input from the state's bureaucracy, in a way that separates the politicians from their (narrower) party interests.[18]

The result is a parliament that can deliver autonomous and expert legislation. In Norway, these standing committees

> … are, as a point of fact, the only stage at which issues can be scrutinized and worked over in detail; where new information can be brought to bear and where it can have an effect; where alternatives can be considered and their consequences evaluated; where outside groups can be heard and their opinions examined; and where changes in a bill or modifications in proposed appropriations can be made … So – to exaggerate the point – one could say that not only is the committee the first stage in decision-making in the Parliament: for most practical purposes it is also the last. (Hernes 1971: 68)

This heavy reliance on a professional bureaucracy and parliamentary committees has several important consequences for explaining the success of the Norwegian developmental state. First, it provides expertise to policy-makers that is not heavily shaded by particular and vested interests. Second, it divides up political authority in a way that facilitates autonomy (and makes capture difficult). Third, this way of organising political discussion provides access to alternative interests and an opportunity for these interests to contribute in the formulation of policy. These three features make it easier to build consensus and to generate policies that benefit the interests of the larger community (at the expense, if necessary, of particular – even important – interests).

Perhaps the best example of this can be found in the broad support in parliament for the Norwegian 'budget rule' (*handlingsregel*). This rule provides the government with a rough guide for managing the incomes being generated offshore, without threatening the competitiveness of the underlying national economy. Briefly, the budget rule holds that the Norwegian government should not use more than 4 per cent of the interest generated from the country's oil fortune each year.

(To make sure that the reader understands the remarkable nature of this rule, let me elaborate. Norway is sitting on a large puddle of oil and gas that is generating unimaginably large amounts of money. For fear of Dutch Disease, the parliament (and government) respects a budget rule that limits its access to this money. Each year, only a very small part of these revenues is allowed to enter the government's coffers. While the budget rule makes economic sense, it is also a remarkable political feat. Even though Norway is a very rich country, there is always pressure (often from very influential constituents) to provide more and better roads, teachers, health care, environmental protection, national defence and so on. I, for one, find it astonishing that a democratic state is able to defer important consumption decisions – decisions that have the support of significant political constituencies – out of respect for a budget rule.)

The remainder of the offshore revenues is then deposited in a petroleum investment fund (see below) and is not allowed to enter and influence the domestic economy. Although the budget rule continues to be the subject of much debate, its very existence shows a degree of professionalism, detachment and foresight that is uncommon in most democratic contexts (and would be impossible in states that are captured by special interests). In the spring of 2001, almost every party in parliament agreed to the necessity of abiding by the rule (the exception was the maverick Progress Party).

External adjustment tools: corporatism plus

Cutting across this autonomous and professional state apparatus is a highly developed corporatist system that was originally designed to facilitate rapid and necessary adjustments to changes in the international economy (Katzenstein 1985).

The Norwegian political economy is characterised by a high degree of corporatism.[19] In this system, wage bargaining takes place at the national level, either between the main labour market associations (the LO represents labour, the NHO represents capital) or between industry unions and their counterpart employer deputies.[20] The outcomes of these negotiations tend to influence the pay level of most Norwegians, irrespective of whether or not they are members of the unions involved. Because these corporatist institutions represent a majority of workers and employers in Norway, they are constantly aware of (and take into consideration) the social consequences of their negotiated outcomes. In other words, the LO has an incentive to consider how its wage demands will affect national price and international competitiveness levels.

In practice, the partners are brought together in what is called the Contact Committee (Kontaktuvalget), which provides a forum for the government to coordinate their activities. These social partners are then provided with neutral information about the current economic situation in the Norwegian economy (to minimise disagreement between partners) by an autonomous Technical Calculations Committee (Det tekniske beregningsutvalget for inntekstoppgjørene). It is on the basis of this common information that the labour partners (and government) decide on the parameters for wage growth in the following year.

If the labour partners cannot agree on the appropriate wage (and, consequently, investment) levels for the upcoming year, the state often intervenes to provide sweeteners. These sweeteners aim to minimise the inflationary consequences of wage demands (with an eye on maintaining international competitiveness) – so workers often accept social benefits (e.g. tax cuts, increased social benefits etc.) in exchange for wage restraint. Thus, the standard of living of Norwegian workers can be increased in a way that does not undermine their wage competitiveness (internationally). In exchange, the government invites the labour market partners to participate in every stage of the policy-making process: consultation, formulation and implementation. This provides policy-makers with an institutional vantage point for affecting the most important price development in the national economy (i.e. wages).

It is important to point out that these sweeteners play a double role, as they constitute important elements of the Norwegian welfare state. As we saw in the opening section, one of the main objectives of the state is to ensure that the revenues generated from the petroleum sector can be used in a way that benefits the Norwegian society as a whole. This is done, in part, by allowing these revenues to be slowly and carefully injected into the welfare state in a way that distributes the revenues to those who need them most, without threatening the underlying economy.

A final characteristic of the Norwegian corporatist arrangement is a commitment to wage solidarity. This commitment has always been important to the left, but it also has a significant effect on Norwegian productivity levels and investment patterns (and this makes it attractive to employers as well). Briefly, the existence of a narrow wage band forces firms in the least productive sectors to go bankrupt (as they have to pay higher wages than the market would support), while generating larger profits for more productive firms (who are paying wages below what would be the market rate). Bankrupted firms then have an incentive to invest in more productive sectors, while their laid-off workers are provided with government support that helps them retrain and move into these more productive jobs. Because of a broad and supportive welfare net, workers are able to move to more productive jobs without worrying too much about the consequences of falling between two jobs.

While this corporatist framework organises interests along class lines, the Norwegian context provides for yet another channel of influence that effectively cuts across those lines. Because of the necessity of maintaining international competitiveness, the Norwegian labour partners apply a bargaining model (the so-called Aukrust

[1970] model) that prioritises the needs of the exposed or tradeables sectors. In short, the need to maintain competitiveness in the exposed sector sets the parameters for what is possible in a given negotiation round. In practice, this means that the internationally exposed manufacturing sector negotiates first, providing a benchmark for subsequent settlements (in the more sheltered sectors).

This institutional framework – which is responsive to both class and sectoral interests, but which is oriented towards maintaining national competitiveness – is extremely useful for fighting off Dutch Disease. In particular, the utility of this approach can be seen in the way that the government used these arrangements as a means to dampen the inflationary wage pressure that was expected after the discovery of oil. In exchange for workers lessening their wage demands, the government promised to reduce payroll-type tax and social security contributions.[21] Later on, when the pressures became too strong, the government adopted an active exchange rate strategy to assist in the adjustments (Moses 1995, 2000).

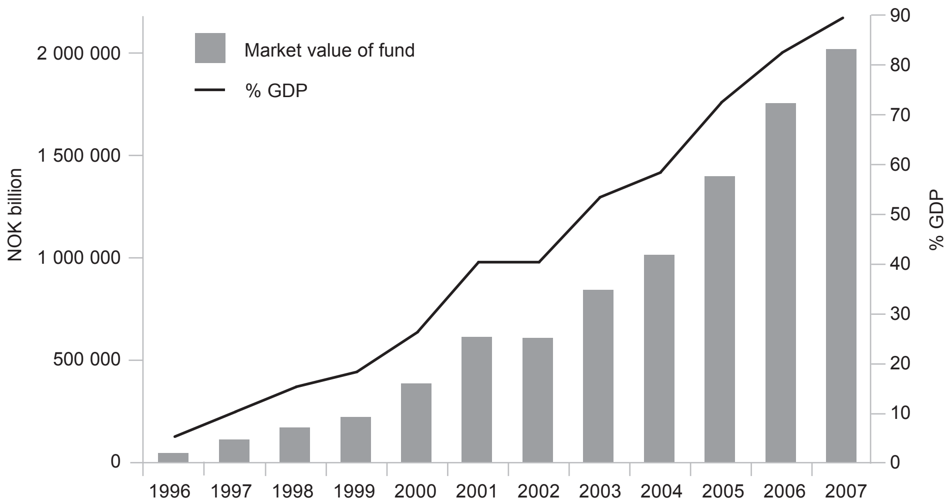
Together, this divided and overlapping institutional context allows the Norwegian state to respond effectively to the challenges of managing its petroleum revenues. This institutional context provides the state with the autonomy it needs to develop rational, consistent and long-term policies for the benefit of the whole population. This same institutional framework invites important, if competing, interests into the process of formulating and implementing policy. Producer organisations, organised along class lines (but made constantly aware of the importance of sectoral differences), provide the government with the information, support and expertise that it needs to steer the Norwegian economy through tricky economic waters.

Government's petroleum investment fund

The last, but definitely not least, instrument used by the Norwegian state to manage its offshore revenues is the Government's Petroleum Fund, or GPF (now formally referred to as the Government Pension Fund–Global). The GPF was created in 1990 to ensure that any petroleum revenues going into the central government budget were clearly visible, and to provide the (economic) means for Norway to adjust to a post-petroleum future. Over time, however, the GPF has taken on a more important role as a means of keeping Norway's offshore wealth from flooding the onshore economy.

Because of the budget rule described above, very little of the revenues being generated offshore actually make it back into the Norwegian economy. (Eventually, of course, this money will slowly make its way back into the Norwegian economy to fund pensions and to facilitate the transition to a non-petroleum-based economy.) Instead, the money is invested in an enormous fund, which trawls international equity markets in search of the largest return.[22] Over time, a number of economic and political conditions have been placed on the way in which the GPF is managed, but the main objective remains to maximise the economic return.[23] In doing this, the fund is prohibited from acting strategically, as it cannot obtain more than a 10 per cent share of a single company that confers voting rights.[24]

Figure 6.3 The Government Pension Fund–Global (Norway, 1996–2007)



Source: Norges Bank (2008), Statistics Norway (various years)
Note: Market value as at 31 December each year

Today, the GPF is said to be the world's second largest sovereign wealth fund, smaller only than the one operated by the Abu Dhabi Investment Authority.[25] At the end of 2007, its market value was estimated to be about NOK2 019 billion, or roughly US$400 billion. More importantly, the fund is very large relative to the size of the Norwegian economy, as evidenced by Figure 6.3.[26] Its market value is almost 100% of Norway's annual GDP, and this value is expected to increase radically along with the price of oil. This, in itself, will introduce a number of new challenges – challenges that extend far beyond the ambitions of this chapter – as the Norwegian state will come to rely more on the rents from its investments (than from the production and export of goods and services).

Conclusion

As this chapter has already covered a great deal of territory, I feel obliged to make my concluding remarks very short. The best way to summarise the Norwegian developmental state is with reference to its three essential components. The first of these is most familiar to students of the developmental state. The Norwegian state relies on a strong and autonomous bureaucracy that provides expert input at every level of policy-making. This bureaucracy is the backbone of the three main channels of influence (the MPE, the NPD and Statoil), but it can also be found at each of the other institutional nexuses described above (e.g. Contact Committee, Technical Calculations Committee etc.).

The Norwegian example, however, suggests another important motivation for generating state capacity. This is a recognition of the constraints that Norway faces in the light of its being a small and open economy. Traditionally, Norway has been an international price- and/or policy-taker; its livelihood has depended on its ability to adjust quickly to whatever the world can throw at it (in terms of economic shocks). This recognition provides legitimacy to the autonomous institutions on which Norway depends to develop strategies that facilitate rapid adjustment. By recognising the need to adjust, Norwegian authorities are aware of the danger of relying too heavily on a particular industry, sector or interest. Adaptability is the name of the Norwegian game. This adaptability is reflected in the changing nature of its management regime over time.

Finally, Norway's external dependence has forced it to develop a complex weave of overlapping institutions that allow it to adjust rapidly to changing contexts. This means that the state's policies need to be isolated from important (vested) interests – interests that may be more susceptible to a given shock. At the same time, however, the state apparatus needs to be embedded in society in a way that can provide the state with the information and support it needs to make important (and often very difficult) decisions. Although Norway's corporatist institutional legacy was developed for a more traditional export economy, it has suited the petroleum economy well by providing coordinating tools that allow it to respond to the threats posed by the dreaded Dutch Disease. This sort of institutional balance of power is an important component in the Norwegian strategy, one worthy of more attention from students of the developmental state.

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I wish to acknowledge the useful comments and suggestions by Omano Edigheji, Bjørn Letnes, and others in attendance at the Human Sciences Research Council/Development Bank of Southern Africa International Policy Dialogue conference: The Potentials for and Challenges of Constructing a Democratic Developmental State in South Africa, Magaliesberg (4–6 June 2008).

Notes

1 Briefly, Dutch Disease refers to the deindustrialisation of a nation's economy in response to the discovery of a natural resource. The wealth generated by this discovery appreciates the nation's currency, thereby undermining the competitiveness of that country's (manufactured) tradeables sector. The Resource Curse refers to a broader (more political) set of harmful effects. In addition to Dutch Disease, the Resource Curse considers how resource abundance can trigger corruption, distributional conflicts, rent-seeking behaviour and so on. See Røed Larsen (2004) for a discussion of the overlap between these terms and how they apply to the Norwegian context.

2 *Aftenposten* (19 August 1965), cited in Ryggvik (1992: 241).

3 See, for example, Lange (1977).

4 See Moses (2000) on the role of the state in Norway's post-war economic management. Much of the subsequent discussion in the current chapter draws on this earlier work.

5 Norwegian history is unique in the European context in that its landscape and climate do not allow for large concentrations of landholdings. As a result, Norway never experienced

the concentration of political and economic power that we usually associate with feudalism. Consequently, Norway has always enjoyed relative egalitarianism (albeit, originally, an equality of poverty) and the lack of an indigenous bourgeoisie. See Moses (2005).

6 Formally known as the Organisasjonsutvalget for statlige kontinentalsokkelsaker, headed by Knud Endre-Knudsen.

7 This is an arrangement whereby the oil companies bear all the risks involved during the exploration stage, but the state begins to participate as a full partner once oil is found.

8 This activity was discontinued as required by Norway's 1994 European Economic Agreement with the European Union. Today the Norwegian share of goods and services to the oil industry is about 50 per cent (Noreng 2004).

9 For elaboration along these lines, see Noreng (2004, 1980).

10 Since 1994, the Petroleum Safety Authority (*Petroleumsytilsynet*, or Ptil) has been situated in the Ministry of Labour and Social Inclusion, and has regulatory responsibility for safety, emergency preparedness and the working environment in the petroleum sector. For more information, see www.ptil.no/main-page/category9.html?lang=en_US. As seen in Figure 6.1, the authority to regulate the industry's environmental impact is now located in the Ministry of Environment in the Norwegian Pollution Control Authority (*Statens forurensningstilsyn*, or SFT). For more information, see www.sft.no/aktuelt_29292.aspx.

11 At the time of writing (2009) the US$ is worth about NOK6. Thus, NOK365.5 billion would be the equivalent of US$60.9 billion.

12 Prior to the SDFI, Statoil alone was responsible for the state's ownership holdings in production licences. In 1985 these holdings were split in two, with half going to the SDFI. When Statoil was privatised in 2001, the administration of the SDFI portfolio was transferred to the fully state-owned company, Petoro.

13 At the risk of drawing us too far afield, I should mention that the Norwegian government is sole owner of another company, Gassco, which was also established in 2001. Gassco took over the operatorship for all gas transport from the Norwegian Continental Shelf on 1 January 2002. Before that date, gas transport was provided by a number of companies. The creation of Gassco forms part of an extensive reorganisation of the Norwegian oil and gas sector since 2001, as required by the European Union's gas directive. For more on this, see www.gassco.no.

14 The particular nature of this split in fact benefited Statoil tremendously, as Statoil maintained control over the lucrative Statfjord field, while the SDFI ended up with a number of undeveloped fields. As the state's new investments had to be financed from the public treasury, and as the price of oil was falling during the period, the state incurred large losses over the following two years. Until 1994, the net cash flow from the SDFI was negative or just barely positive (while Statoil was pumping money out of the Statfjord field).

15 The ownership figure comes from Statoil's home page (www.statoilhydro.com/en/InvestorCentre/Share/Shareholders/Pages/StateOwnership.aspx). For more on the relative lack of political involvement in Statoil's activities, see Gordon and Stenvoll (2007).

16 In the post-war period, Norway has suffered only three recessions of significance (1958, mid-1970s and 1993), and the state's ability to use active counter-cyclical stimuli was restricted by external developments in each case. See Moses (2000).

17 For an introduction to the Norwegian parliamentary committee system, see www.stortinget.no/english/committees.html.

18 In the Norwegian context, these types of committees are seen to be extremely important, though their influence may be waning (e.g. see Rommetvedt 1998).

19 For a good introduction to the subject, as it applies to the Norwegian context (if now somewhat dated), see Dølvik and Steen (1997).

20 Landsorganisasjon (LO) is Norway's largest and most influential workers' organisation, representing about 830 000 workers. These workers are affiliated with national unions, which join together to make up the LO. The NHO (Næringslivets Hovedorganisasjon) is a confederation of Norwegian employers with a 2009 membership of about 20 000 companies.

21 Between 1975 and 1982, Norway was the only European country to experience a reduction in its GDP share of social security contributions and payroll taxes. While, on average, European OECD countries increased these taxes by 16.4 per cent (of GDP), in Norway they were cut by 7.8 per cent over the same period (Alt 1987: 192).

22 Formally, the Ministry of Finance was expected to manage the Fund, but the ministry has delegated the operational management to the country's central bank (Norges Bank).

23 Before 1998, the fund was managed according to a strategy used by Norges Bank for its foreign exchange reserves (i.e. the capital was placed in government and government-guaranteed bonds and bills). From January 1998, portions of the fund have also been invested in international equity markets. From 2002, the fund was allowed to invest in non-government guaranteed bonds. Today, the fund invests in non-Norwegian financial instruments (bonds, equities, money market instruments and derivatives) in 42 developed and emerging equity markets. In 2004, a series of ethical guidelines were established and several firms have been excluded from the portfolio. Before 2008, a 5 per cent lid was placed on the fund's investment in any given company.

24 For the formal regulations, see www.regjeringen.no/en/dep/fin/Selected-topics/The-Government-Pension-Fund/the-guidelines-for-the-management-of-the.html?id=434605.

25 Archer J & Moskwa W, Fund raises Norway's stock bet, *International Herald Tribune* (30 May 2008).

26 Obviously, the value is much larger than the government's total expenditures. For a comparative reference value, the central government's total expenditures in 2006 was NOK822 billion.

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Part Two

Policy-making and economic governance in South Africa

7 The effect of a mainstream approach to economic and corporate governance on development in South Africa

Seeraj Mohamed

The notion of good governance has become extremely influential in prescriptions for economic development in developing countries. The mainstream economics approach to good governance represented by the Organisation for Economic Cooperation and Development (OECD), the International Monetary Fund (IMF) and the World Bank generally recommends that developing countries emulate the governance systems of developed countries for development and to attract foreign investments.[1] In contrast, the heterodox economics perspectives on governance focus on the ability of developing countries to accelerate their development and to solve 'catching up' problems (Khan 2007).

The mainstream economics perspective on good governance focuses on improving the operation of markets through reducing inefficiencies within markets. Therefore, ensuring clear and stable property rights is an important aspect of the mainstream economics view of good governance because uncertain property rights increase transaction costs. Another aspect of the mainstream economics approach to good governance is a good legal system that ensures that contracting is efficient and cheap. Both the need to ensure property rights and a good legal system mean that this approach to good governance requires adherence to the rule of law and minimisation of expropriation risk. This approach to good governance calls for removal of rent-seeking and corruption because these problems increase transaction costs and threaten secure property rights. As a result, transparency and accountability of the public sector and provision of public goods are seen as important.

Khan describes the heterodox economics views on governance as 'growth enhancing', in contrast to the mainstream economics perspectives, which he describes as 'market enhancing'. He says that the growth-enhancing perspective 'focuses on the effectiveness of institutions for accelerating the transfer of assets and resources to more productive sectors, and accelerating the absorption and learning of potentially high-productivity technologies' (Khan 2007: 4). The governance capabilities of growth-enhancing states have to incentivise the shift of resources to higher productivity sectors. Since these incentives can lead to moral hazard and rent-seeking behaviour it is necessary that states pursuing the growth-enhancing strategies have governance systems that limit moral hazard and rent-seeking behaviour. Khan argues, however, that many states pursuing growth-enhancing strategies in fact neglected their governance capabilities to limit corruption and rent-seeking behaviour. As a result, by the 1980s, many developing countries had abandoned growth-enhancing strategies, replacing them with the mainstream economics market-enhancing approach to governance.

A central argument of this chapter is that as the mainstream economics approach to good governance spread, important aspects of corporate governance and economic governance became confused and conflated in the minds of many government policy-makers. During the past two decades, many developed countries have followed the dominant US model of corporate governance, which has become centred on the rights and privileges of shareholders and the ability of financial markets to discipline corporations (Lazonick & O'Sullivan 2000). The Anglo-Saxon perspective on corporate governance is based on belief in the efficient market hypothesis, which says that undistorted financial markets are efficient at allocating capital resources in society. Therefore, if corporations act to maximise shareholder value, capital will be invested in the most efficient possible manner and a socially beneficial outcome will be achieved. Furthermore, the maximisation of shareholder value solves the principal agent problem between shareholders and managers, to ensure that managers manage in the interests of the owners of the firms and not themselves.

Widespread financial liberalisation since the 1970s has increased the sensitivity of economic policy-makers to the interests and demands of people operating in the financial sector. As countries have opened their borders to increasingly free movements of capital, global and domestic investors have attained a credible threat to withdraw their capital from countries whose economic and other policies do not conform to investors' notions of good policy. The requirement that economic and other policies of countries appear credible to foreign investors and other financial market actors has played an important role in the conflation of aspects of the Anglo-Saxon model of corporate governance with governments' efforts to promote good economic governance. As a result, many developing countries' systems of economic governance have become increasingly influenced by Anglo-Saxon notions of good corporate governance.

This approach to economic governance further increases the sensitivity of policy-makers to financial markets. This chapter argues that the mainstream approach to governance, with a focus on corporate governance, is antithetical to development. The South African government's approach to economic and corporate governance is examined and the impact on government's ability to advance a developmental state is discussed.

The first part of the chapter provides a broad background to the development of the currently dominant governance and corporate governance systems and how the ideological shift towards neoliberalism has influenced these systems.

The second part of the chapter considers how acceptance of the mainstream approach to economic governance in South Africa has negatively affected its economic development in two ways. First, it has caused government to adopt neoliberal economic policies that have entrenched the industrial structural problems of the economy. Second, it has allowed some of the largest South African corporations to list abroad and to reduce their investments in and commitments to South Africa and to escape contributing to economic development there. The chapter also shows how the South African government – through its approach to governance – has lost influence over these large corporations and is unable to influence the allocation of their resources towards developmental goals. Instead, these corporations are now under the influence of the shareholder value movement.

Background

Dominant approaches to governance today

The Governance Group of the World Bank Institute website says:

> We define governance as the traditions and institutions by which authority in a country is exercised for the common good. This includes (i) the process by which those in authority are selected, monitored and replaced, (ii) the capacity of the government to effectively manage its resources and implement sound policies, and (iii) the respect of citizens and the state for the institutions that govern economic and social interactions among them. (World Bank n.d.)

While the definition of governance used by the World Bank includes references to democracy and the rule of law, a large part of their focus is on economic institutions and policies, including the promotion of private sector development.[2] There seems to be a general acceptance among Western powers and the Bretton Woods institutions that economic institutions and economics are central to good governance. They further argue that good governance is a prerequisite for development. There is a conscious effort to promote market-led development. Organisations such as the World Bank, the IMF and the OECD often see the adoption and implementation of credible economic policies as part of good governance. For example, the World Bank has been promoting legal and judicial reform in developing countries that would increase the role of the market in development since the 1990s.

Harris (2007) argues that the World Bank's Country Policy and Institutional Assessment (CPIA) and Doing Business indicators, as well as the Business Environment and Enterprise Performance Survey (BEEPS), indicate that for countries to get funding from the World Bank and to appear interesting to foreign investors they should implement certain market-oriented legal and judicial reforms.[3]

The OECD's 2005 publication *Modernising Government*, which aims to promote good governance, has a chapter on the use of market-type mechanisms to provide government services. The IMF's approach to governance is to promote good governance through helping countries develop economic policies and institutions and promoting transparency in these institutions. They say, 'The IMF has assisted its member countries in creating systems that limit the scope for ad hoc decision making, for rent seeking, and for undesirable preferential treatment of individuals or organizations. To this end, the IMF has encouraged, among other things, liberalization of the exchange, trade, and price systems, and the elimination of direct credit allocation' (IMF 1997).

Thus, a larger role for the market, including more outsourcing of government services, trade and exchange rate liberalisation, and market allocation of credit, are seen as important aspects of good governance. Terms such as 'sound policies' and 'effective allocation', when used by these organisations, actually mean market-friendly policies and market allocation of society's resources. These organisations use their resources and influence to support this notion of good governance in developing countries. It is not hard to see why actions to promote good economic governance for governments are conflated with the ideas of the Anglo-Saxon model of corporate governance. The ideological underpinnings of these approaches are similar.

Furthermore, the influence of the dominant approach to governance promoted by the World Bank, IMF and OECD has had a significant impact on African policy-makers and the institutions they have built to promote African economic development. The acceptance of a mainstream approach to governance and the conflation of economic and corporate governance in South Africa can be considered within a context where rhetoric about good political and economic governance has become central to African countries' economic policies for development. African leaders have put good governance at the top of their agenda for African development.[4]

The New Partnership for Africa's Development (NEPAD) *Framework Document* (NEPAD 2001) has two concerns in a chapter called 'Conditions for Dealing with Sustainable Development'. The first concern is covered in a section called 'Peace, Security, Democracy and Political Governance' and the second concern is economic and corporate governance. The aim of economic governance according to the *Framework Document* is '[t]o promote throughout the participating countries a set of concrete and time bound programmes aimed at enhancing the quality of economic and public financial management, as well as corporate governance' (NEPAD 2001). According to its website, the African Peer Review Mechanism (APRM) is a process whereby countries of the African Union voluntarily submit to '… periodic reviews of the policies and practices of participating countries to ascertain progress being made towards achieving the mutually agreed goals and compliance in the four focus areas, namely Democracy and Political Governance, Economic Governance and Management, Corporate Governance, and Socio-Economic Development'.[5] The APRM website also says: 'The APRM aims to put in motion a strategic re-orientation towards the validation of universal as well as African values and accelerate the process of intra-African cooperation and integration'.

While NEPAD and the APRM do mention development as their aim, it is cause for concern that the focus on governance and the desire to implement policies recognised to be universally accepted and credible will steer the policies of African countries towards mainstream definitions of good governance, where credibility is viewed as having good credit ratings and being acceptable to people working in financial markets in developed countries. Furthermore, the lines between economic and corporate governance for African countries have become blurred, with the Anglo-Saxon view of corporate governance concerned with maximising shareholder value.

Two of the five key objectives that will be pursued through the APRM process to ensure good corporate governance are to '[p]romote macroeconomic policies that support sustainable development' and to '[a]ccelerate regional integration by participating in the harmonisation of monetary, trade and investment policies amongst the participating states'.[6] It is important to recognise that the approach to economic policy in many African countries has closely followed the Washington Consensus. Therefore, when the APRM website talks about 'macroeconomic policies that support sustainable development', what is meant is macroeconomic policies that keep inflation under control and ensure low government budget deficits (or surpluses). When they talk about harmonisation of economic policies, they seem to mean that African countries that have not yet introduced inflation targeting and liberalised trade and financial markets should adopt these policies. The aim is to attract foreign investors to African countries by implementing the mainstream economic policies believed to be favoured by foreign investors. The aim is also to assure these potential foreign investors that the policies will promote the maximisation of shareholder value. Implicit in this assurance is a promise that maximising shareholder value will not be affected by African stakeholders.

The conflation of corporate governance with economic governance

From the late 1970s, countries of the West shifted from Keynesian-type economic policies to free market economic policies. Helleiner (1994) describes this shift as a move from 'embedded liberalism' to 'neo-liberalism'. This shift is ideological. The shift in ideology is fundamentally related to contending views of the role of the state and state regulation. These broader shifts in ideology are important for understanding the dominant approach to governance today and the conflation of governance with corporate governance.

Within the field of economics, renewed interest in and mainstream acceptance of the work of people like Friedrich August von Hayek (see, for example, Hayek 1994) and Milton Friedman (see, for example, Friedman 1981) led to widespread acceptance by policy-makers that the role of the state in the economy should be curtailed. The ideas of anti-state ideology inherent in the economics of Hayek and Friedman replaced the ideology of Polanyi (1944) and Keynes (see, for example, Keynes 1936), where the smooth functioning of capitalist nations required state regulation to ensure the political and economic stability of the capitalist systems.

When mainstream macroeconomic policy and hegemony shifted from Keynesianism to neoliberalism, a rapid process of goods and financial market liberalisation ensued. This liberalisation drove a process of global integration of goods and financial markets, which in turn reinvigorated the laissez-faire ideology in mainstream academic and economic policy thinking. Mainstream economic theory appropriated the ideas of neoclassical economics and created a hybrid that supported laissez-faire ideology and disapproved of state involvement in the economy.

New Classical macroeconomic theory (see Frydman & Phelps 1983; and Lucas 1973) is an important source for the development of the free market perspective that influenced the development of the Washington Consensus and neoliberal thought. Central to the New Classical theoretical perspective is instantaneous market adjustment and the 'rational expectations' hypothesis. The ideological position of the New Classical macroeconomists for unrestrained functioning of businesses in an economy was rationalised using the theoretical argument of rational expectations, which could be used as a theoretical 'whip' to ensure that governments implemented policies perceived to be 'credible' by people who operate in global financial markets.

The notion that policies should be credible has become pervasive during the neoliberal era. Credibility is judged by an elite few, usually the relatively few people who operate in the financial markets and credit ratings agencies in the financial centres of a few developed countries. Credible policies are the neoliberal policies set out in the Washington Consensus: low fiscal deficits, low inflation, liberalisation of international trade and financial markets, and a smaller role for the state in the economy through deregulation and privatisation. This notion of credibility, shaped by neoliberal ideology, has become a central component of the mainstream approach to economic governance and corporate governance.

During the neoliberal era, large industrial firms became more and more 'financialised'; that is to say, increasingly their turnover and profits derived from financial activities rather than their real sector traditional businesses (Crotty 2003; Dumenil & Levy 2001; Krippner 2002). Another characteristic of financialisation during the neoliberal era is the huge role the financial sector plays in the global economy. The deregulation of the financial sector has reshaped business and alliances between different national interest groups.

Financialisation was important in the shift from 'patient capital' to 'impatient capital' (Lazonick & O'Sullivan 2000). The increasing role of institutional investors during the neoliberal era led to much quicker turnover of shares in equity markets. At the same time, the behaviour of management of large corporations changed. Management increasingly treated firms as if they were part of a portfolio of assets that could be bought and sold (Crotty 2003). This change in corporate management style was evident in the hostile takeover movement during the 1980s.

During the 1990s, there was increasing influence of institutional shareholders and the shareholder value movement. Both the hostile takeover movement and the shareholder value movement had significant influence on the behaviour of management of large corporations, and also played important roles in reshaping firms and domestic and global business structures. The idea of market discipline of corporations through financial markets became a key component of the Anglo-Saxon approach to corporate governance. The ability of operators in financial markets to use hostile takeovers is entrenched in the US financial system and is seen as an important tool of corporate governance there. This role of the financial system – to discipline corporate executives and management and to replace them with better management – is seen as a key way to solve the principal agent problems identified by finance theorists (Fama & Jensen 1983). Unfortunately, this notion of financial discipline has become important in the way governments think about credibility.

In fact, the notion has become widespread in society, and it is not uncommon to read reports in the media about how government actions affected stock prices. Often, it is expected that government will not undertake certain actions or will even reverse certain actions if they are expected to have a detrimental impact on market indicators such as the exchange rate and stock price indices.

There have been disagreements within developed countries over effective corporate governance systems. Cornelius and Kogut (2003) argue that many authors confuse corporate governance practices with corporate governance systems. They explain that a corporate governance system consists of formal and informal institutions, laws, values and rules that shape the different types of legal and organisational structures existing in a country. These structures and the rules governing them influence the distribution of power in terms of how ownership is allocated, the power of management, and the way in which information has to be circulated and audited (Cornelius & Kogut 2003). This also determines how profits are allocated and distributed. They say that a country's history, culture and political conditions shape its form of corporate governance. It is hard to know what is best practice in terms of corporate governance because of the complexities in society, which make it difficult to directly match economic outcomes with corporate governance systems. However, the Anglo-Saxon model of corporate governance has become dominant in developed economies and is being thrust onto developing countries.

Singh et al. (2005) call some of the arguments in favour of the US corporate model an 'end of history' type assessment. Within this type of assessment, the US system is deemed to represent the ultimate legal and financial system. Singh et al. add that authors such as Hansmann and Kraakman (2001) believe that all systems will have to converge to the 'ultimate' US system. This thinking seems to be influential and widespread and can be inferred from the publications by the World Bank and IMF (cited earlier in this chapter).

The debate about corporate governance in the US during the 1980s and 1990s was won by those favouring financial discipline in the form of hostile takeovers and leveraged buyouts. This approach was opposed by those arguing that the hostile takeover and other actions associated with financial discipline forced corporate executives to manage in a way that raised stock prices in the short term and hindered strategising for long-term growth (see Blair 2003 for a quick review of the literature). Porter (1992) argued that the short-term approach of executives due to the pressures from finance would lead to declining competitiveness of the US industrial sector. He argued for 'patient capital', where large financial institutions take long-term stakes in companies.

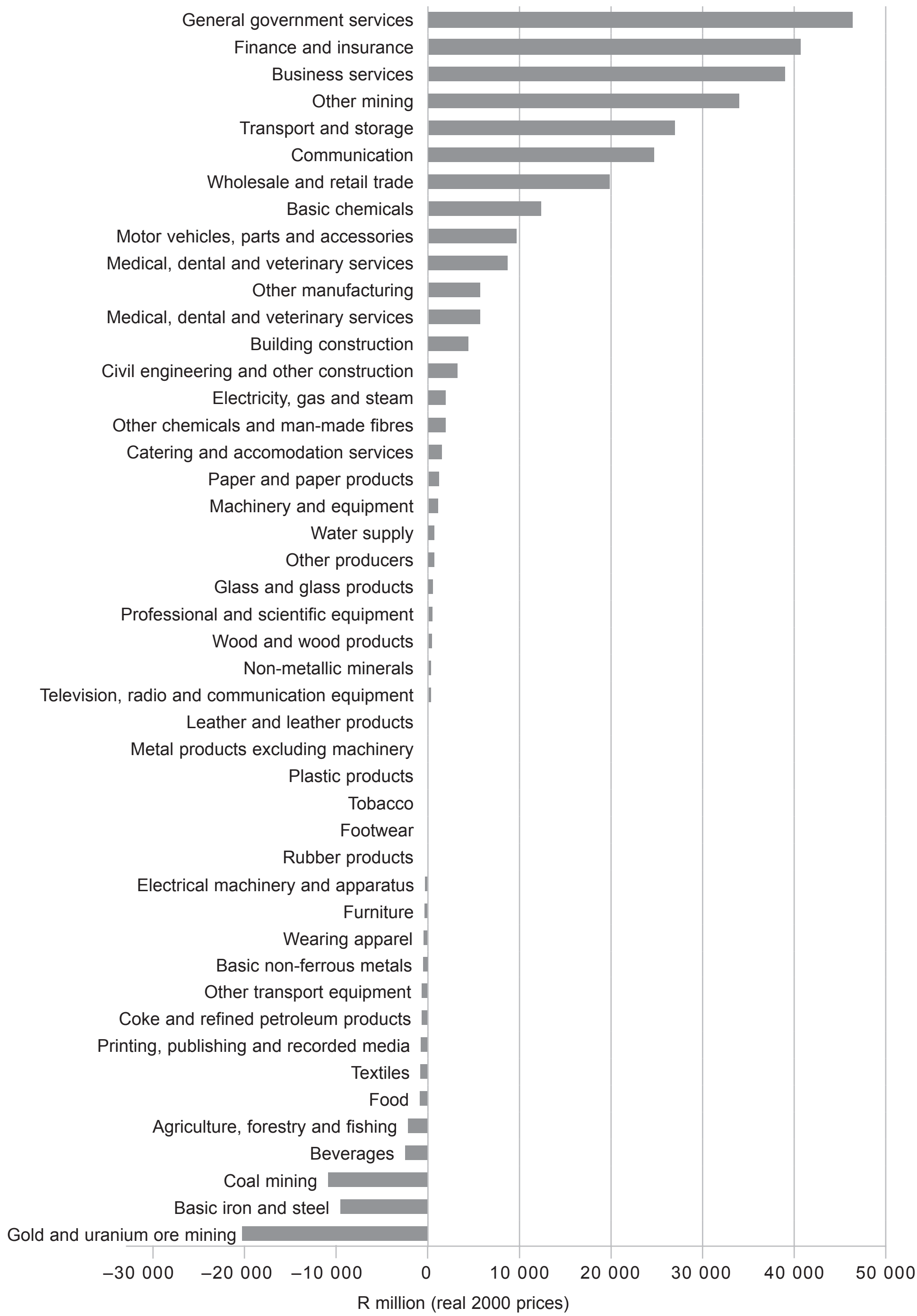
The mainstream association of corporate governance with shareholder value is based on a number of false assumptions. Two of these assumptions are that maximising shareholder value maximises the wealth created by corporations; and that the share price is the best measure of value created by corporations because financial markets assess the true value of securities. In many developing countries, even where there are undeveloped equity markets, the notions of shareholder value and the ability of markets to correctly value assets and efficiently allocate capital have taken root. To some extent, the 'state versus market' debate has been replaced by an 'augmented Washington Consensus' perspective, where there is a role for the state. This approach concedes that there can be market failure and that there is a role for the state but confines this role to enhancing social welfare through programmes to address poverty, improve health care and education, and increase access to basic services, with the aim of ensuring a politically stable environment.

The role of the state from this perspective remains that of the old Washington Consensus – to ensure a sound macroeconomic environment, a functioning legal system, prudential regulation of the financial sector and protection of property rights. Within this type of thinking it is not only corporations that are valued and assessed in financial markets but also states. The ability of the state to raise finance abroad, the credit ratings assigned to countries and the sentiment of investors (both portfolio and direct) have become important variables whereby states assess their performance. Therefore, the approach to good governance in many developing countries is associated with credibility in domestic and international financial markets.

Governance and South African economic development

In October 2003 President Thabo Mbeki argued: 'If we were to follow the prescriptions of neo-liberal market ideology, we would abandon the masses of our people to permanent poverty and underdevelopment. This would be a betrayal of everything for which the masses of our people have engaged in struggle for nine decades, under the leadership of the ANC' (Mbeki 2003). Notwithstanding this strong rejection of neoliberal ideology, his government remained strongly committed to its neoliberal economic policies.[7] In spite of broad rhetorical rejection of neoliberalism, the African National Congress (ANC) government has adopted neoliberal economic policies because of its wish to maintain good credit ratings and to attract foreign investment. As a result, the government has made an effort to show people operating in international financial markets that it is sensible and credible. It has implemented governance regimes acceptable to the leaders of developed countries and the Bretton Woods institutions. It has accepted that the market should play the dominant role in price setting and allocation of finance. It has allowed capital to flow freely across its borders and allowed the exchange rate of the rand to be set in global currency markets. It has allowed financial markets to discipline business. It has allowed some of the largest South African corporations to move their primary listings abroad, has not opposed a huge increase in mergers and acquisition activities in the economy, and has recently allowed takeovers of listed firms by foreign private equity companies. In short, the government has sent strong signals to the world that it will allow domestic and foreign corporations free rein and that it has created a business-friendly environment with market-friendly policies. The conflation of 'good' economic governance and maintaining policy credibility and an approach to corporate governance that is centred on shareholder value is clearly evident in the approach to economic policy adopted in South Africa. This conflation has been an important obstacle to the advancement of the developmental state in South Africa.

Figure 7.1 Change in manufacturing sectors' capital stock (South Africa, 2000–06)



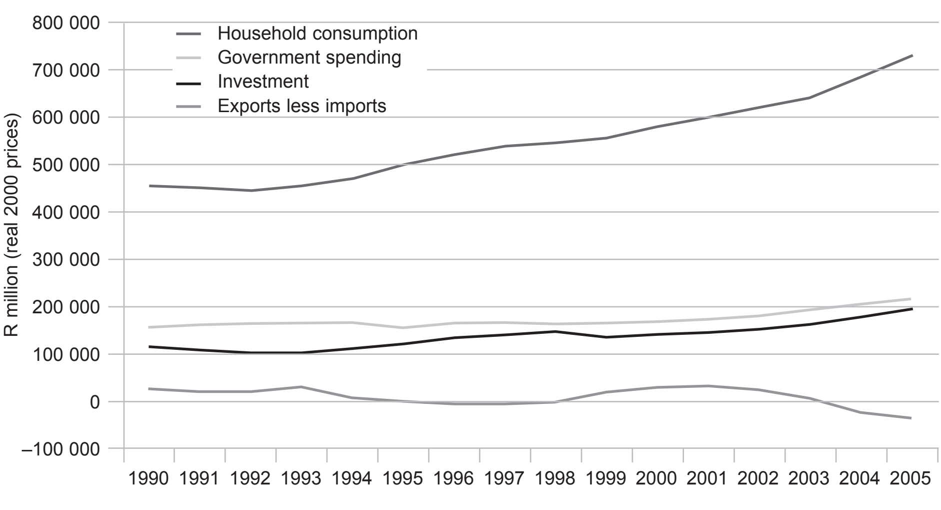
Source: Author's calculations using Quantec data (accessed June 2008, www.quantec.co.za)

Governance and structural weaknesses

South African policy-makers' acceptance of neoliberal policy prescriptions and the mainstream definition of good governance had a double negative impact on economic development in South Africa. The first impact is that they adopted neoliberal economic policies, which included widespread tariff liberalisation, inflation targeting and pursuing low fiscal deficits. The role of the state in the economy has been reduced. Acceptance of this approach to economic policy has meant that inadequate attention has been paid to the structural weaknesses of the economy. Therefore, instead of deepening the industrial base and promoting industrial diversification away from mining and minerals beneficiation and associated industries, economic policies such as tariff liberalisation, pro-cyclical monetary policies, ignoring an overvalued exchange rate and reducing the government's budget deficit have contributed to a decline in the manufacturing sector.

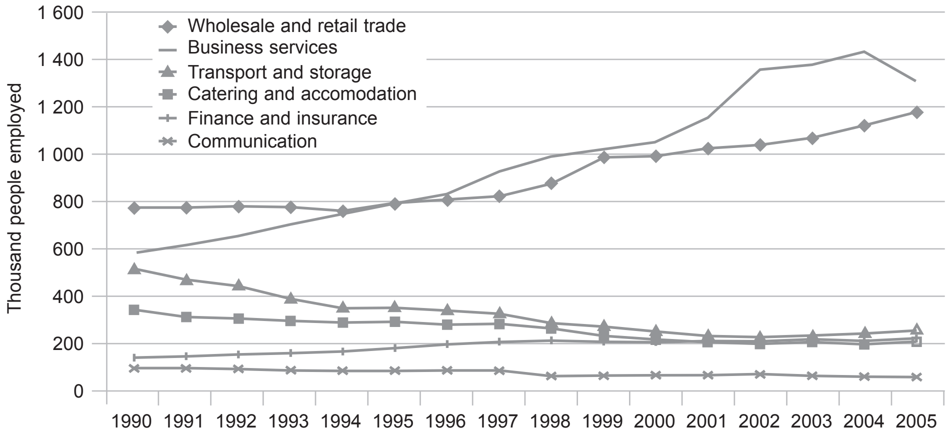
The decline in the manufacturing sector is a serious problem for the economy, where the official rate of unemployment is over 20 per cent and unemployment in terms of the broad definition is over 40 per cent (2008 figures). The decline in the manufacturing sector entrenches the capital- and resource-intensive nature of the economy and shows deindustrialisation and declining industrial diversity. Sectors that declined are downstream, value-added and relatively labour-intensive sectors. Figure 7.1 shows that from 2000–06, 10 of the 27 manufacturing sectors experienced increases in capital stock but 15 of the manufacturing sectors experienced declining capital stock. Given the structure of the South African economy, it was the capital-intensive, resource-based sectors that grew while the decline was generally in labour-intensive, value-added sectors. One important exception, in which there was large

Figure 7.2 Components of GDP (South Africa, 1990–2005)



Source: Author's calculations using South African Reserve Bank (SARB) data (accessed June 2008, www.reservebank.co.za)

Figure 7.3 Employment in services (South Africa, 1990–2005)



Source: Author's calculations using Quantec data (accessed June 2008, www.quantec.co.za)

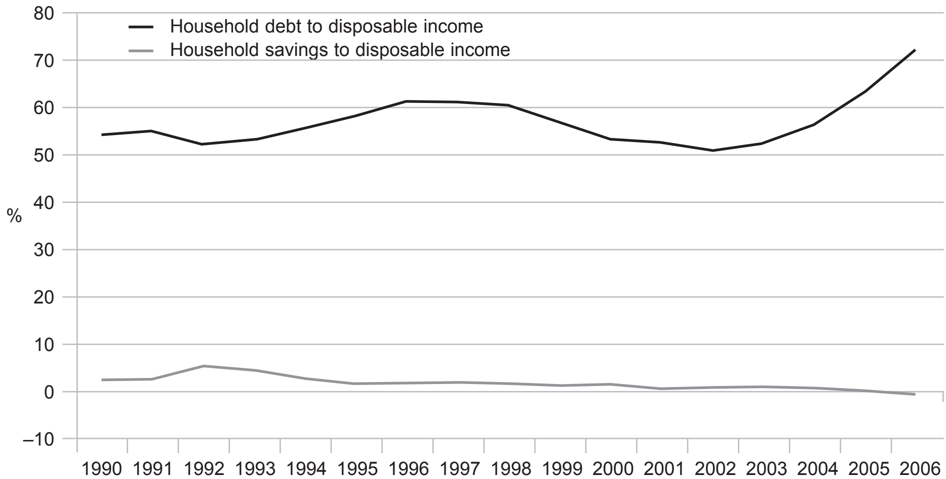
growth in capital stock, was the motor vehicles, parts and accessories sector – the only manufacturing sector where government has an industrial policy.

There was large growth in services sectors, especially sectors linked to debt creation, residential construction and consumption. Many policy-makers argue that the South African economy is in transition towards becoming a services economy. They imply that there should not be concern about the current structure of the economy because the South African economy is modernising away from manufacturing and 'old economy' activities towards services and the 'new economy'. Their great hope is that foreign investors will choose to locate in South Africa and to modernise the economy into a high-tech services economy through transference of skills and technology. They fail to realise that South Africa is a chosen destination for short-term portfolio investment flows and not long-term direct investment flows.

Recent economic growth, until the global economic crisis, was driven by increased household consumption off the back of growing levels of household debt (see Figure 7.2). Growing household consumption increased demand for imports, which in turn led to a large increase in the trade deficit, which is financed with short-term capital flows.

Most growth in value added in the services sectors has been in areas stimulated by debt-driven consumption, such as wholesale and retail trade, transport and storage, and finance and insurance. Much of this growth, such as growth in finance and insurance, communication services, and catering and accommodation has occurred without much employment creation. The two sectors in services that had noticeable increases in employment were the wholesale and retail trade services sector and the business services sector (see Figure 7.3). Growth in business services jobs has been mostly in low-skilled jobs in the private security industry, and labour broking due to outsourcing of certain services by the mining and manufacturing sector. Thus, contrary to the perspective that the growth in the services sector will lead to

Figure 7.4 Household saving and debt ratios to disposable income (South Africa, 1990–2006)



Source: Author's calculations using SARB data (accessed June 2008, www.reservebank.co.za)

modernising and adding skills to the economy, we find that employment is being created in low-skilled, poorly paying jobs. Furthermore, many of the jobs created in business services are the result of outsourcing, where workers previously employed in manufacturing and mining jobs now work in services companies and have less job security, lower wages, fewer benefits and sometimes become part of the informal sector (Omar & Webster 2003).

Policy-makers have applauded the economic growth of the past few years. They fail to realise that this economic growth is based on debt-driven consumption, which leads to growth in certain services sectors (see Figure 7.2 for the consumption trend and Figure 7.4 for household saving and debt ratios). They also fail to realise that their neoliberal economic policies have entrenched a weak economic structure, where there is too much reliance on the mining and minerals sectors and an inadequately developed and diversified downstream manufacturing base. The growth in the trade deficit and in the services sectors reflects this weak economic structure, at the expense of economic restructuring towards a modern services economy.

Governance and the internationalisation of South African corporations

The second negative impact of government's acceptance of the mainstream approach to governance is that it allowed the largely uncontrolled internationalisation of large South African corporations that had benefited from apartheid, without a plan for ensuring that those corporations use part of the wealth they accumulated under apartheid for the economic development of a post-apartheid South Africa. Many large South African corporations have listed abroad, representing lost opportunities for domestic economic and industrial development. Furthermore, these offshore

Table 7.1 Summary of control of JSE market capitalisation (% of total) (1985–2003)

	1985	1990	1991–95	1996–2000	2001–03
Anglo American Corporation	53.6	44.2	38.9	22.7	23.3
Sanlam	12.2	13.2	12.7	11.2	6.1
Liberty Life	2.0	2.6	5.8	9.0	5.2
Rembrandt/Remgro	3.8	13.6	13.2	10.2	9.2
SA Mutual/Old Mutual	10.6	10.2	11.2	10.4	9.9
Anglovaal[a]	2.1	2.5	3.1	1.2	0.0
Black-owned groups	n.d.	n.d.	n.d.	7.4	4.2
Top 5 groups collectively	82.3	83.9	85.9	70.6	53.6

Source: Roberts et al. (2003)
Notes: Control is assessed by taking into account the various cross-holdings of shares that exist and may be associated with a relatively small direct shareholding in any given company; n.d. = no data
a. In 1998 the Anglovaal shareholding was split equally between the Hersov and Menell families.

listings have been the result of extensive restructuring of these corporations, where they transformed into global corporations and often disinvested from the South African economy.

The offshore listing of these companies transformed them into foreign investors in South Africa. The South African government's approach to governance is to avoid interfering in the business of foreign companies for fear of scaring off foreign investors. The government has liberalised capital flows and allowed relatively free movement of capital by foreigners into and out of the South African economy. As a result, the South African state has reduced its influence over the businesses of large South African corporations that have moved their primary listings abroad, while the shareholder value movement in countries such as the US and Britain has become more powerful in influencing these corporations.

Large South African corporations such as Anglo American, Old Mutual and Liberty Life, which respectively controlled 38.9 per cent, 11.2 per cent and 5.8 per cent of the capitalisation of the JSE during 1991–95 (see Table 7.1), convinced government that they should be allowed to move their primary listings offshore and so become de facto foreign investors in South Africa. The arguments in favour of offshore listings were that these companies would be able to raise more money abroad than in South Africa and, therefore, that they would invest more in South Africa. In fact, these companies have taken capital from South Africa but reinvested relatively little in the country (Roberts et al. 2003). Another argument in favour of offshore listing was that these companies would face the discipline of global markets and shareholders, which according to mainstream arguments would improve their governance and increase the value they create for shareholders. These companies were restructured by shareholder pressure, and while there may have been benefits for shareholders, the South African economy has lost influence over large, powerful corporations that could have been part of a development project to deepen and diversify the country's industrial base.

The impact of the shareholder value movement on the companies that listed abroad was to force them to restructure. The annual reports for Anglo American PLC (previously called Anglo American South Africa) over the past few years (Anglo American PLC for the years 2000–06) show their consciousness of the requirements of the shareholder value movement and how they have turned these requirements into a central part of their business strategy. The annual reports say that Anglo American's key objectives are to simplify its structure, and to enhance returns and shareholder value. They say that their main strategies are expansion through acquisitions, organic growth, and disposal of non-core assets.

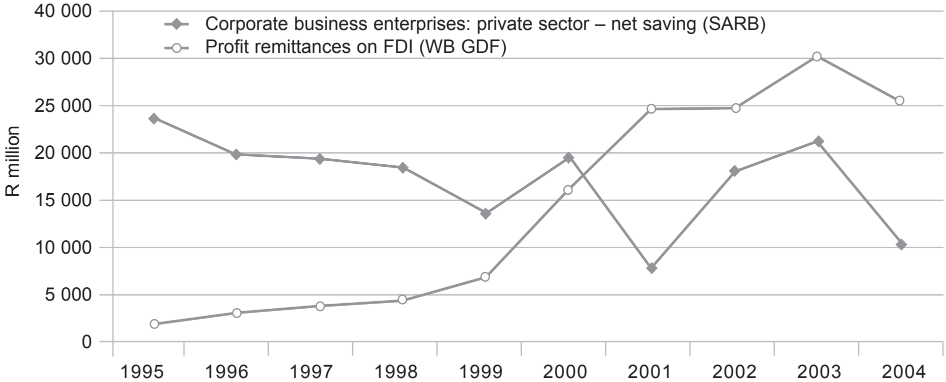
Anglo American and other South African corporations that listed abroad invested in developed country assets to dilute their exposure to developing country risk. These companies were also induced to focus on their core businesses. For example, Anglo American, which was a highly diversified South African conglomerate with over 100 subsidiaries (a great many of these manufacturing concerns) in the country, became a global mining corporation with primary listing in the UK. The unbundling of its South African manufacturing companies meant that a company with the huge wealth and resources of Anglo American, a giant of the South African economy, was no longer involved in South African manufacturing and would not be part of a future strategy to deepen and diversify South Africa's industrial base. The share of Anglo's capitalisation on the JSE decreased from 38.9 per cent (1991–96) to 23.3 per cent (2001–03). I speculate that because of its size, diversity, international presence and influence, a workable partnership between the state and Anglo American Corporation could have had the latter playing a role in South Africa similar to that played by the zaibatsu in Japan and the chaebol in South Korea during their period of accelerated industrial development and outward export orientation.

Anglo American, which was built by exploiting South Africa's mineral wealth and black workers, was allowed to disengage from the South African economy and development project but to continue profiting from the country's mineral resources. Anglo American's investment in South African platinum mining has increased through its subsidiary Anglo Platinum, the world's largest primary producer of platinum. Anglo's subsidiaries have retained significant operations in the South African mining industry in coal, gold, base metals and industrial metals. At the same time, furthering its strategy to transform itself into a global mining business focused on core business, Anglo has expanded into mining on almost every other continent.

The restructuring and relisting of Anglo American has been one of the most important changes in the South African economy. It indicates an important withdrawal from the South African economy. While Anglo does still hold substantial assets in South Africa, the shedding of almost all manufacturing businesses implies an important withdrawal of the most important and influential conglomerate from downstream value-added production in South Africa.

One assumes that the South African government believed these large corporations when they said that the offshore listings would benefit the South African economy. One also assumes that there may have been a fear that if these companies were

Figure 7.5 Corporate savings and FDI remittances (South Africa, 1995–2004)



Source: Author's calculations using SARB data for corporate savings (www.reservebank.co.za), and World Bank Global Development Fund (WB GDF) data for remittances on FDI (http://publications.worldbank.org/GDF), both accessed June 2008

not allowed to list offshore then South Africa would lose credibility in the eyes of potential foreign investors and could suffer lower credit ratings. The South African government had bought into the mainstream perspective on good governance and mainstream arguments about the importance of foreign direct investment (FDI). These beliefs meant that they adopted the incorrect economic policies to promote economic development. These beliefs also meant that the economy lost the ability to influence or develop partnerships with large domestic corporations to promote economic and industrial development.

The adoption of the mainstream approach to governance and the conflation of economic governance with the Anglo-Saxon model of corporate governance have led to many lost opportunities for South Africa's economic development. The government failed to impose conditions on companies that moved their primary listings offshore and also failed to impose conditions on their continued operations in South Africa. Furthermore, the government did not force these companies to admit their role and complicity in the apartheid system at the Truth and Reconciliation Commission, and allowed them to get away without compensating South African society and the 'victims' of apartheid business practices. Instead, the odious history of South African big business is ignored and these companies are allowed to portray themselves as having played an active role in ending apartheid and as champions of democracy.

At the same time, the government lowered corporate tax rates, liberalised financial markets and reduced capital controls, creating a more market-friendly environment for foreign investors. From 2000 onwards, when the offshore listing of some of the largest South African corporations began to take off, we see that profit remittances on FDI grew enormously, while domestic corporate savings were volatile with an overall negative trend (see Figure 7.5).

Furthermore, the South African state has ceded control of its mining and some of its financial corporations to the 'impatient capital' in the form of the shareholder value movement. The orientation of these companies is towards the short-term interests of institutional investors in the US and Europe. It would take a huge change in policy orientation for the South African government to impose regulations and laws that attempt to draw some of the benefits and revenues of mining in towards economic development and industrialisation of South Africa. In addition, the economic policies of the South African government have allowed the trade deficit to grow to more than 7 per cent of GDP. A policy shift that signals a move away from support for the Anglo-Saxon model of corporate governance could lead to capital flight by institutional investors and balance of payments problems.

By way of illustration of the increased power of institutional investors and the shareholder value movement over South African resources, we look at ownership of two of the three gold mining companies that dominate gold mining in the South African economy.[8] According to the AngloGold Ashanti 2006 *Annual Report*, the shareholding of AngloGold Ashanti Ltd (an Anglo subsidiary) as of September 2006 was:

- Anglo American PLC owned 41.8%.
- Government of Ghana owned 3.4%.
- The balance of the shares are owned by institutional investors. The proportion of institutional shareholding by country is:
    - North America 51%;
    - South Africa 24%;
    - UK 14%;
    - Rest of Europe 8%; and
    - Middle East/Asia Pacific 3% (AngloGold Ashanti 2006).

Institutional investors own more than half of AngloGold Ashanti's shares. About three-quarters of these institutional investors are not South African. A similar picture may be seen with the Harmony Gold Mining Company. According to the Harmony 2006 *Annual Report*, the geographic spread of share ownership for Harmony Gold Mining Company Ltd in 2006 was:

- South Africans owned 42.42%.
    - (BEE: African Rainbow Minerals 16.16%.)
- North America owned 32.90%.
- European country ownership:
    - UK 11.64%;
    - Switzerland 4.65%;
    - France 2.25%;
    - Belgium 1.99%;
    - Luxembourg 1.04%;
    - Germany 0.73%; and
    - rest of Europe 1.32%.
- Asia Pacific/Middle East 1.06% (Harmony 2006).

According to their 2006 *Annual Report*, institutional investors of different countries owned 73.06 per cent of the shares of Harmony. US institutional and retail ownership gave US shareholders a 32.90 per cent stake in Harmony.

On the whole, the internationalisation of South African companies has been widespread and the influence of the shareholder value movement is evident in the restructuring of these corporations. Many of the large South African corporations play down their South African roots and the important contribution of South African income and profits to their global businesses. Part of the reason for playing down their South African interests is to appear less vulnerable to emerging market risk and South Africa's exchange rate volatility. They also want to convince institutional shareholders that they have become global companies focused on a core business. This behaviour by large corporations that have internationalised seems to have the effect of increasing the determination of current South African economic policy-makers to assure shareholders that stakeholders' interests and social and economic development objectives will not obstruct the maximisation of shareholder value.

Conclusion

The dominant perspectives on economic and corporate governance are hugely influenced by the shift towards the hegemony of neoliberal ideology. The importance of the role of the market and the belief that financial markets efficiently allocate capital are central to the beliefs shaping the dominant governance systems. However, the conflation of economic governance and corporate governance means that the disciplining role attributed to financial markets in the Anglo-Saxon model of corporate governance is seen as an important component of economic governance. Without any necessary theoretical justification the conflation of corporate and economic governance has created a mainstream perception that governments should be wary of upsetting 'the markets'. The weak assumptions and inefficiencies associated with adopting the Anglo-Saxon model of corporate governance are not examined by governments willing to believe that they should be careful of the views of 'the markets'.

The post-apartheid South African government, while supposedly critical of 'market neoliberalism', has been one government that has accepted that it has to abide by the views of the market. After a long battle for democracy in South Africa, the government has chosen to follow the anti-democratic (and anti-intellectual) path, where the private sector and foreign investors decide whether policies are credible.[9] The citizens of South Africa are once again disenfranchised and have lost their ability to decide on their economic policy.

The acceptance of neoliberal economic policies to maintain credibility and project an image of a government with good governance practices has had a negative impact on the South African economy. The structural weaknesses of the economy have been entrenched. At the same time, economic growth is unsustainable and based on debt-driven consumption that has increased the trade deficit and dependence on short-term capital inflows. The government's approach to governance has allowed the unconditional internationalisation of some of the largest South African corporations, which built up their wealth through building the apartheid economy and exploiting South Africa's people and natural resources. The result of this approach is lost opportunities for economic development and lost wealth and resources for the country.

Notes

1 For the World Bank view on governance see http://go.worldbank.org/MKOGR258V0; for the OECD see OECD (2005); and for the IMF see IMF (1997).

2 A World Bank policy research working paper (Kaufmann et al. 2006) lists six dimensions of governance: voice and accountability; political stability and absence of violence; government effectiveness; regulatory quality; rule of law; and control of corruption. Government effectiveness encompasses independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. Regulatory quality encompasses the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development (Kaufmann et al. 2006).

3 BEEPS is jointly prepared by the World Bank and the European Bank for Reconstruction and Development.

4 The South African government has played a leading role in pushing for improved governance in Africa.

5 See www.aprm-international.org.

6 See www.aprm-international.org.

7 See, for example, the 1996 Growth, Employment and Redistribution (GEAR) programme (Department of Finance 1996).

8 Three companies produced 86 per cent of the gold mined in South Africa in 2006.

9 Grabel (2000) argues that the mainstream notion of 'credibility' of economic policy is anti-democratic because a small number of people operating in global financial markets impose policy criteria on the voting citizens of a country. She adds that the notion of 'credibility' is anti-intellectual in that certain neoliberal policy perspectives are imposed on countries through political and economic pressure rather than through rigorous research and debate.

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8 Can South Africa be a developmental state?

Ben Fine

This chapter consists of two main sections. The first provides a brief overview of the developmental state paradigm, and the second explores some insights from applying that paradigm to the South African economy. The conclusion drawn is that South Africa has a long way to go if it is to do more than aspire to be a developmental state. Indeed, South Africa might be thought to have been much closer to developmental state status in the past than it is now.

Economic and political schools of discourse on the developmental state

There is at least one great law and one minor law of economics. The great law is that whenever there is inflation, there is an increase in monetarism. Subject to the form that this law takes in terms of academic rationale, it seems to be so evident as to warrant no further discussion. The minor law is that whenever there is any development on a national basis, it is liable to be interpreted as reflecting the presence of a developmental state. This law is minor insofar as it is less extensive in both time and application. The developmental state has a much shorter intellectual pedigree than monetarism.

With pockets of development taking place around the world, some such as China very deep indeed, there is once more a renewal of interest in the developmental state, after a decline in the decade around the turn of the millennium. This confirms the minor law. And there is also a sudden emergence in the highest policy circles in South Africa of the idea that South Africa is to become, even always has been at least in waiting, a developmental state. Relative to our minor law, this is a remarkable conflation of cause and effect. Rather than declaring South Africa a developmental state after the event of achieving this status, it seems that, Canute-like, the simple declaration of developmental state status is sufficient to achieve that goal. It is a moot point whether any developmental state in practice has ever been aware it was such at the time, let alone declared itself to be so! Nonetheless, the fact that official circles should aspire to South Africa being a developmental state has, while being treated with some suspicion, even cynicism, generally been welcomed – both as a way of opening debate over what this means in principle and practice, and as a signal of an intention to depart from what have primarily been neoliberal policies over the post-apartheid period.

Of course, unlike Canute, who had no powers to reverse the flow of the tide, South African policy-makers do have some discretion to intervene in the course of events.

Monetarists would, though, suggest that they can only hold back development by doing so. Thus, in order to examine whether South Africa has the potential to turn rhetoric into reality, it is essential to explore both the reality and discourse of the developmental state and of South Africa itself. Unfortunately, these are extremely demanding tasks, particularly in the light of my own earlier conclusions concerning the developmental state – or should that be 'developmental state'? For I have rejected the idea of the developmental state on analytical grounds for the reason that it accepts as a fundamental starting point the dichotomy between state and market. Instead, I have argued that it is more appropriate to identify underlying economic and political interests, especially those attached to classes, and unravel how they are represented through both the state and the market. However, even if there are problems with the developmental state paradigm, this does not necessarily mean that it is without substance and potential insight.

Although it has earlier origins, not least in the German nation-building protectionism of Friedrich List in the 19th century and the import-substituting industrialisation of Latin America in the 20th, the idea of the developmental state has been most closely associated with the rise of East Asian economies. While the classic study in this vein is of Japan by Chalmers Johnson (1982), the literature has probably been at its most prominent in the decade either side of 1990, with focus upon the rise of the East Asian newly industrialised countries (NICs), especially in the work of, and inspired by, Amsden (1989) and Wade (1990).

Yet the approach of Johnson and his followers and that of Amsden and Wade are very different for at least three reasons. First, and most obviously, Johnson was concerned with Japan and an earlier time period, as opposed to the more contemporary concerns of the later authors with the reality of development as it was materialising across the East Asian miracle. Second, the political context and motivation of the authors were very different. As Johnson (2006), a former CIA analyst, puts it, 'I was a cold [war] warrior. There's no doubt about that. I believed the Soviet Union was a genuine menace. I still think so'.[1] For Johnson, the point was to recognise the role that the state should, could and, indeed, had to play in promoting capitalism in order to save it from communism. In this respect, he plays a similar and, in part, complementary role to Keynes – pointing to the flaws in laissez-faire capitalism in order to save it from itself.[2] In contrast, or possibly not, the later authors are most concerned to take the Washington Consensus as their critical point of departure, revealing positively what developmental states can achieve and the disastrous effects of relying exclusively upon the market.

Third, and most important for our purposes, there is a difference of approach, understanding and focus of the developmental state. This is so much so that I have suggested that they give rise to two different schools of thought, one described as the 'political school' and the other as the 'economic school'.[3] For Johnson and the political school, the question addressed is primarily one of whether the state has the capacity to be developmental; by this is meant the ability to adopt the appropriate policies irrespective, more or less, of what they might be. Indicative is the title of his later contribution, Johnson (1995), *Japan: Who Governs? The Rise of the Developmental State*. Inevitably, this raises the issue of the relationship between the state and the private sector, as emphasised in Johnson (1999). And, for Johnson's (1982) classic contribution, the Ministry of Trade and Industry (MITI) plays the decisive role as the state's instrument for industrial policy. In deference to specificity, Johnson (1999) is reluctant to offer a model for a developmental state but does point to the importance of four factors: a small, elite top-quality management within the state to select and promote industries, and to supervise competition; a political system that enables this; market-conforming methods of intervention; and an organisation such as MITI to effect implementation. Significantly, Johnson favourably singles out Castells's (1992) widely cited definition of the developmental state:

> A state is developmental when it establishes as its principle of legitimacy its ability to promote and sustain development, understanding by development the combination of steady high rates of growth and structural change in the productive system, both domestically and in its relationship to the international economy … Thus, ultimately for the developmental state, economic development is not a goal but a means. (Castells 1992: 56–57)

This means that the developmental state seeks political legitimacy by being developmental, with success in the economy allowing it to sustain itself. This offers a striking rationale for our minor law, borders on tautology and, most important of all, is almost entirely without economic content either theoretically or empirically (i.e. what and how we are going to produce and for whom, for example, presumably being left to specificity).

In contrast to the political school, the economic school is exclusively preoccupied with appropriate economic policies, or the rationale for them, as opposed to the political (and ideological) conditions that make them possible. Heavy emphasis is placed on market imperfections and either correcting them through the state or positively creating them in order to promote development. For Amsden (1989, title of Chapter 6), it is a matter of Getting Relative Prices 'Wrong' and for Wade (1990), the emphasis of his argument is evident in his book's title, *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization*. This is indicative of a general commitment to state interventionism, especially in industrial and trade policy, and state control and allocation of finance for investment, to accrue dynamic economies of scale and scope without undue competition and duplication of enterprise.

With the developmental state literature divided into these two schools, it has evolved over the past two decades or so in a complex way, in terms of rhythm and content, and across theoretical and empirical content. For the political school, the condition for a state to be developmental focused on its relative autonomy; as Evans (1992, 1995) argues, for a state to be developmental it needs to be sufficiently detached from the interests seeking its favour but, equally, sufficiently embedded to function positively for developmental goals. This raises the problems of what the precise nature of the connections between state and society are, and what renders them functional – as opposed to dysfunctional (as in rampant corruption and appropriation of wealth by an autonomous state). The result has been an accumulating set of case studies in which further conditions and qualifications arise in order to accommodate what would otherwise be anomalous examples (why a state has or has not been developmental despite ticking all the burgeoning number of boxes). For White (1998), for example, in seeking to pin down how to allow for the emergence of a democratic developmental state, consideration is given to each of the following factors: consensus, institutions, political participation, authoritarianism, inclusion and exclusion, international environment, and social structure comprising class, gender, ethnicity, culture and religion.

The economic school has also evolved by relying upon case studies, with the East Asian NICs to the fore, but in a different way, reflecting its central preoccupation with challenging the Washington Consensus and the latter's blanket rejection of state intervention in general and trade and industrial policy in particular. By appeal to the pervasive presence of market imperfections, evidence is collected to the effect that development has only been successfully achieved, particularly but not exclusively for latecomer countries, through extensive intervention and systematic breach with the policy recommendations that flow from the Washington Consensus (see especially Chang 2002).

The developmental state literature was at its height of influence and energy in the mid-1990s. It played a major role in forcing the World Bank to acknowledge that there might be something different about the East Asian NICs. Even so, the Bank's report, *The East Asian Miracle* (1993) represented a remarkable case of analytical acrobatics in seeking to neutralise the thrust of opposition in suggesting, contrary to much of the evidence collated, that whatever the state did was what the market would have done had it worked perfectly (market-conforming), and such success could not be replicated elsewhere. Yet, despite what can only be described as a telling intellectual and analytical triumph in combating the Washington Consensus in examining developmental success, the second half of the 1990s witnessed a decline in the prominence of, and effort dedicated to, the developmental state approach.

There are a number of reasons for this. First, the later emergence of the post-Washington Consensus, more state-friendly in scholarship and rhetoric at least (if not in policy), accepted but weakened the proposed role to be played by the state in the light of close examination of market and institutional imperfections; and thereby displaced the more interventionist position of the developmental state approach in policy debate. Second, the Asian Financial Crisis of 1997 threw the miracle, and hence developmental state, character of the NICs into doubt, although there was and remains a healthy debate over whether the cause and course of the crisis were the result of more or less enforced conformity to the dictates of Washington Consensus policies at the expense of continuing developmental interventions.

Third, though, even before the financial crisis, analytical problems were already being raised over the developmental state approach or, at least, over its scope of application. In particular, within the political school, it was being recognised that the developmental state in practice might be subject to an evolving euthanasia. For, to the extent that it is developmentally successful, the state is liable to create the very forces that undermine its continuing autonomy. In particular, with South Korea in mind and the growth of its powerful corporate conglomerates, the chaebol, a powerful capitalist class interest is created that can block the initiatives taken by the state. By the same token, with a backward glance to the supposedly negative impact of populism in Latin America, demands for welfare and democracy from the working class can also constrain the state's capacity to act developmentally.

This suggests that the presence of a developmental state is liable to be confined to an ill-defined but distinct middle stage in the process of development. It follows the point at which industrial development is possible, but precedes the stage by which industrialisation has been achieved. Significantly, both economic and political schools focused upon industry and associated policies or policy potential. There is an absence of consideration of agriculture, for example, and the classic role that it might play in promoting industrialisation through provision of surplus for investment and labour for a workforce. It is far from clear, though, why the analytical approaches attached to the developmental state literature should be confined to some limited stage in the process of development or, more exactly, industrialisation. The notions of market or other imperfections for the economic school, and of relative autonomy for the political school, are of universal applicability. As such, they should shed light on earlier and later stages in development, however these might be conceived. And it should also be possible to explain why some states are *not* developmental.

These observations are useful in understanding how the developmental state literature has evolved, following something of a recovery once more over the past decade. There is, of course, the minor law of economics of attaching the developmental state to wheresoever there is any development. In this respect, China is important in and of itself and indicative of a new feature within the developmental state literature. For there has been some emphasis on the *local* developmental state in China – Thun (2006), for example – in part a consequence of the country's sheer size and diversity.[4] This reflects something more than a shift of attention from national to local, since it is more generally representative of a widening of the scope of application and content of the developmental state literature, especially for the economic school. For, it is apparent that the developmental state literature has neglected national/local relations. By the same token, however, it has neglected many other elements in the developmental process, especially those that could not be deployed directly in critique of the Washington Consensus (most notably focusing on trade and industrial policy).

This gap or oversight is now being addressed in the developmental state literature, in part prompted by the differential responses of the East Asian NICs to their financial crises. Thus, for example, there has been closer consideration of the role played by the welfare system (for instance, Haggard 2005; Kasza 2006; and Kwon 2003, 2005), with diversity of outcome significant across time and place. At a more abstract level, Lazonick (2008) understands the developmental state in terms of its promotion of innovative entrepreneurship. This is symbolic of the extent to which the developmental state literature has neglected not only this but other elements in the promotion of industrialisation, especially how technology is adopted, adapted and advanced, although such issues do generally appear in empirical narratives. On the broader analytical terrain, though, either appropriate political conditions allowing the state to be developmental or the correction of amorphous market imperfections are taken to be the leading edge of everything else falling into place. Consequently, the developmental state literature might best be seen as an organisational framework for beginning to examine *whether* the state can do it, and *what* precisely it is that the state has to do.

South Africa through the developmental state prism

Irrespective of the inner merits of the developmental state paradigm as an analytical framework, how does South Africa appear through this prism, in the light of both economic and political schools? As argued elsewhere, especially Fine and Rustomjee (1997), and in order to meet the criterion of specificity in applying the developmental state approach, the South African economy can be characterised as being dominated by a minerals–energy complex (MEC). What is meant by this? Although controversial as an approach and otherwise considered confined to a more or less distant past, the MEC is understood as an integral partnership between state and private capital, and an equally integral connection between a core set of activities around mining and energy, straddling the public/private divide.

In short, the MEC would appear to be highly conducive to incorporation within the developmental state paradigm. It focuses upon a key set of sectors; it invokes the interests of private capital and recognition that these have long been attached to highly concentrated conglomerates (even if subject to some unbundling recently); and the state has been highly interventionist. Of necessity, South Africa as a developmental state cannot be considered unchanging; it has a rapidly evolving history that can be traced back to the emergence of mining in the 1870s through to the present day. As will be apparent, if South Africa has ever been a developmental state, it might be considered to have been more so in the past than now or in the most immediate future.

In the interwar and immediate post-war period, core MEC sectors drove the economy, furnishing a surplus for the protection and growth and, ultimately, incorporation of what was initially small-scale Afrikaner capital separate from the core sectors.[5] State corporations in electricity, steel, transport and so on represented an accommodation across the economic power of the mining conglomerates and the political power of the Afrikaners. Mining capital required such inputs but was reluctant to invest the necessary funds in case of hostile appropriation by Afrikaner interests, which were, nonetheless, served by the revenue that could be extracted from the MEC – albeit at the expense of provision of state corporations primarily serving mining and related sectors. The apartheid labour systems, involving migration from the southern

African region to mining, and varying degrees of segregation within the country, were less an accommodation than a common bond.

As a result, the divisions between Afrikaner and mining capitals precluded a more general strategy of industrial diversification out of core MEC sectors, leading to a partial vacuum in intermediate and capital goods capability, a failure to accrue economies of scale and scope other than in core MEC sectors, and an inefficient consumer goods industry surviving by protection upon demand. By the 1970s, though, Afrikaner and mining-related capital had been sufficiently integrated for a common economic strategy to be adopted, as had always been the case for labour systems. With the collapse of the post-war boom, the Bretton Woods system based on gold at US$35 per ounce, and the sharp rise in oil and energy prices, a huge premium attached to both gold and energy. Consequently, an industrial strategy for diversification was scarcely considered, let alone adopted. Instead, the 1970s witnessed an extraordinary state-led expansion of gold and energy production. In the 1980s, the crisis of apartheid also precluded a state and/or private strategy for industrial promotion. While the core MEC industries remained central to the economy, though, capital controls meant that profits generated internally that were not illegally transferred abroad (see below), were confined to accumulation within the South African economy itself. This gave rise not only to intensified conglomeration across the economy but also, first and foremost, to the expansion of a huge and sophisticated financial system as cause and consequence of the internationally confined, but domestically spread, reach of the South African conglomerates, with the Anglo American Corporation in the lead.

Yet what has happened to the MEC since the demise of apartheid? The interests of conglomerate capital have not been galvanised by the state for internal developmental purposes. On the contrary, conglomerates have successfully pressed for their own strategy of corporate globalisation and financialisation and, first and foremost, the export of their domestic resources and control. This has governed the role played by the state in its macroeconomic policy, with policies more or less indistinguishable from those of orthodox International Monetary Fund stabilisation being adopted to allow liberalisation of capital flows on favourable terms. Any prospect of a developmental state has been subordinated to such macroeconomic policy. It might be added that it has become a cliché that past developmental states have prospered because of the absence of economists (and that it all began to unravel once economists turned up). For Japan, in particular, macroeconomics had not even been invented when it became a developmental state and, for later latecomers, macroeconomic policies (and finance in particular) have been subordinated to developmental goals rather than vice versa.

Thus, far from the (developmental) state coordinating or even coercing private capital to commit to a concerted programme of industrial expansion and diversification, the interests of private capital have predominated over developmental goals. For the first decade of the post-apartheid economy, macroeconomic orthodoxy has prevailed at the expense of broader economic and social interventions. These have, of course, been in part propelled by the political and rhetorical requirement to redress the inequities and inequalities inherited from apartheid. Progress has been limited, however, especially in employment, with the notable exception of black economic empowerment (BEE), for which the numbers of a newly created enriched elite are second only to Russia across the world.

Nonetheless, as already mentioned, over the past few years government has begun to talk of itself as a developmental state. And, in addition, it has proposed a more significant role for itself, not least through public corporations, in promoting growth and development. Close scrutiny of these initiatives, however, indicates that they are closely geared towards renewal of a strategy for expanding core MEC sectors. Far from being developmental, this possibly signifies a partial if continuing completion of globalisation and financialisation on the part of domestic conglomerates, and serving their needs for continuing profitability out of the domestic economy on the narrowest of productive bases.

Indeed, one stunning index of the lack of a developmental state in the South African economy is the increasingly prominent, and parasitic, position occupied by finance. It accounts for a fifth of domestic income but has failed to mobilise and prompt appropriate funding for domestic investment. Far from finance serving development, the effect has been for it to absorb a quarter of what is produced, with very little in return other than speculative and globalised profitability.

And equally indicative of the absence of a developmental state in South Africa is the electricity power crises over the past few years, with power cuts for all consumers, including core MEC producers. The decline of the capacity margin has slowly but steadily, and recognisably, occurred over the past decade (although there were some acute problems as well). Why was the necessary investment in new capacity not put in place in good time? While I have consulted widely in a context of a culture of blame, I am far from convinced that a full and convincing explanation is as yet on offer. What can be argued is how the crisis is indicative of the absence of a developmental state in South Africa from a selection of 11 closely related reasons, with corresponding implications for *what* needs to be done – if not necessarily *how*. First and foremost, the electricity does not go off in a developmental state or, at least, this is a developmental outcome that is to be avoided. For, second, a developmental state would have the economic and political foresight not to allow the reserve margin between capacity and demand to decline to such low levels without taking countervailing measures, rather than making little or no investment in new capacity as the crisis creeps into place.

Third, each of a number of individual ministries would surely have been sensitive to the needs of their constituencies, whether it be those responsible for mining, energy, transport, trade and industry or others. Each should be mindful of, and press for, secure supply of an essential input. And, fourth, apart from intra-departmental concerns over electricity supply, inter-departmental coordination could be expected to tease out overall demands and competition for supply, prompting action to ensure increased capacity. Fifth, other government departments, with decisive powers in decision-making, such as finance and, increasingly, the presidency in South Africa, would be conscious of the problem and ensure corresponding remedial action.

In these respects, then, the South African *state* has been far from developmental, and the same applies, as observed earlier, to the predominance of macroeconomic policy over other goals. This might explain why the necessary levels of investment for expanding electricity supply were not forthcoming from the state, as this would have appropriated domestic resources at the expense of fiscal deficit. It is now being estimated, for example, that the scale of investment required to meet electricity demand is over 3 per cent of GDP per annum for the next five years (UBS 2008). Easier to let this go and hope for the best – but not if you aspire to be a developmental state; a developmental state, sixth and by contrast, would have made the necessary investment in and of itself in the absence of private sector participation.

Presumably this has proven necessary because, seventh, a developmental state would have forced or induced an individual domestic corporation to fund and/or participate directly in expanding electricity supply. Each major individual corporation has had no incentive to do so, given the general inclination to rely upon the state for provision of by far the cheapest electricity in the world, while being more concerned to export capital rather than tie it up in domestic activity. By the same token, eighth, there has been the failure – through the state or otherwise – to coordinate private capital to organise and implement for its collective interest in guaranteeing adequate investment in capacity. Instead, ninth, there has been a continuing failure to settle the institutional organisation of the electricity supply industry in part, but not exclusively, in terms of the shifting and thwarted plans for privatisation. This is itself not independent of the other factors previously covered, since privatisation has been constrained by lack of commitment to furnishing the necessary resources from either the state or the (domestic) private sector. In addition, tenth, this has left electricity supplier Eskom (the state-owned utility) in a state of limbo and uncertainty, with both a degree of freedom to act (and resist) and a lack of direction (so it is easy for government to blame Eskom rather than recognising that Eskom was placed in a position where it might be blamed). And, eleventh, unlike any developmental state in the past, policy for electricity supply has effectively been devolved to a regulator with limited powers other than the short-termism associated with pricing (as opposed to commanding levels of investment, finance for it, technology adopted and so on).

As heavy-handedly emphasised as they are, these 11 factors are indicative of the extent to which South Africa departs from the requirements of being a developmental state. Of course, developmental states in the past did make mistakes and did adopt failed policies (not quite the same thing), and these have tended to be overlooked in the selective emphasis upon their miraculous performance.[6] Yet, if mistakes were made, it is reasonable to assume that an authoritarian developmental state would, at the very least, have imprisoned the alleged perpetrators (guilt possibly being less important than a demonstration effect), and a democratic developmental state might be expected to launch a fully open public enquiry into the causes. Once again, South Africa does not seem to comply.

Historically, then, South Africa's MEC conglomerates have benefited from, even taken for granted, state provision of cheap electricity (together with profitable contracts for providing coal to power stations). Over the past decade, their individual if not necessarily their collective interests have been served by globalisation of their assets, in terms of which they have benefited from government macroeconomic policy. In this context, none would commit own resources to capacity investment in state-owned or to be (partially) privatised electricity. Nor would the state compel such a commitment, given macroeconomic priorities. As a result, the simplest task of a developmental state – to keep the electricity on – has not been achieved. Significantly, though, BEE did seek to appropriate 51 per cent of mineral rights in the state's renegotiation of leases but settled for 26 per cent, clearly at the expense of the mining conglomerates (Hamann et al. 2008: 29–30). So, in this arena at least, the state was prepared to act to redistribute wealth but without regard for its creation through deploying such revenue for electrical power capacity.

There are much broader implications even than this, though. For, as far as industrial policy is concerned, it points to the absence of a developmental state in South Africa in a rather different way: the definition or understanding of industrial policy itself, let alone how and whether it has been implemented. Kaplan (2007), for example, for a time chief economist at the Department of Trade and Industry, concludes that 'First, industrial policy should not, in the current context be too ambitious. Second, given limited governmental capacities, a more prominent role should be accorded to the business sector' (2007: 91). As indicated, he bases these conclusions on the limited institutional capacity to deliver policy. This raises questions over why, if this is the case, industrial policy has not been more extensive (and failed), why existing capacity has been distributed as it has (to macroeconomic management for capital export and BEE), and why it might not be distributed elsewhere, as well as what is being done to raise institutional capacity (Fine 2008a).

In addition, Kaplan praises the Western Cape microeconomic development strategy as a model that might be followed by central government. It is worth noting though what view is taken by those implementing that model in the light of the power crisis, citing McDonald (2008):

> A survey of business attitudes in Cape Town undertaken in late 2006 by the Western Cape Investment and Trade Promotion Agency (Wesgro) underscored these corporate concerns. Some 71 per cent of firms interviewed cited 'electricity reliability' as the second largest 'constraint' on business growth in the city (after crime), noting that unreliable electricity supply had a 'serious debilitating impact on their business'. (McDonald 2008: 14)

From this can be drawn four implications. First, it is necessary to slaughter two holy cows in the economic historiography of South Africa – that (flawed) industrialisation took place through protection of consumer goods, and that industrial policy was essentially a matter of tariff protection. For South Africa's industrialisation was based on a limited diversification in and around the MEC, with a whole range of industrial policies including expansion of state corporations and their coordination with private capital. Second, then, the notion of industrial policy should be much more widely stretched to incorporate whatever is necessary to guarantee industrial success including, as indicated here, the question of national and local power supply. Of course, this is not a matter of throwing in everything that you can think of but rather of incorporating those issues that are of significance to success for specific interventions. Third, as already suggested and more specifically, this is neither a matter of leaving power supply to the private sector nor of the absence of the institutional capacity of government to deliver. Rather, government has failed to intervene out of deference to the private sector. Fourth, and possibly most importantly, this all suggests that it is not possible to have an effective industrial policy unless it is extensive. For no or little policy, even with limited capacity, can arguably be worse than an imperfectly implemented policy with ambition. Even if the conglomerates know best and have the best capacity, they do not necessarily do best – just as we would not, presumably, leave defence policy to the arms manufacturers on the grounds that they know best regarding weapons capabilities and how to use them. Those with superior resources may have unacceptable motives and pursue them dysfunctionally for the rest of the population and even for themselves – although South Africa's conglomerates are probably not regretting their failure to take on electricity supply on their own account.

Concluding remarks

Underpinning this contribution, there has been a tension between both deploying the developmental state paradigm and rejecting it in the light of the anomalies that arise out of its application. The deficiencies of the approach derive from relying upon a dual dichotomy, between state and market, and between politics and economics. The approach does have some merit though in pointing to the need for industrial (and other) policy, and for the formation of a configuration of economic, political and ideological interests that secure appropriate policy. However, with such propositions in place, primarily underpinned by empirical narratives from successful development, it is not clear what more the developmental state approach has to offer, given the need to incorporate both country and sector specificity. How, for example, would the developmental state approach rectify the electricity crisis in South Africa, let alone address continuing inequities in income, employment and other socio-economic indicators?

As an alternative to the developmental state approach, I have suggested that the South African economy be understood in the light of the MEC that lies at its heart. This has informed my own policy work: it poses what is to be done strategically in terms of industrial policy; it identifies underlying economic and political interests, not least those attached to corporate capital; and it addresses wider issues of social and economic progress in terms of commitment to health, education and welfare. I have offered corresponding policy proposals in the past (see the appendices to Fine 2007, for example). Although such proposals are inevitably dated by the passage of time, this is less an issue than creating the political support for implementation in updated form.

From the evidence of South Africa, such a shift in political power is less than likely to come from a state relatively autonomous from class or other interests but more likely to flow from a shift in who exercises power over the state away from conglomerates, even if the latter do prevail – in part passively through the dull compulsion of corporate wealth. For the failure of the South African state to be developmental owes much to its capacity to neutralise pressure for more progressive policy and coincidentally to pre-empt the creation of that pressure in the economic, political and ideological arena. Inevitably, more progressive policy would only have reinforced the momentum for more of the same. Indeed, the paralysis in policy-making (with notable exceptions, such as macroeconomic policy to liberalise capital controls and allow for BEE) is less a wise deference to the insufficient capacity to deliver and more a judicious decision not to create what might provide the organisational basis for pursuit of further and more radical policies.

Acknowledgements

This chapter is based on one of three papers on South Africa written at much the same time and with some overlap. See also Fine (2005, 2006, 2007, 2008a, 2008b).

Notes

1 This seems a peculiar claim in the light of the demise of the Soviet Union but indicative of the idea of 'a Red under every bed'. Note, though, that Johnson has become a critic of America for its over-extension of militarisation.

2 The difference is, of course, in the emphasis upon state-led industrial restructuring for Johnson, as opposed to state-manipulated aggregate effective demand for Keynes. Crucially, the division of economics into macro and micro, and the nature of their content, in the wake of the Keynesian revolution, was responsible for placing Johnson's concerns on the margins of the discipline even though, arguably, alongside state provision of health, education and welfare, these factors were far more significant in promoting the post-war boom (for more on this, see Milonakis & Fine 2009, Chapter 14).

3 See also Fine and Stoneman (1996); and Fine and Rustomjee (1997, Chapter 2).

4 India has tended to escape the developmental state paradigm, other than as a generally unobserved counter-example, in view of its (falsely) supposed success of late being the result of neoliberal policies. See Saraswati (2007).

5 The section that follows draws upon Fine (2008a).

6 See Lee (2002) on how industrial policies for the car industry failed in South Korea until the predominance of components manufacturers over assemblers was reversed.

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9 Consolidation first: institutional reform priorities in the creation of a developmental state in South Africa

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This chapter considers how policy-makers and political leaders in South Africa should understand and use the concept of 'developmental state', given that a direct emulation of the classic historical examples of such states is impossible.

The new growth theory and the idea of the developmental state are valuable intellectual instruments because they discourage fatalism and can encourage creative policy-making. However, the abandonment of once hypothesised necessary prerequisites for growth leaves societies like South Africa susceptible to worse as well as to better policy choices. The notion of the developmental state can encourage imprudence and speculative initiatives that outrun policy-makers' real capacities to create benevolent new institutions.

As the Commission on Growth and Development (CGD) observed in 2008, 'the accumulation of highly relevant (both successful and unsuccessful) growth experiences over the past 20 years provides a unique source of learning' (CGD 2008a). However, there is 'growing evidence that the economic and social forces underlying rapid and sustained growth are much less well understood than generally thought'. In consequence, it may well be that 'economic advice to developing countries has been given with more confidence than is justified by the state of knowledge' (CGD 2008a).

Policy-makers in countries that have recently been through a major institutional upheaval need fairly stable and practical institutional priorities. Proposals for more ambitious developmental state institutions and for major reforms to state architecture need to be considered in the light of limited human resources and the still urgent challenge (in South Africa's case) of consolidating the post-apartheid state. Apartheid-era legacies of dispossession, moreover, demand that priority be given to investment in health and education. Such investment will be required if economic growth is to accelerate, and it can also directly enhance human development by creating a healthier and more knowledgeable population. Finally, the quality of government expenditure and the effective administration of the state are of central importance. I argue that, given a scarcity of resources and skills, the maintenance and expansion of existing sites of efficiency in the state should be government's priority.

This chapter begins with some broad considerations regarding policy learning. Since it is not possible simply to reproduce the experiences and actions of historical developmental states, the first section argues that policy-makers should use such states' experiences to identify, and motivate for, politically hard decisions that powerful actors and interests would otherwise evade. The second section details the proposed character of a developmental state, and explores some of the potential limitations of the contemporary South African state in taking on this challenging role. It investigates problems in the administration of the public sector, the impacts of HIV/AIDS on governance, and the tensions between developmental priorities and the immediate imperatives of government's black economic empowerment (BEE) project. The chapter concludes that severely limited state resources should be focused for now on addressing the health and education legacies of colonialism and apartheid and on reversing some currently negative trends in the character and organisation of the public service.

Learning from historical success stories

If not emulation, then what?

Advocates of the developmental state sometimes claim that a country cannot 'make a speedy and successful transition from poverty' in the absence of 'a state that in some respects corresponds to [the] model of a developmental state' (Leftwich 2000: 169). At the same time, however, there is a broad consensus that an attempt directly to emulate the experiences of the East Asian developmental states is neither realistic nor (perhaps) even coherent.

The institutional and contextual differences between South Africa today and ostensible developmental states in their high-growth periods are legion. South Africa does not enjoy the skills base and social cohesion legacies upon which East Asian developmental states were built (Southall 2006: xvii). It would be impossible to make the kinds of imitative institutional and political reforms – to regulatory frameworks, 'strategic' government departments, service delivery systems, and public sector human resources – that would reduce the gap between South Africa and these ostensible developmental state models.

The favourable external economic conditions enjoyed by the classical developmental states are also not reproducible. New obstacles to reproducing their growth story include falling relative prices of manufactured goods and rising relative prices of commodities. Moreover, 'the rise of China and India has revived an old concern about export-led growth: the strategy may work for one country, but can it work for many?' (CGD 2008b: 96). If developing countries simultaneously sought to emulate export-led growth strategies, an international glut of manufactures would depress prices, reduce returns on investment and provoke a protectionist counter-reaction (CGD 2008b). Finally, the current global economic crisis, should it be prolonged, will rule out export-led growth strategies for many years to come.

The notion of emulation has also been subjected to more profound challenges. Successful states have been able to combine and recombine unorthodox and unconventional institutions and practices in achieving economic growth. The idea of preconditions for success has been powerfully repudiated over the past two decades (for example, from Unger 1987 to Hausmann et al. 2007). The most striking feature of modern states is their variety (Dunn 1990), and complex historical events have combined in multitudinous and poorly understood ways to launch fast developers onto their exceptional growth pathways.

The death of a 'shopping list' conception of economic policy and governance reform has had both positive and negative imaginative and political ramifications. One influential set of growth studies (Rodrik 2003) shows that rapid economic growth can be stimulated by minor policy or institutional changes. There is no fixed menu of developmental prerequisites, and states can pursue, and have pursued, their own idiosyncratic and unorthodox routes to faster growth.

Yet, while innovations in growth and development economics and in realistic governance objectives have therefore created potential for creative policy innovation, they have also increased space for self-serving imprudence on the part of policy-makers. A rosy sense of political possibility can be a licence to evade important reforms or to challenge special interests.

Prudence continues to be the cardinal economic virtue (Dunn 1985). While it is hard to improve the growth or distributional performance of modern states, it remains relatively easy dramatically to undermine economies through ill-conceived government policies.

The CGD sensibly suggests that governments should pursue an 'experimental' approach to the implementation of new economic policies, in which governments 'proceed step by step, avoiding sudden shifts in policy where the potential risks outweigh the benefits. This will limit the potential damage of any policy misstep, making it easier for the government and the economy to right itself' (CGD 2008b: 4). The CGD goes on to argue: 'When they choose policies, governments should ask themselves, what is the worst that could happen? … Risk management is an important aspect of policy formation in developing countries' (CGD 2008b: 31).

Unfortunately political leaders face pressing political and practical problems, and they normally adopt economic theories only when they seem to offer solutions to those immediate challenges. The idea of the developmental state can easily be used to ratify poor or imprudent policy choices that are politically necessary or perhaps just convenient.

Justifying hard choices, not ratifying easy ones

When Grindle (2007) suggests (broadly persuasively) that good governance should be replaced with 'good enough governance', she observes that 'not all governance deficits need to (or can) be tackled at once' (2007: 554). This opens a valuable space for deliberation and prioritisation, and for the identification of country-relevant interventions. However, it also allows a reform leadership to drift into evasion and obfuscation.

The idea that a country can learn from historical examples of developmental states might even have dangerous political ramifications. Policy-makers can easily argue that a subordinated civil society and a high degree of political repression have been features of successful developmental states elsewhere. Such features might therefore be claimed to possess a hitherto unexpected degree of legitimacy, because repression can help government to realise citizens' supposedly inalienable 'right to development'. The nationalist character of most developmental states – perhaps intrinsic to a project of diverting resources towards growth – might also be deployed to attack legitimate democratic critics of government policy.

Even if the idea is not abused in this way, a politically convenient conception of the developmental state is likely to emerge. The African National Congress (ANC) has recently undergone major internal upheavals with potentially significant ideological and political implications. This has occurred more or less at the same time as a profound global economic crisis. In such circumstances, the idea of the developmental state might all too easily be used to avoid taking hard decisions over politically sensitive issues such as labour market reform, fiscal policy and the state bureaucracy.

Those turning to the developmental state and new growth theories for such reasons tend to downplay three truths. First, there is no guarantee – or even likelihood – that reforms will be dramatic or successful. Although there are exceptions, the rule is that patterns of relative economic performance tend to persist over very long periods of time. Acemoglu and Robinson (2008) controversially observe of the Americas that 'the rank order of countries in terms of income per capita has been basically unchanged since the middle of the nineteenth century' (2008: 11).

Second, while periods of economic growth may be triggered by minor institutional or policy changes that lift immediate constraints on growth, such growth can only be sustained over longer periods if harder-fought battles to improve the functioning of institutions are won (Rodrik 2003; see also Grindle 2007).

Third, the fact that small changes in policy and institutions can in principle bring, and have in practice brought, unexpected growth benefits does not provide a guide to appropriate government policy. Simply because unexpected growth can be explained does not mean that it can be instigated.

It would seem a sensible rule of thumb that the proponents of the developmental state should help policy-makers to make hard choices rather than simply to ratify the politically easy decisions that they will be inclined to make of their own accord. Politically easy choices, after all, do not need developmental theorists to support them.

In addition, the notion of the developmental state should not justify the cherry-picking of expedient policies. It should instead identify, explain and justify painful choices that will require concessions from recalcitrant organised interests, including party structures, unionised labour, public sector workers, established businesses and the broader citizenry.

This necessity is explained well by one of the CGD's lessons from high sustained growth economies: policy-makers must 'choose a growth strategy, communicate their goals to the public, and convince people that the future rewards are worth the effort, thrift, and economic upheaval. They will succeed only if their promises are credible and inclusive, reassuring people that they or their children will enjoy their full share of the fruits of growth' (CGD 2008b: 26). As the CGD (2008b) explains, 'during this long period of transition, citizens must forgo consumption today in return for higher standards of living tomorrow. This bargain will be accepted only if the country's policymakers communicate a credible vision of the future and a strategy for getting there' (2008b: 27).

The 'easy' choices

There has been a welter of innovative thinking about growth-enhancing government policy in recent years. Many of the more general insights have been sharpened and encapsulated in the recent work of the CGD, established to 'take stock of the state of theoretical and empirical knowledge on economic growth with a view to drawing implications for policy for the current and next generation of policymakers' (CGD 2008a). South Africa's own International Panel on Growth (IPG) has also recently released country-specific recommendations (Hausmann 2008), in what would appear to be a Treasury-choreographed effort to shape post-2009 economic policy.

Many of the recommendations that have flowed from these studies have been comforting for South African policy-makers. A lack of dogmatism over state ownership has been welcomed within the ANC. An emphasis on infrastructure investment (CGD 2008b) echoes South Africa's own moves in this direction in recent years. The diagnosis of the pathologies of limited competition, high margins and restricted entry as obstacles to growth (Aghion et al. 2006) dovetails neatly with the South African Communist Party's own longstanding analysis of the evils of local monopoly capitalism. And there can be happy consensus that certain immediate constraints on economic activity, such as the work permit process in the Department of Home Affairs and the Companies and Intellectual Property Registration Office, need to be subjected to fast-track reform.

South African developmental state enthusiasts also see these growth studies as broadly supportive of some of South Africa's existing institutional mechanisms. The Presidency has for a decade boasted a policy unit committed to sector strategies, cross-sectoral synthesis reporting, and the prioritising of employment-creating growth (COSATU 2005). The Accelerated and Shared Growth Initiative for South Africa (AsgiSA) has set ambitious growth targets in dynamic labour-intensive sectors such as business process outsourcing, tourism and biofuels, and has tried to orient government's infrastructure investment, sector strategies and skills development policies towards these goals. Newly introduced reforms in line with ANC policy decisions suggest that a further strengthening of the planning and coordination role of the state is intended.

Moreover, a lesson of the classical developmental states would seem to be that industrial policy can have an important place in government's economic policy armoury. Although the Department of Trade and Industry (DTI) is currently in serious disarray, it arguably need not remain this way. East Asian success stories depended upon an elite bureaucracy controlling industrial policy through powerful state institutions, such as Japan's Ministry of Trade and Industry (MITI) (Johnson 1982). A planning commission based in the Presidency, even according to its proponents, would have much more modest responsibilities than the great Japanese planning ministry. Nevertheless, the IPG panellists have suggested interesting ways to circumvent current institutional and human resource constraints.

The Industrial Development Corporation could direct its existing resources towards industry-specific measures such as industrial zones and into financing exploratory and pre-investment studies. The 'open-architecture approach' of Hausmann et al. (2007), moreover, could be used to 'relieve the DTI's capacity constraints by mobilizing the energy and resources of the rest of society' in a form of 'self-organisation' for industrial policy. 'The strategy should focus on the provision of industry-specific publicly provided inputs, such as infrastructure, property rights, regulation, research and development, market studies and market access conditions to be identified by a myriad of self-organizing bodies. The government should encourage the self-selection of these bodies taking into account their willingness to co-finance the initiatives' (Hausmann 2008: Recommendation 13).

Such an initiative might build upon pre-existing sectoral bodies created during the early black empowerment process to elaborate sector charters. The IPG also recommends a 'special central budget for structural transformation' that would be 'allocated to public entities that are responsible for providing the public inputs identified' by the sectoral process. According to the IPG, 'this should facilitate the coordination between the departments in charge of leading the dialogue with productive activities and the public entities in charge of the provision of the requisite public inputs, thus alleviating the intra-governmental coordination problem and allowing a dynamic adaptation of the budget to evolving needs' (Hausmann 2008: Recommendation 14).

Choosing to adopt such recommendations is not 'easy' in the sense that it would be straightforward to get such policies to work – especially in the middle of an international economic crisis. Rather, these are easy choices to make in a political sense, in that attempting to follow such recommendations does not require political leaders to take on key political constituencies or interest groups.

Justifying (politically) hard choices

Other insights derived from growth studies have been profoundly politically uncomfortable for the ANC and its tripartite alliance partners.

First, the CGD observes that countries achieving 7 per cent annual growth sustained over 25 years (the cases it selected for study) were unknown before the second half of the 20th century, because such growth has been in large measure a product of international integration. An integrated global economy 'allows fast-growing economies to import ideas, technologies, and knowhow from the rest of the world' (CGD 2008b: 23–24) and 'offers developing countries a deep, elastic market for their exports'. In this way it 'allows countries to specialize in new export lines and improve their productivity' (CGD 2008b: 23–24). Excessive reliance on domestic demand is especially problematic for countries with small and therefore inelastic home markets, and 'what home consumers want to buy may not match what home producers are best at making' (CGD 2008b: 24). For this reason, and for other reasons (Edwards & Lawrence 2006), growth theorists recommend an external policy at odds with the tripartite alliance's intuitions.

Second, sustained high-growth economies appear to have maintained investment rates at 25 per cent of GDP or higher, often together with additional (non-accounted) investments in education and health (CGD 2008b: 24–25). In principle, foreign capital could fund these investment levels, but 'foreign saving is an imperfect substitute for domestic saving, including public saving, to finance the investment a booming economy requires' (CGD 2008b: 25). In South Africa external finance is already extremely high. Planned increases in public investment will need to be financed from domestic sources, and fiscal policy will need, if anything, to make a greater contribution to national savings (Hausmann 2008: Recommendation 1).

Third, there is a need for politically sensitive labour market reforms. Hausmann (2008) boldly demands that government 'stop and reverse the emigration of high-skilled whites', a politically sensitive and partly misconceived notion that nevertheless raises issues that government would rather evade.

Other labour market reforms are uncomfortable for the trade unions. New industries need to create and fill jobs quickly, requiring reforms that the CGD observes are 'easier to recommend than to enact' (CGD 2008b: 46). 'If a wholesale overhaul of the labour laws is politically impossible, policy makers should instead seek a pragmatic compromise that fulfils the aspirations of jobseekers and is not vetoed by politically influential jobholders' (CGD 2008b: 46–47). The IGP recommends a 'once-and-for-all wage subsidy card of a fixed amount to all South Africans when they turn 18-years old' (Hausmann 2008) to address the youth unemployment crisis. The CGD (2008a) suggests allowing 'export-oriented industries to recruit workers on easier terms than those that prevail [elsewhere] in the formal sector' (2008a: 47).

The value of the developmental state as a motivating idea in public policy will be judged by its capacity to evaluate and provide intellectual and political support for policy and institutional changes that would otherwise lack political viability.

The state as developmental instrument: issues of 'capacity'

A focus on the glamorous worlds of central planning and industrial policy can lead policy-makers to neglect the more humdrum but equally important aspects of a developmental state's functions. As Levin (2007) observes, a consistently decisive factor in the success or failure of developmental states has been the capability of the state to implement the government's socio-economic objectives. Stable and effective government is required in a South African developmental state, and particular substantive outcomes in health and education need to be dramatically improved. Health and knowledgeability are both key goals of development as captured in the United Nations Development Programme's Human Development Index (UNDP 2007), and are key mechanisms through which economic growth and development can be facilitated. As a result of the perpetuation of the legacies of apartheid, South Africa suffers from enormous challenges in both of these core state functions.

The Presidency's most recent analysis confirms that South Africa's education system 'performs poorly and produces output that is weak overall' (PCAS 2008: 85). Schools underperform even compared to their less well resourced international peers in terms of literacy, numeracy and cognitive skills, performance that perpetuates a 'cycle of reproduction of poverty and disadvantage' (PCAS 2008: 24).

For an aspiring 21st century developmental state, moreover, there is also a need to focus on the requirements of a knowledge economy. 'For countries in the vanguard of the world economy, the World Bank (1998) observes, 'the balance between knowledge and resources has shifted so far towards the former that knowledge has become perhaps the most important factor determining the standard of living … Today's most technologically advanced economies are truly knowledge-based' (1998: 16).

Economic theorists now see knowledge as central to economic growth (Crafts 1996; Romer 1994). Knowledge is likely to become increasingly important as a result of further advances in information and communications technologies, an increasing rate of technological advance, the faster diffusion of such advances, and plunging costs of communication. Although not yet in this international 'vanguard', South Africa, according to Du Plessis and Smit (2007), already possesses a diversified economy in which services account for 66 per cent of output, and communications, financial intermediation, insurance and business services are already among the six fastest growing sectors. An increasingly knowledge-driven economy such as South Africa's needs not merely to address existing deficiencies but constantly to upgrade its education system and to scale up its technological skills base. Yet the machineries of human capital reproduction – notably the public school system – are failing, especially when it comes to basic scientific and mathematical competences (PCAS 2008: 22–25). There are severe shortages of science and mathematics teachers (Levin 2007).

The public health system 'faces a major crisis in terms of human resources for health' (Wadee & Khan 2007). (I look later in the chapter at some implications of HIV/AIDS.) Disease and malnutrition have major developmental impacts. The CGD (2008a) observes that 'if children are undernourished in the womb or in infancy, their cognitive development can be permanently impaired. This reduces their productivity and their ability to benefit from an education' (CGD 2008b: xx). The CGD (2008) argues:

> Ill health and poor nutrition in early childhood seem to have a first-order impact on both growth and equality. It [*sic*] does so by causing lasting harm to a child's ability to acquire cognitive and non-cognitive skills as

> he or she moves up through school – harm that is impossible or very difficult to reverse. In a world where cognitive skills are rising in value, this damage will jeopardize equality of opportunity, and, if widespread, impair a country's economic potential far into the future. (CGD 2008: xx)

There is a wide variety of other weaknesses in the state. The criminal justice system suffers from what the Presidency (PCAS 2008) summarises as problems of systems, resources, coordination, overloads, backlogs and under-capacity. It is dramatically short of management skills, criminal investigators and forensic scientists (Levin 2007).

The local (developmental) state suffers severe deficiencies in planning, project management, financial management and technical skills. 'Many municipalities', according to one 2007 account, are declining 'into a morass of venality and dysfunction' (Atkinson 2007: 76). An intervention by the South African Institution of Civil Engineers (Lawless 2007) warned that the engineering skills necessary to provide water services, sanitation, waste disposal, and household electricity are in sharp decline. There has been a major attrition in local government civil engineering since the 1980s (Lawless 2007), and there is a mere 5–10-year window within which technical skills can be transferred by remaining ageing cohorts of experienced engineers.

In addition to creating good historical legacies in health and education and developing the ability to serve the population as a whole, a successful developmental state must have a broader generic capacity to implement and administer policies in all sectors, to maintain an effective machinery of government, and to protect and grow a culture of honesty and effective performance in the public sector. As Levin (2007) observes, the evolution of the developmental state is 'invariably dependent upon the strength, competency and coherence of those public servants who must convert the stated developmental goals into reality' (2007: 5).

Building state capacity

The idea of 'state capacity' is multifaceted and its definition is controversial. Cummings and Norgaard (2004) have attempted an analytical distinction between ideational, political, technical and implementational state capacity. Southall (2006) turns this not-always-clarifying lens on South Africa to identify ideational conflicts over representivity and economic policy; political weaknesses in manager competence and incoherent industrial policy; technical limitations in failures of coordination and policy design; and implementation problems centred on evaluation shortcomings and a failure to develop adequate project management capacity.

Levin (2007) also emphasises the multifaceted character of state capacity, arguing that it embraces the financial, human, technological, system and policy resources required to achieve developmental goals. For Levin, financial resources have been adequate in South Africa, and the key problem has been a lack 'in some areas' of 'the skilled human resources to efficiently, effectively and economically deploy those [financial] resources' (2007: 19).

The issue of human resources and their organisation has also been at the centre of the literature on the developmental states. The most famous case studies of the classical developmental states highlighted the effectiveness of government administrative systems, meritocratic recruitment, and the presence of highly trained and motivated public servants (Evans 1995; Johnson 1982; Wade 1990). Although human and organisational resources can grow as a state develops (Chang 2002), and low per capita income is not a barrier to developing a competent and coherent bureaucracy (Evans & Rauch 1999), these case studies provided plausible reasons to believe that bureaucratic competence, purposiveness and cohesion were important prior foundations for the developmental achievements they described. Grindle (2007) concurs that 'states that have developed more stable and regularised systems for managing basic public administration and social services, even if of very low quality, can be better environments for public-service reform, improved tax administration, or interventions to enhance citizen participation in public affairs' (2007: 756).

Cross-national studies indicate that economic growth is associated with Weberian characteristics in the public service. In particular, two closely related studies (Evans & Rauch 1999; Rauch & Evans 2000) have revisited Weber's argument that state administrations characterised by merit-based recruitment and stable, long-term career paths best facilitate capitalist economic development. Evans and Rauch (1999) persuasively argue that a state's 'Weberianness' – and in particular the presence of meritocratic recruitment and a rewarding long-term career structure – significantly enhances economic growth prospects. They conclude that 'Weberianness provides a parsimonious, analytically satisfying account of observed differences in regional growth performance … and offers a succinct, objective, and replicable substitute for the unsatisfyingly amorphous and atheoretical idea of an "East Asian effect' " (Evans & Rauch 1999: 760).

Certain limitations of the South African state from the Weberian perspective are unsurprising historical legacies. The ANC was obliged to build a new system of government out of the shambles of the late apartheid state, incorporating former bantustans, creating new municipalities and provinces, reconfiguring the centre of the state, and developing an integrated national medium-term planning framework (Picard 2005). Local government and legal systems and the police were compromised by their apartheid histories.

Turnover of officials has been fast and length of service short (Cameron forthcoming). Institutions have been forced to undergo rapid change, which has destroyed institutional memory and the capacity to reproduce skills (Picard 2005). Government's programme of employment equity has been under way for more than a decade but the post-1994 turnover (largely unplanned) of officials has not been backed by appropriate training and educational programmes (Picard 2005). Political appointments or liberation movement 'deployments' also undermine merit-based recruitment.

As Sangweni and Mxakato-Diseko (2008) observe (in their chapter of the same name), 'It does not matter what slant or take you have on the developmental state:

at the end of the day, a strong, coherent and astute public service is critical' (2008). These authors pick up Chalmers Johnson's vision of an 'apparatus of plan rationality' (Johnson 1982) characterised by 'a small, inexpensive, but elite bureaucracy, staffed by the best in managerial talent available in the system' (1982: 314–315). The quality of this bureaucracy, Johnson observes, 'should be measured not so much by the salaries it can command as by its excellence, as demonstrated academically and competitively, preferably in the best schools' (1982: 314–315).

Whereas Johnson describes an elite tier of ministers supported by a cohort of directors-general (DGs) who are the best graduates of their generation and share 'common developmental grammar and idiom', Sangweni and Mxakato-Diseko (2008) glumly report a South African public service 'groping in the dark in an infant state of ability to fulfil its functions, implying mediocrity, weakness, ineptitude and a lack of cognisance of the urgency to "raise the bar" on service delivery' (2008: 41).

Their analysis highlights the following aspects of the actually existing South African state: a prevalence of muddled understandings of the challenges facing the nation; cultural and political clashes between officials; the lack of any common ethos; the absence of uniform training; limited loyalty in the service; little commitment to excellence; failures of proactive or anticipatory governance; high mobility of public officials in pursuit of senior positions, resulting in limited institutional memory; and excessively rapid turnover of DGs and heads of departments (HoDs).

The challenges to 'Weberianness' that these critics identify can be, and have been, identified and addressed by the South African government. Indeed, the creation of a Senior Management Service (SMS) has allowed departments to recruit and retain senior officials more effectively. However, the SMS continues to comprise relatively inexperienced and overburdened managers and policy-makers, and training, mentoring and competence assessment systems are not functioning effectively (Cameron forthcoming; Levin 2007).

South Africa's national and provincial public service is nothing like the 'high performance machinery' that a developmental state would seem to require. It is not 'bound by a common developmental grammar and idiom, astuteness, capacity, agility and single-mindedness, and driven by a strong nationalism to do its best for the country' (DPSA 2006; see also Sangweni & Mxakato-Diseko 2008). Neither does it demonstrate the meritocratic selection processes, long-run career rewards and corporate coherence that are essential to the emergence of state 'autonomy' (Evans 1995; Evans & Rauch 1999).

A deteriorating state?

The South African state arguably faces a deterioration in terms of corruption, a pathology that is associated with low growth (Friedman et al. 1999; World Bank 1997). Trends in corruption and other malfeasance, while hard to measure except at the level of perceptions (Afrobarometer 2006), signal the entrenchment of highly organised criminal capability within the public service and among public servants.

The strong legislative and regulatory framework that has been created to contain corruption and to promote high standards of professional ethics is undermined not by a lack of skills or capabilities but by wilful disregard for its objectives and sustaining values.

Senior managers in the public service often fall at the first hurdle by failing to complete financial disclosure forms, despite this being a regulatory requirement (Auditor-general 2006). Many also avoid subjecting themselves to mandatory performance management evaluations. HoDs approve irregular and unauthorised expenditure, secure in the knowledge that they will not be held accountable for these failures and that resources they have squandered will not be recoverable from them (PSC 2008).

There has been a substantial increase in financial misconduct cases in most national departments in recent years, and officials found guilty of criminal misconduct typically receive only a written warning. Since no central records are kept of criminal misconduct, a senior official under investigation can simply resign and move to a new position elsewhere in the public service. There is also widespread and growing dual employment or moonlighting (Auditor-general 2006; PSC 2008). The auditor-general (2006) reported that more than 50 000 public servants 'were identified as directors and/or members of companies and/or closed [sic] corporations' (2006: 10–11). In a number of cases, where such companies incurred transactions with government, such transactions 'were incurred with the specific department at which the director/member was employed' (Auditor-general 2006: 10–11).

Many public servants – particularly teachers – hold political office as councillors, while others run businesses using state time and resources. Such dual commitments make it impossible for these public servants to deliver 'impartial, fair, equitable and unbiased services' as they are enjoined to do by the Constitution of the Republic of South Africa (1996). Doctors on full public sector salaries likewise abuse the Remunerative Work Outside of Public Service scheme to support private incomes with state staff, equipment and facilities.

The challenges of HIV/AIDS

Political analysts have by now quite extensively explored how HIV/AIDS might affect governance in high-prevalence countries such as South Africa. While Mattes (2003) observes that 'theoretically informed speculation' is currently the best we can achieve, there are grounds to believe that HIV/AIDS will substantially impact on the economic growth and public service capacity that a developmental state requires.

Uncertainty continues to surround the likely economic impacts of HIV/AIDS. Higher death rates among the economically active, an overall decrease in the capital and human resources available for production and investment, a fall in the rate of saving, declining disposable incomes, and reduced domestic consumption are likely together to reduce growth (Ford et al. 2002). The magnitude of these effects, however, remains in dispute because of a lack of consensus regarding appropriate methodologies, the absence of robust data, and the likelihood that both policy and behaviour changes may radically alter the trajectory of the epidemic (Arndt & Lewis 2000; Ford et al. 2002; Haaker 2002; ING Barings 2000; Stover & Bollinger 1999).

HIV/AIDS will also affect the overall structure of the economy. De Waal (2003) suggests that a decline in returns on investment in training will reduce incentives to invest further in human resource development, and so transform the skills base and structure of the economy. One controversial study under the auspices of the World Bank dramatically suggests that HIV/AIDS will erode not just existing human capital but also the mechanisms through which human capital is transmitted across generations. As a result, and in the absence of a changed policy response to the epidemic, South Africa will face 'complete economic collapse' within three generations (Bell et al. 2003).

Wider social and inequality effects already include a collapse in human development indicators. South Africa's international Human Development Index ranking is now some 50 places below its per capita GDP ranking (UNDP 2007). HIV/AIDS will exacerbate income inequality as a result of increased demand for skills and wealthy citizens' disproportionate access to antiretrovirals (Mattes 2003). HIV/AIDS will also impact upon the survival strategies of the very poor. One lost income has repercussions for numerous dependent family and community members, relatives are forced to abandon casual work to care for relatives, and children drop out of school. Household income is redirected towards symptomatic treatments, while the wives and children of deceased men face the injustice of eviction from their homes.

Some economists believe that HIV/AIDS-related falls in GDP growth will result in falling tax revenues (ING Barings 2000). Eroding administrative capacity in the South African Revenue Service might encourage tax evasion or avoidance, and self-employed HIV-positive workers could become less tax law compliant. On the expenditure side, we can anticipate escalating demands on the health and social welfare budgets, and progressively on other budgets too as government personnel fall ill and planners try to mobilise resources to minimise the spread and impact of the virus. Even here, the effects are hard to predict because some departments may potentially land 'windfall gains'; for example, through a decline in the number of children requiring schooling, or a reduction in the number of older people claiming pensions (Ford et al. 2002).

The epidemic also directly threatens the institutional foundations of effective governance. The institutional preconditions for stable state–society mediation, in robust civil society organisations, campaign groups, trade unions and news media that motivate participation, may be vulnerable to the corrosive effects of HIV/AIDS on productivity, morale and skills. The executive branch of government and the invisible bureaucracy that sustains the operations of the legislatures, judiciary and independent public offices are also vulnerable.

Barnett and Whiteside (2002) observe that government bureaucracies exhibit job security, tolerance for absenteeism, and slow staff replacement. The HIV/AIDS crisis may bring substantial productivity losses and high levels of disruption.

Turnover of senior officials is already high in the South African public service, and the epidemic will reduce productivity, turnover and morale and undermine the predictability that is a hallmark of effective developmental state bureaucracy. In the local sphere of government, new and fragile mechanisms of financial management and accountability will remain merely paper exercises in the absence of skills development. The demands of household accumulation within a foreshortened working life, and the costs of HIV/AIDS treatments, may also encourage the diversion of state resources through official corruption.

In addition to internal managerial costs, HIV/AIDS will take its toll on the street-level bureaucrats – such as teachers, nurses and social workers – whose experience and energy maintain service levels and whose effectiveness is essential to the realisation of a developmental state. This double crisis of administrators and delivery actors will severely hamper government departments in their efforts to use their special windows of opportunity to reduce the transmission of HIV and to minimise its impacts.

Government is confronted by a major dual HIV/AIDS challenge: to the overall operational efficiency of the state bureaucracy presupposed by developmental state theory, and to the street-level delivery actors who are responsible for producing significant developmental outcomes in health, education and municipal services.

The challenges of black economic empowerment

A developmental state in South Africa faces a competitor for resources in the project of BEE. Government's overall ownership targets for BEE suggest that a quarter of the private economy should be owned by black South Africans within a decade. We have so far seen something of the order of R250 billion committed to empowerment deals, but private sector assets total around R6 trillion (i.e. R6 000 billion) and it is unclear how this massive scaling up can occur. The transfer of shareholdings to black South Africans may eventually tie up as much as R450 billion of resources (Cargill 2005: 25).

Jack (2005) observes that 'operational partnerships' between established white business and existing black industry experts will comprise an increasingly small proportion of deals as empowerment accelerates. More deals will be 'broad-based' partnerships, such as development trusts or employee share schemes, which lack an economic rationale and are administratively costly. There will also be growing prevalence of 'influence-based' or political partnerships, usually operating through diversified investment holding companies whose key asset is political influence.

BEE will also discourage some of the foreign investment that might otherwise compensate for South Africa's savings shortfall. International investors cannot confidently predict that 10 years hence empowerment obligations will not be renewed or even dramatically intensified. Domestic and foreign businesses alike are presumably not reassured by unwillingness in government to debate the very idea of 'BEE costs'. Meanwhile, BEE success stories like Eskom and Telkom have become associated with escalating administered prices and abused monopoly powers (Butler 2006).

South Africa's historical legacy of racialised economic opportunity makes it imperative that BEE will remain an essentially non-negotiable aspect of ANC economic policy for at least a decade to come. Over this period it will also remain a competitor with the developmental state both because of the resources it will consume and because of the partly non-strategic pattern of decision-making it will continue to impose on private companies and state agencies.

Quite distinct from the proper implementation of government's BEE policy, there has been the emergence of a wider 'empowerment state', in which relationships between business, politics and the state have become enmeshed in patronage and spawned conflicts of interest. At national and provincial levels, where legislation supposedly bars dual employment, the auditor-general has reported a high prevalence of external directorships among public servants (Auditor-general 2006). Senior public servants sometimes combine broad ideological hostility to established business with personal and particular interests in outside commercial activity – almost the exact converse of the state of affairs that developmental state theorists usually recommend. Revolving doors have sometimes taken senior public servants directly into commercial relationships or employment with firms advantaged by state procurement and licensing decisions (Butler 2006). South Africa's public sector bureaucracy is arguably beginning to form itself into a self-serving class that is forging dangerously unregulated alliances with business and with political elites.

Official BEE requirements can disguise the growth of patronage relationships between officials and entrepreneurs and might ultimately persuade business leaders to believe that they need a state patron to land government contracts or secure licences. Even today, political networks already play a major role in shaping state–business relationships. If such trends continue, industrial policy might become a life support system for politically well connected companies. Given a drastic shortage of empowerment finance, public sector and parastatal pension funds might be drained in support of risky investments. Government departments might increasingly act at the behest of individuals rather than in the national interest. Intelligence systems and diplomatic capital might be put at the disposal of companies with high-risk foreign investments simply because of their close relationships with ministers or officials (Butler 2006).

Major infrastructure investments – in power generation and transmission, nuclear energy, or new-generation rail systems – might be still more often secured by golf-course handshakes rather than by social and economic cost–benefit calculations. In this process of ongoing 'white economic empowerment', the key financial beneficiaries will continue to be established businesses, which will use these new instruments to maintain traditionally anti-competitive positions.

More successful state controls over officials' conflicts of interest and more effective ANC initiatives to police the activities of its own cadres are prerequisites for containing the growth of patronage. Conflicts of interest between individuals' roles as public servants and their positions as directors of private companies doing business with the state cannot be allowed to multiply if a strategic developmental state is to be shaped. It remains unclear whether the government or the ANC – which have both been contemplating these issues inconclusively for several years – have a clear strategy to limit the proliferation of conflicts of interest, to enforce a strict policy on revolving doors, and to curtail family and social network patronage.

Consolidation first

The successes of the sustained high-growth states, and the growing ability of economists to explain these achievements, hold out a beacon of hope for developing countries with apparently poor growth prospects. Close study of the classical developmental states and more general growth diagnostics can provide a wealth of insight into the opportunities that governments can seize.

Hope should not triumph over prudence, however, and government's limited human resources and political capital should initially be focused on building human capabilities through health and education investment and on countering negative overall trends in the character and organisation of the public service.

A developmental state requires a bureaucracy closely linked to business but immune to capture by special interests, which is the converse of emerging patterns in South Africa. It also depends upon at least a minimal capacity to perform basic administrative functions, and on effective mechanisms for delivering public services that are vital for building human capabilities and reversing apartheid's legacy of dispossession.

In this context, BEE and HIV/AIDS pose substantial challenges that are open only to partial amelioration. The problems most open to government resolution surround the human resources, corporate coherence and institutional memory of the public service. Very few of the best graduates in the society are being recruited into the public service. The kinds of powerful technocratic mechanisms that the developmental states nurtured are not present and they are not being created. Appointments often turn on non-merit criteria, careers are short and turbulent, corruption would appear to be advancing, and performance management systems continue to be applied unevenly and ineffectively.

Merit-based selection and promotion processes, rewards for long-serving public servants, a coherent ethos, and an aggressive implementation of codes of conduct are essential if the state is to serve as an instrument of development. By emphasising that certain state capacities are crucial and sorely lacking, the idea of the developmental state can be used to attack unproductive office-filling, patronage, moonlighting and corruption in the public service, and help reverse trends towards the emergence of a predatory state.

Interpretations of the developmental state that are prevalent in some parts of government anticipate grandiose changes to the overall architecture and functions of the state, and rehearse a set of politically easy choices on the basis of developmental state diagnostics. Meanwhile, political leaders and officials often shrink from addressing evident threats to the capacity of public institutions to contribute towards development. The idea of the developmental state should not be used to justify such evasions.

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Part Three

South Africa's macroeconomic and industrial policy landscapes

10 Towards an appropriate macroeconomic policy for a democratic developmental state in South Africa

Kenneth Creamer

Principles of the democratic developmental state

A country's macroeconomic policy stance guides the operation of important policy levers such as fiscal, monetary and exchange rate policies. This volume invites us to deepen our analysis and consider how basic democratic and developmental principles should guide the formulation of macroeconomic policy. In other words, we are asked to consider the question: what would be an appropriate macroeconomic framework to facilitate the construction of a democratic developmental state in South Africa?

It is a key contention of this chapter that the primary objective of South Africa's developmental state should be to transform the structure of opportunity in the economy. Programmes that widen access to adequate levels of education, health care and other social services create new opportunities and potentialities for the poor and marginalised in South Africa.

A basic assumption underlying the vision outlined in this chapter is that South Africa's democratic developmental state has to be constructed in the context of a strong and vibrant mixed economy. As such, private sector investment and activity will offer essential dynamism, technological advancement and innovation. And the state's wide and effective provision of social and economic infrastructure and services is a necessary precondition for broad-based participation in economic processes. The combination of such private and public sector potentialities will be crucial to achieving the socio-economic objectives of a democratic developmental state in South Africa. Furthermore, such an approach will be essential if the country is to meet the challenges associated with integration into the global economy, where the ability to compete increasingly requires productivity gains through investment in human capital and new technologies.

Developmental states, such as those in Asia, typically focus on facilitating economic or industrial objectives, primarily though state guidance of market activity. South Africa's *democratic developmental state* is distinct from others in that it aims to achieve its economic and industrial objectives through widening participation in the economy for those who have been structurally excluded.

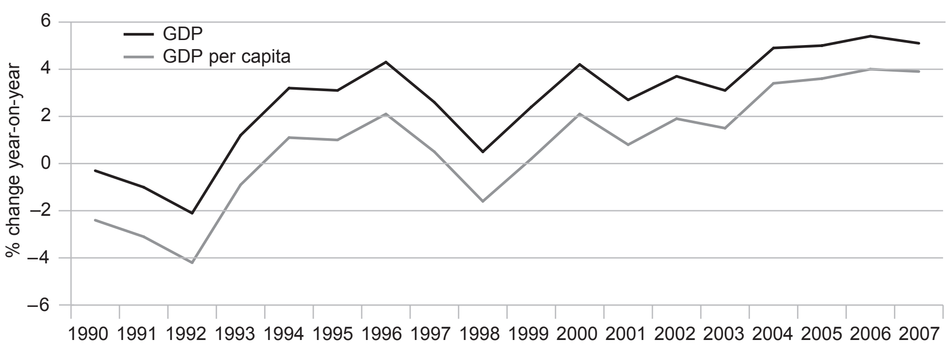
In the South African context of ongoing high racialised levels of unemployment and social exclusion, a commitment to the creation of widened economic opportunity by the state is a necessary response to a material reality. In other words, the envisaged democratic developmental state in South Africa has to deal with South Africa's prevailing social and economic conditions. It should not be an experiment whose starting point is an attempt to mimic the projects or models of other developmental states, which were constructed to deal with other realities. Thus, context matters!

Crucially, the South African landscape offers relatively well developed primary, secondary and tertiary industries; but due to the particular form of apartheid capitalism, development has been stunted and distorted in such a way that millions of people have been marginalised from the development process. Arguably, the South African situation is distinguished by these characteristics. In particular, the presence of significant levels of advanced economic activity offers an advantage in the South African case, especially when it comes to the significant fiscal potential of the South African state. It has the potential to put in place measures to correct under-servicing and marginalisation.

A basic point is that the creation of fair and equal opportunity in South Africa requires that the state unambiguously and effectively widen access to public services. A good standard of public education, health care and other key services must be accessible for all, if there is to be widened participation in the economy. The defining characteristic of a democratic developmental state in South Africa should be facilitating widened participation in productive economic activity.

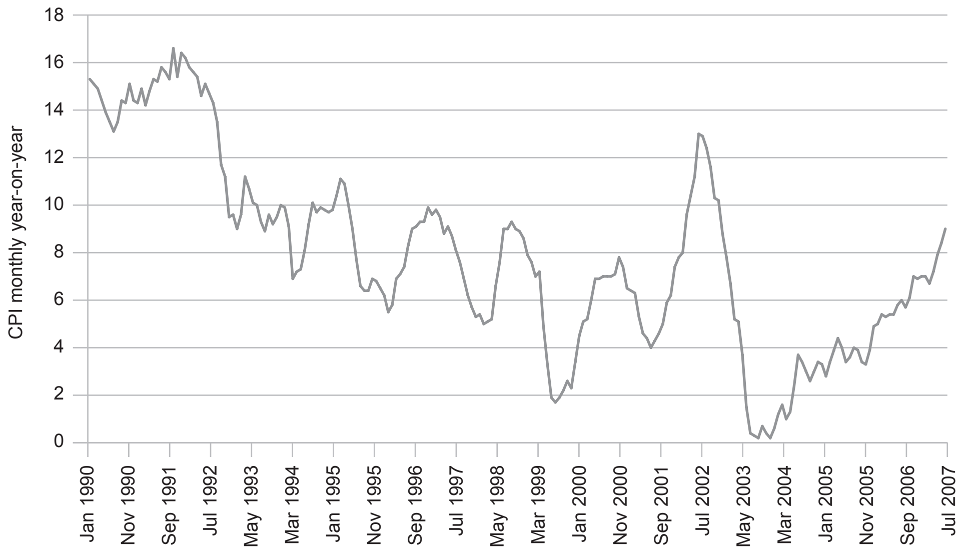
It is interesting to note that such a conception will also allow the construction of a democratic developmental state in a manner that is consistent with the vision of South Africa's constitutional entrenchment of socio-economic rights, which requires the progressive realisation of access to health care, education, housing and welfare services for people in South Africa.[1] This obligation requires that government programmes be put in place to advance rights to education, health care, housing and welfare. Occasionally, the 'reasonableness' of such programmes has been tested by the courts.[2]

Figure 10.1 GDP and GDP per capita (South Africa, 1990–2007)



Source: Compiled by author from South African Reserve Bank (SARB) (2008) data

Figure 10.2 CPI inflation (South Africa, 1990–2007)



Source: Compiled by author from SARB (2008) data

Debating a macroeconomic policy framework

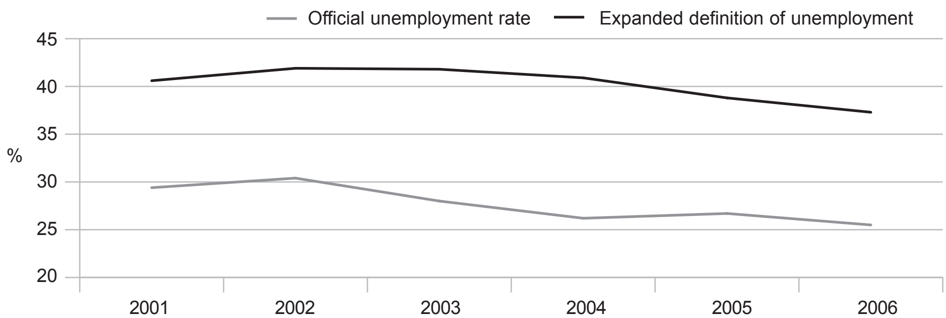
South Africa's macroeconomic policy stance since the advent of democracy in 1994 has seen reduced fiscal deficits, which has allowed for a significant reduction in government debt. Before the economic downturn of 2008/09, which necessitated a return of a budget deficit, there was even a period from 2006 to 2007 in which deficit budgeting was replaced by surplus budgeting, where planned tax revenues were greater than planned expenditure.

Since the late 1990s, there has been an unprecedented period of unbroken, mostly moderate economic growth (see Figure 10.1), although the economic downturn of 2008/09 has brought an era of negative growth. Inflation levels and interest rates have also generally been lower than in the pre-1994 period, although a period of sharp inflationary pressures emerged during 2007 and 2008 (see Figure 10.2). Since 2000, the rand exchange rate has been free-floating and relatively volatile, as the country has increasingly opened its capital markets and enlarged its balance of payments deficit.

There has been a mixed performance of development indicators. The Gini coefficient continues to register high instances of income inequality across various dimensions. Unemployment has continued to be extremely high, but has shown some signs of decreasing in the past few years (see Figure 10.3).

Life expectancy at birth has continued to fall dramatically, mainly due to the impact of the HIV/AIDS pandemic, and access to basic services has not widened at a satisfactory pace. As indicated in Table 10.1, despite falling life expectancy, a number of other health indicators have shown some improvement; such as, increased access

Figure 10.3 Percentage unemployment (South Africa, 2001–06)



Source: Compiled by author from SARB (2008) data

to antenatal care; wider immunisation coverage; of births taking place, an increasing proportion taking place at health facilities; and declining infant mortality. Table 10.2 shows indicators of ongoing infrastructural backlogs in primary and secondary education in recent years.

A key question, therefore, is whether any adjustments can be made to macroeconomic policies so that these policies can be more effective at improving the performance of economic and development indicators over a sustained period of time. Such policy adjustment would also assist in meeting the definitive objective of a democratic developmental state in South Africa – which is to overcome structural exclusion and widen access to adequate public services.

It is against this backdrop that this chapter reviews current debates on what macroeconomic framework would best advance the programme of the democratic developmental state. A useful starting point is to review the macroeconomic policy recommendations of the International Panel on AsgiSA, as broadly reflected in

Table 10.1 Health indicators (South Africa, 1990–2006)

Health indicators	Year	Comparative figures
Access to antenatal care	1992	94.2%
	2006	100.0%
Immunisation coverage	2000	63.7%
	2006	84.0%
Infant mortality	1990	45 per 1 000
	2006	42 per 1 000
Proportion of births taking place at health facilities	2001	74.3%
	2006	78.3%
Life expectancy at birth	1996	57.0 years
	2006	50.7 years

Source: Compiled by author from Health Systems Trust (2007) data

Table 10.2 School infrastructure indicators in secondary education (South Africa, 2007)

School infrastructural indicators	%
No library	79
No computers	68
No sewage disposal *	61
No laboratory	60
No fixed-line telephone	46
No fencing	41
Experiencing vandalism	32
More than 45 learners per classroom	25
More than 50 learners per toilet	16
No electricity	16
No water source on or near site	12
No toilets on site *	5

Source: Compiled by author from Department of Education (2007) data
Note: * The apparent discrepancy between high incidence of 'no sewage disposal' and low incidence of 'no toilets on site' might be explained by the fact that some of the toilets are 'long-drops' or are temporary and not linked to sewage disposal infrastructure.

Hausmann (2008).[3] While these policy recommendations do not represent official government policy, the four macroeconomic policy recommendations are broadly in line with current government thinking, with one or two important exceptions (such as on exchange rate targeting). Furthermore, the macroeconomic recommendations of the panel represent the first official attempt to facilitate discussion on macroeconomic policy, since the implementation of the Growth, Employment and Redistribution (GEAR) framework in 1996, which was announced as a 'non-negotiable' framework.

First recommendation of the International Panel on AsgiSA

Fiscal policy should make a greater contribution to national savings in order to bring down the growth of domestic demand. In addition, this should permit the South African Reserve Bank (SARB) to achieve the inflation target with a lower interest rate and hence with a more competitive exchange rate. The recommendation is for a larger fiscal surplus target for 2008. Given current conditions, it should be at least 1–2 percentage points of the GDP, depending on cyclical considerations.

Second recommendation

Fiscal policy should be set in a clearly counter-cyclical fashion. This can be achieved by targeting the structural fiscal deficit. A methodology should be adopted to calculate the structural deficit, taking account of the business cycle, the position of the current account (which affects tariffs and value-added tax revenues) and the level of export prices. This may involve the creation of an independent commission to propose the relevant calculations, as is done in Chile.

Third recommendation

The National Treasury should eliminate the existing restriction on capital outflows. The restrictions play no useful role in the current context. It is an open question whether there may be some use in maintaining a legal framework to re-impose controls on outflows in the future if need be, but this should be done in a way that does not create transaction costs today.

Fourth recommendation

Maintain the current inflation targeting regime but adopt a strategy that pays more attention to the level and stability of the real exchange rate. This involves the use of the SARB's statements on the exchange rate when it deviates from what the SARB considers compatible with external and internal balance. In addition, the SARB should be willing to intervene to back up its statements. This can be coordinated with the National Treasury, which can consider other interventions, such as paying down the foreign dollar-denominated debt or changing the regulations on pension funds regarding foreign asset holdings. There should be an explicit statement by the SARB announcing the change in policy emphasis, to maximise the impact of the new strategy.

The panel's main impetus is to argue that South Africa's growth path should be to create jobs through exports. Therefore, the panel has proposed that macroeconomic policy instruments be recalibrated to facilitate an export-oriented growth path. Exchange rates are to be made competitive, and to assist in achieving this, a budget surplus is proposed. The effect of the budget surplus will be to reduce borrowing and increase savings. This will lead to reduced interest rates, which will assist in the process of weakening the currency.

In broad terms, the macroeconomic stance of the panel can be characterised as follows: *tight fiscal policy – expansionary monetary policy – competitive exchange rate*. It is contended in this chapter that a more appropriate macroeconomic stance for South Africa's democratic developmental state would be the following policy mix: *reconstructive fiscal policy – stabilising monetary policy – floating exchange rate*.

Underlying this policy mix would be the vision of moving South Africa onto a new long-run growth path through the increasing inclusion of those who have been historically excluded and under-serviced. This would be a programme of economic growth and employment creation through structural inclusion, which would be driven both by growing domestic supply and demand side potentialities. Exports would also be promoted through improved supply side policies (such as improved infrastructure and increased skills-based activity), rather than being based mainly on a demand side strategy of competitive exchange rate depreciation.

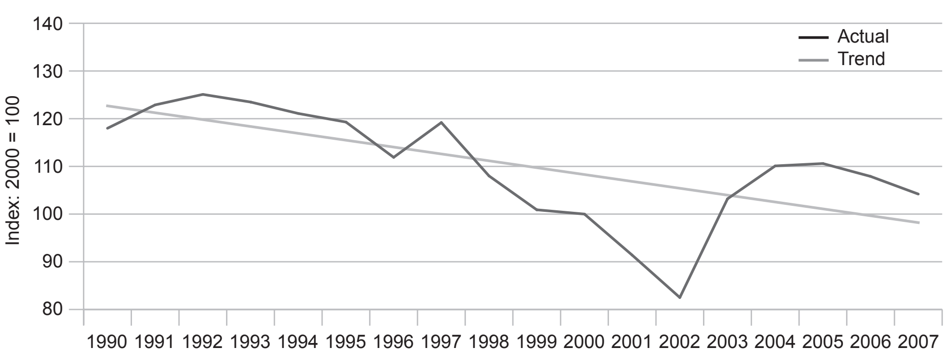
Why a floating exchange rate?

There are a number of problems with the growth scenario sketched by the panel, which put it at odds with the imperatives of a democratic developmental state in

South Africa. First, there are serious institutional and practical problems with the proposed policy of targeting a weaker exchange rate. As has already been stated by the SARB in response to the proposal, a policy of currency depreciation is likely to add further to currency volatility, as it has the potential to create a 'one way bet' for currency speculators, who will trade the currency down in the knowledge that official policy is to weaken the currency and that there will be no attempt to defend the currency.[4] The SARB is 'once bitten twice shy' in this regard, as a comparable scenario occurred at the end of 2001, when the rand sharply depreciated in the context of the SARB's public commitment to running down its net open forward position; the Rand's depreciation then had the effect of creating a one way bet for speculators, as they knew that there would be no intervention by the authorities during the period in which they were focused on using available reserves to recover from previous losses incurred in the foreign exchange market. This was one of the key findings of the Myburgh Commission's investigations into the sharp depreciation of the Rand at the end of 2001. The alternative of a free-floating exchange rate means that the currency could either appreciate or depreciate, and speculators are not offered the opportunity of a one way bet in the foreign exchange market.

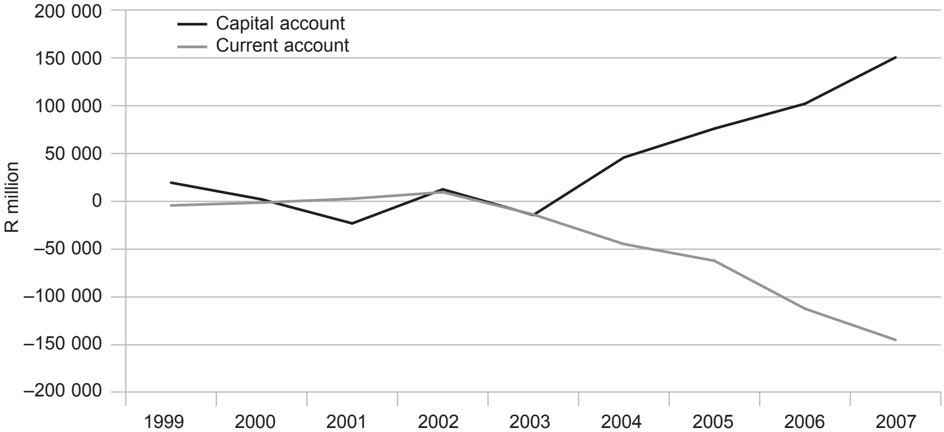
Second, a number of the panel's recommendations were responding to the perceived problem of an overvalued exchange rate during the period 2004–06 (see Figure 10.4). Since mid-2007, however, the Rand has depreciated quite sharply and then strengthened again more recently. It seems highly inappropriate to configure fiscal policy and monetary policy with the explicit aim of depreciating the Rand (in order to promote exports), when the currency is volatile and subject to a wide range of global and domestic economic forces, which would make any attempt at targeting a particular exchange rate level for the rand a difficult and potentially costly exercise. It is also not clear that a weak currency would assist in improving the deficit on the current account of the balance of payments (see Figure 10.5), as current low levels of demand among South Africa's major trading partners, associated with the ongoing global recession, would suppress demand for South Africa's exports. A surer approach to the expansion of South Africa's manufacturing base would be to link the

Figure 10.4 Real exchange rate (South Africa, 1990–2007)



Source: Compiled by author from SARB (2008) data

Figure 10.5 Capital and current accounts (South Africa, 1999–2007)



Source: Compiled by author from SARB (2008) data

ongoing programme of infrastructural expansion to local content obligations and import substitution plans in strategic industries, particularly those with longer-term export potential.

Third, an effect of weakening the currency would be to increase inflationary pressures in the economy, as imported goods that are not replaced by import substitutes would be more expensive. Such inflationary pressures would likely need to be met by rising interest rates. This is one of the key reasons why the panel recommends that currency weakening be accompanied by a budget surplus, in order to try to dampen pressures on interest rates.

Fourth, and most significant from the perspective of the principles underlying the democratic developmental state, the panel's proposed macroeconomic policy framework undermines the ability of fiscal policy to fundamentally alter the structure of opportunity in South Africa. The proposal to limit South Africa's fiscal stance in order to weaken the currency is to deploy a blunt instrument, without any analysis by the panel of the short-run and long-run consequences of limiting fiscal policy in this way.

For some, the recommendation for a weakened currency was based on the concern that the commodity boom had led to an appreciation of the rand at the expense of manufactured exports. There is also an argument that rand strength may have been the result of strong capital inflows as a result of South Africa's relative attractiveness as an emerging market investment destination. Although such flows are readily reversible, there is every indication that such flows will continue. As this occurs, capital inflows serve as a supplement to domestic saving levels and there is no requirement to limit fiscal policy with the objective of promoting domestic savings. Furthermore, if there were to be a reversal of capital inflows, as has been the case during the current financial crisis, a floating exchange rate would see a depreciation of the currency, which would serve as a self-correcting mechanism for the deficit on the current account.

Why a reconstructive fiscal policy?

The panel's proposal of a counter-cyclical fiscal policy is designed to smooth aggregate demand – requiring tight fiscal policy (or less borrowing) when economic growth is strong and expansionary fiscal policy (or more borrowing) when economic growth is weak.

Such a counter-cyclical budget framework does not deal explicitly with the long-run strategic growth and development issues, which are the imperative of a democratic developmental state in South Africa. A counter-cyclical approach looks only at the impact of fiscal policy on demand side factors – like inflation and interest rates – and offers no insights into the supply side impact of public sector programmes.

The benefit of the alternative approach suggested in this chapter is that fiscal policy is conceived of as a reconstructive tool. This is not simply about using fiscal policy in a cyclical or counter-cyclical manner. Rather, it is necessary that the envisaged democratic developmental state in South Africa use fiscal policy as a supply side instrument, with the objective of using the process of taxation, borrowing and expenditure to fund programmes that have the effect of creating physical infrastructure and human capital; these in turn generate enormous positive externalities for the wider economy. Such supply side changes would lead to improvements in the long-run growth potential of the economy.

Interestingly, a similar reorientation of the role of fiscal policy in development is becoming more widely accepted in international policy development. A recent report of the Development Committee of the International Monetary Fund and the World Bank states that

> [a]lthough stability is necessary for growth, it is not sufficient. The design of fiscal policy needs to identify and also incorporate transmission channels through which fiscal policy influences long-term growth. This requires that attention be focused on the recent growth effects of the level, composition and efficiency of public spending and taxation. Fiscal policy that neglects these effects runs the risk of achieving stability while potentially undermining long-term growth and poverty reduction. The evidence from countries that stabilized their economies by reducing their deficits indicates that countries often did so by cutting public capital formation significantly, despite its potential negative impact on growth and poverty reduction. While in many cases the decision to cut investments reflected political preference, the absence of domestic fiscal institutions that would have enabled governments to take medium term perspectives may have contributed to such short-sighted decisions.[5] (Development Committee 2006: i)

Potential problems with reconstructive fiscal policy

In the South African context, it is possible to identify a number of potential problems with the commitment to a long-run reconstructive fiscal stance. First, such a strategy would have to be pursued in a sustainable manner. It would make no sense for a democratic developmental state in South Africa to embark on a programme of fiscal expansion that was unaffordable and could not be sustained. Given South Africa's very low public debt levels and related reduced debt costs, the fiscal space exists for a significantly more expansionary stance, but a programme of reconstructive fiscal policy should be well conceived and implemented. It should not lead to wasteful or inefficient use of resources. Any programme of capital expansion to increase access to basic services and to expand and improve social and economic infrastructure must be accompanied by clear plans to ensure that relevant government departments and state-owned enterprises have the capability to deploy allocated funds.

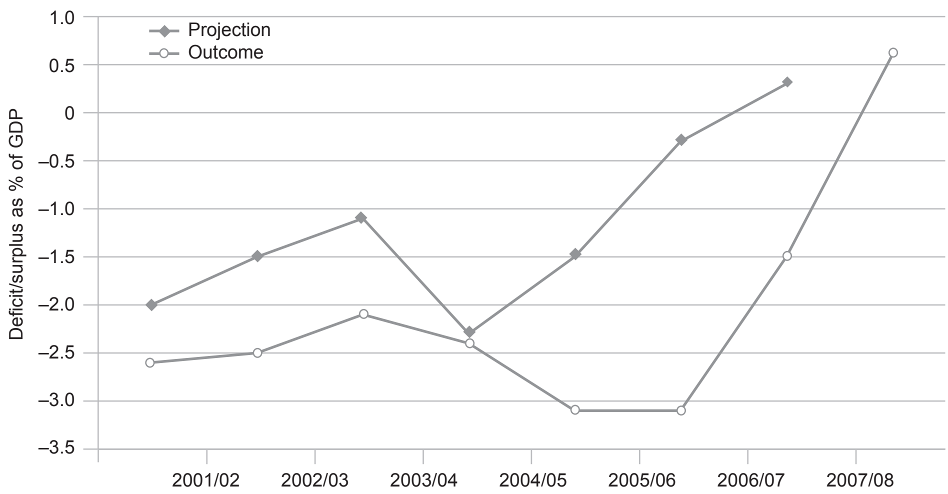
Second, the state's capacity to identify and implement expanded social and infrastructural programmes would need to be built up and sustained. This appears to be a major problem in the South African context, where the sentiment among government officials is too often that 'the money is not the problem; it is the capacity to deliver that is the challenge'. If the state's capacity is itself a 'binding constraint' on the state, then it is important that this be addressed in a systematic and effective manner. High quality leadership and administration of public hospitals, public schools and government departments requires remuneration of relevant personnel at market-related levels, and it would be important for government together with public sector unions – united by a common vision of a democratic developmental state – to allow necessary adjustments to be made.

Third, an analysis of the recent history of fiscal projections reveals certain interesting tendencies. For example, there is a clear tendency over the period 2000–07 to overestimate the fiscal deficit or underestimate the fiscal surplus, when comparing the projected deficit or surplus at the time of the annual budget speech to the actual outcome (see Figure 10.6). With some exceptions, there is a tendency to underestimate tax revenue. Also, there is a tendency to overestimate expenditure – projection is greater than outcome.

The tendency to overestimate the borrowing requirement means that less is borrowed by government than is originally planned, and South Africa is less indebted than planned. Similarly, the tendency to underestimate tax revenue is mainly as a result of underestimations of economic growth (as there is a strong positive relationship between economic growth and tax revenues), but is also due to tax collection systems operating above expectations.[6]

The tendency to overestimate expenditure signals that there has not been sufficient success at developing the capacities, institutions and structures necessary to implement the programmes of a developmental state. Capacities need to be developed that will ensure efficiency, equity and excellence in public services.

Figure 10.6 Budget deficit projections versus actual outcomes (South Africa, 2001–08)



Source: Calculated by author from various National Treasury budget documents (National Treasury 2005, 2006, 2007a, 2007b, 2008)

In conclusion, it is worth emphasising that failure to utilise fiscal policy to facilitate broad-based social transformation is likely to entrench and worsen social inequality and lead to social instability in the long run. Through a well conceived and well implemented programme of improved and widened public services there is scope for a massive mobilisation of resources and human capital by the envisaged democratic developmental state in South Africa. If this is done correctly, it would have major positive social and economic spin-offs.

Why a stabilising monetary policy?

It is contended in this chapter that fiscal policy should be the main driver of the democratic developmental state's programme of social and economic transformation. It is envisaged that monetary policy should play a supportive role, more particularly through anchoring long-run inflation expectations and thereby contributing to lower long-run interest rates than would be the case if inflation expectations were high.

Typically, programmes to control inflation are associated with a dominance of monetary policy over fiscal policy – inflation is kept in check partly by low fiscal deficits or by fiscal surpluses. As the objective of widening the structure of opportunity in the South African economy would be undermined if monetary policy were to be allowed to neutralise fiscal policy in this way, monetary policy dominance would be an inappropriate framework for South Africa's democratic developmental state.

It is likely that a more expansionary fiscal policy stance will put upward pressure on interest rates, but this will not necessarily be detrimental to investment levels as private sector investment will be stimulated by the increased economic growth potential of well conceived reconstructive fiscal policies.

Furthermore, a commitment to stabilising monetary policy will be complementary to reconstructive fiscal policy, as credible low inflation policies – mainly indicated by a willingness to raise short-term interest rates when there are inflationary pressures in the economy – will assist in keeping long-run interest rates in check. This is important as long-run interest rates are determinative of long-run investment decisions.

The question arises as to whether South Africa's current inflation targeting policy provides an appropriate framework for achieving the objectives of the democratic developmental state. The panel has suggested that inflation targeting be maintained, but that it be modified in order to allow for policies to weaken the exchange rate. Such a proposal fails to deal with a number of important issues, including:

- first, the practical problems in targeting a weaker exchange rate in the context of relatively free capital markets;
- second, the fact that the exchange rate has already weakened considerably, causing inflationary pressures in the economy; and
- third, that supply side shocks, particularly in food and oil prices, are the most important factors driving up inflation in South Africa.

This last issue poses a fundamental challenge for the inflation targeting monetary policy framework. The problem is that in the context of supply side shocks, rising prices are associated with decreased output. When interest rates are increased with the aim of controlling inflation, this means that inflation is controlled at the expense of output and accompanied by increased economic hardship. The use of interest rate hikes to dampen inflation is more appropriate for dealing with demand–pull inflation than cost–push inflation.[7]

This is why the South African monetary authorities have argued that the current ongoing cycle of interest rate increases is not aimed at reducing oil prices or food prices, but is aimed at dealing with 'second round effects' and other inflationary pressures in the economy – for example, indicated by a rising core inflation rate that excludes the effect of energy and food prices.

One of the ways that monetary policy could deal with this dilemma would be for the state to formalise an inflation targeting 'explanation process'; in terms of such a process, the commitment to keeping inflation in the target range would remain firmly in place, but where inflation was being driven by external factors – e.g. oil or food price spikes – the monetary authorities should be offered the possibility of formal explanation procedures in order to communicate their strategy for bringing inflation back under control.

By contrast, currently the SARB's communication is limited to continual restatement of its commitment to the inflation target; but in the context of ongoing supply side shocks, this means that there is decreasing credibility in such a message, as it fails to reveal the actual strategic questions under consideration by the monetary authorities. The authorities need to be granted the space to communicate over what period and by what methods they believe that inflation can be brought back within the target band, rather than being limited only to communicating their commitment to the target.

A recent example of such a monetary policy explanation process is the exercise undertaken by Brazil in 2002/03; in the context of an exchange rate shock that resulted in missed inflation targets, a public explanation – in the form of an open letter by the central bank governor – was offered with regard to the period in which it was expected that inflation would be brought back into the target range, and by what means. In the Brazilian case, the inflation target was also adjusted upwards from 4–8.5 per cent, but such an upward adjustment is not necessarily a part of the explanation process (Mishkin 2004).

The key insight is that clear and accurate communication of why inflation targets are being missed, and what strategies would assist in bringing inflation back under control, could assist tremendously in enhancing the credibility of the monetary authorities. Such a credible, long-term commitment to low to moderate inflation is important to the success of a democratic developmental state in South Africa in achieving its objectives, most importantly because it will assist in keeping long-term interest rates in check.

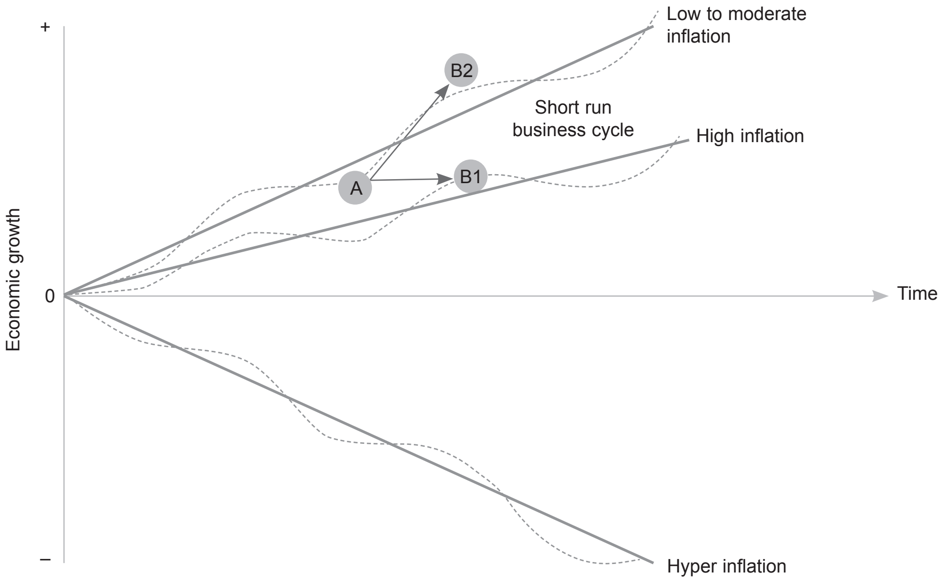
There have been some suggestions that it would be preferable to introduce a dual mandate, such that the monetary authorities set interest rates, in order to keep inflation in check when it starts to rise and to boost economic growth when it is flagging. While this may seem attractive in theory, in practice it should be remembered that in an environment of increasing inflation, the dual mandate will generally tend to become overwhelmed by the need to contain inflationary pressures. It is only in certain low-growth, low-inflation periods that the growth mandate of the monetary authorities is likely to come into play.

As depicted in Figure 10.7, while there may be some ability in the context of an economic downturn to use interest rate cuts to stimulate economic growth in the short run, this is likely to result in increased inflationary expectations and higher long-term interest rates, which have the negative effect of moving the economy onto a lower long-term growth path.

If we look at Figure 10.7, we see that at point A the economy is experiencing a short-run reduction in the rate of growth due to a downturn in the business cycle. It is assumed that during the period under discussion fiscal policy is unchanging in its reconstructive stance. Also there is no appreciation or depreciation of the free-floating exchange rate during the period under discussion.

Option 1 would be to *cut interest rates* in order to stimulate growth. However, this could lead to a movement from point A to point B1, as the reduced interest rate leads to increased inflation and inflation expectations, and as a result long-term interest rates rise and investment levels decline. The negative effect on investment of increased inflation expectations outweighs the positive effect associated with reduced short-run interest rates.

Figure 10.7 Comparison of the impact of different inflation rates on short-run business cycles and long-term economic growth



By contrast Option 2 would be to *keep interest rates unchanged* as there is no mandate on the Reserve Bank to target short-run economic growth (only long-run growth, through achieving low to moderate inflation). As a result, inflationary expectations are unchanged due to the credible commitment to the inflation target, long-run interest rates do not rise, investment levels do not fall, and as the business cycle improves the economy moves to point B2 (as shown on Figure 10.7), which is at a higher growth rate than point B1 at the same point in time.

Therefore, it is not incorrect to view inflation targeting as advancing a fundamental form of a dual mandate; that is to say, it is through achieving the objective of low to moderate inflation that sustainable long-term growth objectives can be achieved. This is why it is argued here that a modified form of inflation targeting – modified in such a way as to facilitate communication and enhance long-run credibility of the commitment to the inflation target – may be the most appropriate complementary framework for the reconstructive fiscal programme of the democratic developmental state.[8]

Finally, it is important to note that while interest rates are the key instrument in controlling demand side inflationary pressures, there are other supply side factors that impact on inflation levels. Reduced import tariffs have in recent years facilitated disinflation and lowered prices in a number of sectors. Currency strength makes imports cheaper and contributes to disinflation, just as currency weakness is inflationary. The competition authorities have sought to limit excessive pricing by companies with price-making market power, although it should be borne in mind that where proposed price increases are driven by relative scarcities – such as in needed power generation capacity – regulators would be well advised to eschew simplistic applications of inflation-target-pegged pricing policies. Food inflation can be driven by adverse weather conditions, political instability in the southern African region, and policy decisions, which may see demand for maize crops being driven up as a result of new applications in the biofuel industry.

Conclusion

The envisaged democratic developmental state in South Africa requires a long-term commitment to utilising fiscal resources to correct structural weaknesses in the country's economy. Tight fiscal policies since 1996, even when combined with the post-1998 lower interest rate environment, have not brought sufficient progress in reducing South Africa's racialised inequalities. Given the South African government's relatively low levels of indebtedness, fiscal space exists for a renewed commitment to addressing South Africa's social deficit. The 2008/09 global economic downturn, which has resulted in South Africa experiencing recession for the first time in 17 years, means that, in the short to medium term, even greater impetus needs to be given to this commitment; in the context of falling exports and reduced aggregate demand, a fiscal stimulus of significant magnitude is required to stimulate growth in the South African economy. In the longer term, effective and sustainable social and infrastructural programmes are necessary for reducing levels of marginalisation and exclusion and widening participation in the South Africa economy.

The greatest risk to this scenario is that the South African state does not have the administrative capacity to advance such a programme in an effective way. Yet, there is no reason why, with the requisite intellectual and political will, such capacities cannot be developed in order to enable the state to take the lead in lifting South Africa onto a new, more inclusive growth path, thus enabling South Africa to become a democratic developmental state.

Notes

1 Given the occurrence of xenophobic attacks in South Africa in recent years, it is significant to note that the Constitutional Court has interpreted the Bill of Rights not only to apply to South African citizens, but also to those with other forms of residency status. See *Mahlaule and Another v Minister of Social Development; Khosa and Other v Minister of Social Development* (CCT 13/03; CCT 12/03) [2004] ZACC 11; 2004 (6) SA 505 (CC), 4 March 2004.

2 See *Government of the Republic of South Africa & Others v Grootboom & Others* 2001(1) SA 46 (CC) and *Minister of Health and Others v Treatment Action Campaign and others* 2002(5) SA721 (CC).

3 The report of the International Panel on the Accelerated and Shared Growth Initiative for South Africa (AsgiSA), released in 2008, was chaired by Ricardo Hausmann of Harvard University and included a team of 23 international and 6 South African experts. The panel conducted its work during 2006/07.

4 In theory it is possible that the panel's proposal could be modified to suggest that the rand could follow a 'crawling peg' model; that is, a gradual depreciation within limits in an attempt to obviate the 'one way bet' problem. However, this is likely to lead to another problem, comparable to that which occurred in South Africa and Chile during the Asian Financial Crisis in 1998, whereby large forward borrowing of foreign reserves deployed in an attempt to protect the currency from depreciating too sharply led to significant indebtedness (about US$30 billion for South Africa in 1998). The SARB has attempted to avoid this dilemma by stating clearly that it will not intervene in the foreign exchange markets as it will allow the currency to float freely.

5 There is also an extensive academic literature on the growth-enhancing role of appropriate fiscal policy (see, for example, Kneller et al. 1999).

6 The 2008/09 slowdown in economic growth means that tax revenues also slowed, with an accompanying reduced likelihood of underestimating tax revenues.

7 Stiglitz J, The urgent need to abandon inflation targeting, *Business Day* (8 May 2008).

8 In addition to inhibiting investment, which has been the main focus of this chapter, high inflation impacts negatively on those in poor households, who cannot effectively index wages and who have to endure reduced purchasing power in the face of rising prices for food, energy and basic services.

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11 Competition policy, competitive rivalry and a developmental state in South Africa

Simon Roberts

Competition authorities have grown rapidly around the world, and competition policy has been vigorously promoted by international institutions such as the World Bank and the Organisation for Economic Cooperation and Development (OECD), which jointly produced a model competition law and institutional framework in 1999 (World Bank/OECD 1999). However, some countries that have undergone rapid industrial growth, for example Malaysia, continue to ignore this trend and have no such institutions or law. Others have had competition law regimes that differ markedly from the Anglo-Saxon-inspired model.[1]

In all countries that have undergone rapid industrialisation and 'catch-up' large firms have had a crucial role in developing key industries such as consumer electronics, automobiles, shipbuilding, steel and basic chemicals. While much work under the 'developmental state' banner has focused on the role of industrial policy in influencing the conduct and performance of large firms, competitive rivalry is also an important factor. In this chapter I briefly discuss the importance of competitive rivalry in industrial development and then examine the role of the state in this, in the form of competition policy and its relationships with other policies, especially industrial policy. I then reflect on the record of competition policy in South Africa before ending by drawing out some implications for the developmental state, including debates around the autonomy of state institutions as they relate to competition authorities.

Competitive rivalry and industrial development

The idea of the developmental state has been intimately related to achieving rapid industrialisation, although with a tendency to try to squeeze every experience of such industrialisation into the developmental state box. Moreover, countries such as South Korea and Taiwan did not set out to construct developmental states but rather aimed to achieve rapid growth through transformation of their industries. I focus on the relationship between rapid industrialisation and how the state can impact on the behaviour of large corporations.

While there is considerable debate about the relative importance of different industrial policies such as import protection and export incentives, it is well recognised that the orientation of big businesses and the ways in which they interact or compete are a central part of countries' development trajectory (Chandler 1990;

Chandler et al. 1997, 1998). The internal organisational capabilities of firms are an essential element in the ways in which they adopt and exploit new technologies, and realise economies of scale and scope. For example, interrelationships between firms within large corporate groupings in Japan and South Korea have enabled the necessary support and cooperation to build dynamic competitive capabilities and to 'catch up' in industries such as electronics, cars and steel (Amsden 1997).

Critical in the East Asian newly industrialised countries was linking the state support and intervention to drive investment in improved industrial capabilities with disciplining mechanisms to ensure that the outcomes were in line with performance expectations (Amsden 1989; Chang 1996; Wade 1990). In this regard, I highlight two issues: international openness and competitive rivalry.

International openness and 'export orientation' in rapid industrial change has often been (deliberately) confused with trade liberalisation (see Roberts 2000). In South Korea and Taiwan increased levels of openness, as measured by higher levels of international trade, were an outcome of successful industrial development (Rodrik 1995). Less well appreciated is the role that openness played in making support for firms contingent on their competitive performance in export markets, to provide a source of discipline at the firm level and a way of measuring firms against each other even while offering protection in the domestic market (Singh 2004). It also ensured that firms were forced to adopt and adapt more advanced technologies and production and marketing methods, as they were being pitched against the international industry leaders in export markets.

Using export targets as conditions for incentives and support can thus be interpreted as a tool of competitive discipline. In a similar way, contests were set up for state support around other targets, such as investment, as part of the state's supporting rivalrous oligopolies rather than individual national champions (Singh 2004). More generally, ensuring competitive rivalry between big business groups is a very important disciplining and motivating factor to ensure that state support does not lead to collusion and rent extraction. Analyses have highlighted the importance of competitive discipline in the industrial development of East Asian countries such as Japan and South Korea (Evenett & Brooks 2005; Sakakibara & Porter 2001; Singh & Dhumale 1999). The dynamic rivalry that constitutes competition is thus a very important element of Chandler's (1990) characterisations of different capitalisms. In the South African context, competitive rivalry is especially important given the high levels of concentration.

In summary, state intervention in the form of proactive industrial and trade policies to support industrial transformation is necessary for rapid growth, and this must be accompanied by mechanisms to discipline firms receiving support. Competitive discipline is important in this through establishing clear terms for the contests, such as export performance, as well as competition in the domestic market.

Competition understood in this way clearly relates to behaviour and not structure. We are not looking to some textbook ideal of maximum or perfect competition with many firms. Rather, the significance of economies of scale, as well as investments required in acquiring technological capabilities, means that there will normally be few firms in these industries. Singh has argued for understanding the competitive discipline provided by vigorous rivals as 'optimal competition' (Singh 2002). This is similar to what the competition economics literature terms 'effective competition' to describe competitive rivalry, even where there may be relatively few firms. Competitive discipline also relates to a single dominant firm in a market being unable to entrench its monopoly position and the rents derived from it (Rey & Tirole 2006). Conversely, if there are deterrence strategies through which such firms can protect their position and build barriers to entry, then these – rather than efforts to generate improved capabilities and new competitive advantages – may be the firms' primary focus.

The conduct of dominant firms, or small groups of firms, can thus vary widely. The position of large firms may result from investments to build dynamic capabilities, in the interests of industrial development, or it may be maintained by entry barriers and conduct designed to deter rivals. Similarly, government policies may reward lobbying efforts or may reward performance against well understood industrial development goals.

Particularly in small, industrialising economies such as South Africa, the differing possible behaviour of large firms has huge implications for economic development. In addition, apartheid industrial policies bequeathed a highly skewed industrial structure and dominant firms in key sectors. These firms had developed significant capabilities on the back of state support and under state ownership. Their behaviour and orientation, including whether subject to effective competitive discipline, in many regards determines the development of whole sectors of industry. In addition, it is important to recognise that the legacy of apartheid industrial policy in the size and influence of a few firms implies that these firms will wish to protect this position in their dealings with the democratic state.

South Africa

The concentrated nature of the South African economy is well documented, as is the fact of the industrial base being founded on mining and energy-intensive activities in what Fine and Rustomjee term the minerals–energy complex (MEC) (Fine & Rustomjee 1996; see also Chabane et al. 2006). Fine and Rustomjee's MEC describes both linkages between resource-based and industrial activities, and the evolution of interests in a system of accumulation operating through the state, big business and political agendas. The engagement between the state and big business, especially the resource-based conglomerates, is central to understanding South Africa's industrial development. In this regard, the apartheid state was quite successful in meeting its own skewed objectives through interventionist industrial policies, to develop an industrial base in targeted sectors, including with state-owned enterprises such as Sasol and Iscor.

Since the first democratic elections in 1994, the overall levels of concentration of ownership have declined significantly, as the major conglomerates – led by Anglo American – have unbundled non-mining assets, and services have become increasingly important. However, the unbundling does not in itself reduce concentration at a sectoral or industry level. And, as argued elsewhere (Mohamed & Roberts 2007), this is not necessarily as big a change as at first sight. In addition, the growth in areas such as telecommunications and private health care has been dominated by a few very large corporations and the damaging consequences of low levels of competition have been widely observed (see, for example, Hodge et al. 2007). Similarly, the increasing international ownership of industry in South Africa (through both outward and inward internationalisation) does not necessarily mean lower levels of concentration in South Africa, and has been part of increasing global concentration in many sectors, including mining and resources.

Competitive rivalry, or the weakness thereof, thus remains a very important concern. High and anti-competitive profit mark-ups have been identified as inhibiting growth, productivity and employment creation (Aghion et al. 2008). And, while apartheid's infant industries in steel and chemicals have grown up to be internationally competitive, their local dominance is well entrenched by their being favoured as national champions with no effective local rivalry (in the case of steel, see Roberts 2008). Resource-based activities still account for the majority of exports and these industries have been among the best performing manufacturing sectors, while overall industrial performance has been relatively poor (Roberts 2007). South Africa's failure to diversify its tradeable products has been identified as a major obstacle to sustained and broader-based growth (Hausmann & Klinger 2008).

Competition policy, industrial policy and competitive rivalry

Despite the close links between competitive rivalry and industrial development, industrial policy and competition policy have more often been portrayed as being in opposition to each other. One reason is that in industrialised countries, especially the USA and UK, state intervention is often argued to be the major impediment to free markets and hence to free competition. Studies of the 'regulatory burden' and 'regulatory impact' start from a similar premise – that free markets are the absence of government intervention. The recent rise to prominence once more of industrial policy is thus seen by some as working against the increased acceptance of competition policy (Evenett & Brooks 2005).

I argue that competition policy and industrial policy should be viewed as complementary. Dynamic competitive rivalry is a central concern of both, especially with regard to its role in inducing dynamic efficiency, technical progress and investment (Singh 2004). Indeed, the deliberately unbalanced growth resulting from interventionist industrial policy in South Korea is one of the reasons for also having a very active competition policy addressed at dominant firms in that country (see Fox 2003). I first discuss the role of competition policy and its implementation, in the form of the application of competition law by competition authorities in relatively small and industrialising countries, before reviewing the record of competition policy in South Africa. I then assess the challenges facing industrial policy in South Africa and links with competition policy.

Competition policy typically emphasises competition as a means rather than an end, with the ultimate concerns being economic efficiency and/or consumer welfare. The South African Competition Act (No. 89 of 1998) (in section 2) identifies its purpose as being

> to promote and maintain competition in the Republic in order–
> a) to promote the efficiency, adaptability and development of the economy;
> b) to provide consumers with competitive prices and product choices;
> c) to promote employment and advance the social and economic welfare of South Africans;
> d) to expand opportunities for South African participation in world markets and to recognise the role of foreign competition in the Republic;
> e) to ensure that small and medium-sized enterprises have an equitable opportunity to participate in the economy; and
> f) to promote a greater spread of ownership, in particular to increase the ownership stakes of historically disadvantaged persons.

While these objectives include a range of goals in addition to efficiency and consumer welfare, specific provisions of the Act also stipulate the standards to be applied. Two main concerns run through the different provisions, namely: whether the arrangement in question has the result of substantially preventing or lessening competition; and what the implications are for economic efficiency. For example, various exclusionary practices by a dominant firm (which by definition result in less competition) are prohibited unless the firm 'can show technological, efficiency or other pro-competitive gains which outweigh the anti-competitive effect of its act' (section 8(d)).

The main areas addressed by South African competition law, as in most countries, are mergers, collusion, abuse of dominance and vertical restrictive practices. Some countries include provisions addressing 'fair competition' to protect the interests of smaller firms, such as in subcontracting relationships, as discussed further below. However, having typical legal provisions, as embodied in the South African law, does not imply that they will have equal significance across different countries. As pointed out by Gal (2003, 2006), for small economies some rules may be relatively more important than in large economies, and the content of the rules may also differ. In addition, a different emphasis may be appropriate in applying rules in industrialising economies compared with more mature, industrialised economies.

Perhaps the most obvious is that, given economies of scale, concentration levels will be much higher in small economies, while entry barriers are also likely to be greater. This has implications for the relative importance of addressing anti-competitive conduct amounting to an abuse by a firm of its dominant position, or arising from collusive behaviour. The need to take into account an economy's particular characteristics, including its history and norms, has also been noted by Vickers (2007) in the context of comparing the USA and the European Union (EU). While differences between the USA and EU are important, and have had a relatively high profile due to differences in cases such as those involving Microsoft, it is important to recognise that both of these jurisdictions are outliers in terms of their size, level of development and institutional capacity. For example, Fingleton (2006), then chairman of the Irish Competition Authority, noted that '[t]he big [competition] problems in Ireland … still stem from lack of effective sanction against monopolization, and not from any fear of excessive enforcement against firms that have obtained high market shares by virtue of vigorous competition and efficiency' (2006: 68).

South Africa represents a much more extreme case, given the high levels of concentration, relatively small size (especially when the skewed income distribution is also taken into account), and remoteness from other industrial economies.

Abuse of dominance

In general, larger economies are more likely to have competition concerns related to collusion. This has translated into a stance *against* addressing unilateral conduct, especially in US writing on competition policy. The North American antitrust framework in the past two decades has also been heavily influenced by the Chicago School of industrial organisation, which emphasises reasons why large firms attain their position through being more efficient and/or innovative – something that competition authorities should be wary of punishing (Bork 1978; Posner 1976). A fairly typical example is the statement of Thomas Barnett of the US Department of Justice (DoJ) in response to a European ruling on 17 September 2007 on Microsoft, that the DoJ was

> concerned that the standard applied to unilateral conduct by the CFI [EU Court of First Instance], rather than helping consumers, may have the unfortunate consequence of harming consumers by chilling innovation and discouraging competition. In the United States, the antitrust laws are enforced to protect consumers by protecting competition, not competitors. In the absence of demonstrable consumer harm, all companies, including dominant firms, are encouraged to compete vigorously.[2]

In smaller economies, though, all else being equal, anti-competitive outcomes *are* more likely to arise from single-firm dominance. There is simply much less likelihood of there being a minimum of three to four firms of significance. This has direct implications for industrial policy, in that policies could actively foster effective oligopolistic rivalry, but in the absence of such an approach single dominant firms are likely to remain entrenched.

Developments in economic theory associated with strategic behaviour by large firms explain why monopolists may engage in exclusionary practices in order to protect their position and extract the full monopoly rents, further harming economic development (see Rey & Tirole 2006, for a review of the literature). Strategies to maintain and extend a firm's dominance are in fact exactly the type of thing that management consultants would be expected to advise large firms on in a country such as South Africa.[3] These involve addressing the problems of commitment and bypass that a monopolist faces. Buyers faced with a local monopoly have an incentive to increase their own bargaining power by looking at alternatives. Even if these alternatives are inferior and are more expensive, the ability to source from them (and bypass the monopolist) provides some bargaining power to buyers, in being able to credibly threaten to delay or withhold purchase of the monopolist's product. The dominant firm, for its part, may engage in exclusionary or anti-competitive strategies to deny or limit access to its product to one or more of the competing buyers, to keep them all in line (Gual et al. 2005).

In the context of possible entry to undermine the dominant firm's position, where this entry is more likely in the form of a downstream firm moving upstream, the dominant firm may deter competition in a vertically related market to protect its home market. Such concerns have also informed leveraging of market power by Microsoft in EU cases, such as with regard to server software. Where the competitive threat in the medium term may come from a different business model, such as server software being run in conjunction with desktop terminals to replace PC-installed operating systems, there is an incentive to seek to exclude or undermine the position of competitors in the secondary market (for server software), such as by inhibiting interoperability.

Unilateral abuses of dominance also include excessive pricing (see Roberts 2008, for an application to the steel industry). However, while this can be prohibited under competition legislation, in the absence of price regulation by the competition authorities the remedies must relate to addressing the related conditions and mechanisms through which the firm in question is able to maintain its position.

Competitive outcomes in concentrated industries: effective competition?

A number of implications flow from the challenges facing competition policy in smaller and developing economies. Fostering competitive rivalry means not just preventing exclusion but also addressing strategies that undermine effective competitive discipline. The typical retort exemplified by the USA's Barnett (cited earlier) is that authorities should not seek to protect particular competitors (who may not be efficient) but should rather protect competition. This has been echoed in the South African Competition Appeal Court in its decision overturning the Competition Tribunal's ruling against predatory pricing by Sasol of creosote.[4] Yet the concept of harm to competition should include dynamic harm to the market process, as it has in the EU, and not only proof of output limitation, as in the USA (Fox 2002).

Effective competition is an active process that requires firms to be able to grow their markets and offer attractive propositions to customers. As highlighted above, the strategies of the dominant firm may involve excluding actual and potential rivals, or preventing them from being *effective* competitors. Japan and South Korea go further in emphasising fair as well as free competition and acknowledging that 'in a developing economy where, incipiently, economic power is not fairly distributed, competition policy must play the dual role of raising the power, within reasonable bounds, of underprivileged economic agents to become viable participants in the process of competition on the one hand, and of establishing the rules of fair and free competition on the other' (Lee 1997, cited in Fox 2003: 164).

Such an approach suggests assessing the dynamic nature of competition – in the form of possible entry and growth of competing entities. This applies also to industries characterised by tight oligopolies, especially if enhanced by long-standing arrangements, conventions, or understandings, and where the incumbent firms have an incentive to keep the market to themselves. Small competitors may seem insignificant, but ultimately could be playing a very important role in the outcomes of such markets over time.

Where cartels have been uncovered and prosecuted but the industry conditions remain the same then there is a reasonable likelihood of collusion continuing in other ways, without necessarily explicit coordination. An international study of 283 cartels uncovered around the world between 1990 and 2005 found a high degree of recidivism (Connor & Helmers 2006). Interestingly, the majority of cartels (62%) were in industrial intermediate inputs, and by far the largest single sector was organic chemicals, accounting for 22 per cent of the total. Particularly where the cartel prosecution involved one or other member obtaining leniency or immunity from prosecution in exchange for cooperation in the prosecution of the remaining members, one might expect the cartel to be irrevocably destabilised. However, the incentives to persist through other means are high.[5] And close to explicit collusive outcomes can be maintained if there are very few firms, homogeneous products, restricted entry, good information flows and close contacts between the incumbent firms. An example of such challenges for the impact of competition policy in South Africa is in baking and milling, where cartels were uncovered in 2006 and 2007 by the Competition Commission. The question that naturally arises is whether conduct and outcomes have changed as a result of the cartels being prosecuted.

The general point is that in smaller economies provisions against anti-competitive behaviour may require stronger enforcement. And, ensuring effective competitive discipline may require greater attention to the nature of inter-firm rivalry and dynamic efficiency effects in competition policy. As discussed above, developments in industrial organisation over the past two decades have highlighted how, under conditions including imperfect information and sunk costs, it can be possible for dominant firms to entrench their positions through their strategic behaviour and not through their superior innovation or product development. As Geroski and Jacquemin (1984) caution, 'when, however, small asymmetries can be solidified into dominant positions that persist, the inequities they create become institutionalized, creating long-term problems in the performance of the economic system which cry out for policy attention' (1984: 22).

The practice of competition policy in developmental states?

Different developing country experiences highlight the importance of moving beyond the formal regulatory framework in considering countries' competition policy choices, and they reveal a diversity of approaches in practice. It is also important to remember that competition regimes evolve reflecting countries' different historical, cultural and political economy contexts (Fox 2003; Singh 2004). In general, it is the criteria that are applied, the implementation approach, and the overall level of commitment that are most influential (Hoekman 1998).

Along with industrialised countries such as Japan and Norway, several developing countries emphasise measures addressing the behaviour of dominant firms. In the context of small domestic markets, this is consistent with the significance of economies of scale, dynamic effects related to technology, and the importance of production linkages in processes of industrialisation (Gal 2006; Hur 2004). For example, the objectives of the South Korean Fair Trade Commission (KFTC) are to encourage free and fair competition and prevent the concentration of economic power, thereby promoting 'balanced development' (Wise 2000).[6] With enactment of the Monopoly Regulation and Fair Trade Act in 1981, the KFTC has been oriented to addressing monopoly power and its effects, including 'unreasonable' practices and 'unjustifiable' restrictions on competition (Fox 2003). This orientation is consistent with a broad definition of free and fair competition, in the sense of a competitive industrial structure and the control of potential abuses and imbalances in the bargaining power between parties – in particular, subcontacting relationships to protect against exploitation of smaller firms (Hur 2004). Typically, in the short run such subcontracting arrangements would lower prices and hence not harm consumers. In the longer term, however, unfair subcontracting arrangements by large firms militate against the development of a dynamic base of small and medium firms able to invest in their own independent production capabilities.

Amendments to the law in 1987 provided for further powers to address the concentration of economic power in the chaebol. The KFTC specifically sought to restrict within-group financial arrangements and to press for more independent management arrangements of subsidiaries of the 30 largest chaebol (Hur 2004). In addition, there have been high levels of activity in cartel detection, as well as in cases relating to unfair subcontracting (Hur 2004; Lee 2002; OECD 2002).[7] Singh (2002) has characterised this as linked to industrial policy objectives and tools.

In South Korea, as in Japan, the focus on dynamic competition processes and rivalrous behaviour rather than structure per se is despite having competition laws strongly influenced by US law (Amsden & Singh 1994). Rather than emphasising legal independence, the KFTC derives influence from its position within the institutions of government. The chairperson has the right to participate in cabinet meetings and, by law, ministries are required to consult with the KFTC about measures that may impact on competition. The interpretation of the legal measures as prohibiting 'unreasonable' practices by dominant companies and 'unjustifiable' restrictions on competition allows the KFTC substantial discretionary power. As important, perhaps, for the ability to exercise this power is the close links of the KFTC with the powerful Economic Planning Board, within which it fell until 1994 (Sanekata & Wilks 1996; Wise 2000). The KFTC case well illustrates the importance of de facto autonomy rather than a preoccupation with de jure independence. In many countries, by comparison, the competition authorities may be independent in theory but their effectiveness is hampered by lack of resources and political economy factors within the countries.

Competition policy in South Africa

The new Competition Act (No. 89 of 1998), which came into effect in 1999, provided for the establishment of the Competition Commission and the Competition Tribunal, both independent institutions, responsible for investigation and adjudication of complaints and mergers. There is also a specialist Competition Appeal Court. This replaced the Competition Board, which had operated as part of the Department of Trade and Industry (DTI).

A major change from the previous regime was the compulsory pre-merger notification for all deals above certain thresholds set in terms of assets or turnover. Of these, large mergers are ruled on by the Competition Tribunal, while intermediate mergers are decided by the Commission (and can be appealed to the Tribunal). This contributed to the competition authorities' work being dominated for the first five years by merger evaluation (Roberts 2004; Wise 2003).

The Commission refers complaints to the Tribunal that it believes have strong grounds to indicate a contravention of the Competition Act. These have increased in recent years as the Commission has paid more attention to these concerns. Recent analyses have also highlighted the negative effects of continued extremely high levels of concentration and associated anti-competitive behaviour (Aghion et al. 2008). The importance of increased competitive rivalry for faster and more broad-based economic growth has also been identified in the government's Accelerated and Shared Growth Initiative for South Africa of 2006.[8] The dearth of cartel and abuse of dominance cases brought by the Competition Commission in its first five years certainly suggests that the competition authorities were relatively ineffective in addressing anti-competitive behaviour and outcomes. A mitigating consideration is that it undoubtedly takes time to establish these institutions, with around 10 years being suggested as a threshold by some commentators (Singh 2004).

Prosecution of several high-profile cartels in recent years has been partly due to the introduction of a corporate leniency policy, which incentivises cartel members to come clean in exchange for immunity from prosecution. The cartels being prosecuted have also illustrated the widespread nature of anti-competitive behaviour in sectors such as agro processing and food. From the cartels being prosecuted to date it appears as if, following the 1996 abolition of the Control Boards governing most agricultural products under apartheid, firms mainly at the processing level instituted their own private regulation through collusive arrangements.[9]

In addition, during the course of 2007 the Commission identified priority areas for attention based on their implications for growth and development as well as for low-income consumers (Ramburuth & Roberts 2009). Uncovering cartel activity where it exists in these sectors is an important motivation for the prioritisation.

In the past few years Competition Tribunal rulings on abuse of dominance in steel and in airlines (South African Airways) have illustrated the entrenched nature of dominant firms in some areas of the economy, and the scope of anti-competitive abuse to extend and protect their dominance and to exert the market power that results from it.[10] These have been firms that developed under state ownership.

Industrial policy and competitive rivalry in South Africa?

Industrial policy has been mainly concerned with trade liberalisation and incentives aimed at things such as innovation and large investments, but not targeted at any particular sectors aside from specific programmes for the auto and the clothing and textile sectors. The most striking feature of performance over the past 14 years has, however, been the strong elements of continuity in the industrial development trajectory (Mohamed & Roberts 2007; Roberts 2007). The auto industry stands out as an example of where a programme specifically aimed at altering the incentives facing firms has led to greatly increased investment, output and exports, while maintaining levels of employment.

In general, industrial policy has not taken competitive rivalry into account, nor has it been oriented to the specific characteristics of different industries or sectors. Where incentives have been provided, it appears that firms have not been held to clear conditionalities or performance targets, nor has government sought to use rivalry as a mechanism to induce concerted effort towards achieving industrial development goals. Instead, government has placed faith in moral suasion (such as in the commitment by Mittal Steel to agree on a 'developmental steel pricing policy' with the DTI) and an overall emphasis on improving productivity through liberalisation. Notwithstanding important changes in conglomerate structures, however, liberalisation has generally meant that the firms best able to take opportunities in a liberalised environment are those with developed capabilities from the support they received under apartheid.

Moreover, the very concentrated nature of the South African economy suggests continued control by the large firms over the returns from any particular value chain, as well as ongoing influence in terms of the policy agenda.

Conclusion: competition policy and a developmental state in South Africa?

It is apparent that the decisions and conduct of large corporations, whether in basic metals, agro processing, telecommunications or banking, essentially shape South Africa's economic outcomes. While these firms have adapted to the ending of apartheid and a more liberalised environment and, in many cases, have internationalised their operations, it is also becoming clear that they have continued with strategies designed to extract rents through supra-competitive pricing and anti-competitive behaviour. What is not evident is the strategy on the part of the state to engage with this conduct and its implications beyond the approach of ensuring a 'business-friendly' investment climate. While the National Industrial Policy Framework (adopted in 2007) recognises the need to do so, there are few or no signs of this being effectively followed through in practice.

I have argued that competitive discipline and active rivalry is a key element of engaging with large corporations to alter the development trajectory. This does not necessarily imply competition policy, as the example of a country such as Malaysia demonstrates. In countries such as South Korea, competition policy and actions of the competition authority have played an important role. The point though is not to transplant the model of any particular country. It is rather that the standards applied by (and the priorities of) the competition authorities should be based on the actual conditions of the economy – in South Africa's case, the small, very concentrated and skewed or (the term used in South Korea) 'unbalanced' economy.

At a minimum, a developmental state presupposes the ability to collect and analyse information on the trajectory of the economy in order to anticipate the likely outcomes and the impact of different government strategies to alter that trajectory. The collection and analysis of such information clearly needs to be made a priority in South Africa if it is to occur. Moreover, a developmental agenda is premised on government policy and its implementation through the state institutions being essentially informed by the broad-based interests of the majority of the population and not captured by an elite, or a section of big business. It is this autonomy – founded on political support and effective institutional capacity – that is also essential for institutions such as the competition authorities.

In this regard, an underemphasised strength of competition authorities is their ability to uncover the competitive dynamics and outcomes in a given market through powers of information gathering and analysis. Such understanding of firm behaviour is essential to government's strategy for engagement with business. The remedies at the disposal of the competition authorities, however, cannot *ensure* more dynamic competitive rivalry. They can address ways in which dominant firms abuse their position to extract rents and entrench their monopoly power, but more competitive outcomes will depend on complementary policies to support active rivalry, including the entry and growth of new firms. This particularly includes industrial policy, broadly defined. Realising the potential complementarities across competition and industrial policies requires us to build on coordinating mechanisms, such as the prioritisation process undertaken by the Commission, by drawing on government's broad policy agenda and engagement with other public institutions and stakeholders.

Notes

* This paper is written in my personal capacity and does not reflect the views of the Competition Commission.

1 It is important to note that there are also major differences between the regimes in countries such as the UK, USA, Germany and Norway and not only with rapidly industrialising countries such as South Korea and Japan.

2 See www.usdoj.gov/atr/public/press_releases/2007/226070.htm.

3 Such documents have been alluded to in hearings in the Competition Tribunal, including the Sasol–Engen merger in liquid fuels (prohibited by the Tribunal in 2005), and the Harmony–Mittal Steel case on steel pricing heard by the Competition Tribunal and Competition Appeal Court in 2006–08.

4 *Competition Tribunal (2005) Decision and Order in Nationwide Poles – Sasol Oil (Pty) Ltd*, Case 72/CR/DEC03; *Competition Appeal Court (2005) Judgment in Sasol Oil (Pty) Ltd – Nationwide Poles CC*, Case 49CACAPRIL05.

5 For those cartels where data are available the median overcharge was computed as close to 30 per cent (Connor & Helmers 2006).

6 This is given that the early stages of rapid industrialisation were viewed as 'unbalanced' (Hur 2004), as I argue should be the understanding in the case of South Africa.

7 For example, the KFTC also dealt with 3 130 cases related to unfair subcontracting in 2001 alone (OECD 2002).

8 See Deputy President Phumzile Mlambo-Ngcuka, *A Catalyst for Accelerated and Shared Growth–South Africa (ASGISA): A Summary*, media briefing (6 February 2006), available at www.info.gov.za/speeches/briefings/asgibackground.pdf.

9 These prosecutions are of conduct in bread baking, milling of wheat and maize, and dairy products. At the end of 2009 the cases in milling and dairy were still to be heard by the Tribunal. There are leniency applications relating to collusive conduct in all of these sectors.

10 Other abuse of dominance cases are pending, such as in fertiliser, where two cases against Sasol and others have been referred to the Tribunal. In a case referred to the Tribunal against Telkom related to conduct affecting value-added network service providers, the Tribunal's jurisdiction is being contested through the courts.

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Part Four

Social policy and its institutional underpinnings in South Africa: what hope for a developmental state?

12 The South African post-apartheid bureaucracy: inner workings, contradictory rationales and the developmental state

Karl von Holdt

Effective bureaucracy is crucial for the functioning of a modern state, developmental or otherwise. Indeed, it can be argued that for a developmental state an effective Weberian bureaucracy is even more crucial than for other state forms, because of the requirement that such a state be sufficiently autonomous to craft national developmental strategies without being captured by sectional interests, that it be able to maintain credible relations with stakeholders, and that it be able to implement ambitious programmes (Evans 1995).

Weber argued that capitalism and bureaucracy belong intimately together, and the superiority of bureaucracy over pre-bureaucratic forms is that it supersedes an individualistic logic. A modern bureaucracy is to some extent insulated from the tug and pull of different interest groups in society by its strong corporate cohesion, which ensures that officials pursue institutional goals. Cohesion is underpinned by conferring a distinctive and rewarding status on bureaucrats, concentrating expertise in the bureaucracy through meritocratic recruitment, and providing opportunities for long-term career rewards (Evans 1995). Evans finds that just such bureaucracies have characterised the most successful developmental states: Japan, South Korea and Taiwan. Officials were recruited through highly selective procedures (stringent civil service exams in the case of Japan and South Korea) from the most prestigious universities. A high-status meritocracy was essential for the cohesion and expertise of these developmental states. In all three states, a long tradition of meritocratic and cohesive bureaucracy – in Korea going back to 788 AD – was an important resource in forging the developmental state. Evans (1995) might have added that such traditions were strengthened by the indigenous invention of writing in all three cases. More recently, Sandbrook et al. (2007) have argued that the success of what they call the social democratic developmental state on the global periphery, in countries such as Chile, Costa Rica, Mauritius and the Indian state of Kerala, depends on the existence of an effective state bureaucracy.

In South Africa there is a growing recognition of institutional failure and dysfunctionality within the post-apartheid state (Southall 2007). An alarming number of local governments, especially in smaller towns, are crisis-ridden and unable to deliver services because of the loss of skills, lack of expertise and institutional memory, numerous vacancies in senior positions, and apparently endemic corruption (Atkinson 2007). The Department of Correctional Services is plagued by mismanagement, corruption and the failure of financial systems (Sloth-Nielsen 2007). Public hospitals are characterised by dysfunctional management and poor clinical outcomes (Von Holdt & Maserumule 2005; Von Holdt & Murphy 2007), and the health system more generally has been characterised by 'the loss of an institutional and organisational focus' leading to demoralised and demotivated staff and 'disappointing' performance (Schneider et al. 2007). Recently the deputy justice minister stated that the criminal justice system was 'fragmented, unfocused and dysfunctional' and that in terms of technology it was operating 'in the Stone Age'.[1]

At the same time, there is a growing view within the African National Congress (ANC) and broader progressive and intellectual circles that the South African state is failing in its developmental strategy, and that the solution lies in fashioning a 'developmental state' (HSRC & DBSA 2008). However, in most cases this debate focuses on the developmental policies to be adopted by such a state, rather than on the internal functioning of the state which, as Evans (1995; and Chapter 2, this volume) argues, is a crucial aspect of the developmental state.

In relation both to the analysis of dysfunctionality and to the debate on the developmental state, there has been insufficient research on the internal functioning of state institutions. Useful papers have been written about the progress and impact of affirmative action within the public service, but while these touch on the question of the possible impact of this on public service performance, they remain speculative at best because of their reliance on quantitative data and policy documents (Chipkin 2008; Naidoo 2008; Ndletyana 2008). In this chapter, I seek to examine the nature of the South African post-apartheid state through a qualitative investigation of the internal functioning and organisational culture of the bureaucracy. The often perplexing nature of bureaucratic functioning makes it necessary not only to consider issues of poor organisational design and skill shortages, but also to explore organisational culture and practices and the processes of informal meaning-formation that overlay formal bureaucratic processes and influence outcomes.

My research suggests that the post-apartheid bureaucracy differs significantly in its functioning, rationales and meaning-formation from the ideal-typical model of modern bureaucracy described by Weber and investigated by Evans. Modern bureaucratic practices were introduced to South Africa through processes of colonial conquest and domination, and were fundamentally shaped by this history. Modernity in South Africa necessarily took a distinctively colonial form, and post-apartheid modernity is shaped both by this history and by the struggle against it – that is, a struggle against a modernity that is inextricably meshed with racial domination. If the modern state form is the core institution of modernity, then it is inevitable that it will be quite fundamentally marked by this history and these struggles.

My study is located in a large-scale and complex public service delivery agency, the Department of Health and its public hospitals. Evans's (1995) seminal work on the developmental state concentrates on the ability of the state to guide industrial growth, and it might be argued that the functioning of a health department has little bearing on this question. Two responses can be made to this. First, my research points to general features of the post-apartheid bureaucracy, and it is not as if major economic departments such as the Department of Trade and Industry are exempt from these; indeed, frequent press reports about the frustration of business with inefficiency and interminable policy processes at that department suggest that institutions dealing with industry perform as poorly as service departments. Second, Evans in his more recent work stresses the importance of human capability development as a central goal of the developmental state, and health departments are central to development conceived thus (see Chapter 2, this volume). Sandbrook et al. (2007) make very much the same point.

This chapter starts by providing a description of dysfunctionality in public hospitals, and then discusses five key features of the post-apartheid bureaucracy, which together inscribe non-Weberian rationales in the inner functioning of the bureaucracy: black class formation mediated through affirmative action, ambivalence towards skill, the significance of 'face', the breakdown of discipline, and rituals of budgetary discipline. The conclusion discusses the impact of contradictory rationales on the functioning of the state bureaucracy, develops an analysis of these competing rationales in terms of colonial and postcolonial modernities, and ends with a tentative discussion of structural reforms that could a produce a more effective state.

Public hospitals: a case study of decline

In previous work, my colleagues and I have argued that public hospitals in South Africa are dysfunctional and suffer from high degrees of institutional stress (Von Holdt & Maserumule 2005; Von Holdt & Murphy 2007) – a finding consistent with the results of other investigations into public hospitals. According to the doctors and nurses we interviewed, the result was poor clinical outcomes and higher levels of morbidity and mortality than ought to be the case. In our studies, we found that a dysfunctional interface between provincial offices and hospital management, dysfunctional organisational structures, low management capacity and understaffing were the primary causes of institutional stress and poor health care outcomes.

Provincial departments have over-centralised control of strategy and operations in their head offices, and hospital managers have little influence and no control over budgets, staff establishments, procurement or information systems. Budgets and staff establishments bear little relationship to the real needs of the hospitals, and clinical, financial or human resources (HR) data lack credibility, where they exist at all. Important decisions cannot be made in the institutions and are endlessly delayed in the central bureaucracy or, where they are made, are frequently reversed by head offices.

We conclude that:

> The structural relationship between province and institution is a disincentive for managerial innovation and responsibility, and rewards subservience, over-sensitivity to rules and a lack of focus on problem-

> solving. It is also clear that even if it were desirable for head offices to exercise this degree of control, in many cases they lack the capacity or competency to do so. Lengthy delays and poor decisions in turn encourage passivity and lack of initiative on the part of hospital managers. (Von Holdt & Murphy 2007: 322)

At the same time, dysfunctional organisational structures within the hospitals undermine effective management. Organisational structures are fragmented into parallel and separate silos of managerial authority. Thus, nurses are managed within a nursing silo, doctors within a silo of clinicians, and support workers by a web of separate silos for cleaners, clerks and porters. This means that what should be managed as an integrated operational unit (for example a ward, a clinical department) is instead managed in a fragmented fashion with no clear accountabilities. Disempowered and unaccountable management structures give rise to a specific management culture in the public hospitals. The administration of rules and regulations becomes more important than managing people and operations, or solving problems and ensuring effective service delivery (Von Holdt & Murphy 2007).

Lack of management capacity in the hospitals further exacerbates management failures. Management departments are generally provided with too few management or administrative posts, and are unable to perform either routine or strategic tasks effectively. For example, the HR function in public hospitals is essentially a personnel function for administering payroll, leave, recruitment and so on. It lacks the strategic or proactive capacity to manage human resource development and labour relations, improve the disciplinary regime, or draw up skills development or employment equity plans. The result of these HR failures is far-reaching, affecting morale, discipline and labour relations.

Likewise, financial departments are generally grossly under-resourced and lack the capacity to draw up or monitor budgets, control costs or expenditure, or monitor shrinkage and waste. Budgets bear little relation to operational reality, and there is consensus that budgets are 'meaningless' as they are based on historical allocations rather than operational activity and realities. In general, management systems are weak or incoherent, and management has become an ad hoc or crisis management activity rather than a strategic function.

Finally, understaffing as a consequence of under-budgeting has had a devastating impact on hospital functionality. The shortage of nurses and support staff such as cleaners, porters, clerks and messengers means that nurses work under enormous pressure and are unable to provide adequate nursing care to patients, with a predictable impact on clinical outcomes. These conditions take their toll on morale and stress levels, and surveys of clinical staff (nurses and doctors) reveal extremely high levels of burnout – the figures at four Gauteng hospitals ranged from 36–61 per cent for high levels of emotional exhaustion, and from 15–46 per cent for high levels of depersonalisation (Schneider et al. 2005: 14).

These dysfunctionalities affect all aspects of hospital functioning. Poor maintenance, failure to repair equipment, lack of linen, dirty linen, procurement failures, dirty wards, budget overruns, poor labour relations, unfilled posts, inability to budget or control costs, failure to supply drugs or medical sundries, ill-discipline, lost records – there is no end to the list of frustrations and problems that staff experience.

An incident that encapsulates these problems was the breakdown of lifts in a large public hospital in 2008. This meant that nurses had to carry meals and laundry, as well as patients, up and down stairs. On occasion, corpses too had to be manoeuvred down the steps. This problem resulted from the failure of the Department of Public Works to put in place a lift maintenance contract. This situation persisted for six months, as the provincial health department and Public Works were in dispute over the tender process and to whose budget the item belonged. In the meanwhile, the nurses (not to speak of the patients) continued to battle with the consequences.

The problem is not only that public hospitals are characterised by ineffective functioning and poor health care results; it is that the public hospitals and the public health system more broadly seem to be in a state of decline. According to nurses, many of the problems they experience belong to the post-apartheid era. They refer to three key changes with the transition to democracy. First, the 'most important change with democracy' is the shortage of posts. Second, in the apartheid era the lifts used to work, and they used to get the necessary medical supplies, drugs and linen in the wards. In other words, the hospital support systems used to function effectively (this does not mean that the apartheid health services delivered adequate health care to black patients; on the contrary, there was a great shortage of facilities and huge overcrowding in the wards). The third change, in their view, is the breakdown of discipline because the unions 'have taken over the hospital'.

In summary, the ability of the health department bureaucracy to perform effectively is undermined by poor institutional and system design, characterised by incoherent structures and systems, fragmentation, failure to delegate appropriate authorities, lack of accountability, and lack of financial, technical and human capacity. What accounts for this? Why has the democratic state been unable to address such systemic problems? Why is it that the political and administrative leadership seems unable to develop and implement a strategic response?

Key features of the post-apartheid bureaucracy

In this section of the chapter, I identify five important features of the post-apartheid bureaucracy that underlie and provide some explanation for the dysfunctionality and management failures described above. In identifying and attempting to understand these features, I draw on eight years of participant observation as activist, researcher, advisor and consultant in processes of hospital change, as well as on interviews with key informants in hospitals and health departments. It is important to note that this is part of an ongoing research project and represents an initial attempt to formulate the findings.

In discussing these features, I am seeking an answer to a riddle that I have found perplexing, as do many of those who work in the hospitals. It often seems to the doctors, nurses and others who work directly with patients that the departmental bureaucracy has little patience with or interest in the problems they experience. Indeed, it sometimes seems that health service delivery is secondary or even incidental to the real purposes of the bureaucracy. The attempt to come to an understanding of this requires a shift in focus: in place of analysing management structures and system inadequacies, it requires that attention be paid to organisational culture and the processes of meaning-formation, the informal codes that shape officials' priorities, choices and interactions with others.

Class formation

Policies of affirmative action and the shortage of skills create numerous opportunities for upward mobility within the bureaucracy, generating a powerful culture of moving onwards and upwards. The average annual mobility rate across the public service is 32 per cent in national departments and 38 per cent in provincial departments, while the vacancy rate in national departments is 25 per cent for senior management, and 31 per cent for middle management (Naidoo 2008).[2]

The procedures governing promotion mean that actual work performance has little impact on the career prospects of an individual. Managers cannot reward individuals who have performed well by promoting them, but have to advertise vacancies and select from all applicants; on the other hand, an individual can apply for any post they want to, and individuals frequently apply elsewhere in the public service, in other sections, agencies or departments where managers cannot draw on direct experience of their achievements or failures.

The culture of moving onwards and upwards encourages an attitude of 'facing upwards' towards the next job prospect, rather than 'facing downwards' – that is, rather than focusing on improving the functioning of the domain for which the official is responsible. There is a high turnover of incumbents, and a significant number move out of the agency or department where they are located, as the figures quoted above demonstrate, making it difficult to create a stable body of expertise in the functioning of a specific department such as health.

'Facing upwards' is reinforced by the specific career dynamics of those senior officials whose careers are tied to the health department – that is, professionals such as doctors who have chosen a career in the administration. They are highly visible to the top managers within the department, and their careers therefore do depend on whether they are viewed favourably by these managers. This encourages such officials to concentrate on meeting the requirements of the senior departmental managers, whether or not these requirements contribute to solving the problems faced by managers lower in the hierarchy or improving health care delivery. There is a pervasive culture of deference within the bureaucracy, and provincial officials tend to adopt an autocratic attitude towards senior managers in the hospitals and treat them as junior employees. The lack of any insulation between hospital and head office means that hospital managers are dependent on provincial officials for the development of their careers. Hospital managers therefore fear to rock the boat, innovate and take risks, or contradict provincial officials.

In one case, a hospital CEO and their management team were removed at least in part because they were regarded as too responsive to the hospital clinicians, and were replaced by a new team dispatched from head office with an explicit mandate to regain control over the clinicians. To the doctors and nurses, it was abundantly clear that the new team was less competent than the old, and had little interest in the problems experienced at ward level. Indeed, the new CEO displayed an embarrassing ignorance about the hospital's functioning over the four or so years of their tenure. In contrast to the despair of the clinicians, the most senior managers at head office expressed satisfaction with the performance of the new team, because they had managed to gain some control over costs and had improved financial reporting.

It might seem that the dependency of senior hospital officials on the good opinion of departmental managers would improve accountability for results achieved; however, where the top managers are remote from operational realities, overwhelmed, ill informed and more concerned with reputation and the preservation of 'face' (see below) than with what happens in hospitals, real hospital performance in terms of improving health care results plays little role in career progression. Indeed, the weakness of clinical data makes it difficult to see how hospital performance could be assessed.

The culture of moving onwards and upwards within the bureaucracy is reinforced by a broader ideological orientation towards black class formation as a form of redress of past exclusion and oppression. Employment equity legislation encourages the filling of posts by black employees and constitutes a crucial lever for the formation of a black middle class, and black economic empowerment policies oblige the state to use its resources to leverage the formation of a black business class through tender procedures. These policies legitimate a focus on upward mobility on the part of public service officials. Indeed, processes of upward mobility and class formation have come to constitute a core rationale of bureaucratic functioning, one that competes with the rationale of public service and health care delivery. The first question asked of any project tends to be about its implications for employment equity targets, rather than its implications for improved health care. As Chipkin (2008) argues, affirmative action targets create an incentive to leave posts for which there are no suitably qualified black candidates vacant, rather than filling them with qualified white candidates if they are available – with an obvious impact on departmental performance.

This impression is reinforced by the fact that doctors and nurses are significantly disempowered within the overall structures of management, and lack the voice to assert the importance of the clinical process. Nor does the absence of meaningful clinical data seem to trouble departmental officials. It is these realities that create the impression that providing a health service is somewhat incidental to what health departments really do – and one of the things they do is participate in the broader processes of state-supported black middle class formation.

Ambivalence towards skill

Skill has a complex history in South Africa. Modern skills, such as those required to manage a modern state, or medical, engineering and scientific skills, entered South Africa as part of the ideological and technological apparatus of colonial domination. From the beginning of their history here, therefore, they were bound up with racial domination. Skill, even the hardest of 'hard' skills, is never only technical, but is always necessarily social and bound up with the social structuring of power. Indeed, access, authority and hierarchy in relation to skills and knowledge are governed by social protocols, which are integral to the broader distribution of power across society; and in South Africa these protocols were defined by a long history of colonialism and apartheid. Modern knowledge systems were taken to differentiate 'civilised' Europeans from 'primitive' Africans. Such knowledge systems were used to control and oppress black people, while at the same time systematically excluding black people from access to them.

To take one example, the rigorous and systematic codes and procedures of the modern Weberian bureaucracy were dedicated to the management and control of the black population through the mechanisms of racial differentiation in the Population Registration Act (No. 30 of 1950), and through the massive machinery of the pass system and its associated institutions. To take another example, in the workplace the distinction between primitive and civilised justified the exclusion of Africans from the legal category of 'employee' and therefore from 'modern' workplace and trade union rights.

Racial protocols were integral to the functioning of the apartheid health system as well. All health facilities were, of course, racially segregated. Initially, the health professions were regarded as the preserve of 'Europeans'. When the state began training black nurses in large numbers in order to staff hospitals for black patients, they were trained in segregated facilities, and part of their training was devoted to supposedly 'civilised' etiquette, such as how to eat with knives and forks. Black nurses were not allowed to provide care to white patients in white hospitals.

Black nurses thus did their practical training in severely overcrowded and under-resourced conditions. A highly qualified and experienced white nursing manager described in an interview her shock when she first experienced conditions as a matron in a large hospital for black patients in the 1980s:

> I was shocked by the conditions they had to work under – there were patients in bed, under the bed, down the passages. It was appalling. I had never experienced something like it. I felt sorry for the nurses; they actually couldn't nurse, it was just first aid. They had never known normal nursing conditions. They were in fact trained in abnormal nursing. For example, they ignored aseptic technique; they never were able to apply it,

> so they never learnt it. There was a lack of facilities for washing hands – one basin at the front of the ward. If you were at the back attending to the 67th patient in a 48-bed ward, there was no way you would come all the way to the front to wash at the basin before attending to the 68th patient. So the crisis became the standard, the norm.

Nurses trained under such conditions, she believed, would not be able to learn what she regarded as 'proper' nursing. In the late 1980s, she went on, when the shortage of white nurses compelled white hospitals to start employing black nurses, the matrons insisted that black nurses take a six-month induction course to upgrade their skills so that they would be fully competent to the standards required in their wards. This incident captures some of the ambiguities and complexities that shape the social meaning of skill: was the insistence on additional training motivated by a real skills deficit, or by racial prejudice, or by both? Whatever the case, such incidents reinforced both white prejudice and black resentment.

Nurses working at Chris Hani Baragwanath Hospital in the apartheid era described a similarly complex relationship with white doctors and professors: on the one hand, they had enormous respect for the knowledge and authority of the professors, and developed close working relationships. On the other, though, this power and authority was inseparable from the hierarchy of white and black: 'It was apartheid time – they were superior, more demanding; they expected us to do as they wished'. Black nurses were fearful of the power of white professors, as they were of the authority of the white matrons who ran the hospital.

As these examples show, it is extremely difficult to disentangle skill or knowledge and racial power; indeed, they were inseparable. The consequence in the post-apartheid state has been a degree of ambivalence towards skill and those, mostly white, who have high levels of skill, knowledge and expertise as a consequence of the policies of apartheid. In many parts of the state, the new post-apartheid authorities adopted cavalier policies towards the incumbent officials with management, systems and subject-specific expertise, as well as towards experts with 'hard' technical skills such as mine inspectors, water engineers, town engineers and so on, and over time much of this knowledge and skill was lost to the state (for local authorities, see Atkinson 2007). As argued above, knowledge and skill were intimately associated with racial domination and racial discrimination, and in many cases such apartheid-era officials and experts would have found it difficult to adapt their practices to a democratic order. Indeed, many left of their own accord.

In the field of health there remains an ambivalent attitude towards white doctors on the part of the health authorities. On the one hand, their expertise is valued, while on the other they are regarded as troublesome and ungovernable, because they are relatively independent and can be outspoken about conditions that affect their patients. This is particularly so in academic hospitals where many of them are in 'dual posts', which means that they are appointed by and accountable to both the provincial authorities and the university. The removal of the hospital CEO, described in the previous section, illustrates this attitude. Similar ambivalence seems to be at play in the public accusation by the KwaZulu-Natal Health MEC that white doctors in rural facilities are racist – this in a context where it is desperately difficult to find doctors willing to serve in rural hospitals (see the next section).

Nurses are not necessarily exempt from this kind of ambivalence, although most are black. During the 1994 nurses' strike, both Nelson Mandela and Nkosazana Dlamini-Zuma, respectively president and health minister in the newly elected democratic government at the time, were quoted as saying that strikers should be fired, as new nurses could easily be found on the street – comments that nurses still remember with bitterness.

Much of the dysfunctionality and management failure in the public hospitals and the health departments can be attributed to the lack of skills and expertise in the post-apartheid state. It can reasonably be assumed that it is not only the scarcity of such skills – or at least, of such skills in combination with democratic and non-racial attitudes, which would make them compatible with the new order – but also ambivalence towards them, that has created this situation.

The significance of 'face'

The state is the quintessential domain of African sovereignty in post-apartheid South Africa, and represents the conquest of the citadel of white sovereignty. The apartheid state summed up and elaborated in its harshest form the entire colonial history of our country. It was the instrument of white domination, serving to dispossess and oppress the colonised people and systematically order society along racial lines that disempowered, demeaned and denigrated black people, and Africans in particular. In this, it came to represent a particular version of 'Europe' – the Europe that colonised and dominated its African possessions and that was represented by the European settler population.

However, the post-apartheid democratic state remains fragile in its capacity as the domain of African sovereignty, surrounded as it continues to be by 'Europe'. White business and professional associations remain dominated by white experts, and the media, if no longer necessarily controlled by whites, seem often to represent a discourse that continues to be shaped by 'European' Western norms and assumptions. Beyond these, but allied to them and immensely powerful in the global world as well as specifically in our postcolonial national territory, the discourses and prejudices of the metropolitan powers cast the critical 'racial gaze' theorised by Frantz Fanon (Gibson 2003) on the new government, and at the same time constrain the powers of its newly conquered state.

This situation – the conquest of sovereignty and the simultaneous constraining of sovereignty by the persisting powers of the ex-colonial forces within society and beyond its borders – elevates the importance of authority, reputation and 'face' in the state. The newly-won African sovereignty may appear to be under siege not only from without, but also from within the state. The state apparatuses inherited from apartheid were oriented towards white domination, and many of the personnel of that state remained in place after the democratic rupture and, indeed, still do so.[3] In the health sector, for example, many doctors, and most of the most experienced and authoritative clinical leadership, are still white. Here we can see how the issues of upward mobility and transformation, and of skill and knowledge, intersect with those of authority and 'face'.

This dynamic – the interplay between the 'racial gaze', the importance of 'face' and scepticism towards the claims of Western scientific knowledge – played a significant role in the breakdown of relations between the AIDS lobby and government, as well as the genesis of AIDS dissidence within government. In 1996, government commissioned a play, *Sarafina 2*, as a strategy for raising public awareness about HIV/AIDS. Despite good intentions, a number of mistakes were made: the sum paid was exorbitant, tender procedures were not correctly followed, and the play's message was ill conceived. AIDS activists, opposition parties and the media were critical, and the press engaged in an orgy of vilification of the health minister at the time (Nkosazana Dlamini-Zuma), resorting to not very subtle racist stereotyping. As Lawson comments in her thorough and balanced book, it was as if this incident 'had opened the floodgates to a torrent of suppressed anger, disappointment, envy and hostility towards the country's new leaders' (2008: 105). Government leaders were angry and defensive, and this was the first rupture between the AIDS lobby, including scientists, and leaders such as Dlamini-Zuma. AIDS dissidence was at least in part a response to this kind of vitriol, as well as the stereotyping of African sexuality (Lawson 2008).

Inside the bureaucracy, the seeming fragility of African sovereignty is linked to the culture of extreme deference towards authority and towards the administrative and political leadership. This is organised around elaborate rituals of power and respect. When a minister or MEC is going to visit a hospital, it is convulsed by efforts to focus all available resources on making it as presentable as possible: patient care is put on hold while senior nurses are deployed to make sure that wards and corridors are cleaned, managers ensure that the grass – which generally grows knee-high because there are insufficient gardeners – is mown, doctors are instructed to make their domains as presentable as possible. Nurses, doctors and managers are well aware that it is a sham hospital that is being presented for scrutiny, and the message is to avoid at all costs allowing the politicians to see the real hospital.[4]

The emphasis on deference extends through the middle and upper reaches of the bureaucracy. The consequence is that provincial officials and political heads get to hear what hospital managers believe they want to hear, rather than a frank account of what is happening in the institution and on the ground. This contributes to the failure to understand and solve delivery breakdowns. A hospital CEO who behaves differently and tries to tell departmental managers about the real consequences of departmental mismanagement, rather than what managers want to hear, runs serious risks, as in the removal of the CEO described above.

The importance of 'saving face' translates into a practice of axing the messengers who bring bad news, or finding scapegoats when things go wrong. 'Troublesome' clinicians – the CEO in the above example, the deputy health minister, Nozizwe

Madlala-Routledge, who was fired in 2007 for speaking out about hospital conditions after visiting a hospital in the Eastern Cape and describing the rate of stillborn births as a 'national emergency'– provide instances of this. The case of the white doctor who threw a picture of the KwaZulu-Natal MEC into a dustbin after hearing her tell staff that white doctors were only interested in profit, is also telling. The doctor was suspended pending a disciplinary enquiry, the MEC publicly accused white doctors of being racist, while the health minister told reporters that the incident 'smells of anarchy'.[5] In this case, the MEC's picture had become a highly charged symbol of respect and 'face'. From one side, the incident appears as a typical case of how the concern with 'face' overshadows crucial delivery concerns; while from another, an agent of the colonial gaze is deliberately undermining the authority and credibility of the state.

'Face' does not necessarily undermine management effectiveness or the pursuit of departmental goals; perhaps 'face' is an important ritual in all bureaucracies. However, where a focus on deference draws attention away from the purpose of the institution, and indeed works to prevent addressing real problems, then it does undermine institutional effectiveness. In many of the cases described above, this is indeed what happens. There is a tendency for the rituals and practices associated with deference, respect and affirming 'face' to become goals in themselves, displacing the ostensible goals of the institution and preventing dysfunctionality from being addressed; they tend, in other words, to become primary goals rather than secondary ones.

Breakdown of discipline

There is widespread consensus that at many public hospitals, discipline has broken down (Von Holdt & Maserumule 2005; Von Holdt & Murphy 2007). This applies not only to lower-level support workers such as cleaners and clerks, but also to professionals such as nurses and the doctors who do private practice work in time that they owe the state as their employer, as well as to non-performing managers.

The old apartheid workplace order was an authoritarian one, and this authoritarianism was inseparable from the racial authority established by apartheid. The Chris Hani Baragwanath nurses quoted above suggested their fearfulness and anxiety in the face of the authority of white doctors and matrons. For support workers, the work regime was even harsher, as they were employed on permanent casual contracts, which meant that they could be dismissed with immediate effect. Black workers had no trade union rights, and nurses were legally barred from striking.

In the old Transvaal province, this apartheid order unravelled in the 1992 strikes by some 8 000 support workers who were members of the National Education, Health and Allied Workers' Union (NEHAWU). The strike centred on their status as casuals, wage demands and the absence of collective bargaining rights for public service workers, and dragged on for four months in the face of a hostile and intransigent old-order management. Twelve people were killed during the strike, with intimidation, assaults and arson directed against strikers and strike breakers employed by the state alike (Fenichel 1992).

The union won its demands and the apartheid workplace order was shattered, but this did not mean that it had been replaced by a new, legitimate workplace order or that discipline was re-established on a new consensual basis. Research conducted at Chris Hani Baragwanath suggests that order and discipline remain highly contested (Von Holdt & Maserumule 2005). A cleaner described the change:

> The hospital has been a mess since 1992. Workers used to fear their supervisors and run to do their work. When we came back after the 1992 strike we found cleaners and ward attendants without discipline, without training. We found trolleys everywhere. The ones who were employed as strike breakers are the problem – there is tension between them and other workers, and they are uncontrollable. They bring guns and alcohol to work. Now discipline is applied in a discriminatory way.

Speaking with indignation from within their status-conscious and authoritarian nursing culture, the senior nurses associated this situation with the broader changes brought about by democratisation:

> When the ANC took over, everything became relaxed; you could do anything in the new dispensation … The lowest categories control the hospital. Since the unions were introduced, the shop stewards have been running the hospital, but they cannot even write their names! They get out of hand and it is difficult to handle. Management is scared to discipline and control. The shop stewards confront and victimise the nurses. We also belong to a union but we do our job. Everyone barks at us. We have no dignity; we are degraded. There is supposed to be democracy, but not in the manner of Baragwanath.

The 1992 strike occurred at a watershed moment in the shift from the apartheid industrial relations order to a new democratic industrial relations order in the public service. The post-strike situation at Chris Hani Baragwanath may have been extreme, but the breakdown in discipline seems to be widespread.

Several factors explain this. First, hospital HR departments are actually personnel administration functions, which lack the strategic and management skills to proactively manage labour relations and construct a more legitimate workplace order, and instead see their task as to support and implement regulations and decisions made higher up in the system. Second, the centralisation in provincial head offices of final decisions on disciplinary processes undermines supervisors who try to take action on the ground, especially when they face threats of intimidation. Many simply abandon the effort.

Finally, the general project of class formation described above has an impact here. There is a general perception that in many government departments at a senior level, there is a tacit acceptance that blurring the lines between legitimate tender procedures and tender-rigging is acceptable, as the formation of a business class and the concomitant acquisition of wealth is a legitimate goal of government. Such perceptions contribute to a climate in which making use of state resources for personal gain is regarded as acceptable. In one case, a highly competent water manager was forced to resign in the face of trumped up corruption charges, because he constituted an obstacle to corrupt practices in the tendering for lucrative contracts.[6] The fact that he was black demonstrates only that the ambivalence towards skill does not extend only to skilled white personnel. In another example, a focus group of shop stewards stated that 80 per cent of the employees in their hospital 'regarded corruption as part of their job description', and by corruption they meant activities ranging from eating meals intended for patients to the theft of hospital equipment. The pervasiveness of such attitudes has encouraged supervisors to give up resorting to disciplinary measures, to turn a blind eye, or themselves to participate in this kind of 'corruption'.

Rituals of budgetary discipline

The budget plays an extremely important role in departmental and hospital activities, and yet at the same time the budget and the rituals that surround budgeting bear next to no relationship to the concrete health care activities of the hospitals. Budgets are drawn up in head office and are based on historical allocations and, ultimately, decisions made in National Treasury. In any case, financial systems do not record expenditure in a way that can relate activity to costs, so it is impossible to engage meaningfully with budgeting at hospital level. Managers of functional domains have no idea what their budgets are supposed to be and cannot therefore manage costs. The redirection of resources from hospitals to primary care, together with inadequate allocations from Treasury, means that many hospitals suffer from under-budgeting.

What under-budgeting means for those who work in hospitals is under-staffing and increased workloads and stress; shortages of equipment, medical materials, linen and drugs; and constant system breakdowns. As the end of the financial year draws near, and head office officials realise that hospitals are overspending, enormous pressure is put on them to cut costs with measures such as reducing pharmaceutical inventory, cancelling elective surgery, freezing unfilled posts and so on. While this might reduce spending overruns, it generates wastage of a different sort as highly paid specialists and expensive equipment are left idle.

Although clinicians and nursing managers are invited to contribute to budget discussions at hospital level, at the end of the day decisions are imposed from the centre. This generates tensions between clinicians and managers, as the former tend to see the latter as policing the decisions made by their superiors rather than fighting for better budgets on behalf of the patient. It is in this context that head office officials prefer a CEO who polices the budget, often to the detriment of hospital functioning, to one who focuses on improved hospital functioning and fights back on budgets.

Officials, hospital managers and clinicians are left in little doubt that it is the budget and the rituals that surround it that are primary. Budgetary discipline is of course important in any effective state apparatus. However, where discipline is imposed on the basis of budgets that bear no meaningful relationship to reality this is liable to convey messages that have little to do with discipline. The impact on service delivery is profound, because the signals that these budget rituals convey is that service delivery is of secondary importance. Rhetoric about public service, and attitudinal programmes such as *Batho Pele*, cannot be taken seriously by staff who know that under-budgeting and hospital dysfunctionality undermine their ability to perform their tasks and prevent adequate patient care. If their superiors in the bureaucracy care so little about the people who do the work or about the patients who are compelled to make use of the public health system, why should overworked nurses, doctors and cleaners care? That many do still care is one of the unsung miracles of the post-apartheid state.

Concluding discussion

Contradictory rationales of the bureaucracy

The five key features of the bureaucracy discussed above tend to reinforce each other: high vacancy rates, affirmative action targets and mobility mean that at times personnel who lack the requisite skills and experience are employed in key jobs; this further undermines skill as a criterion, and reinforces the sense of fragility and the importance of deference and 'face' to mask this; skills gaps and deference tend to elevate the importance of rules and procedures; assertiveness about black class formation and sovereignty further displaces a focus on skills and experience and may legitimate corrupt practices; the processes of meaning-formation through which these goals are legitimated discourage a focus on effective organisational performance; and the breakdown of discipline and the elevated significance of budgetary rituals further displace the clinical process to the margin of bureaucratic concerns. Poor organisational design, with its fragmentation of authority, control and systems, ensures an even greater disconnection between what the bureaucracy does and the clinical process.

This is not to say that the non-Weberian rationales described here have completely replaced the 'normal' Weberian functioning of the bureaucracy, nor to deny that many officials work extremely hard and are dedicated to performing their tasks. It is rather that bureaucratic rationales are overlaid with other, informal meanings and practices, which tend to slow down, divert or retard achieving the goals that would be ascribed to a 'rational' Weberian bureaucracy – in this case, improved delivery of health services. The bureaucracy is characterised by contradictory rationales, purposes and meanings, which make it difficult to establish efficient routines or to grasp the real problems and seek innovative solutions. In this environment, it is much easier to seek refuge in existing routines, rules, procedures and hierarchies than to acknowledge and tackle dysfunctionality.

Nor is the importance of establishing and buttressing African sovereignty, or leading the formation of a black middle class, to be dismissed; indeed, these goals

Table 12.1 Contrasting rationales of the apartheid and post-apartheid state

Apartheid state	Post-apartheid state
Suppressed black class formation	Supports black class formation
Modern 'European' knowledge and skill to advance the interests of white people and dominate black people	Ambivalence towards modern 'European' skills because of their historical combination with racial domination
Instrument of colonial and white racist domination	Instrument of African sovereignty and 'face', surrounded by the 'racial gaze' of Europe
Violent, repressive, authoritarian	High contestation and conflict, competition for resources for self-enrichment, breakdown of discipline
Sufficient budget for white minority	Rituals of budgetary discipline signal that service delivery is secondary

are essential to rolling back the legacy of colonialism and apartheid, and without state intervention little progress will be made on these fronts. African sovereignty in the form of control of the state is the necessary condition for everything else. The formation of a black middle class is as important for the stabilisation of society as for economic growth. The question is how to reconcile these goals with those of effective state functioning.

The relationship of these post-apartheid rationales to those enshrined in the apartheid state is captured in Table 12.1.

Post-apartheid modernity

The Weberian bureaucracy is, sociologically speaking, one of the core institutions of modernity: it is what makes the modern state and the modern capitalist economy possible. It is also at the core of what a developmental state is and what it can do. Modernity was imposed on South Africa through colonial conquest and then elaborated and solidified through the successive forms of the 'internal colonialist' state. Modernity – and by modernity I refer to the modern state bureaucracy, modern systems of rational and scientific knowledge, and the various modalities of modern sovereignty such as democracy, the nation, citizenship and individual rights – took very specific colonial and racial forms.[7]

Postcolonial or post-apartheid modernity in general, and the post-apartheid state in particular, is deeply marked by this history. It is futile to dream of replicating the model of some other developmental state (Japan, South Korea, Taiwan) without grasping both their and our historical specificity. Despite periods of colonialism, China, Japan and South Korea (and India) had their own indigenous histories of meritocratic bureaucracy based on indigenous technologies of writing; it may perhaps be argued that such societies were in the process of establishing their own versions of modernity before contact with Europe, and these remained a resource of great value in establishing their own modern developmental states.

The historical specificity of the South African state, and of South African modernity more broadly, means that the post-apartheid state is deeply marked both by its colonial and apartheid history, and by the struggles of the oppressed indigenous people to establish zones of sovereignty, self-definition and empowerment. These struggles involve a *simultaneous* appropriation and rejection, a tension *between* appropriation and rejection of modernity, or rather a tension *over* the selective appropriation and rejection of different aspects of modernity, since modernity is not a monolithic structure.

The state bureaucracy is one such aspect, and it is marked by contestation over its purposes and meaning. Thus the features that have been identified in this chapter are not necessarily characteristic of all the organs of the state. Pockets of highly efficient Weberian bureaucracy do exist: the South African Revenue Service, National Treasury, the now-disbanded Scorpions, all exhibit features of Weberian bureaucracy such as meritocracy, a high premium placed on skill and expertise, and corporate cohesiveness.

How such bureaucracies have been established and maintained would be an important subject for investigation. It is interesting, however, that National Treasury (the finance ministry) is not only the site of this kind of bureaucracy, but is also intellectually the site of an extreme version of economic orthodoxy, ranging from the Growth, Employment and Redistribution (GEAR) programme to fiscal discipline more generally, regressive taxation, inflation targeting and so on. On the face of it, this may seem – and it has been lauded as such – like the successful replication of the authentic 'European' model of the modern state; yet it may as plausibly be seen as a neocolonial internalisation of the 'racial gaze' in the form of the policy prescriptions of the Washington Consensus institutions for the developing world. This orthodoxy, though, has had a destructive impact on the capacity (including financial capacity) of many service delivery departments such as health, where it is translated into the budgetary rituals (described above) that bear little relation to Weberian rationality and yet are the inevitable outcome of 'budgetary discipline', when it is imposed on far-flung reaches of the bureaucracy that are functioning according to non-Weberian rationales. In this it resembles the strange mutations that imperial decrees may undergo when they arrive in distant reaches of the empire where they have to be translated into local languages and contexts by local proxies of the imperial centre.

Contrast this adoption of a rigorous orthodoxy by the Treasury with the aggressive adoption of a heterodox dissidence on the issue of HIV/AIDS by the dysfunctional health department, and one begins to grasp the complex and contradictory way in which the appropriation and rejection of modernity plays itself out within the apparatuses of the state. Overall, however, it must be said that many, if not most, of our state departments are dysfunctional, if considered from the classical Weberian perspective. This constitutes a major obstacle to any attempt to implement the strategies of a developmental state.

The state that we do have resembles far more Evans's description of the 'intermediate states' of Brazil and India than it does the developmental states of Japan, South

Korea or Taiwan. Such states, intermediate between developmental states and predatory states, have less coherent or effective bureaucracies as well as less productive relationships with society than do developmental states. Nonetheless, they have 'pockets of efficiency' (Evans 1995: 65) and manage to play an effective developmental role in some sectors and at certain times. As Evans argues, this demonstrates that even a 'very rough approximation of the Weberian ideal type' (1995: 64) confers developmental advantage. The similarities of the Brazilian and Indian states to the South African post-apartheid state are quite striking:

> Internally, they have bureaucracies that are not patrimonial caricatures but still lack the corporate coherence of the developmental ideal type. Organisationally consistent career ladders that bind individuals to corporate goals while simultaneously allowing them to acquire the expertise necessary to perform effectively are not well institutionalised. These intermediate apparatuses confront more complex and divided social structures with less well-developed bureaucratic capacity and less well-organised external ties. (Evans 1995: 70)

Likewise, it must be said that the post-apartheid state does have some developmental capacity. Lest we be too sanguine, though, Evans issues an important warning, that the 'reproduction of bureaucratic organisations cannot be taken for granted' (1995: 70). In Brazil and India the 'maintenance of even existing levels of capacity and competence were in doubt as the 1990s got underway' (Evans 1995: 70). Much the same can be said of South Africa.

What can be done?

Can the post-apartheid bureaucracy be reformed in such a way as to take it closer to the Weberian ideal and make the effective delivery of public services a core rationale? How could this be done?

An investigation of those state institutions that do function effectively might be the first step towards answering such questions. In the case of the Department of Health, improved institutional design that overcomes fragmentation, creates clear lines of accountability and delegates authority to appropriate levels could generate a fresh dynamic in which organisational performance, problem-solving and clinical outcomes gained more weight, and in turn increased the salience of skill, experience and expertise. Affirmative action policies need to be refined so that they cease outweighing organisational effectiveness as measures of managerial performance. Most importantly, the large corps of health professionals, with their professional training in the systematic protocols of clinical medicine and health care, constitute a considerable constituency for the rational Weberian functioning of the institutions in which they work; reconfiguring organisational structures to give them greater voice and managerial authority might go a long way towards countering the non-Weberian rationales that currently contribute to dysfunctionality.[8]

The question confronting us as a society, and the ANC, is what sort of state we want, and how we might go about constructing it. At its root this is a question of how we want to define post-apartheid modernity. To adopt a developmentalist ideology without addressing these questions will simply create more opportunities for strange rituals that have little bearing on what actually happens inside the state and even less impact on the needs of the people, no matter how pleasing they might be to progressive policy advocates.

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Notes

1 *The Star* (14 August 2008); *Business Day* (18 August 2008).

2 There are significant questions concerning the validity of the vacancy data due to discrepancies in the available data (Naidoo 2008: 124).

3 Despite assertive affirmative action policies, just less than 60 per cent of senior management in the civil service were African in 2006 (Naidoo 2008: 112), from which it can be inferred that the proportion of white senior managers was somewhere around 25–30 per cent, although only 13 per cent of all public servants were white.

4 This happens independently of the individual attitude of the MEC in question; the practices of the bureaucracy are arranged in such a way as to ensure that this ritual takes place, irrespective of whether the MEC approves or even knows.

5 *Mail & Guardian* (April 25–May 1 2008; May 2–8 2008); Minister smells anarchy in insult, *Business Day* (6 May 2008).

6 Tragedy that flows through the triumph at Vaal River, *Business Day* (23 April 2008).

7 Colonial modernity was of course also contradictory, in that some of the colonised were able to access modern education and professional careers, and so were able to appropriate discourses of citizenship, individual rights and nationalism for national liberatory goals.

8 For arguments along these lines, see Eisenstein et al. (2008); Von Holdt & Murphy (2007); and the unpublished draft document produced in the Roadmap for Health reform process led by the Development Bank of Southern Africa: *Roadmap for Health Reform, Position Paper 5: Results-based Improvements to Service Delivery Working Group*.

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13 Intermediate skills development in South Africa: understanding the context, responding to the challenge

Salim Akoojee

Success in skills development has been intricately linked to the success of the South African developmental state. The nature, understanding and context of the skills deficit has been identified at all levels, by the highest political office (see, for instance, various State of the Nation addresses by President Mbeki – 2005, 2006, 2007); by captains of industry (Godsell and Faurie),[1] and by a number of influential individuals (see for instance Manyi;[2] Ramphele 2008). The reality of all of these different voices contesting the nature of the skills challenge provides evidence of its importance to national development. Skills development is incontestably crucial to debates regarding the effectiveness of a developmental state. In the light of the historical skills deficits in South Africa, implementation of skills development programmes has the potential to either advance or retard developmental efforts. The issue of skills development in South Africa is crucially related to the redress of past injustices and is a means to respond to the current globalised economic order. It is not surprising that this conjunction has encouraged governments across the globe to see education and skills as a core tool for increasing economic competitiveness and promoting social inclusion (Akoojee et al. 2005; Brown et al. 2001; Crouch et al. 1999). This chapter uses the political economy approach of skills formations espoused by these scholars.

It deals with the provision of skills by further education and training (FET) colleges. These institutions are meant to play a major role in the intermediate skills development context, and are therefore expected to be at the forefront of skills development provision. However, they have a long way to go before they take their rightful place in keeping with their skills development mandate. An analysis of their role as primary public Technical and Vocational Education and Training (TVET) provisioning agents is, therefore, essential in examining the potential for, and challenges in, forging a new order. It is also contended that an analysis of their nature, form and context is essential in the quest for constructing an effective, efficient and responsive democratic developmental state.

This chapter is divided broadly into three sections. The first explores the nature of developmental state thinking as we move into the 21st century. The national development challenge and current developments in South Africa are assessed based on this ideological positioning. The second part of the chapter assesses educational change in South Africa. Using current transformational discourse, the nature of the skills development challenge is identified in South Africa. The third section illustrates the FET college context with key achievements and challenges identified. It is contended that the challenges could be understood in terms of 'educational' theory, but this requires an understanding of current debates around the 21st century developmental state to resolve the disjuncture between rhetoric and reality.

The developmental state and development in South Africa

The developmental state

Debates on the nature, form and context of the 21st century developmental state have important implications for skills development. Not only does skills acquisition represent an essential element of a country's development up the value chain (Castells 2001), it also provides the context for development of citizens in terms of skills necessary for their survival in an increasingly knowledge-dominant economy, as well as playing a role in democratic deliberations and other civic obligations. The role that the state needs to play for both national and individual development with regard to skills is therefore significant.

There is no recipe for development. Chang (Chapter 4, this volume) reminds us of the peculiarities of different developmental contexts and argues that it would be erroneous to see all developmental states as having a similar trajectory; and thus it is impossible to provide either a recipe or a fixed trajectory. Thus, while the countries in the East Asian miracle (Hong Kong, Japan, Singapore, South Korea and Taiwan) appear to have had a uniform and consistent path, their vastly different contexts required different mechanisms to deal with economic success using creative industrial development strategies. While, in these cases, outcomes were economically, rather than democratically, defensible the developmental states of larger democracies, e.g. Japan and France, reveal some consistencies about the way in which development happens, as Chang argues. Importantly, Chang observes that in 'doing development', 'political will' is associated with social desirability rather than expediency, which is ultimately likely to lead to better developmental outcomes.

Evans (2008) calls for 'new political capacities' (2008: 29) in defining the developmental state for the 21st century, one that advances 'human capabilities'. The conventional strategy of tinkering with 'policy goals' and strengthening 'bureaucratic and organisation capacity' is, he argues, misguided outside of a 'capability approach', which requires a robust and widely deliberated engagement by key civil society constituencies. In this respect, '… only public interchange and open deliberation can effectively define development goals and elaborate the means for attaining them' (Evans 2008: 4).

The political 'will' (as mentioned by Chang in Chapter 4, this volume) and 'capacities' (Evans 2008) have, however, to be tempered in the light of a global order that is decidedly less 'people-centred', although the global economic downturn in mid-2008 resulted in some degree of civil society engagement and greater emphasis to ensure that development is more inclusive. This does not detract from a consistent need for a much more engaging and responsive state in touch with its citizenry (Giddens

2002). This notion is consistent with calls for widened participation in productive economic activity as articulated by Butler (Chapter 9, this volume).

Understanding the national development challenge in South Africa

Debates around appropriate strategies for national development need to be located within particular national democratic challenges. In this respect the developmental challenges faced in post-apartheid South Africa are still daunting and need to be identified.

For a large number of South Africans, the initial hope in the post-apartheid era has turned to despair. In some cases, this has resulted in considerable anguish and rising protests, expressed in early 2008 in widespread xenophobic violence. At a community meeting at the time (in May 2008) a community member was quite vociferous about the social challenges faced by ordinary folk, when he expressed to the incumbent ANC president, Jacob Zuma, that 'Life is terrible for us here …'.[3] The backlash against foreigners was less surprising than is often admitted. Frustration with what was perceived as a 'lack of delivery' by 'politicians interested in self enrichment' had often before come to be expressed in form of protests – some violent. Walsh (2007) points out that in 2005 alone, there were 6 000 protests in South Africa. These isolated, small-scale, intermittent and uncoordinated, but nevertheless widespread, instances of dissatisfaction appear to have been ignored and to have masked broader social discontent with the lack of and slow pace of service delivery.

The reality of inequality looms large, as most social indicators testify. Between 18 and 24 million people (45–55% of the population) are living in poverty, including between 8 and 10 million in extreme poverty (Bhorat et al. 2004; Everatt 2003; Gelb 2003; Landman 2003; Meth & Dias 2004; PCAS 2007; UNDP 2004; Van der Berg & Louw 2003). In South Africa, 1 in 10 Africans is malnourished, and 1 in 4 African children is stunted (Everatt 2003; Woolard 2002). Unsurprisingly, this poverty has pronounced spatial, racial and gender dimensions (Everatt 2003; Gelb 2003; Woolard & Leibbrandt 2001) – legacies of apartheid that seem to have been entrenched since 1994. More recent figures indicate some promising developments. Woolard and Woolard (2008) point out that in the period 2001–05, poverty had begun to decline. This might however, be a case of 'too little, too late', unless fundamental and urgent reforms are undertaken to address the dire state of affairs.

Another dimension of poverty is inequality, which has increased since 1994. South Africa ranks among the most unequal countries in the world (Bhorat & Cassim 2004; Gelb 2003; Landman 2003; Roberts 2004). While 10 per cent of the population earn more than 50 per cent of the household income, the poorest 40 per cent of the population account for less than 7 per cent of the household income, with the poorest 20 per cent accounting for less than 1.5 per cent. Latest figures (2008) indicate that although real per capita income increased between 2000 and 2005/06 (excluding imputed rent), with above-average increases in deciles 1, 2, 3 and 10, below-average increases occurred in deciles 4 to 9 (Stats SA 2008). The Gini coefficient for the country was placed at 0.72, with significant racial disparities, making South Africa the most unequal country in the world.[4]

The level of unemployment in South Africa is described as very serious and as one of the highest anywhere in the world (Rodrik 2006). Estimates (as at October 2009) are that it is as high as 24.5 per cent on the narrow definition (Stats SA 2009), a figure which, as a matter of course, excludes those 'discouraged' and 'seeking work', referred to as a broader definition, which in 2007 was about 12 basis points higher. It would therefore be appropriate to assume that the actual unemployment figure is likely to be about 35.5 per cent – or slightly over a third of the workforce (Stats SA 2009). In addition, youth unemployment is extremely high at 65.2 per cent (CDE 2007: 3). Another disturbing phenomenon is the estimate that the median age for entry to a first job is 24 for men and 27 for women (CDE 2007: 3).

Perhaps the greatest challenge to development in South Africa is the HIV/AIDS pandemic. Infection is estimated at almost 12 per cent (5.7 million people), with prevalence far higher among women (13%) than men (8%), with particular regional variation, from 39.1 per cent in KwaZulu-Natal to 15.1 per cent in the Western Cape (UNAIDS 2008).

Economic development is likely to be adversely affected by the ongoing crisis occasioned by the inadequate electricity power supply. The closure of mines for a limited period in February 2008 due to the electricity crisis led to negotiations at the highest level between government and capital in order to address the crisis and mitigate its adverse impact on the economy.

Whither the South African 'developmental' state?

The current national development context has all the signs of some serious reshaping of policy. The ANC's Polokwane resolution (ANC 2007) reaffirmed the need for a 'developmental' state that is much more 'rooted amongst the people and buttressed by a mass-based democratic liberation movement' (2007: 28). It has provided the context for a more engaging and responsive state, as opposed to what Creamer (Chapter 10, this volume) describes as a 'weak' developmental state that requires the 'intellectual' and 'political' will of the people.

The focus now, more than ever is, as Butler (Chapter 9, this volume) argues, to widen access to adequate levels of education, health care and other social services, while creating new opportunities and potentialities for the poor. Latest policy perspectives suggest increased attention to the needs of the rank and file under the rallying cry of a 'democratic developmental state': 'While acting to promote growth, efficiency and productivity, it must be equally effective in addressing the social conditions of the masses of our people and realising economic progress for the poor' (ANC 2008: 4).

The call for 'people-centred' development is not new, as it has been articulated since 1994. The devil, of course, lies in the detail. What is new is the overwhelming realisation that without attention to real improvement in the quality of life of many more people, continued political stability is unlikely to be realised. As Fine (2008) points out, in some instances the mere declaration of a developmental state is expected to secure its achievement. There are, however, clearly associated challenges that need to be responded to in order that identified objectives may be realised. The incumbent leadership, with much more 'labour-oriented' leanings, is likely to be more pro-poor in inclination. Their articulated return to principles first proclaimed in the Freedom Charter and then in the early days of the Reconstruction and Development Programme (RDP) suggests a much more engaging state, committed to service delivery within an equity perspective.

Locating skills development provision within an educational context

This section of the chapter begins by reviewing the discourse of key South African education debates about the nature of change. It attempts to locate developments at FET colleges in terms of the educational discourse. The key achievements and some critical shortcomings are noted in terms of articulated objectives, and some reasons for the disconnect are proposed.

Understanding non-change within education policy discourse

The dearth of information about the TVET sector, which in the South African context is the FET sector, is related to the general lack of scholarly work (Wedekind 2008), as well as the lack of attractiveness of the area in education policy debate (McGrath 2007). Some work has, however, been undertaken using a critical theoretical framework that locates the sector in terms of its national development role. This is in an attempt to locate current debates within an international context (see, for instance, Akoojee & McGrath 2007; McGrath 2007; and Young 2006). It is thus not surprising that little has been written about the nature of change within the South African FET college system despite its considerable reorganisation and restructuring since 1994.

It is therefore necessary to attempt to understand the nature of the changes in the FET colleges within the context of the mainstream educational system, essentially schooling and higher education, and then to relate these changes more closely to skills development debates. A brief overview of these debates suggests three main strands, namely: 'non-change, symbolic change, and failed implementation' (Chisholm 2004: 14). Two of the strands focus on the nature of the state and the bureaucracy, while the third emphasises policy. One of the 'statist' strands focuses on the neoliberal character of the state, which – under pressure from a global economy – responds to imperatives of fiscal austerity and marketisation (see Akoojee & McGrath 2004). The other explores the role of a lack of state capacity, and the various contradictions between policy goals and implementation (Motala & Pampallis 2001). The problem with these statist arguments, according to Chisholm (2004), is that they focus 'on the relationship between reconfigured relations within the state and social class' (2004: 14). They would, therefore, need to be considered with some degree of scepticism.

The third strand of debate explores to a larger extent the role of policy (the most influential voices in the debate being those of Jansen 2001; and Sayed & Jansen 2001). While Sayed and Jansen (2001) highlight the tensions and contradictions in the different discourses shaping and underpinning policy, Jansen (2001) uses the construct of 'policy symbolism'. For Jansen (2001), policy change, especially in the early days, represented a struggle for the symbolic advantage of change as espoused. According to the latter view: 'every single case of education policymaking demonstrates, in different ways, the preoccupation of the state with settling policy struggles in the political domain rather than the realm of practice' (Jansen 2001: 46). It is likely, however, that this explanation is less appropriate, as Chisholm (2004) argues: '… it may also be necessary to look at who has benefited and who has not, as well as at the real and material effects on teachers, parents and classrooms of decisions that regulate the content and control of, spending on, and access to, education' (2004: 15). The nature of change in skills development provisioning is less robust. The strand of debate more closely linked to post-schooling education and training, especially in the context of skills development and labour market articulation, falls into the 'policy' category. Kraak and Young (2000) deploy concepts such as 'policy maturation' and 'policy slippage'. Policy is seen here as the shift to a process of loss of idealism and greater realism about what is achievable. The notion of 'joined up' policy is emphasised (Kraak 2003), and has resulted in what has been referred to as education 'expansion saturation' (Kraak 2008). The essential features of this saturation include the following, in Kraak's (2008) analysis:

- Education's declining share of the national budget since 2000.
- Low levels of early childhood development and adult basic education and training provisioning.
- Declining Grade 12 pass rates.
- Capping of higher education enrolments.
- Declines in FET enrolments.
- Poor throughput rates in schools, FET colleges and higher education institutions.

Thus, poor enrolment in FET is subsumed under the discourse of 'education saturation'. The reality of the skills shortage identified earlier, however, means that with respect to skills development provision, enrolment is indeed far from saturated.

Intermediate-level skills in South Africa

Access to skills represents a crucial component of responding to the inadequacies of the past and is a meaningful response to the need for the country to engage with the current global economy. Internationally, TVET is described as being indispensable to national development, as it holds 'the master key that can alleviate poverty, promote peace, conserve the environment, improve the quality of life for all and help to achieve sustainable development' (Burnett 2008: i).[5]

That intermediate-level skills development is crucial to the success of the South African developmental state cannot be contested (McGrath & Akoojee 2007). Since

1994, skills development has been accorded greater priority in national policy. Its heightened importance is evidenced by the prime place it occupies in the Accelerated and Shared Growth Initiative for South Africa (AsgiSA), and its skills development component, the Joint Initiative on Priority Skills Acquisition (JIPSA).[6]

AsgiSA/JIPSA lies within the international tradition of skills policies that emerged as an attempt to respond to the assumed effects of the 'global knowledge economy', and shares the same assumptions – that skills development can play a vital role in both economic competitiveness/growth and social inclusion/poverty reduction.

The theme of skills development as a national imperative has been taken up by elements of the South Africa business community (e.g. Godsell and Faurie),[7] and echoes progressive business interests in the early 1990s that called for the development of the new South African skills system (McGrath & Badroodien 2006).

Lack of skill has always been used to deflect blame for poor economic performance from capital to the state, organised labour and individuals (McGrath 2004; Wolf 2002). The almost universal need to address the skills deficits has led one report to argue that it is not sufficient to ignore the nature and impact of the skills problem as 'purely technocratic and apolitical, [as if] we have a system for skills development that merely requires tweaking by experts and a bit of extra effort from social partners to fill critical gaps' (CDE 2007: 60). As in previous South African skills crises (over the past century), the reality of any shortage is difficult to discern in the face of inadequate statistics, and racialised and gendered constructions of skill.

The role of FET colleges

Public FET colleges' response to the skills development needs of South Africa has been well documented (Akoojee et al. 2005; Cosser et al. 2003; McGrath 2003). Naledi Pandor, the national education minister, repeatedly emphasised the responsibilities of TVET when she observed that:

> Vocational education, and indeed all education in Africa, must respond to the totality of the needs of the continent. Vocational education must also take on the added responsibilities of addressing the more serious issues of unemployment. This is hardly a choice – the shared responsibility to achieve a quality life for all who live on the continent is an imperative – and there is no doubt that much more must be done. (Pandor 2008)

The importance of TVET was also reinforced in another, earlier address (Pandor 2006), which provided the context for seeing colleges in South Africa as '… central to our agenda of developing skills' and the intention of building and sustaining 'a well-designed set of institutions, offering flexible programmes and ensuring that we have students qualified in critical skills'. This followed earlier pronouncements that the minister had made at the 2005 Limpopo FET Colleges Conference that '… colleges are not poor people's universities or places for other people's children … [and there needs to be a] recognition that further education colleges will begin to provide the majority of our young people with solid foundations for meaningful careers' (Pandor 2005). Similarly, the Ministry of Labour argued in *The National Skills Development Strategy* (2005) for the central role of FET colleges in the delivery of sectoral skills, and this has been reinforced by various pronouncements identifying the role of skills supply in South Africa's development (see, for instance, the 2008 speech by the finance minister, Trevor Manuel).

The great strides made in the past 15 years cannot be understood outside of the situation in which the sector found itself in 1994. At the advent of democracy in South Africa, the fractured, apartheid-designed education and training system was unified into a racially non-exclusive, mass-based structure. Prior to 1994, the structure consisted of 19 racially divided education departments (with 9 examining bodies administering about 90 different examinations each year), with about 128 technical colleges administered by 10 education departments. This excluded the large number of training programmes and skills training centres coordinated through the Department of Manpower (Kraak 1992). The locational disjuncture masked the ideological positioning that suggested that vocational education provision for black South Africans (African, coloured and Indian people) was presumed mainly to prepare them for work appropriate to, and defined by, the job colour bar.[8] As Chisholm (1992) argues, although the definition of training changed substantially after 1981, the 'generally divisive nature of policy along racial grounds remained' (1992: 3). Chisholm (1992) further observes that formal technical education geared to the training of semi-skilled and skilled workers for the industrial and mining sectors was largely restricted to white people.

It is obvious that the new system was designed to be more inclusive, and its achievements were evident as far back as 2002 – eight years after the inception of the democratic government. Table 13.1 shows the drastic student demographic transition.

Not only was the system radically expanded (from 76 435 students to 406 143), more than five times its pre-1994 size, but the radical demographic change is particularly noteworthy, with African enrolment increasing at almost the same rate (from 15% to 74% of the total enrolment).

Table 13.1 Public technical college enrolment (South Africa, 1991–2002)

Year	African	Coloured	Indian	White	TBVC states	Total
1991[a]	11 644	5 711	5 327	50 907	2 846	76 435
	15%	7%	7%	67%	4%	100%
2002[b]	302 177	29 904	9 448	64 614	n/a	406 143
	74%	7%	2%	16%	n/a	100%

Sources: a DNE (1992: 4.23); b Powell & Hall (2004: 122)
Note: n/a = not applicable, given that Transkei, Bophuthatswana, Venda and Ciskei (TBVC) were no longer in existence by 2002.

This achievement is to be understood in terms of a structural repositioning of the sector in the post-apartheid era. The implementation of recommendations of *A New Institutional Landscape for Public Further Education and Training Colleges* (DoE 2001a) led to the establishment of 50 new institutions from the previously racially segregated technical colleges. Colleges were charged to become more responsive by partnering with industry and assuming the autonomy to improve quality, equity and access and, crucially, to ensure the development of strong student support systems.

Over the subsequent period, these institutions have increasingly developed their own identities and the emerging system has seen some notable changes in the sector. These include, inter alia, an expanded student base (the inclusion of a school-level student cohort), a new curriculum (replacing the outdated NATED curriculum) and a boost in one-off funding from the National Treasury (of R1.9 billion). This was supported by new FET legislation in 2006 (Further Education and Training Colleges Act, No. 16 of 2006), which devolves the responsibility of staffing to college councils and removes key personnel functions from the Department of Education (DoE), in an attempt to forge a much more financially self-sustaining and 'responsive' skills development system (Akoojee 2008a).

These developments need, nevertheless, to be counterbalanced by a realisation of the challenges that the sector continues to face. As the education minister admitted in 2008, '… that vocational education sits at the centre of skills development is clear – how we design and deliver it is less clear' (Pandor 2008). Therefore, in designing a responsive, efficient and effective system much more needs to be done. The enduring challenges identified in the following section provide an important starting point in dealing head-on with these challenges.

Enduring challenges at FET colleges

Key issues that require attention include nomenclature; national competence under provincial management; structural positioning within the national DoE; contradictory policy development; recurriculation; student enrolment; and funding. Each is discussed below.

Nomenclature

A key challenge in the South African context relates to nomenclature. Gamble (2003) has identified four components of the FET Band, which encompasses all provision at Levels 2–4 on the National Qualifications Framework. These components include: public and private secondary schooling, public FET colleges, private providers and industry-based centres. She further notes that '[t]hese four components do not constitute a coherent system, since there has never been a tradition of co-ordination and planning across these four major components to forge a sense of system' (Gamble 2003: 4). Furthermore, a range of diverse sub-sectors within private FET provision have been identified as having peculiar features based on programme focus, learner targeting and profitability (Akoojee 2008b).

Indeed, as already pointed out, initial policy development did not see FET as a system, 'but rather as a range of programmes offered by a number of providers' (DoE 1997: 42). According to the DoE, the key impetus for change was the desire to 'align and co-ordinate institutions, programmes and providers in ways that would also link up to issues of economic growth, poverty alleviation and the personal development of learners' (DoE 1997: 42).

The effect of this misreading of the peculiarities associated with the sector is that the TVET sector in South Africa remains an amorphous construct, without any defined form. The lack of a systems perspective has enabled the TVET sector to fall between the cracks, subsumed under either the schooling or higher education sector. Importantly, the peculiar, separate and distinct nature of the public and private FET sectors, except in legislation, has provided a basis for TVET to be fractured in the South African education and training system.

National competence under provincial management

The structural location of public FET colleges within the national DoE is understandable in the light of FET's structural positioning in relation to national and provincial administration. FET colleges, like schools, represent a national competence under provincial management. Thus, the system in South Africa is 'provincialised', while still being led from the centre in terms of funding. Constitutionally, the institutional organisation of FET colleges, as with their schooling counterparts, is 'a concurrent matter', with implementation largely a provincial matter, governed by provincial legislation. As with schooling, national education legislation prevails over provincial legislation when it is a matter of correcting interprovincial matters and when national standards and policies are needed to preserve uniformity. However, unlike with schooling, not all provinces have been able to provide the necessary leadership to the sector. While this is partly because of the association of the FET terminology with that of the last three years of schooling (see the discussion on nomenclature above), the emphasis on the politically charged and high-stakes matric pass rates in the schooling sector makes FET colleges less significant. In addition, the conflation in terminology that allows provinces to 'lump' all FET policy into one directorate, allows the importance of the sector to be undermined. This distinction between national and provincial also has consequent implications for funding (discussed later in this chapter). Thus, although the national department sets policy goals for schools (and colleges), theoretically the implementation is left up to the provinces. Importantly, a province's education budget is determined largely by its own legislature and cabinet, which ultimately determines the kind of provisioning allocated to provinces (Crouch 2005).

Latest FET legislation (2006) has also made some interesting deviations from FET's schooling counterpart. Unlike schooling, where teachers are employed by provincial governments, latest FET policy has deemed college councils as responsible employer bodies. This development has provided the space for a markedly different system than schooling and has therefore required a review.

The attention given to colleges – as a key provincial competence – is uneven at best, with larger provinces providing much more support than others. This means that while all provinces have the official responsibility, few have taken this seriously enough. Indeed, the occasional intervention by national government tends to blur the lines of responsibility. Thus, while it is necessary for national government to become much more involved in the sector, the current legislative situation prevents this from happening. Colleges therefore fall into the cracks between being a provincial competence and a national responsibility. The extent of involvement by provincial education departments is thus uneven and results in colleges not being properly understood as effective skills development vehicles.

It has also been contended that post-school education and training provision needs to be decentralised in order for the locus of power to be retained in provinces. While devolution clearly makes sense in order to link with local labour markets, the unevenness between the different provinces is a reality; devolution is therefore unlikely to solve the problem. In higher education, universities are relatively autonomous from provincial political authority and report directly to the national department, but they are also expected to respond to provincial and local labour markets. Thus colleges do not have the 'benefit' of national control and associated resourcing, while they are still required to respond to provincial and local contexts. This situation allows a disjuncture between national intention and provincial reality.

Structural positioning within the DoE: national management

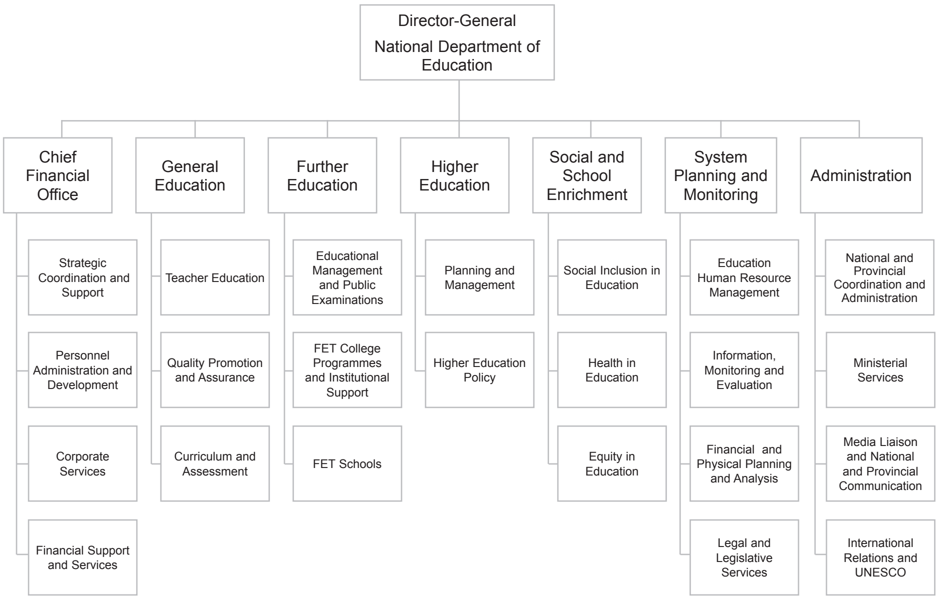
Structural positioning, which in part flows from poorly defined nomenclature, provides a powerful means by which to understand the perceived significance and function of FET colleges in the South African education system. Figure 13.1 shows the structural positioning of the FET colleges directorate within the national DoE.

The (in)significance accorded to FET colleges within the organogram is clearly evident. One of seven directorates is dedicated to the FET sector. Even here, only a third of the chief directorates (the others being Educational Management and Public Examinations and FET Schools) is dedicated to FET colleges: FET College Programmes and Institutional Support. The issue of nomenclature, of course, allows a logical positioning of matters associated with the last three years of schooling to be located within this directorate. This means that of the 23 'chief directorates', only one is dedicated to public FET colleges (4.3% of the total). The effectiveness of support to a sector of such national importance within this context is, therefore, likely to be considerably constrained. The argument that colleges are a provincial competence and therefore require less attention is not borne out by the similarity of this kind of management structure for schools.

Contradictory policy development: to devolve or not to devolve?

The structural positioning of FET colleges is also further compromised by a somewhat contradictory national policy context. The latest (2006) policy development is ostensibly designed to replace previous legislation on FET colleges (Further

Figure 13.1 Structural positioning of the FET colleges within the national DoE (South Africa, 2008)



Source: Adapted from DoE (2008b)

Education and Training Act, No. 98 of 1998). While the legislation ostensibly provides a mechanism to make the sector more responsive, it is argued that the contradictory messages (about the reality of its autonomy) however, leave the sector less clear about the general import of change and thus signal quite different policy perspectives.

The new legislation in particular allows college councils the functional responsibility of undertaking staff employment, except for senior management. I have argued elsewhere that the 2006 Act attempted a hasty devolution of responsibility in line with international (and neoliberal) trends, without carefully considering the impacts of such proposals on the sector (Akoojee 2008a). This element of decentralisation is juxtaposed with other more centralised elements of the new legislation. For instance, whereas in the 1998 FET colleges legislation, college councils determined admission policy (sections 17.1 and 2: 22), the 2006 legislation requires these to be approved by the head of the provincial education department. Similarly, the need to have admission requirements 'publicly available' is replaced by a requirement that colleges seek the 'approval of the Member of Executive Council' (2006, section 17.1: 26).

Thus the devolution of the staffing responsibility in the context of these more centralised elements feeds into the suggestion that decentralisation is simply a smokescreen – a means of reducing fiscal responsibility in line with an international neoliberal agenda. This 'selective devolution' sends mixed signals about the 'autonomy' to which the sector is charged to respond.

Recurriculation (curriculum renewal)

The public FET college curriculum has traditionally been a focus of considerable concern. The apartheid-inspired inherited curriculum (NATED – National Training Education Department Courseware) clearly needed some radical review as it has often been cited as outdated and out of sync with the needs of industry and the country (see for instance DoE 2004a; Kraak & Hall 1999; Powell & Hall 2004). Its replacement was, therefore, inevitable. In the course of 2006, the national DoE undertook a radical revision of the curriculum, replacing NATED with a National Certificate (Vocational) or NCV. The new curriculum was hailed as a response to the national skills crisis, and as being closely allied to the economic needs of the country (Pandor 2007a). In addition, in the design of these programmes, there was also awareness that college curricula needed to be aligned with both national education and training policy and the National Qualifications Framework – a move clearly necessary if the much vaunted articulation between education and training was to be realised. The new programmes, introduced at the start of 2007, were offered in 11 economic sectors: 3 engineering, 5 business, and programmes in information and communications technology, agriculture, and tourism and hospitality.

The replacement of traditional N-programmes with a revised NCV, at a time when colleges became an alternative vocational option for those less disposed to an academic qualification, meant that the NCV was perceived to be responsive to the needs of the new school-level student cohort, rather than to the needs of industry.

The offer of the new vocational programmes also came with an incentive for a steady funding stream. Whereas, in terms of the previous dispensation, FET colleges were increasingly encouraged to attract alternative sources of funds, the introduction of the NCV provided a lifeline to the less industrious institutions. While it has provided a consistent funding source, for most colleges it has not enabled their lifelong learning function or their role as responsive demand-led institutions – or for that matter their role as primary sites for artisan development. The Department of Labour's Skills Development Amendment Bill of 2008 has attempted to accommodate this reality by providing for alternative institutions to be established under the jurisdiction of the Quality Council for Trades and Occupations.[9]

The success of the NCV intervention has also come under scrutiny. The quality assurance body, Umalusi (the Council for Quality Assurance in General and Further Education and Training), has painted a bleak picture of the success of the new curriculum in its first year of implementation. Of the more than 25 000 students enrolled for the new programmes in 2007, more than a third (38%) dropped out before writing their final examinations).[10] Importantly, only 23 per cent of students who enrolled in the new subjects (the 11 new programmes, which included civil engineering and building construction, finance, economics and accounting, information and communications technology, primary agriculture and tourism) passed all of the subjects. This means and suggests that more than four-fifths (77%) of the remaining students were required to carry over courses. It also means that just over 3 500 succeeded in the first year, with an approximate 85 per cent failure rate.

This is compounded by the extremely poor showing in mathematics literacy (32.5%) and mathematics (21.2%).[11] These data reflect an unacceptable situation that calls for a review of current policy.[12]

The result is indicative of the way that policy developments in public FET colleges have not been able to resolve challenges of skills development. It could be assumed that FET college policy responded to resolving bottlenecks in other areas of education and training. The challenge of dwindling enrolment at college level provided the opportunity to resolve a long-cherished intention to revitalise technical schools in an attempt to provide an alternative pathway for those less inclined to follow an academic route. The fact that the FET Band incorporates the last three years of the schooling sector and, as identified earlier, resides within the same directorate, makes this kind of twinning inevitable and logistically feasible, with resultant, and not unexpected, detrimental impacts on both the sectors.

Student enrolment

There has been a notable decline in student enrolment in the college sector since 2002. Table 13.2 shows that while there was a steady upward enrolment pattern from 1999–2002, there was a steady and aggregate 3–4 per cent decline in enrolment in the period 2002–06. If this trend were to continue, it would render particularly elusive the promises contained in ministerial speeches, as well as the ministerial target of a million-strong FET college sector by 2014 (DoE 2008c: 12).

In order to respond to the challenge of a declining student cohort in FET colleges, the inclusion of a school-level cohort component would serve to increase numbers and thereby respond to the declining enrolment in pursuance of the numerical target. This seems to have worked, if only in the interim. In 2007, for instance, 25 059 new NCV students were registered in the new curriculum at FET colleges (Pandor 2007b). It also tended to respond to the issue of opening up new pathways for school-level students, albeit one that that was less than ideal.

The declining student trend is complemented by a reduction in the absolute numbers of staff employed. Table 13.2 shows that staffing in the sector declined by 9 per cent in the period 1998–2004. While the system might well have been able to correct this imbalance, taken in the context of existing capacity constraints in the sector and the uncertainty resulting from the enactment of 'staffing' devolution in 2006, it was likely to result in considerable uncertainty, especially in the context of the introduction of both a new curriculum and a new school-level student. The large number of staff who either resigned or opted to move to other parts of the state system resulted in considerable uncertainty in the sector.[13]

Thus the international trend towards making technical colleges more responsive to the labour market is undermined in the South African context. The revitalisation of the sector by inserting school-level students was unlikely to succeed, even with a bursary scheme in place.[14] It calls into question both the objective of making FET colleges responsive to a post-school cohort in need of skills to enter the labour market, and FET colleges as powerful state-inspired lifelong learning institutes.

Table 13.2 FET college student enrolment and staffing trends (South Africa, 1998–2006)

	Learners			Educators			L/E	
Year	Number	Difference	% change	Number	Difference	% change	ratio	Colleges
1998	226 488			6 079				
1999[a]	271 900	45 412	20%	7 038	959	16%	38.6	153
2000	337 300	65 400	24%	6 756	–282	–4%	49.9	154
2001	356 049	18 749	6%	7 233	477	7%	49.2	50
2002	406 145	50 096	14%	7 088	–145	–2%	57.3	50
2004	394 027	–12 118	–3%	6 477	–611	–9%	60.8	50
2005	377 584	–16 443	–4%	6 407	–70	–1%	58.9	50
2006	361 186	–16 398	–4%	7 096	689	11%	50.9	50
Cumulative[b]		134 698	37%			14%		

Sources: DoE (2002; 2005a; 2005b; 2005c; 2005d; 2006; 2008a)
Note: L/E = learner to educator; a. 1999 was the year in which a rationalisation of colleges took place (leading to data recorded for the 50 merged entities); b. That is,1998–2006

Funding

Funding has been considered key to the revitalisation of colleges. As Jansen points out:

> … the technical colleges will never be able to overcome their apartheid legacy unless there is a massive injection of sustained state funding to take these poor cousins of the post-school system and make them competitive, productive and high-status institutions that deliver on the training needs and priorities of business and industry, and on the aspirations and dreams of adults and youth. (Jansen 2004: 3)

The urgent calls for revitalisation led to some important results. National government committed a one-off grant of R1.9 billion in recapitalisation funding in 2005 (Mbeki 2005). In addition, the much vaunted bursary scheme, which was intended to encourage school-level enrolments, also provides a significant financial incentive for the sector, together with the programme-based FET college funding allocation based on enrolments.

However, the blurring of responsibility between national and provincial control (as discussed earlier), and the lack of an FET definition has important implications for a sustained funding source. The system of programme funding from the national education directorate assumes that colleges are funded nationally. Yet this allocation, together with student fees, is far from adequate. Provinces generally consider that colleges do not need to be funded from the limited provincial education allocation, but the expectation on the part of the national DoE is that funds for FET colleges, as a provincial competence, are still to be supplemented from provincial budgets. This means that the sector tends to fall into the resource funding gaps between national and provincial governments. Furthermore, the merging of FET colleges into a sector that incorporates the last three years of schooling means that it is often difficult to discern exact funding disbursements and allocations to the FET college sector specifically. Conventional reporting on education spend at the provincial level incorporates both the schooling and FET college sectors.

Towards a conclusion

This chapter has examined the role of FET colleges within the context of current development and educational discourses. The significance of skills development to South Africa's national development has not been borne out by success at FET colleges. In examining key developments in the sector, it becomes clear that the role of mainstream educational theory has not been expanded to capture adequately the failure of FET colleges in delivering on their mandate. In the FET college sector, the lack of effectiveness is less about policy symbolism (Jansen 2001), state incapacity (PCAS 2003) or imperfect state bureaucracy, than it is about misreading of the peculiarities of the sector and its location within a context that is less familiar with its unique needs.

Thus, the very real and tangible effects of restructuring (in 2001), recapitalisation (in 2005) and recurriculation (in 2007) and the impacts of the Further Education and Training Colleges Act, which provides the basis for current devolution (Akoojee 2008a), are all nonetheless unlikely to resolve the impasse.

The structural location of colleges, under a national department, and subsumed under an FET sector that incorporates the last three (politically contested) years in the schooling system, and the coordination of the private FET college sector, means that it is relegated to a less than significant position in the bureaucracy. In addition, national control in the DoE is further diluted by the sector's provincial location, which is expected to mediate any national intent. As a provincial competence, FET colleges are very much dependent on the willingness and capacity of provincial education departments.

Thus the strident critique of the college sector articulated by Nico Cloete (2008) is an apt description of the neglect. According to Cloete, 'the "double move" of abandoning a public college system and imposing impossible conditions on a private college system must rate with Aids denialism as two of the most pernicious policies in the new South Africa' (Cloete 2008).

It is contended that current thinking around a more interventionist developmental state is more likely to respond to what is referred to as a 'crisis' of skills development provisioning. It will respond to the mix of policy incoherence and 'structural disconnect' between policy intention and operational reality that has resulted in an FET sector that has 'fallen through the cracks' in terms of importance.

Notes

1 Godsell B & Faurie A, Matter of the heart for private SA, *Business Day* (9 July 2007: 9).

2 Manyi J, *What skills shortage?* Panel discussion on Summit TV. Accessed May 2007, www.summit.co.za/video/face2face.html.

3 Makhanya M, They say the small man in the large chair is really big in Japan, *Sunday Times* (1 June 2008: 40).

4 The Gini coefficient was estimated to be higher for African people (at 0.63) than for other racial categories (between 0.56 and 0.59).

5 The term incorporates the following terms used in different contexts: Apprenticeship Training; Vocational Education; Technical Education; Technical–Vocational Education (TVE); Occupational Education (OE); Vocational Education and Training (VET); Professional and Vocational Education (PVE); Career and Technical Education (CTE); Workforce Education (WE); Workplace Education (WE) and so on (information regarding nomenclature can be found at the UNEVOC International Centre for Technical and Vocational Education website, www.unevoc.unesco.org).

6 Recent policy statements suggest that this has been replaced by the Human Resources Development Programme of South Africa (HRDP–SA) (Pressley D, Skill promotion bombshell surprises MPs, *Cape Times*, 28 August 2008: 3).

7 Godsell B & Faurie A, Matter of the heart for private SA, *Business Day* (9 July 2007: 9).

8 These racial categories are used to indicate the current discourse in the South African context. Their use in this chapter is by no means intended, however, to reinforce these notions, which are nevertheless clearly pertinent to the current context of the country.

9 These alternative institutions include proposed Artisan Development Institutes and Institutes of Sectoral Occupational Excellence (as detailed in the Department of Labour's 2008 Skills Development Amendment Bill).

10 Blaine S, Failures bedevil State's 'skills schools', *Business Day* (7 July 2008: 1).

11 Blaine S, DA wants probe of FET skills 'failure', *Business Day* (8 July 2008: 2).

12 Reasons provided include the oft-quoted quality of students, logistical problems resulting from the introduction of the new programmes, and the poor quality of teaching staff, this time resulting from the exodus occasioned by staff devolution (Blaine S, Failures bedevil State's 'skills schools', *Business Day*, 7 July 2008: 1). More interesting is the reference in Blaine's article to 'state skills schools', a term increasingly being used after the introduction of the NCV system, which allowed colleges to be opened up to scholars from Grade 10 onwards, as an alternative schooling option.

13 Govender P, Lecturers abandon colleges: Students suffer as staff seek better jobs, *Sunday Times* (9 March 2008: 7).

14 A bursary scheme was considered a top priority. Of the R100 million allocated for 2007, colleges projected an expenditure of R66 million to cover 12 857 students, i.e. more than 50 per cent of the students enrolled on the NCV programmes (Pandor 2007b).

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Part Five

Agrarian reform

14 The agrarian question and the developmental state in southern Africa

Sam Moyo

Addressing the agrarian question – through state-facilitated redistributive land reforms, building of the productive and social capabilities of peasants, and interventions that support agro-industrial growth and diversification – is widely recognised in the literature on developmental states as having been critical to generating developmental success (see Chapter 2, this volume). As Evans argues in Chapter 2, a capable bureaucracy, characterised by robust, competent and autonomous public institutions, that are adequately embedded in society through a dense set of concrete ties with specific agencies and enterprises (which enable them to construct joint projects at the sectoral level), were key features of developmental states in the previous century.

As Chapter 2 of this volume also argues, the political absence of agrarian elites who, for instance, had been 'wiped out' through land reforms in China, Korea and Taiwan, is considered to have relieved those states of pressures from an 'economically powerful, politically reactionary landed class', and enhanced a positive embeddedness involving state actors and weak industrial elites. These land reforms ensured the spread of property rights to many peasants, while public agricultural support enhanced their capabilities. Citing Nugent and Robinson (2001) comparing four Latin American countries (Guatemala and El Salvador, and Colombia and Costa Rica), Evans (Chapter 2, this volume) argues that when 'extractive elites monopolise the land and force the rest of the population into the role of landless labourers, neither landowners nor workers have incentives to invest in human capital'.

The classic agrarian question was similarly concerned with the transition from feudal/agrarian society to capitalist/industrial society, both through transforming the role of various agrarian classes (different peasant classes, agricultural workers, landowners, wider capital) in struggles for democracy and socialism, and transforming the social relations of production – including the development of the productive forces in agriculture – towards the accumulation of capital (Bernstein 2001; Byres 1991, 1996). Such accumulation and transformation entailed diversified industrialisation (with feedback) and increased wage employment, although there might be other sources and mechanisms of industrial accumulation, such as from mining in the southern Africa case (Bernstein 1996/97).

Since 'national' commodity and capital flows intersect with, and are shaped by, global production and markets involving transnational capital (Bernstein 2001), agricultural trade and related foreign financial flows (and aid) shape the agrarian question, in terms of national economic integration into the world economy.

The purpose of agrarian reform remains to 'create the conditions for a rise in [agricultural] productivity, such that [the] raw materials and wage-goods needs of a growing manufacturing sector can be met, while labour is released' (Patnaik 2003). Land reform as one dimension of agrarian reform is a necessary, but not sufficient, condition for national development (Moyo & Yeros 2005), but has been critical to agricultural and social transformation across the world (see also Chang 2008; Fine 2008; Patnaik 2003).

Africa's development deficit has long been attributed to failure to transform agriculture in terms of farm productivity, food security and sustainable agro-industrialisation, as well as failure to promote rural development, particularly due to the retrenching of state interventions during the structural adjustment era from the 1980s.[1] Agriculture still dominates the economies of the Southern African Development Community (SADC) region, contributing 20 per cent of GDP (except in South Africa and Mauritius). Over 70 per cent of the population derive their livelihoods mainly from family farming, which is characterised by low productivity and underemployment. Human development in the region is among the lowest in the world, and this underlines the failure of agriculture to ensure the availability and accessibility of basic food and wage-goods for the majority of rural and urban working people. Equitable access to land and agrarian production resources, particularly by small producers, is critical to reversing human deprivation, much of which arises from food insecurity. Land and agrarian reform can be considered essential in any effort aimed at expanding human capabilities, as conceptualised by Amartya Sen (1999).

Arrighi et al. (2008, also cited by Evans in Chapter 2, this volume) argue that a historical process of dispossession in South Africa, which left the African population without enough land to sustain small-scale subsistence production, is at the root of South Africa's development deficit, characterised partly by the halving of incomes in South Africa between 1960 and 2005 alongside the deterioration of access to public services. In this situation, workers have been unable to use rural–urban relationships to complement their wages with subsistence production.

The land questions facing the SADC countries vary according to their diverse forms of colonisation (particularly of settler land expropriation), socio-economic histories and agroecologies, in terms of the legacy of unequal access to land, landlessness, wealth inequities and social exclusion. In former settler countries, such as South Africa, Namibia and Zimbabwe, and to a lesser degree countries such as Botswana, Malawi and Zambia (Moyo 2005), land expropriation by a minority of white settlers, following colonial conquest, raises peculiar race-based political contradictions.

Some of the specific constraints on social and economic development commonly faced in the region include gradual but continuing land concentration due to the expansion of large-scale farming; dualistic and discriminatory land tenure systems, which better protect private tenures and render customary land tenures insecure; and, more recently, the escalation of land-based disputes (Moyo 2008). Persistently low levels of agricultural productivity are also a key aspect of the land use system in most of the countries, which frequently experience transitory food insecurity. The failure of most SADC countries to achieve Millennium Development Goal targets and to address their high unemployment rates reflects these agrarian deficiencies. South Africa's agricultural intensification and mechanisation partially departs from this trend.

Late decolonisation and majority rule in South Africa were based on compromised political settlements, which bequeathed formal sovereignty but restricted land reforms to the market mechanism. Most SADC states, rather than introducing land reforms, focused on narrow, green revolution-type reforms focused on the increased use of hybrid seeds and fertiliser (Rukuni et al. 2006), and to some extent the plough drawn by oxen or tractors (Mafeje 2003), retaining unequal land relations even where landlessness was growing.

The failure to redistribute land in such contexts tends to provoke the landless and other social groups to intensify their struggle for land, as has been seen in more recent times in Zimbabwe (Fernandes 2001; Moyo 2001). In the case of the former settler colonies, discriminatory agrarian support focused on a minority of large-scale landowners has been seen to be at the expense of the dispossessed majority.

Land reform in southern Africa has more recently been posited as the need to restructure the distribution of land 'ownership' towards an envisioned 'democratic' agrarian structure, which can promote social, economic and political transformation; enhancing the security of land tenure for all (particularly the poor), through a legally enforceable system of property rights, which does not necessarily imply private property; and a reorientation of the purpose and effectiveness of land utilisation (agricultural production patterns and systems), to satisfy the home market (see Moyo 2005).[2] Thus, national agrarian reforms are an integral aspect of development strategy, concerned with specific socio-economic issues, such as food insecurity, high unemployment levels and absolute poverty, as well as with the political dimensions of inequality and social conflict. Such reforms could, however, be enhanced or complemented by a coherent, developmental regional integration strategy.

The prospect of agrarian reform in southern Africa raises two fundamental questions (see Moyo & Yeros forthcoming). What are the *potentials* and *limits* of peripheral capitalist states, fully integrated into the world system (unlike Korea in the 1950s), in implementing progressive structural reforms and development? And how can political consensus on agrarian reform and development strategy be achieved in societies dominated politically and economically by agrarian elites, including white minorities with histories of dispossessing the poor, and by the overarching influence of transnational capital? Indeed, three decades of 'independent' state formation have yet to produce truly democratic developmental states in the SADC region (Molomo 2008), although most of the countries have progressed on the democratisation front.

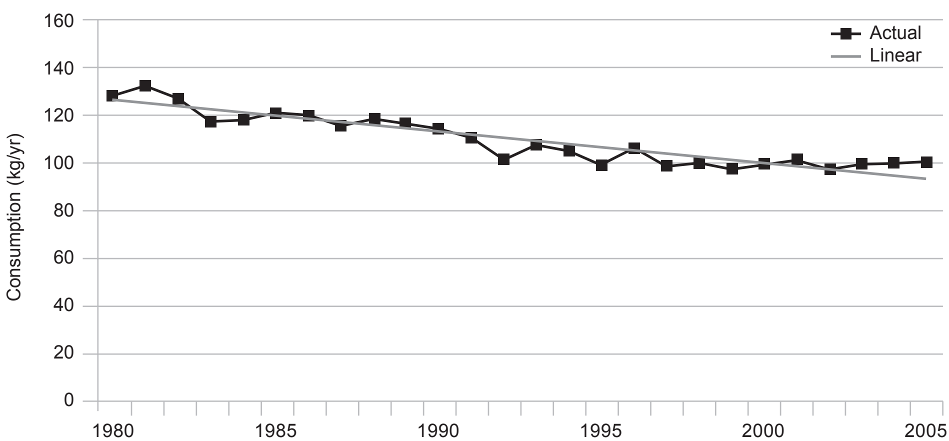
This chapter examines the prospects for agrarian transformation in the SADC region, in the context of enhancing human capabilities, particularly among the majority rural poor. It begins by demonstrating how food insecurity is endemic, due to the underdevelopment of agrarian productive forces, largely as a consequence of state passivity. I then examine how agrarian markets and trade, 'freed' by structural adjustment from state intervention, have shaped the current disarticulated agrarian 'development' pattern, including the failure of agriculture to contribute to wider accumulation and economic transformation. The chapter then assesses the socio-political circumstances and forces that limit the prospect of resolving the agrarian question, including through a development-oriented regional integration strategy.

Food security and human capabilities

The SADC region, including South Africa, has been failing to adequately address the food needs of the majority of its peoples. Official SADC perspectives claim that the region satisfies its basic home market (of food) (SADC 2008), although they acknowledge frequent domestic cereal production deficits. Food price fluctuations are also acknowledged but the situation is considered stable, since imports cover the deficits, when some countries do not produce enough, while some countries are said to *over-sell* surpluses. Local maize price fluctuations are considered the inevitable effect of frequent floods, dry spells and poor access to inputs (SADC 2008). The prolonged food grain production 'collapse' in Zimbabwe is, however, considered to have disturbed the SADC food supply–demand balance. The consumption and production of high-value foods (meat, milk products and pulses) is not prominent in this food security discourse. Yet the evidence suggests a long-run deterioration of food security.

The overall annual volume of cereals (maize, small grains, wheat and rice) required by the 250 million people in the SADC region in 2008 was estimated at just under 30.5 million tons, compared to 16 million tons in the 1980s (excluding the Democratic Republic of the Congo or DRC, Madagascar and South Africa). Cereal consumption per capita in the region declined by an average of about 15 kg per person, from a peak of 127 kg per person in 1981 to 100 kg per person in 2005 (see Figure 14.1).

Figure 14.1 Per capita cereal consumption trends (SADC, 1980–2005)



Source: Based on Earth Trends data. See http://earthtrends.wri.org/country_profiles/index.php?theme=8

The steepest decline in per capita consumption was more closely associated with the 1991/92 drought year, followed by persistently low consumption for 12 years.

The per capita consumption of higher-value protein-rich foods (milk, pulses, meats) also varies remarkably, being low in DRC, Malawi and Mozambique and high in South Africa (Van der Riet 2008), although these are not featured in public SADC discourses. Intra-country class-based inequalities in access to high-protein foods are even more pronounced, compared to staple foods. Even South Africa, which is touted as a surplus food producer, has been unable to ensure adequate nutrition of many of the poor.

The debilitating health and social effects of reduced caloric intake and/or frequent consumption behaviour changes (e.g. reduced number of meals etc.), have been long drawn. Absolute numbers of malnourished people between 1979 and 2003 in the SADC region ranged from 18 million to 38 million. Over 3.1 million people, in Lesotho, Malawi, Mozambique, Swaziland and Zimbabwe are usually chronically food insecure, while many more face transitory food insecurity (SADC 2006).

This situation represents a complex food and social crisis (see Wiggins 2005), entailing the relative unavailability and high cost of food, and endemic poverty (see Table 14.1), deepened by the lingering effects of the SADC region's harvest failures in 2001–03. Apparently, these vulnerabilities persist because state 'interventions (in

Table 14.1 Child malnutrition (1990–2005) and food poverty (2004) in the SADC region

	Percentage of children under age 5 malnourished or underweight				Population below minimum dietary energy consumption	
	Surveys 1990–99		Surveys 2000–05		Share (%)	Millions
	Year	%	Year	%	2004	2004
Angola	1996	40.6	2001	30.5	35	4.8
Botswana	1996	17.2	2000	12.5	32	0.6
DRC	1995	34.4	2001	31.0	74	39.0
Lesotho	1996	16.0	2000	18.0	13	0.2
Madagascar	1997	40.0	2004	41.9	38	6.6
Malawi	1995	29.9	2002	21.9	35	4.2
Mauritius	1995	14.9	–	–	5	0.1
Mozambique	1997	26.1	2003	23.7	44	8.3
Namibia	1992	26.2	2000	24.0	24	0.5
Seychelles	–	–	–	–	9	0.0
South Africa	1999	11.5	–	–	3	0.0
Swaziland	–	–	2000	10.3	22	0.2
Tanzania	1999	29.4	2005	21.8	44	16.4
Zambia	1999	25.0	2003	23.0	46	5.0
Zimbabwe	1999	13.0	–	–	47	6.0

Source: Based on World Bank (2007) data

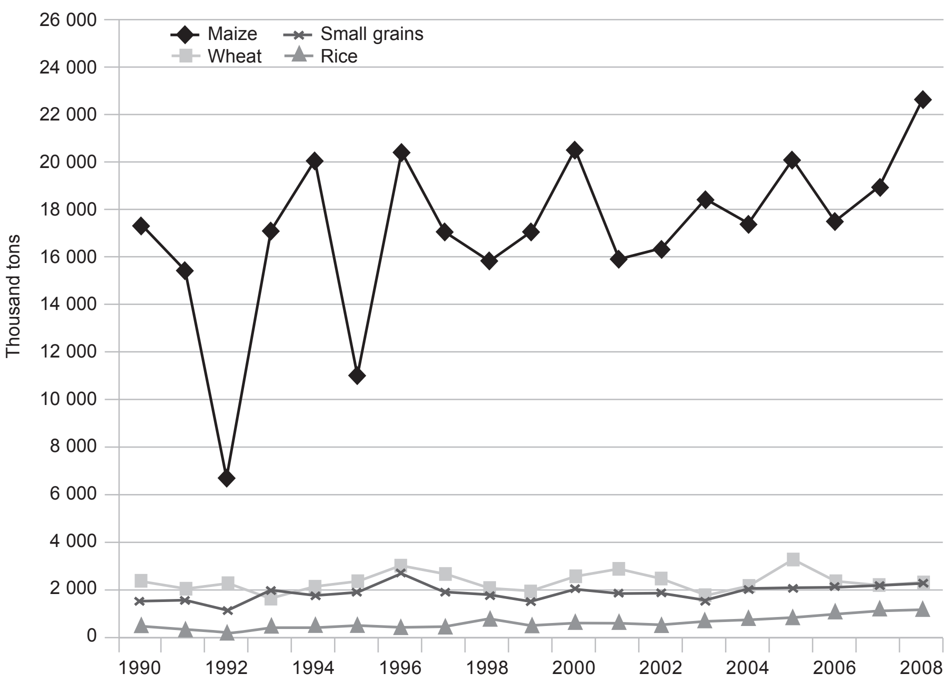
health, education, HIV/AIDS, water and sanitation) are poorly targeted and do not address the main constraints or shocks facing communities, while trade imbalances (against the poor) and inappropriate policies (which discourage trade and free markets) exacerbated the problem' (SADC 2006: 3). The SADC states can thus hardly claim to be developmental, because they are failing to expand basic human capabilities.

Transforming SADC's agrarian productive forces

Food production trends in the SADC region

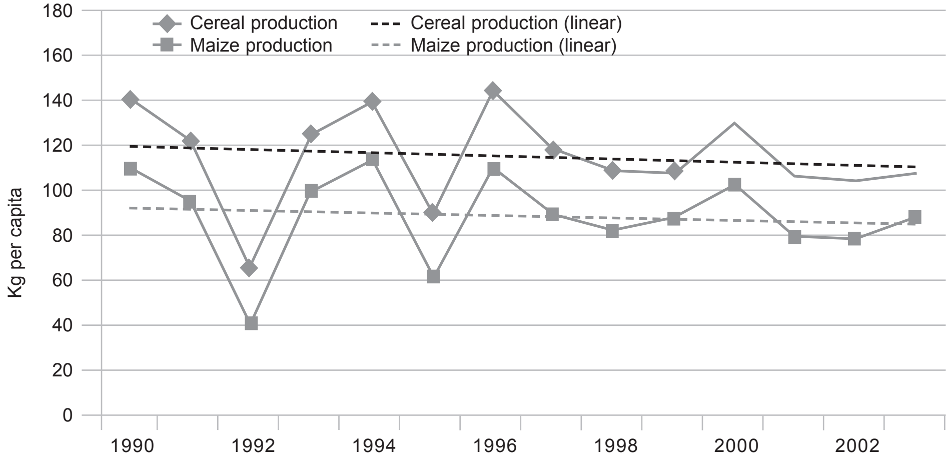
Absolute agricultural production growth in the region since the 1950s has remained positive albeit slow compared to other continents, although long-run per capita production of cereals, particularly maize, has been declining since the mid-1970s (see Figures 14.2 and 14.3), and has not been able to satisfy recommended levels of per capita caloric requirements.[3] South Africa is a net surplus cereal producer; however, during 2006 and 2007, its estimated 7 million ton harvest, compared to 11 million tons in the 2004/05 season, was below its required 8 million tons. This decline was associated with lower areas planted (apparently because 3 million tons were not sold in the previous year) and lower yields (a 33% decline), arising from drought. Thus even South African cereal production can fluctuate by as much as 36 per cent.

Figure 14.2 Cereal production (SADC, 1990–2008)



Source: Based on SADC data. For this and other tables and figures in this chapter that cite SADC data, see http://www.sadc.int/fanr/aims/rews/ (January 2008–January 2009)

Figure 14.3 Per capita cereal production (SADC, 1990–2003)



Source: Based on SADC data

Apparently, in future, climate change could limit the size of maize-growing areas in the SADC region, although increased agrofuels production, particularly in South Africa, could forge a return to an era of large maize surplus production (Wahenga 2007).

Only half of the SADC countries have produced wheat since the 1995/96 season, and South Africa has been the main wheat producer (peaking at 2.8 million tons in the 1996/97 season and falling to 1.5 million tons in 2003/04). South Africa is followed by Zimbabwe (peaking at 320 000 tons in the 1999/2000 season, and declining by 75 per cent to 80 000 tons in the 2005/06 season, due to reduced irrigation capacities and input supplies). The rest of the countries depend on imported wheat despite the existence of suitable conditions for its production in the region.

The 'underdevelopment of agricultural production forces': state failure

A range of factors limit the SADC region's food production potentials, but most of these relate to the failure of the SADC states to intervene, through agrarian reforms, in support of spreading property rights and providing production support to small farmers. The key factors include direct impediments to farming, such as access to land by small producers, and various on-farm production constraints, as well as off-farm infrastructural constraints, ineffective input and output markets, and low levels of state subsidy in support of small farmers, compared to the countries from which food is imported. Weather volatility and climate change are also critical constraints due to limited mitigation strategies.

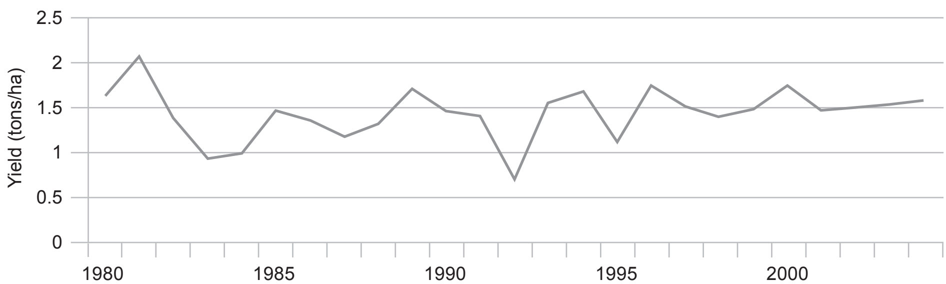
The constraints imposed by increasingly inequitable access to the limited available arable and irrigation land are decisive for small producers. During the 1990s land concentration, measured by the Gini index, was not high in countries with larger amounts of arable land, such as DRC and Tanzania (averaging 0.375), while it was well over 0.5 in countries such as South Africa and Zimbabwe.[4] Race, gender and class inequities have become so explosive that conflicts can hinder basic production.

The deceleration of agricultural technological transformation, through reduced per capita utilisation of inputs (improved seed, fertiliser etc.) have constrained land and labour productivity, particularly among small producers. Fertiliser utilisation, in terms of kilograms used per hectare of arable and permanently cropped land, is also low compared to other continents.[5] The level of agricultural tractorisation in the region is varied among the countries, and relatively low compared to other continents. Ox-drawn traction and hand-and-hoe ploughing and weeding dominate farming practices, while some demographically smaller countries are highly tractorised.[6] The underdevelopment of agrarian productive forces reflects the combined effects of low rates of utilisation of inputs, irrigation, pesticide use and tractorisation, indicative of a failed agricultural technological transition, especially in crop productivity (see Figure 14.4). Livestock productivity trends are equally low. The rates of growth in cereal yields in the SADC region are on average about 30 per cent below the averages in Asia and Latin America (World Bank 2008).

Weather volatility, which has entailed at least one extreme drought every five years over the last three decades, leads to frequent harvest failures, yet public investment in irrigation to mitigate this problem is scarce. The proportion of irrigated cropped land varies from 20–31 per cent (in Madagascar, Mauritius and Swaziland) to 2–4 per cent (in Angola, Malawi, Mozambique and Zambia) (World Bank 2008). Inadequate state investment in rural and agricultural infrastructures, such as rural transport facilities and bulk food storage facilities, as well as ancillary services such as electricity, have tended to limit the expansion of food production, distribution and access.

Furthermore, the region's preparedness for the anticipated effects of climate change is not convincing. Areas of concern neglected by the state include: the relocation of resources to new areas with the agro-ecological potential to produce food alongside the necessary infrastructures; adapting to reduced growing seasons in some areas and increased growing seasons elsewhere; adapting to water losses and gains and so forth. This suggests that in the long run development is not prioritised by the states concerned.

Figure 14.4 Maize yields (SADC, 1980–2004)



Source: Based on SADC data

The real-terms reduction of public financing of the agricultural, rural development and social welfare systems of most countries has led to income deflation and reduced farm investments, while private investment in broad-based domestic agricultural food production and processing remains low. New agricultural technologies are not being generated fast enough because of limited public and private investment, and the dependence on transnational inputs markets, which has led to declining farm margins, especially for small producers. Falling farm incomes and investment entrench the low productivity cycle. Moreover, the human resources required to reverse productivity decline, such as research and extension capacities, consumer and trade protection agencies, and effective farmers' organisations and rural civil society capacities, are not sufficiently supported by the state.

Agrarian markets and trade in SADC and abroad

Food imports, aid dependence and world price escalation

The failure of the state to promote food security and adequate agricultural production has resulted in both increased food import dependence, which negatively affects external balances, and a path dependence on foreign aid and unequal trade (see Table 14.2). Food imports have increased for most SADC countries since the 1983/84 droughts, and by 2006/07 and 2008/09 (non-drought seasons) the total estimated commercial cereal imports into the region amounted to 1.22 million tons, against expected food aid deliveries of 0.22 million tons, and exports of 0.2 million tons, leaving a cereal deficit of –2.63 million tons. This import cost surpassed the US$1 billion mark during 2001 and 2003 (drought periods), and has been rising in nominal terms.

Countries such as Angola, Botswana, DRC, Lesotho and Mozambique have over the long run (20 years) been high 'food-production-deficit' countries, importing over 50 per cent of their cereal consumption requirements (Glantz et al. 2007, citing Von Braun & Polino 1990). Zimbabwe has become more dependent since 2002 and has regularly imported 30–60 per cent of its cereal consumption requirements. Countries such as Malawi, Swaziland, Tanzania and Zambia, which might be called 'relatively minor food-importing-and-occasional-exporter' countries, import 13–50 per cent of their cereal requirements, depending on the frequency of climate-induced 'harvest failures'. These food imports divert limited foreign currency resources from agricultural productivity and other human capability-enhancing social and economic investments.

Food aid deliveries to the SADC region increased sharply from 2001–07, at which point they returned to the 1998 levels. Between 2001 and 2003, US$1 billion had been provided (i.e. an average of US$250 million/year). The SADC countries have relatively uneven degrees but still high levels of dependence on food aid, ranging from 52 per cent, 42 per cent and 3 per cent in Zimbabwe, Zambia and Mozambique respectively.

Import dependency means that food prices within the SADC region are influenced by the vagaries of global markets, as well as by the various shortcomings of intra-

Table 14.2 Agricultural and food trade (US$ million) (SADC, 2004/05)

Country	Agricultural trade			Food trade		
	Exports	Imports	Exports–imports	Exports	Imports	Exports–imports
Angola	6	985	–979	1	741	–740
Botswana	52	126	–74	49	92	–43
DRC	39	336	–297	8	227	–219
Lesotho	6	60	–54	1	47	–46
Madagascar	122	90	32	104	80	24
Malawi	397	100	297	76	59	17
Mauritius	429	426	3	371	335	36
Mozambique	124	343	–219	–	301	–301
Namibia	249	278	–29	145	197	–52
Seychelles	1	78	–77	6	67	–61
South Africa	4 184	2 753	1 431	2 680	1 731	949
Swaziland	272	74	198	242	54	188
Tanzania	534	342	192	146	278	–132
Zambia	322	173	149	159	139	20
Zimbabwe	847	468	379	115	371	–256
SADC	7 584	6 632	952	4 103	4 719	–616

Source: Based on World Bank (2007) data

SADC trade. For instance, the rate of increase in the world prices of food grains, edible oil and livestock products, particularly since 2006, saw the most dramatic upward surge in the last 30 years, given that in real (US$) terms food prices had been declining (Mitchell 2008). Traded food prices increased by 130 per cent from January 2002–mid-2008, and by 50 per cent from January 2007–June 2008 (IMF index, cited by Mitchell 2008: 2).

Some argued that these price increases reflected a mismatch of global supply and demand, due to the following: increased grain consumption in Asia (Minot 2008; Krugman 2008 cited by Patnaik 2008); the reduction of 'Western' grain stocks due to weather-induced harvest failures, especially in Australia (Minot 2008); and the rise of farm input costs induced by oil price escalation (Ghosh 2008; Minot 2008; Mitchell 2008).

However, the use of food for agrofuel production and oil-related increases in farm input prices were found to explain 85 per cent of the price increases (Mitchell 2008), while the oil price increases were driven by finance capital's speculative activities (Ghosh 2008; Tabb 2008). Wider systemic mechanisms drive the undersupply of food grains and world food price increases, including the speculative financial and commodity markets, and food subsidies. Under structural adjustment regimes, these global processes – propped up by food aid – repress food production and consumption in the South (Patnaik 2008).

SADC region agricultural trade and agrarian underdevelopment

The current model of SADC integration, particularly the Free Trade Area arrangements, has also undermined the potential of the region to improve food security and agricultural productivity. Between 1995 (partially a drought year) and 2006, the share of agricultural exports in the SADC region's total exports amounted, on average, to 23 per cent (UNCTAD 2008). While it grew from 22 per cent in 1995 (19% being food items), the share rose to 59 per cent (47% being food items and 12% being agricultural raw materials) in 2000, and then declined to 21 per cent in 2006. Yet agricultural imports averaged 31 per cent during the period, declining from 42 per cent in 1995 to 31 per cent in 2000 and 14 per cent in 2006. If we remove the data on South Africa, on manufactured goods and on fuels, as well as the data of the extreme drought years, then the share of agricultural and food imports and exports rises much higher in most of the countries.[7]

Table 14.3 Major cereal imports (value in '000 US$) (SADC, 1980–2004)

Year	Rice	Maize	Millet	Sorghum	Wheat
1980	196 413.00	263 846.00	394.00	4 677.00	134 336.00
1981	224 320.00	234 204.00	371.00	2 337.00	181 721.00
1982	265 716.00	127 245.00	36.00	2 981.00	134 857.00
1983	214 301.00	298 087.00	939.00	21 144.00	118 410.00
1984	195 971.00	561 821.00	485.00	12 002.00	164 940.00
1985	165 476.00	209 722.00	108.00	13 698.00	122 153.00
1986	169 877.00	99 983.00	153.00	5 774.00	124 374.00
1987	184 113.00	111 565.00	326.00	5 429.00	105 113.00
1988	183 957.00	171 764.00	556.00	6 493.00	117 096.00
1989	221 363.00	147 226.00	18.00	159.00	104 107.00
1990	228 758.00	152 269.00	18.00	82.00	215 764.00
1991	242 004.00	173 300.00	146.00	417.00	170 528.00
1992	278 211.00	1 044 701.00	1 829.00	38 808.00	177 848.00
1993	229 681.00	460 711.00	1 029.00	9 298.00	254 654.00
1994	259 352.00	257 725.00	664.00	9 264.00	170 636.00
1995	273 919.50	352 297.00	733.12	19 141.06	335 467.70
1996	284 812.80	297 076.30	478.00	6 938.40	432 348.10
1997	296 444.30	180 934.60	413.00	6 533.04	267 398.00
1998	342 316.50	401 920.50	486.56	18 586.23	285 780.00
1999	277 553.30	215 391.10	798.12	12 761.65	184 151.40
2000	326 963.60	145 838.80	237.21	20 578.53	238 524.90
2001	272 903.00	166 867.00	206.00	9 936.00	176 474.00
2002	229 616.00	502 654.00	1 076.00	14 507.00	257 897.00
2003	349 070.00	292 765.00	2 684.00	28 131.00	324 723.00
2004	402 834.00	242 513.00	1 731.00	25 047.00	581 963.00

Source: Based on SADC data

In terms of the agricultural trade balance (e.g. during 2004–2005, a non-drought year), seven out of the 14 SADC countries imported much more (in US$) than they exported (see Table 14.2). However, nine countries import more food than they export. Indeed, this indicates that a significant share of the national resources was diverted to agricultural exports, while large amounts are spent on food imports (see Table 14.3).

While overall trade between SADC countries is low, their trade in food follows a definitive pattern.[8] Four of the Southern African Customs Union countries (Botswana, Lesotho, Namibia and Swaziland) tend to import over 70 per cent of their food requirements from the fifth member (South Africa), while the rest of the SADC countries intermittently import large amounts of grain, and larger amounts of dairy products and other minor foods, from South Africa and the rest of the world. Zimbabwe had been an irregular food exporter to SADC countries until 1999, although South Africa, even under apartheid, has always been the dominant grain exporter. In recent years, Malawi and Zambia have been exporting significant amounts of maize. Grain supply in these three countries has tended to influence regional food price formation, by repressing maize prices when they have enough and surpluses to export to the region, and vice versa.

The time and costs of transporting traded goods, including food, within or among SADC countries has been a key constraint on regional integration, including on a collective approach to addressing the region's agrarian crises. For instance, it costs five times less to import grain into Dar es Salaam from the USA than from some parts of Tanzania or any other SADC country (Seim 2007: 8). At the same time, various time-consuming border procedures increase export costs. These challenges reflect state failures to promote a developmental regional integration strategy.

Agricultural output markets and 'pricing'

Since the widespread adoption of structural adjustment programmes in the 1990s by SADC countries, debates over the transformation of agriculture and attaining food security have centred on whether governments should stabilise agricultural (and staple) food prices or leave this to the 'market'; the latter, it was argued, would achieve efficient prices and transactions between producers and consumers (see Bird et al. 2002; see also Wiggins 2005). However, under the liberalised market, prices have fluctuated, while real incomes have declined (Glantz et al. 2007), and many more households have had less access to food because of the inelastic demand for staples, which constitute a large and fixed expenditure among the poor.

Indeed some food security advocates in the SADC region (Wahenga 2007) uncritically accept the prevailing fact that 70 per cent of the world's trade grain comes from the USA and the European Union, assuming that national food security can be more 'efficiently' achieved through freer food trade than through state interventions in agriculture. Yet, while the SADC region's share of world production is below 2 per cent, it has increasingly become a food importer, whose prices are externally shaped.

Table 14.4 Agricultural trade (US$ million) with rest of world (SADC, 1995, 2000, 2006)

Country		1995			2000			2006		
		Total	Agric. raw materials (%)	Food (%)	Total	Agric. raw materials (%)	Food (%)	Total	Agric. raw materials (%)	Food (%)
Angola	Exports	3 723	0.0	1.0	7 702	0.0	0.6	30 678	0.0	0.1
	Imports	2 000	0.9	25.5	2 081	0.6	27.2	3 643	0.6	15.0
Botswana	Exports	–	–	–	2 763	0.3	2.8	4 506	0.2	2.7
	Imports	–	–	–	2 072	0.8	14.0	3 053	0.8	13.7
DRC	Exports	1 563	6.7	14.0	824	1.8	3.1	2 319	8.4	2.0
	Imports	871	3.1	23.2	697	2.3	27.6	2 799	2.0	26.6
Lesotho	Exports	–	–	–	336	0.1	5.0	990	0.0	0.0
	Imports	–	–	–	613	0.9	17.6	1 501	0.8	16.9
Madagascar	Exports	360	5.8	67.6	862	3.4	31.7	1 008	4.0	32.7
	Imports	550	1.8	16.3	991	0.3	13.2	1 760	1.0	14.5
Malawi	Exports	433	2.1	88.0	379	2.9	87.3	668	3.3	82.5
	Imports	500	0.6	13.9	532	1.5	9.8	1 209	1.0	15.1
Mauritius	Exports	1 538	0.7	28.9	1 490	0.5	18.5	2 174	0.5	29.7
	Imports	2 000	3.1	16.6	2 081	2.4	14.2	3 643	2.1	16.5
Mozambique	Exports	174	15.8	65.5	364	11.3	42.9	2 381	3.5	15.8
	Imports	727	3.3	22.3	1 162	0.4	14.0	2 869	1.0	13.9
Namibia	Exports	–	–	–	1 327	1.0	28.8	3 375	0.6	25.6
	Imports	–	–	–	1 435	0.7	16.9	2 797	0.6	16.2
South Africa	Exports	28 226	4.4	7.9	30 209	3.3	7.4	53 170	2.3	7.1
	Imports	26 745	2.3	6.7	26 785	1.5	4.7	69 185	1.0	4.3
Swaziland	Exports	–	–	–	891	10.7	33.6	1 647	7.2	16.3
	Imports	–	–	–	1 099	2.3	18.7	1 740	1.2	18.9
Tanzania	Exports	685	23.1	65.2	656	11.1	54.8	1 690	7.0	34.6
	Imports	1 653	1.2	10.0	1 586	2.5	14.6	4 440	0.8	12.2
Zambia	Exports	1 055	0.6	2.7	892	4.4	9.4	3 770	2.8	6.0
	Imports	708	2.3	9.9	888	2.8	8.1	3 074	0.8	7.6
Zimbabwe	Exports	1 846	6.8	43.4	1 925	12.5	47.1	1 470	11.9	28.4
	Imports	2 659	1.9	6.0	2 659	1.5	3.9	1 868	2.1	14.3
SADC	Exports	39 603	4.7	27.4	50 620	4.5	26.6	109 846	3.7	20.3
	Imports	38 413	1.5	10.7	44 681	1.5	14.6	103 581	1.1	14.7

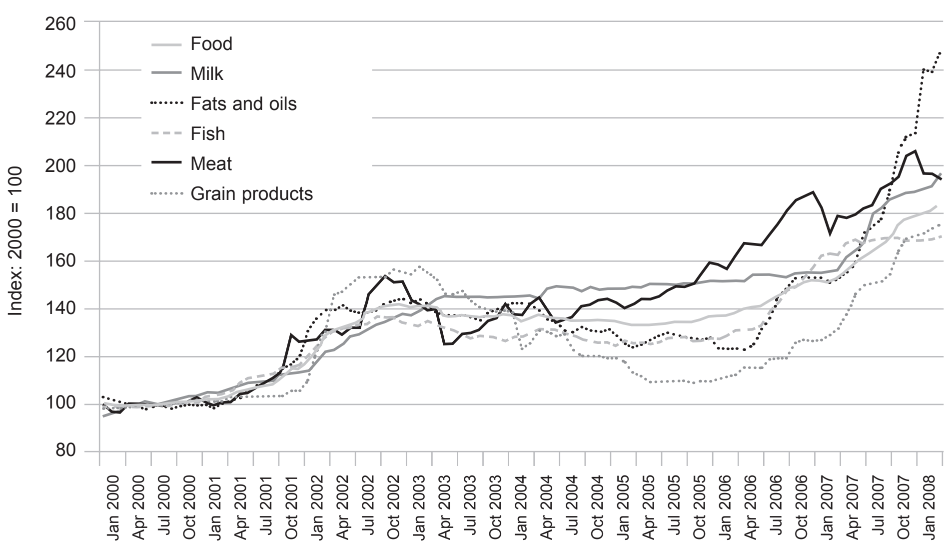
Source: Based on UNCTAD (2008: 122–143) data
Note: Values of trade in agricultural raw materials and food are presented as percentages of totals.

Food price formation and trade in the SADC region not only involves the transmission of world food and farm input prices, it also reflects price formation at the SADC level, within an uneven and erratic regional structure of food production and markets dominated by South Africa. At the same time, recent food price increases in the SADC region were inordinately influenced by the world price trends, in spite of the fact that its food consumers and its predominantly small producers are among the lowest users of farm inputs and related energy resources.

South African food producer price hikes (see Figure 14.5) since 2001 initially acted independently of world food prices by increasing sharply during the extreme food grain deficit situation in the SADC region (between 2001 and 2003), and due to speculation on the rand in 2002 (Roberts 2008). Only later did they follow the dramatic world traded food price hikes from the 2004/05 season. This was possible because the entire share of the SADC region in world grain output is low, while South Africa's share in the SADC market is dominant. As the dominant supplier of food to deficit countries and of farming inputs, in the SADC region, South Africa's agricultural commodity and inputs parity price formation tends to influence prices in the SADC region, as both a transmitter of world prices and a sub-hegemonic pace setter.

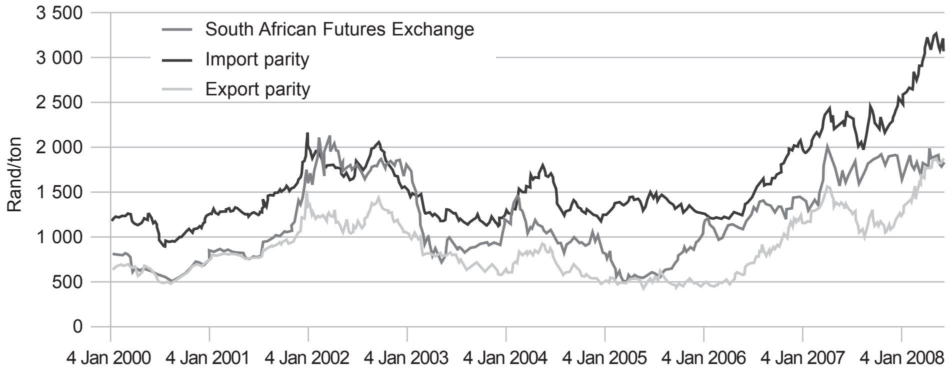
The latest South African maize price increases (see Figure 14.6) cannot be fully attributed to a domestic supply and demand mismatch, but are also attributable to the effects of world prices and the frequent SADC maize deficits, including some degree of food imports into South Africa. Furthermore, South African maize prices, which were at R2 000 in 2007, were expected to gain parity with the R2 500/ton global price in 2008, leading maize surpluses to reappear in the 2008/09 season.[9]

Figure 14.5 Food producer price trends (South Africa, 2000–08)



Source: Roberts (2008)

Figure 14.6 White maize prices (South Africa, 2000–08)



Source: Roberts (2008)

Yet, South Africa is also bedevilled by global financial speculation on its stock exchange and financial markets. Moreover, there has recently been evidence of collusive price-fixing amongst the 'oligopolistic agro-industrial corporations' in South Africa – including on basic foods such as maize, milk (Clover, Parmalat etc.) and basic inputs such as fertiliser (Sasol, Omnia and Yara). Thus, price-fixing and moving towards import parity pricing for grains are the key price formation mechanisms. These agrarian price trends are undergirded by South Africa's neoliberal economic policies, whose wider ramifications have been to repress the own-food-production capacities of producers, particularly smallholders.

The world food price crisis exposes the effects of inadequate food production in the South in general, including the SADC region, such that food deficits become part of the global food supply and pricing problem. Indeed the temporary 'loss' of world traded grain surpluses reflects an inequitable world food production and export system, which, alongside aid conditionalities of international funding institutions and donors, has had a depressive impact on food production in the South (Patnaik 2008; Tabb 2008).

Agrarian elites, accumulation strategies and unequal development

The political and economic power of existing national agrarian elites and transnational industrial monopolies in the SADC region shapes the dominant neoliberal perspective on land reform in southern Africa. Some (Quan 2000; World Bank 2002) explicitly argue that the existing agro-industrial base is sufficient and competitive enough, and that agricultural export capacity is rewarding, but limited by weak concessions to foreign investment ('incentives'), and that small farm producers are generally inefficient (see Moyo & Yeros 2005). Growing urbanisation is considered irreversible and it is argued that a de-agrarianisation process is under way in most countries, such that unemployment cannot be addressed by agrarian reform as occurred elsewhere in the past (Bryceson 1996). However, the prevalence of food insecurity, low productivity and unemployment levels of over 30 per cent, including in South Africa, suggests that agrarian reform is desperately needed, especially to broaden the home market and as a basis for expanding public services.

Yet the theory and practice of land reform in the region has not yet articulated a coherent purpose for land reform and underplays its potential effects in relation to national development (Moyo & Yeros 2005). Majority rule political settlements in most SADC countries protected international capital, including large-scale white control of land, through constitutions which guaranteed rights on existing patterns of private property ownership, while only permitting market land transfers. The weaknesses of autonomous nationwide rural land movements have limited the articulation of alternative agrarian reform and development strategies (Moyo & Yeros 2005; Ntsebeza 2007).

In countries with histories of large-scale farming (e.g. Namibia, South Africa and Zimbabwe) the land and agrarian questions are often treated synonymously. These are often being compounded by nationality issues of race, ethnicity and indigenous rights, such as the 'first peoples' (Moyo & Yeros 2005). Since the race and indigenous land questions have not been adequately addressed through redistributive reforms, various nationalistic demands for land reform co-exist with specifically developmentalist perspectives of agrarian reform.

The piece-meal land redistribution and land tenure reforms, which have occurred so far, often evoke class-based agitation over land access, as well as inter-ethnic unease over colonially expropriated land, and/or existing public lands undergoing redistribution. In some cases, the land is perceived to be given to dominant ethnic groups, to the exclusion of minorities.[10] However, black elites in many SADC countries, seeking to de-racialise or 'broaden' large-scale farming, have promoted the growth of land concentration: either from 'below', through social differentiation and land 'fencing'; or from 'above', through state-supported land tenure policies. The appropriation of customary land and former large-scale farms for new commercial farming ventures includes expanding nature-based land uses (timber, tourism etc.), and more recently biofuel production. Social differentiation, alongside growing landlessness and land shortages, has thus turned the idea of redistributive land reform into a site of fierce competition between various classes, ethnicities and races.

Foreign landownership, through leasehold tenures on large land holdings, has been expanding in almost all SADC countries, creating new enclaves of uneven development, purportedly to intensify agricultural production and to develop tourism (e.g. in Botswana, Mozambique and Zambia) as well as for biofuel feedstocks production (e.g. in Mozambique, Swaziland and Tanzania). Increased foreign control of land occurs also in coastal and urban areas, where urban homelessness is exacerbated by the expansion of land markets in primate cities.

Beyond these exclusions, the marginalisation of women in access to and control of land remains a growing aspect of inequality and grievances against various customarily and statutorily defined patriarchal social relations and land tenure regulations. Alongside this are various inequitable social hierarchies, related to generation and regionalism, which enhance social marginalisation among the unemployed (Moyo & Yeros 2005).

A salient ideological force, therefore, which has constrained land and agrarian reforms in southern Africa is the elite project of indigenisation and economic empowerment. This is often expressed in both historical-culturalist and materialist (cross-class) terms (Moyo & Yeros 2008). Racially configured historical injustices over land, for which various forms of 'restitution' are sought, are co-opted into land and natural resource allocation to a few, entrenching uneven development and wealth disparities, to the detriment of agrarian reform and equitable development strategies. This occurs in parallel with the concessions that are given to foreign capital, to which Arrighi et al. (2008) allude.

Southern Africa's agrarian reform discourses are ideologically framed around the narrow micro-economic questions about the relative efficacy of the small or 'subsistence' farmer vis-à-vis the large 'commercial' and 'modernised' farmer, and their leadership roles in the process of agricultural transformation (Mafeje 2003). Agrarian transformation through large farmers has largely meant significantly increasing agricultural export production to the detriment of the home market, and at the expense of the many small producers, starved of technologies to increase their productivity. The predominant agricultural and rural development 'model' in the SADC region is essentially a 'modernisation' strategy focused on elites, which monopolise public infrastructure, forex resources, input and output markets and credit; the model is imported from South Africa and Zimbabwe, and has been on the rise in Botswana, Malawi, Mozambique and Zambia.

This strategy underplays the relatively lower financial (forex) costs of enhancing self-employed small-scale farming, and the social synergies that are derived from local auto-consumption among small producers, and which are critical to broad-based rural development. Small farmers mobilise family and kinship labour and other local resources, and save (mostly for social reproduction and risk insurance), and invest, although this is inadequate for large-scale capital formation (Mafeje 1999). They adopt technologies, including locally adapted technologies, and maintain some agricultural production, in spite of the reversal of state support to farming and social welfare, and in spite of their exposure to unfavourable terms of trade. Their alleged technological 'backwardness' is driven by extractive agricultural markets and the absence of subsidised public finance, since the retrenchment of the relatively more benign state marketing boards.

Structural adjustment-inspired agricultural policies have tended to 'undermine long term agricultural transformation by destroying the social and productive capacities of the majority poor in rural societies and weakened the legitimacy of the state. Reduced social and physical investment has led to worsening inequalities in income distribution that accentuate conflict' (Mkandawire 2001, citing Stewart 1994).

Agrarian surpluses and the accumulation process

A developmental approach to agrarian reform, seeking to restructure the home market, employment and industrialisation towards improving human capabilities, has not been attempted in the SADC region. The focus of public resource allocation towards a narrow, inputs import-intensive and export-oriented, large-scale farming sector, has entrenched the disarticulation of domestic agro-industrialisation, and retained a narrow home market. The contradictions between small-scale and large-scale farming in the SADC region's economic (and political) process seem to have accentuated the accumulation crisis rather than attenuating the prospects for agrarian transformation. The narrow, class-based agrarian accumulation process has failed to finance agricultural productivity, let alone transfer significant resources for wider national investment.

The structural disarticulation of the average SADC economy is reflected in the fact that manufacturing value addition is low and GDP growth has remained highly concentrated and has high levels of foreign ownership, especially when we consider 'de-nationalisation' of agrarian capital in South Africa. Agricultural value added in the SADC region grew slowly in general. During the 1980s it grew (between 1.8 and 3% per year) in most countries, except in Mozambique (7%) and Zambia (4.3%), while Seychelles had a negative rate. Then during the 1980s it grew (at between 3 and 5.5%) in six countries (Mozambique at 3.5%, and Zambia and Zimbabwe at 4.3%). In Malawi, it grew (at 8.5%), while in Lesotho, Madagascar, Mauritius, South Africa and Swaziland it grew at between 0.7 and 2.2 per cent. Angola and Botswana experienced negative agricultural value addition. From 2000–05, agricultural value addition grew even more variably. In Angola (at 14%), Mozambique (at 8.3%) and Tanzania (5%) it grew quite strongly; while in Zimbabwe (−8.5%), Lesotho (−3.2%), Seychelles (−2.9%) and Botswana (−1.1%) the trend was negative. The rest of the countries experienced growth rates of between 0.3 and 2 per cent, which for agriculture is low, unless the frequency of droughts is high.

The current narrowly-based trajectory of agrarian accumulation constrains overall (industrial) development, while continuing the reliance on imported agricultural inputs and markets, at the expense of small producers and domestic food security and food sovereignty. Broad-based accumulation 'from below' by 'petty-commodity' producers has not yet been adequately attempted in most SADC countries, nor have consumption patterns broadened and increased in a way that dynamically enhances intersectoral development linkages and agricultural productivity growth.

The potential to redirect production to the national market and hence to synergise dynamically with domestic wages, while broadening domestic demand for industrial goods and services, remains unrealised. Lacking is a concerted *national policy framework* and a *development strategy*, which seek the integration of the home market, based upon qualitatively higher levels of consumption and social reproduction (with higher value-laden food security, rural development etc.). For small and middle-sized farms to realise their employment potential and through this redirect production to the 'home' market – and hence to synergise dynamically with domestic wages – concerted national development strategies seeking this essentially need to reverse neoliberal policies (Moyo & Yeros 2005).

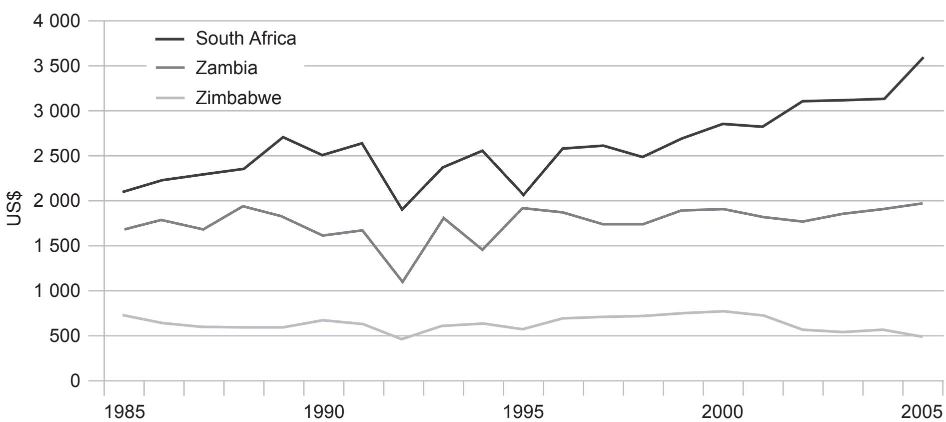
Southern African economies continue to rely mainly on formal and 'informal' agricultural labour, with their share ranging from 11–90 per cent (CSO 2002; ILO 2008). The last two decades saw a relative decline in industrial jobs, emphasising the importance of small-scale and extensive farming in most countries. Only the few mineral- and tourism-rich countries have a GDP and share of labour that are less dependent on agriculture.

The value of such agricultural employment in terms of per capita contributions to GDP has increased only in South Africa and remained relatively stagnant elsewhere even in main agricultural producer countries. In many countries the productivity of agriculture between 1980 and 2005 either remained stagnant (e.g. Madagascar) or declined (e.g. DRC, Mozambique and Zimbabwe). Only in Malawi, South Africa and Zambia did agricultural productivity rise consistently from the 1990s (ILO 2008) (see Figure 14.7).

Up to 40 per cent of the population in southern Africa is considered poor, since over 70 per cent of the population lives on less than US$2 per day. These low income levels reflect a high dependency ratio (with the majority being young) and farm auto-consumption activities, based on extensive low-output (yield per hectare) farming and natural resource extraction for their livelihoods. In a context of weak social protection, access to land and farming assumes critical importance in providing basic consumption needs and social security for the majority.

The structural adjustment programme policy regimes (of 1980–2008) generally led to the deflation of incomes, including the relative reduction in the scale of government expenditure, not only on agricultural support but also on social

Figure 14.7 GDP per person employed in agriculture, forestry and fisheries (SADC, 1985–2005)



Source: ILO (2008)

welfare transfers (particularly in rural areas) and rural development (Patnaik 2008). Meanwhile, the relative depreciation of wages (through currency devaluations and wage restraint) has been met by rising agricultural commodity prices. This served to reduce the purchasing power of the poor and restricted the dynamic growth of potential multiplier effects on agriculture, by reducing demand based on non-farm employment, incomes and services within the wider economy, with increasing aggregate demand. This has hardly been compensated for by the narrowly focused, selective social protection schemes (food aid, cash transfers etc.).

Agricultural resource mobilisation and public expenditure

The contribution of agriculture to wider development, in terms of financial surpluses (including forex) generated, and transferred to finance forward and backward industrial linkages and improved employment development in the SADC region has been limited. National resource gaps persist, while state capacity (revenues) to finance development is weak and dependent on conditional international funding, institutional loans and aid. Government revenue generation from and expenditure on agriculture has in most countries been relatively low in rural or agricultural population and per capita terms.

Recently, African regional and international organisations have identified the decline of gross and per capita public investment in the agricultural sector (estimated at below 5% of national budgets) as a fundamental source of Africa's poor agricultural performance.[11] There have therefore been calls for gross and per capita public investment in agriculture to be increased to 10 per cent.[12] The fact is that this arose because of a 20-year retreat of the state from actively financing agriculture, and the exploitative tendencies of existing unevenly developed agricultural markets. Governments reduced expenditure on credit, marketing infrastructure, inputs and other subsidies, and support to technology generation, alongside limited private infrastructural investments. This process was a major source of the relative decline of public revenues.[13]

Agricultural production and consumption patterns, in relation to the sources of agricultural domestic and traded inputs in the SADC region, reflect a net national loss of value, both in forex terms and in terms of the incomes realised by producers. Indeed, Africa's share of agricultural exports on the world market (in US$ terms) fell from 8 per cent to a mere 2 per cent over the past 40 years. The continent fell from being a net food exporter to being a net food importer over this period. Food exports grew to 13 per cent, while food imports grew to around 20 per cent. Meanwhile, overall agricultural production remained predominantly export-oriented. Besides this export orientation of agricultural land utilisation, the growing importance of tourism means that an average of 30 per cent of the land in southern Africa is reserved for nature conservancies, forestry and woodlands in general. This structure of agricultural production and trade mis-allocates scarce land and agricultural production inputs, due to unequal trade.

National and farm incomes declined largely because of 'a secular shift in terms of trade against petty producers of primary commodities (especially of peasants), through monopoly capitals' pricing practices in relation to the concentration of agricultural commodities markets among a few transnational corporations' (Patnaik 2008). African farmers were exposed to global competition from heavily subsidised ('Northern') farmers (ActionAid 2007; Chang 2008), and exports were subjected to punitive non-tariff barriers (Ng & Yeats 1996). This reinforced the tendency for private traders to import cheap agricultural commodities, resulting in the collapse of local farm prices, sometimes below local production costs (Holt-Gimenez et al. 2006; Moyo 2008). Interestingly, the SADC region's economies are being more deeply integrated into the global economy, given that their share of extra-regional trade stands at around 45 per cent of their trade, while SADC GDP represents less than 2 per cent of global wealth.

This poses restrictions on the potential integration of the SADC region's national and regional agricultures with industries and services (Moyo & Yeros 2005). Trade liberalisation and global import competition destroyed various productive activities (industrial and agricultural), exacerbated by speculative capital flows and exchange rate imbalances. Increased capital-intensive production and the import of elite consumer goods, at the expense of locally produced 'traditional' goods, further entrenched 'de-industrialisation'.

This pattern poses the 'resource base policy option' dilemma (see Mkandawire & Soludo 1999) in terms of industrialisation strategy, in relation to expanding the export of raw materials from agricultural production and non-labour-intensive industries laden with financial externalisation activities (such as tourism, horticulture, timber, beef, tobacco and cotton). Notable is the relative paucity of foreign direct investment in the secondary industrial sector, suggesting a continuation of the negative qualitative nature of SADC's integration into the world economy, alongside long-term resource extraction arrangements (with China, India, Norway and Russia). In fact, the SADC region experienced a real-term decline in aid alongside the fact that Africa is a net exporter of capital to the West (UNCTAD 2008). These processes are precisely what Arrighi et al. (2008) have warned against; namely, the appropriation of surpluses by foreign capital, due to concessions made to it.

Prospects for agrarian reform: regressive state–capital alliances

Recent debates on the possibility of a 'democratic developmental state' in Africa emphasise the importance of autonomous policy space, with an apparent consensus that development requires autonomy, and that autonomy requires a new conciliatory foundation, a 'people's contract', together with effective planning bureaucracies (Edigheji 2006). The underlying challenge of implementing agrarian reform remains to secure the requisite autonomy (willingness and orientation) and capacity of the state to effect the desired policies, together with the effective mobilisation of popular social forces in support of the envisioned agrarian reforms (Moyo & Yeros 2008).

As we have seen, the SADC states have not been able to mobilise popular class support and the ideological coherence to redirect national capacities towards implementing popular land and agrarian reform, as well as a development path in favour of domestic accumulation, expanded employment and a growing home market. Instead, most SADC states, including South Africa, have retreated further from intervening in a variety of markets, including agricultural production, distribution and agro processing.

This raises conceptual questions about the nature of SADC's peripheral ('hybrid') capitalist states, their ideological and organisational framework, and the existence of the social forces required for autonomous democratic development. Although this issue cannot be fully addressed here, current debates emphasising the importance of bureaucratic capacity required by the developmental 'state' tend not to distinguish the 'state apparatus' from 'state power', and understate the fact that the state apparatus does not have power of its own, such that its exercise of state power reflects the correlation of class forces at any given time (Moyo & Yeros 2008; see also Callaghy 1988; and Hyden & Bratton 1992). For instance, much of the South African debate on land and agrarian reform (Hall 2007a, 2007b; Lahiff 2007) focuses on the failings of that government's land and agriculture ministry (as part of the executive), without examining the other branches of the state apparatus (judiciary, security etc.) let alone pursuing a (class) analysis of the political forces that define state power. Some agrarian reform would impact on and alter the existing correlation of class forces presently dominated by a white and black minority (in alliance with transnational capital) to the extent of creating a disjuncture between the state apparatus and state power (Moyo & Yeros 2008), which in the present socio-political circumstances would lead to a high-intensity political conflict.

The Afrikaner and Rhodesian states, for instance, had long been coerced by their large white farmer unions, in coalition with growing agribusinesses, to devote a substantial share of public resources to, pursue protectionist policies towards, and provide subsidies (based on racial discrimination against and undermining their peasantries) to agricultural transformation, in spite of the power of mining and other state–private capital. The legacy of this in terms of technology, productivity at scale and producing a wide range of agricultural goods and services is self-evident, and was bequeathed to the successor states and to regional elites. However, the social costs of this and its lack of depth meant that the agrarian question remained unresolved, in South Africa as well as within the 'satellite' states of the surrounding SADC region.

These contradictions suggest that although small producers and trade unions, which represent low-income food consumers, are the major electoral constituency, and potentially the motive forces for agrarian reform, they have been incapable (so far) of provoking the emergence of a developmental state. The political activism of capital (including agribusiness, large farmers and other middle classes) has even prevented a challenging of the historical privileges (in terms of credit, services, electricity, irrigation, and marketing infrastructure) enjoyed by the large-scale farming sector, and the dysfunctionality of extroverted agrarian change.

It is not surprising that the few dissident voices (including the recent Zimbabwean experience) that threaten actions to dissolve the political power of large agrarian capital – which operates in tandem with international capital and has an interest in the maintenance of an extroverted model of accumulation – have tended to be overwhelmed by middle class black 'empowerment' demands, pursuing market approaches to agrarian reform. Even the minimalist land redistribution and its minimalist 'starter pack' version of state support to beneficiaries for production in South Africa, tends to be gleefully treated as a 'failure' of the 'projects' (see Bernstein 2008), when in reality the unprotected exposure of the new small farmers to distortive domestic and world agrarian markets is, by definition, bound to fail. Indeed current land reforms in southern Africa are in fact scattered land settlement programmes, which treat the land question outside the larger structural agenda of agrarian transformation. They are not agrarian reform programmes per se, nor do they achieve land tenure de-concentration and the spread of property rights, let alone reorient agricultural production (see Fernandes 2001), in a labour-absorbing manner, which could at least satisfy the basic food needs of the poor.

Some consider Zimbabwe's recent non-market land reform as 'containing progressive potential, given that the national democratic revolution had been compromised in the transition to black majority rule, as in South Africa' (Bernstein 2005: 89–90). However, the dismantling of 'well-established and successful capitalist farms' has been perceived to yield 'too many losers', especially among farmworkers, and too many winners among the 'state class and (black) bourgeois elements' (Bernstein 2005: 89–90), even though the long-term developmental prospects that the reform can offer are known to be constrained by sanctions.

Some have argued for a nationalised or socialised agriculture on a large-scale basis (Cousins 2006), although they do not specify the social forces that could drive this. Agrarian change is seen to allow for only one ('productive' and 'non-racial') path to rural social transformation, which rules out nationalist mobilisation, the re-division of land and new forms of cooperativism/collectivism among smallholders; that is, the creation of new 'economies of scale' (Moyo & Yeros 2007). As discussed later, this teleogy, premised on large-scale farming, has dominated debates among the internationalist left, contrary to nationalists' redistributive demands, as others have pointed out (Mafeje 2003; Mkandawire & Soludo 1999).

The SADC states have, for over two decades, promoted agricultural development through selective, small-scale and unsubsidised agricultural technological interventions in disparate projects on soil maintenance, improved seed and/or fertiliser adoption schemes, micro-irrigation and narrow 'market access' initiatives. Technology generation is dispersed, leading to little impact on innovation (Monty Jones, cited by Dugger 2007). The SADC states have excluded investments in rural infrastructure and water development, as well as broadly subsidised credit and inputs. Increasingly their logic has been founded on promoting 'accumulation from above' (rather than 'from below') by supporting larger farms.

The state's retreat from financing other non-agricultural aspects – such as rural development, and various social welfare and other consumption transfers to the poor – alongside market pricing and wage repression, has led to income deflation and agricultural demand compression (Patnaik 2008); and this, as a result of declining production, has limited the sources of state revenues. Rather than questioning the systemic sources of agrarian de-accumulation and state incapacity, moralistic and voluntaristic calls to increase national budgets and encourage green revolution are proposed. Narrowly conceived poverty reduction strategies, informed by dubious perspectives on African 'livelihoods', miss the tautological point: that wider economic deflationary policies have driven peasants into disparate 'diversification' strategies that occupy their labour with minor rewards.

Any pretensions of becoming a democratic developmental state in the SADC region would need autonomous activist state regulation of land tenures, to prevent the poor from losing more land and to ensure the equitable distribution of land towards the utilisation of land for wider social purposes (e.g. food security), within a coherent agrarian reform programme. Popular engagement in such a project would require the mobilisation of social forces, which represent the working peoples.

Some of the explanations of the failure to secure a developmental state posit nationalism – treated merely as an ideology of the state (and its ruling parties) or of the status quo – as the key obstacle. Yet ideologies can be relatively autonomous of the economic system *and* the state apparatus, since social contestations, conditioned by uneven development and various hierarchies (including in the world system) shape nationalism (Moyo & Yeros forthcoming). Nationalism is not a constant moral-political function and nor are all its manifestations morally equivalent (Moyo & Yeros forthcoming).

The submergence of the national question in southern Africa has been accompanied by numerous social conflicts, involving various ethnic, class and xenophobic expressions, partly reflecting the degeneration of political organisation within both the capitalist and working classes, and the dominance of petty accumulation interests (Moyo & Yeros forthcoming). While questions of inter-ethnic domination are real, valid and enduring, whatever form they may take, they continue to have an economic basis, emanating from truncated capitalist development in the periphery. In this context, resolving the land and agrarian question remains critical to addressing the national question, in all its dimensions.

Moreover, the current market-based, functional approach to integration that is followed by SADC not only lacks a regional industrial (cum agrarian) policy framework, but is also based on systematically opening up the region (e.g. through trade reforms, monetary harmonisation, and other economic norm-building instruments) for its greater (mal)integration into the global economy. It should be borne in mind that this process is built upon a history of forcible global integration during the colonial and apartheid eras, through the mobilisation (expropriations) of land, labour and minerals, and through import substitution and export strategies, dominated by South Africa. These common historical and continuing inequities partly inform current nationalist solidarities over the land and agrarian question.

The sub-imperial hegemony of South Africa within the SADC economy has continued to expand, while out-migration to the South African enclaves has grown further, as economic growth remained 'lacklustre' (until 2003, except in Zimbabwe). In the agricultural and agro-industrial sectors, seed and fertiliser production and supply are increasingly monopolised by a few transnational producers, in South Africa transmitting escalating prices. Distant fertiliser imports are on the rise, while raw materials to produce these abound in the SADC region but remain untapped, not because of market size problems but because of the absence of financial commitment to regional integration. The national dispersion of agricultural research and development efforts continues to be wasteful and ineffective (Monty Jones, cited by Dugger 2007; see also AGRA 2007). Similarly, output markets and trade patterns show a greater reliance on external markets dominated by large transnational corporations.

The SADC-FTA (free trade area) signed in August 2008 claims to address some of the obstacles to intra-SADC trade; but there are fears that it could lead to a more inequitable regional food production and trade system, unless deliberate mutual investments in agriculture are undertaken to provide cover from the vagaries of the dominance of South Africa and the world food system. Addressing the agrarian question in the SADC region could benefit from a more thoroughgoing process of regional integration, using inward-looking strategies that build on a variety of complementarities, including the creation of a wider regional market for agricultural inputs and outputs, geared towards equitable industrialisation.

Conclusions

Given the history of land and mineral resource dispossession and a repressive labour migration system in the region, particularly in the regionally dominant state of South Africa, development in the sense of enhancing human capabilities is out of sight. In particular, the SADC region's agrarian situation is characterised by increasing malnutrition and decreasing food production, and dependence on a distortive agricultural trade system at the mercy of speculative 'global' markets. This model depends on the mobilisation of malnourished and cheap labour within most SADC countries. Monopolistic control of natural resources and minerals (gold, diamonds, platinum etc.) and a narrow, capital-intensive industrial and mining sector, underlies the region's high levels of unemployment and poverty, while social reproduction in the countryside is constrained. The sub-hegemonic tendencies of South Africa's outward-looking and 'emigrant' capital, which is dominant in the SADC region's food and agricultural input markets, reproduces uneven enclave development in parts of South Africa and elsewhere in the region (see Mhone 1996).

This strategy is made possible by the resilience in most of the countries of a politically narrow and economically extroverted class of elites, particularly in the agrarian arena. This situation is propped up by a common policy preoccupation with narrow middle class consumer and 'black empowerment' interests, at the expense of the poor majority. As Arrighi et al. (2008) argue in the case of South Africa, the present strategy promotes the interests of a multiracial minority, rather than the welfare of the majority. The present development strategy has failed, largely because of its failure to displace these narrow elites with their alliance with an anti-developmental state.

The way forward is to address the agrarian question, beginning with land reform in South Africa and in countries such as Botswana, Namibia and Zambia, and state interventions that support the productive capacities of the rural working peoples, alongside investment of a larger proportion of surpluses from mining into broad-based public social services. This will require building the capacity of the state to design and implement a coherent development strategy, in alliance with progressive arms of the political classes, small producers and domestic capital.

Notes

1 See Bernstein (2002, 2005); Bryceson (1996); Mafeje (2003); Mkandawire & Soludo (1999); Moyo (2008); Moyo & Yeros (2005); and Rukuni et al. (2006); see also Alliance for a Green Revolution in Africa (AGRA) (2007), www.agra-alliance.org.

2 See also the ANC's 2007 draft document, *Draft Resolution on Economic Transformation*, a conference briefing document made available to the author.

3 The value of agricultural output increased by 2.5 per cent per year in Africa compared to 2.9 per cent in Latin America and 3.5 per cent in developing Asia over the past four decades (Haggblade et al. 2004).

4 Gini index (land concentration) measures the equity of land distribution; an index of 0 (zero) denotes a situation where there is equity in land distribution, whereas 1 (one) denotes a situation of inequality, where land is highly concentrated in the hands of a few individuals (i.e. where landlessness is common).

5 South Africa, Zimbabwe and Malawi are the relatively higher users of fertiliser (at 49 kg/ha, 30 kg/ha and 23 kg/ha respectively). This is followed by Tanzania at 13 kg/ha and Zambia, which uses a little less, while the rest use 5 kg/ha or much less.

6 The Seychelles has 400 tractors/100 km^2 of arable land; Swaziland and Botswana have 222 and 159 tractors per 100 km^2; the next group of countries with a median tractorisation level are: Zimbabwe at 75, Angola at 31, Lesotho at 61, South Africa at 22, Namibia at 39 and Mauritius at 37 (Nationmaster, accessed January 2010, www.nationmaster.com/graph/agr_agr_mac_tra_per_100_hec_of_ara_lan-per-100-hectares-arable-land). The figures for the remaining six countries range from 19 tractors/100 km^2 (Tanzania) to 4 tractors/100 km^2 in DRC.

7 South African trade accounts for much of the decline.

8 This increased from 2 per cent and 3 per cent in 1985 and 1990, to 11 per cent in 1995, and then declined to 9 per cent and 8 per cent in 2000 and 2005.

9 This is given import parity pricing, and that eight maize agrofuel plants are being built by Ethanol Africa in South Africa's Free State Province (Wahenga 2007).

10 For example: the debates between Herero and Ovambo people in Namibia; recent protestations in Zimbabwe (Moyo 2008); some land restitution disputes in South Africa; competing claims for land redistributed under the Centre for Land-related, Regional and Development Law and Policy, in Malawi; Zambian fights over traditional leaders' control of land concessioning; and the fact that, in Botswana, Tswana dominance in land schemes has been noted (Molomo 2008).

11 Over the past two decades, overall public spending on agriculture fell from 7.5 per cent to 6 per cent of agricultural GDP, while expenditure on agricultural research fell from 0.8 per cent in 1981 to 0.3 per cent in 1991 (see Haggblade et al. 2004).

12 Some estimate that, to meet requirements, African countries would need to invest at least 20 per cent of their budgets in the sector, if this were the true problem.

13 The process happened through reduced taxation rates and diminished collection, with underlying sluggish GDP growth, largely related to a secular decline in the terms of trade for agricultural and mineral commodities from the early 1980s–2002.

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