Can South Africa Be a Developmental State?

Ben Fine
School of Oriental and African Studies

1 Introduction

This contribution 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, as is illustrated by two Appendices concerning industrial policy and social and economic infrastructure. Indeed, South Africa might be thought to have been much closer to developmental state status in the past than it is now.

2 Economic and Political Schools

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 both in 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 a renewal of interest in the developmental state once more after a decline in the decade around the turn of the millennium. This confirms the minor law. And one of its extremely insignificant manifestations is that this conference is the fourth occasion in the last couple of years in which I have been asked to address the developmental state, the last two being specifically in the context of South Africa. The latter is no doubt a consequence of the sudden emergence in the highest policy circles 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 status is 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!

Of course, unlike Canute, who had no powers to reverse the flow of the tide, South African policymakers 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. So, 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 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 accepting as fundamental starting point the dichotomy between market and state. 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. But 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 nineteenth century and the import-substituting industrialisation of Latin America in the twentieth, the idea of the developmental state has been most closely associated with the rise of East Asian economies. Whilst 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 NICs, especially in the work of, and inspired by, Amsden (1989) and Wade (1990).

But 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, Chalmers 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 are very different. As Chalmers (2006), 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”. 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. 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 for 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”. 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 issue of the relationship between the state and the private sector, as emphasised in Johnson (1999). And, for Johnson’s (1982) classic contribution, the industrial ministry, MITI, plays the decisive role as the state’s instrument for industrial policy. In deference to specificity, Johnston (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 which enables this; market-conforming methods of intervention; and an organisation such as MITI to effect implementation. Significantly, Johnson favourably singles out Castells’ (1992, p. 56/7) 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.

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 (what and how are we going to produce and for whom, for example, this presumably being left to specificity).

In contrast to the political school, the economic school is exclusively pre-occupied 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), in his book’s title, Governing the Market: Economic Theory and the Role of Government. 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, Evans (1992 and 1995) – that it needed 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 are the precise nature of the connections between state and society, 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 appeal to case studies, with the East Asian NICs to the fore, but in a different way, reflecting its central pre-occupation with challenging the Washington Consensus and the latter’s blanket rejection of industrial policy. 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 (1993) to acknowledge that there might be something different about the East Asian NICs. Even so, the Bank’s report on the East Asian Miracle represented a remarkable 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 devoted 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 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 East 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 industrial policy. 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. But it is far from clear 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 economics law 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. 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. But, by the same token, 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, Haggard (2005), Kwon (2003 and 2005) and Kasza (2006), for example, 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. But, on the broader analytical terrain, 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 it has to do.

3 South Africa through the Developmental State Prism

Irrespective of its inner merits as an analytical framework, how does South Africa appear through the prism of the developmental state paradigm, in 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. 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. But, with the collapse of the post-war boom and the Bretton Woods system based on gold at $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. Into the 1980s, the crisis of apartheid also precluded a state and/or private strategy for industrial promotion. But, whilst the core MEC industries remained central to the economy, 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 both to intensified conglomeration across the economy but, 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.

But 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 IMF 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.

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. But progress has been limited, 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.

But, as previously 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 a 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 base.

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 one-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 one-fourth 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. This seems almost impossible to explain. 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? First, there has been a degree of paralysis as privatisation plans have come and gone without materialising. Second, there has been a failure of coordination across government departments with this, and corresponding powers, residing predominantly within the Ministry of Finance and the Presidency, at the expense of other Ministries. Otherwise, surely, those of Mineral and Energy Affairs, Trade and Industry and Public Enterprises would have collectively prevailed in expanding provision? Third, and generally overlooked, is the role played by the domestic conglomerates that have had much to lose in the wake of the power cuts. Why did they not press for expansion of capacity on a timelier basis?

Historically, the conglomerates have benefited from, even taken for granted, state provision of by far the cheapest electricity in the world (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, for 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. As a result, the simplest task of a developmental state, to keep the electricity on, has not been met. Significantly, though, BEE did seek to appropriate 50% of mineral rights in the state’s renegotiation of leases but settled for 25% clearly at the expense of the mining conglomerates, Hamman et al (2008). So, in this arena at least, the state was prepared to act to redistribute wealth but without regard to its creation through deploying such revenue for electrical power capacity.

But there are much broader implications even than this. 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, p. 91), 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”. 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, and what is being done to raise institutional capacity, Fine (2008).

In addition, Kaplan praises the Western Cape microeconomic development strategy as a model that might be followed by central government. But it is worth noting what view is taken by those implementing that model in light of the power crisis, citing McDonald (2008, Chapter 1):

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”.

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 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 important, 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 what are weapon 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 ruing their failure to take on electricity supply on their own account.

**Concluding Remarks**

Underpinning this contribution, there has been a tension between deploying the developmental state paradigm and rejecting it in 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. But the approach does have some merit 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 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 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 Appendices for example. Although these 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, this 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 from conglomerates, even if they do so 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 policymaking (with notable exceptions such as macroeconomic policy to liberalise capital controls and 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.
Appendix 1

Industrial Policy and South Africa: A Strategic View

Ben Fine

Presentation of Main Points

Introduction

For almost two decades, debate over industrial policy for developing countries has been dominated by the agenda set by the World Bank and the IMF. This has pitched the state against the market, with the Washington consensus heavily favouring the latter and breaking with an earlier traditional dependence upon industrialisation led or heavily influenced by the state sector. More recently, longstanding theoretical and empirical criticism of the Washington consensus has begun to have an effect, particularly in the light of the experience of the East Asian NICs, for which state economic intervention has been shown to have been both necessary and highly effective.

To a limited extent, South African current industrial policy has incorporated this shift in emphasis towards more reliance upon the state. Nonetheless, policy remains marked by the market-led approach. This is particularly inappropriate as the South African example demonstrates that the state versus market approach is itself misleading as the state must in part work through and with the market, not only in the provision of basic needs and social and economic infrastructure but also in industrial policy. Moreover, due account must be taken of the economic and political interests that are influential upon the state as well as the capacity to formulate, implement and monitor policy. Such issues tend to be set aside when relying upon the more nebulous capacity of the market to deliver what is required.

It would be unfortunate if South Africa continued to be unduly influenced by a market ideology when this is itself being steadily eroded by new initiatives and thinking in development and industrial policy. Indeed, South Africa could itself take a lead in the formulation of a new agenda for industrial policy, to its own as well as to the advantage of other developing countries, especially those in Africa which have been least affected in practice by the new currents in development policy.

Whilst South African industrial policy has rejected exclusive reliance upon the traditional supply-side measure of simply getting the prices right, it has not developed supply-side policies far enough in depth and scope by way of alternative. Welcome acknowledgement of the spill-over effects of industrial clusters and the benefits of social and economic infrastructure does not in principle provide sufficiently for policy formulation which needs to be worked out in detail for individual sectors and their vertical integration, against the background of a systemic strategy for South African industrial reconstruction.

In particular, there is a need, first, for expertise to be developed in industrial policymaking in which due account is taken of full social cost benefit analysis in the light of the strategic objectives of the RDP. The main goal must be the secure provision of basic needs for the vast majority, whether through growth, employment or redistribution. This may be associated with a number of intermediate goals, as in macroeconomic policy to generate business confidence and economic stability, the funding of various mega-projects to generate foreign exchange and knock-on employment, and reform of trade policy to induce competitiveness.

Second, however, it is only a first step to assess these factors in principle, it is also necessary to ensure that the benefits do indeed accrue in practice. Thus, mega-projects for example, designed to generate foreign exchange do not necessarily contribute to more fundamental goals if the earnings are freely invested abroad.

Third, the formulation, implementation and monitoring of policy needs to take account of the vested interests that can influence the policy process and to be assured that strategic goals are being met by including them within contracts where appropriate. Apart from the normal requirements around price, quality and delivery times, these might include wages and working conditions as well as employment levels, export targets, technology transfer and provision of training and adult basic education, etc.
The limited progress made with social plans for the gold mines is indicative of extreme weakness of industrial and other policymaking in South Africa. No serious calculation seems to have been made of the relative merits of mine closures or downsizing, of maintaining the mines for the benefits they bring in employment, multiplier effects and foreign exchange earnings, or of retraining and redeploying a skilled and organised workforce for other employment. What is true in this instance, where the leading issues involved are transparent to a degree, is even more disturbing in other cases of industrial policymaking where neither the capacity exists nor is the attempt made to come to decisions grounded in an overall strategy incorporating full impact analyses, taking account of sequencing, dynamic economies of scale and scope as well as the more direct and observable effects.

In the first instance, three separate issues are involved in rectifying this situation. The first, readily overlooked and treated as secondary, is organising the systematic collection of adequate data for the policy process. Without such data, it is neither possible to formulate policy adequately nor to monitor its effects. Second, government departments must have the skills and motivation to carry out the necessary policy work. Third, there must be the determination to overcome, or incorporate, the interests of the powerful conglomerates in formulating, implementing and monitoring policy. These three aspects must be carried forward together with, for example, data collection responding to the impact analysis of policy work, and policy responding to and informing the strategies and activities of the conglomerates.

The discussion indicates that industrial policy should not be narrowly conceived, as trade or competition policy for example, as has previously occurred in South Africa as elsewhere from time to time. Rather, as a range of factors and policies impinge upon industrial performance, these need to be taken into account in the specific context within which they are being assessed. How industrial policy is defined, quite apart from how it is formulated, implemented and monitored, will reflect competing economic and political interests. It is imperative that working people bring their perspectives to bear upon the policy process, otherwise it is liable to be partial in content and place important decisions outside the scope of government and public scrutiny.

The Economic Background

South African industrial development has been and remains seriously deficient. A major weakness of South African industry is the relative absence of productive capacity in intermediate and capital goods. This has a negative impact on the economy in a number of different ways:

(a) Economic expansion leads to growing imports of these goods and so creates balance of payments pressures.

(b) Up- and down-stream integration of economic activity is poorly coordinated, in terms of the provision of mutually reinforcing access to finance, markets and technology.

(c) Employment generation, broadening of the skill base, and the opportunities to diversify into new sectors of industry are severely constrained.

Further, South African industry has suffered from stagnation in investment since the early 1980s, whilst South African corporations have engaged in:

(a) capital flight, much of it illegal (estimated to be as much as 7% of GDP),

(b) speculative purchase of existing industrial assets as disinvestment was prompted by international sanctions, and

(c) heavy lobbying for policies to promote their interests, whether materialising in the past under the previous apartheid regime or currently under the newly elected democratic government. This is most notable, for example, in the pursuit of state-subsidised mega-projects and the pressure for privatisation, in part to undermine the state’s influence over the economy as well as to obtain productive assets cheaply.

Some key aspects, then, of the South African economy are:
1) A lack of capacity in intermediate and capital goods.

2) An aged capital stock, reflecting limited investment in the past.

3) Declining shares in critical world markets for manufactured exports, especially those in which other successful developing countries have been prominent.

4) A lack of integration across sectors.

5) Limited skills and employment opportunities for the workforce, complemented by poorly trained and inadequate management.

6) A highly concentrated pattern of corporate ownership which straddles the economy as a whole and not just industry.

7) An institutional structure and governance that continues to reflect the economic and industrial imperatives of the past.

8) There is a highly skewed distribution of economic and industrial activity both within South Africa and across the southern African region as a whole.

It is crucial to recognise that these general characteristics of the South African economy differ in weight from one sector to another and within sectors, and that these factors are integrated with one another in different ways depending upon the sector concerned. Clothing and telecommunications, for example, have obviously evolved along quite separate paths and pose different policy challenges despite their common origins within the South African economy. In addition, it is important to recognise that the South African economy enjoys certain advantages - such as large-scale public and private sector corporations, an extensive if unevenly delivered infrastructure, and, especially important, the capacity and prospect of delivering such social and economic infrastructure to a varying degree.

**Industrial Strategy**

COSATU should consider that the following be given the highest priority in the direct and indirect formulation of industrial policy:

(a) Meeting of basic needs.

(b) Generation of employment.

(c) Education and training.

(d) Sectoral policy.

(e) Infrastructural provision and measures to ensure economic and social spin-offs.

(f) Reform of the financial system to secure finance for industry.

(g) Monitoring and control of foreign investment flows, particularly those outward investments by the conglomerates of South African origin.

(h) Minimum labour standards and the narrowing of wage differentials.

(i) Macroeconomic policy.

(j) Regional integration within South Africa and across the Southern African region.

(k) Restructuring of state assets.
(1) The reform of the institutions for making industrial policy so that the allocation and coordination of responsibilities across government departments is rationalised and coherent.

Some of these are already high on the government's agenda but others are not. Even where they are high on the agenda, this is not always with sufficient detailed attention to their impact on industrial policy, as is the case for macroeconomic strategy, for example.

In relative terms, again without commenting in detail on the policies adopted, too great an emphasis has been placed on the following:

(a) Promoting a spurious business confidence, which remains elusive, constrains consideration of more effective and more certain policymaking, accords priority to a minority of opinion makers and business interest, and does not guarantee a calculable and positive return.

(b) Promoting small business which is imperative but should not be at the expense of distracting attention from policymaking for large-scale business on whose fortunes small business will probably depend more than any other single factor.

(c) Promoting privatisation, especially as a source of revenue, since this merely transfers ownership, at a cost, without otherwise formulating constructive policy.

(d) Competition policy in the absence of a broader strategy for industrial and corporate restructuring, since this merely limits the scope of operation of big business without addressing the role of economies of scale and scope.

(e) The promotion of mega-projects at the expense of ensuring their overall economic and commercial viability since these may generate foreign exchange and downstream processing but the net benefits to the economy have to be shown and made to accrue.

In short, COSATU should see its role as first shifting the industrial policy agenda to give top priority to those issues of most importance to working people and, then, to ensure efficient, effective and equitable policies are adopted within that agenda.

Implementation and Monitoring

One form in which the implementation and monitoring of policy can be effectively pushed forward is through contract compliance. As a major customer of industry, government can impose a number of conditions on its suppliers over and above the traditional concerns of price, quality and delivery time. Contracts may usefully incorporate requirements on the development of education and skills, security of employment, and the development and sharing of technology, quite apart from trade union recognition, affirmative action, and observance of general government policy and specific sectoral policy, such as export targeting. A contract compliance strategy with three separate arms is required: one concerned with compliance in the narrow sense of meeting contracts effectively in the absence of corruption and profiteering; one concerned with the employment and other impacts of businesses such as export and training levels; and the last to promote the role and interests of consumers.

More generally than through the government's own procurement, there is a tripartite institutional structure for the implementation and monitoring of industrial policy, including industrial corporations themselves, financial institutions and government. Together these comprise a financial system, broadly conceived. International evidence suggests that the nature of a financial system is crucial in determining the levels, composition and effectivity of investment. Despite some positive aspects, in the capacity of conglomerates to generate finance for investment internally, the South African financial system has functioned in practice like a market based as opposed to a banking system, a feature which is generally acknowledged to be deficient promoting appropriate industrial investment and policy, especially in a developing economy in transition.

Despite the discrediting of the de Kock reforms of the South African financial systems in practice and in principle, together with a complete change in domestic and external circumstances and in economic objectives, no serious consideration has been given to relations between finance and
industry, and the capacity of government departments to coordinate and innovate in the formulation of policy. This is despite:

1) Inadequate provision of finance for industry.

2) Inadequate coordination of investment across sectors.

3) Inadequate formulation, implementation and monitoring of sectoral strategies.

4) Inadequate coordination across government departments and other agencies.

5) Corporate strategies that are inconsistent with the policies required for industrial reconstruction.

6) Macroeconomic policy that is unduly influenced by short-term financial rather than longer-term and other economic imperatives.

Consequently, it is recommended that an investigation into industrial policy be undertaken with a particular but not exclusive emphasis upon the role played by finance for industrial investment. The inquiry should address:

1) A review of past, present and prospective sources of finance for investment together with the design of an appropriate system of data collection so that policy can be soundly formulated.

2) A review of past, present and prospective institutional arrangements governing the relations between finance and industry, covering both macroeconomic and microeconomic issues, distinguishing between different sectors and enterprise scale and type of ownership.

3) A review of past, present and prospective methods of, and personnel capacity for, the monitoring of investment in both the public and the private sector, as well as how the two interact. Particular attention needs to be paid to the coordination of policy across government departments.

4) A review of past, present and prospective levels of capital flight, legal or illegal, and the regulatory and fiscal initiatives which might stem damaging outflow of capital.

5) Consideration of formalising financial monitoring of industry through policies such as directed credit for successful promotion of exports and other strategic objectives.

6) Institutional initiatives to strengthen the role of Task Forces in sectors such as automobiles and clothing/textiles and to introduce them into other sectors.

7) How new sources of finance can be used to raise substantial additional capital for the developmental financial institutions, such as the IDC and DBSA, so that they expand their operations where social exceed private returns.

This review should also explicitly address the role played by direct foreign investment, drawing upon best practice in assessing the net impact of such investment according to a full social cost-benefit analysis. There can be no presumption that the overall impact will be significant relative to what needs to be provided from domestic resources, and investments need to be carefully assessed on a piecemeal basis in the light of sectorally specific circumstances and outcomes. The undue courting of direct foreign investment will be damaging to policymaking more generally, and will engender support for policies that could even weaken investment from domestic resources as pressure builds for deflationary policies to allow for the lifting of exchange controls on capital movements.

Trade policy in South Africa has in general pursued trade liberalisation beyond the level even required by the developments arising out of the Uruguay Round. This is despite the potential for negative impact on the industries concerned and the failure to formulate and put adequate supply-side policies in place prior to liberalisation. The justification for, and impact of, trade liberalisation has rested to a large extent on the calculation of effective rates of protection, EPRs. These are, however, ill-founded conceptually, in practice in how they have been calculated, and as a guide to policy in their imputed effects. In particular, they take no account of dynamic and static economies of scale and scope,
excess capacity, capital-labour intensity, market structure, presence of multinationals, skill requirements of the labour force and management, developments in world markets, product differentiation and quality, commercial risk, age structure of capital stock, the differential impact of non-tradeables, and the substitution between capital and labour in production in response to changing input prices. In this light, it is inconceivable how EPRs can justifiably be used as the basis for industrial policymaking of which trade policy is an integral part. Doubts must be equally strong over its usefulness for measuring macroeconomic impacts on employment, inflation and growth.

Rather than assessing trade independently of industrial (or supply-side) policy, the two must be integrated with neither logical nor sequential priority attached to trade policy. Exactly the opposite is occurring in South Africa in practice. The process of dismantling protection has preceded the election of the ANC government. It is gathering momentum. That it does so appears to reflect a lack of conglomerate commitment to the restructuring of many industrial sectors, with a preference for a strategy of global reorganisation of productive investment. Accordingly, it is essential that appropriate sectoral industrial strategies are put in place, insisting upon cooperation from large business if necessary, prior to any further trade liberalisation.
Appendix 2

CIEE WORKSHOP FOR SOUTH AFRICAN POLICY MAKERS - JUNE, 1996

Some Perspectives on the Provision of Social and Economic Infrastructure

Ben Fine

Just three years ago, before the elections that give rise to the Government of National Unity, what has become known as the MERG policy document was being prepared. It was published a few months later in December 1993. I had responsibility for the chapter on social and economic infrastructure. In preparing it, I wrote a general introduction which, in the event, did not find its way into the document. What follows is the text of that introduction. It has only been amended marginally, and not at all in substance, in order to make sense as a stand-alone document. It is indeed remarkable how little it has needed amendment despite the dramatic changes that have occurred in South Africa. To some extent it is dated, especially with respect to the need to reform the duplicated and fragmented administration that was characteristic of the apartheid era. This is being addressed. In addition, the apartheid government was still in place at the time of writing and this might make the text read strangely in places, given the formation of the GNU and what now appears in retrospect to have become a secure political transformation.

What is surprising is the extent to which the analysis remains relevant today. This is because it remains firmly rooted in the longstanding material realities of South African society, whilst adopting a critical stance to the conservative market-based ideology of many of those proffering advice to the newly emerging South African policy makers. Further, it is no secret that the achievements in social and economic infrastructure over the past two years of democratic government have been disappointing. The reasons for this cannot be addressed here. Yet, without degenerating into a bout of “I told you so”, the MERG document did emphasise that the major constraint on infrastructural provision would prove to be the institutional capacity to deliver and not financial constraints. To treat provision as if finance were the major problem would only serve to worsen delivery. These insights do appear to have been borne out. And South African economy policy has been and seems set to continue to be dominated by financial and fiscal conservatism without sufficient attention to the problems of how infrastructural provision is to be guaranteed.

Perhaps I can make three further points before presenting the introductory text. First, one of the conclusions in the introduction is that, whilst each distinct area of infrastructural provision needs policy to be developed specifically for it, inequitable provision across infrastructure as a whole tends to be mutually reinforcing to the advantage of those who are already best placed. In part, this is because the better-off are already better able to benefit from provision - as in higher education for example. Equally important, they are also better placed to pursue their interests through economic and political mechanisms. Accordingly, the commitment to rectify inequality in infrastructural provision needs to be particularly powerful, coherent and persistent - this is so even in advanced capitalist countries, it is especially important in the South African context of extreme historical backlogs in provision.

Second, now as at the time of the MERG Report, World Bank, IMF and much business ideology, especially that represented in the South African press, is heavily committed to keeping state expenditure to a minimum, to impose user charges where possible, and to rely on the market for provision to the maximum extent. This ideological stance, itself incapable of addressing the institutional capacity to deliver which is taken here to be the key factor, is less fanatically pursued in the case of infrastructural provision since this is often perceived to incorporate classic examples of market imperfections - externalities, economies of scale and distributional considerations. A further point can be added here against the pro-market ideology. This is by way of a response to the notion that the market is an effective mechanism for communicating information, allowing people to get what they want through measuring and responding to their ability to pay. But, in infrastructural provision in the South African context, this is not the problem. We already know what people want - it is health, housing, schooling and other basic needs. The focus must be on delivery.

Finally, whilst this introduction is more or less free standing, its significance can only be fully appreciated if it is read as a foreword to the treatment of the specific areas of infrastructural provision which are to be found in the MERG document. These too are necessarily dated in some respects, but
they still offer considerable analytical, empirical and policy insights. Hopefully, the reader will be encouraged to consult one or more of these "case studies", whether for housing, schooling, health provision, or electrification.

SOCIAL AND ECONOMIC INFRASTRUCTURE

Draft Introduction

Whatever the position that different commentators have taken on the post-apartheid economy, there has been universal agreement that there is an urgent need for extensive infrastructural development. This is so whether the policy emphasis has been to provide for basic needs, to promote the private or the public sector, to forge a functional relationship between distribution and growth, or to restructure the levels and composition of state expenditure. All recognise that significant resources will need to be devoted to the provision of the different constituent components of what make up social and economic infrastructure.

Such unanimity is hardly surprising in light of the extreme inequalities that have prevailed under the apartheid system in access to housing, transportation, water and sanitation, to health and health services, to education and to the other amenities that are often, but not always, associated with public subsidy if not provision. To the extent that equal participation in society extends beyond the ballot box, it is incontrovertible that development of social and economic infrastructure should be a first call upon the resources of the post-apartheid economy. These, as much as the franchise, have been denied to the majority of South African’s citizens. Not surprisingly, at the centre of post-apartheid reconstruction must be placed a substantial programme of infrastructural provision.

The chapter on social and economic infrastructure to be found in the MERG document focuses in particular on the macroeconomic impact of provision. It is not, however, possible to be comprehensive. One section deals with education (almost exclusively with schooling), another with some aspects of health, the third with housing, and the fourth with electrification. By the orthodox standards of what constitutes macroeconomics (and its distinction from microeconomics), each of these sections wanders much too far from the traditional concerns of fiscal and other aggregate balances in embracing the detail of infrastructural provision. This reflects our rejection of there in fact being a sharp division between macroeconomic and microeconomic concerns. It is necessary to assess, particularly in the context of a developing economy, whether macroeconomic effects will indeed be realised in view of the wide variety of constraints under which socioeconomic activity is undertaken. In other words, it is not simply a macroeconomic question of how much to spend and how it is to be financed, but also a series of "microeconomic" questions about the capacity to deliver.

Each of the separate components of infrastructure raises a number of different analytical and policy issues. But we begin by drawing out some of the factors which they share in common. The first has already been highlighted - the dramatic inequalities that characterise the inherited provision of infrastructure. But these inequalities, often to the extent of complete absences of some services for much of the population, are not simply associated with racial divisions, important though these are. The incidence of inequality is to be found across other socioeconomic characteristics - by gender, by rural/urban divisions, within rural and urban areas, between the employed and unemployed, by age and between different administrative authorities, and so on; and the provision of infrastructure within South Africa has, and will continue to have, a profound impact upon the southern African region.

This means that proposals to deliver infrastructure will not be distributionally neutral. They will favour some constituencies more than others, and often in ways that are not entirely predictable even where they are not overlooked. We have in mind, for example, the work and conditions of women whose unpaid labour within the unenumerated economy must be carefully considered. This is so for reasons of equity. Provision of infrastructure can considerably ease the burden on women whose lives are often dominated by the responsibility for what are perceived to be the menial tasks of collecting wood and drawing water - although women can be denied a livelihood as a result of more systematic, public provision, and the jobs created, the informal economic opportunities and the broader benefits are frequently appropriated by men. Further, the success and goals of policies can be thwarted if due account is not taken of their dependence on the wider socioeconomic circumstances in which they are implemented, such as the demands and stresses and strains placed upon the family, community and institutional structures.
A particularly important example is provided by old age pensions. These comprise the major part of the welfare system for blacks. As a result, they serve a much more important role than simply supporting the elderly. For they provide the rationale for a payments system, often in areas otherwise deprived of such facilities. But, more important, they constitute a general form of household income support underpinning payment for school fees, for example, as well as household expenditure as a whole. Consequently, pensions policy is more than a matter of how much, it also concerns how payments are administered and how they are integrated into economic and social life. They are especially important as a secure source of income, allowing credit to be advanced and accounts to be settled. Whilst pensions constitute a specific issue to which we will not return in the context of infrastructure, these considerations are of great relevance, even if in different ways, to the policymaking for the other components of infrastructure.

A second feature of infrastructural provision in South Africa is its extreme fragmentation. As a consequence of the heritage of apartheid, the ways in which the public sector operates is dependent upon a dozen or more replicated administrative authorities. Each of these has a potentially different relationship to central government, and each has its own internally differentiated characteristics - whether these be demographic, political or economic. Consequently, both the ways in which infrastructure is delivered and the levels of delivery are uneven in most instances, reflecting the different degrees of autonomy that has been allowed to the independent homelands, for example, and how it has been employed.

But, thirdly, such autonomy should not be exaggerated, and central government has continued to hold both the economic purse strings and the political upper hand. This has given rise to a compensating exercise of centralised control over the fragmented administration at lower levels. Far from signifying coordination and direction of an effectively decentralised system at lower levels, central government has reacted in a piecemeal fashion to the growing strains that have been endemic within South African infrastructural provision over the past decade. In short, in terms of administration of such services, the apartheid state has managed to yield a combination of the worst forms of overcentralisation and fragmented decentralisation.

The World Bank has reported that:

the currently extreme fragmentation of responsibility within metropolitan areas into a variety of local councils, boards, managements committees, and regional and provincial authorities, all operating in the context of a transitional period in which credible national policies on local government and housing are still to be developed. As a result, current investment in any given metropolitan area appears to be ad hoc, uncoordinated and frequently inefficient, and for the most part formulated on a project by project basis outside of any broader, more programmatic assessment of needs, priorities and strategies.

For the IDRC, the Canadian aid agency:

The Mission found ... extreme institutional fragmentation amongst actors within South Africa ... very significant fragmentation of authorities in provision of urban services. Not only do the different service areas and boundaries run counter to any principles of effective planning, but the separation of transportation from land use planning compounds the inefficiencies and inequities with respect both to access to, and provision of, key services and infrastructure.

The National Housing Forum's first newsletter observes:

The Government has fourteen separate housing departments ... and at least twenty six different ways in which funds flow to the end user - people who need housing. Very little comes out of these structures, which are filled with thousands of bureaucrats and technocrats. They have hundreds of hidden agendas which, with change in the air, they are all running hard to protect.

One commentator describes, "how South Africa came to have seventeen departments of welfare, arranged in four clusters, coordinated by three other departments and one secretariat". Such
fragmentation and replication was supplemented by a "third significant feature of the 1980s ... the establishment of structures for coordination and control".

Report for water that:

The institutional framework within which water supply and sanitation services are provided reflects the current fragmentation of government in South Africa with no single agency at national level charged with ensuring that all households are adequately served. In this, the situation is different from that of electricity where ESKOM has a clear mandate to promote and plan electricity supply to most of South Africa, albeit through the agency of regional distributors in some of the homelands.

For infrastructural provision to a housing programme, the National Housing Forum finds that, "the institutional framework within which the providers of services have to operate reflects the current fragmentation of government as there is no single agency charged with ensuring that all households have access to basic services".

Thus, as can be repetitively demonstrated in broad programmatic terms as well as in the demands of detailed implementation, the current institutional environment is totally incapable of accommodating the tasks that it has been and will be set, irrespective of the specific design and content of policy.

Fourth, this is one, but not the only source of inefficiency in infrastructural provision. Segregated housing, for example, has required huge costs in terms of transport from townships to places of work. The lack of stability in households has led to high repetition rates and disruption in schooling. Failure to provide secure energy sources has been associated with long hours of work, usually female, devoted to the collection of wood fuel and at the expense of the environment. And so the list could run on.

Fifth, quite apart from the inefficient use of those infrastructural resources that have been mobilised, there is frequently to be found excess capacity alongside desperate need as a consequence of segregated facilities. This is true of schooling and health, of construction and electricity capacity. This is not a matter of insufficient effective demand in a Keynesian sense but of denial of basic infrastructure as a systematic consequence of apartheid imperatives.

Sixth, providing lessons for the future as well as for understanding the past and the present, there are very strong interactions between the different components of infrastructure as well as with other socioeconomic factors. These are often found to be mutually reinforcing whether negatively or positively, as in the relation between nutrition and health, between health and education, and between each of these and fertility, labour market access.

Seventh, whilst the previous six factors might be considered to be structural characteristics of infrastructural provision, they have been subject to change due to economic and political developments and the pressures upon, and responses of, government. The latter has been squeezed between the economic conditions of stagnation and limited borrowing and, in the political decision not to tax the privileged, the attempt to hold onto power as apartheid crumbles. As we now know, policies of oppression and violence, whilst by no means discarded, have been superseded by a political process and, to some limited extent, an economic process of dismantling the overt pillars of apartheid. Discriminatory legislation has been repealed, and government expenditure is being shifted towards provision for the disadvantaged.

But the process is absurdly and painfully slow despite the extent of the backlog to be remedied. Indeed, there has to be a question over the government's commitment to greater parity in infrastructural provision despite proclamations in policy documents to the contrary. For it appeals to the use of non-discriminatory policies but without adequately confronting how much (and often how such) inequality has been engendered in the past. This is particularly so in the government's ideological preference for reliance upon market forces and privatisation, even if this does, in practice, cloak substantial continuing state economic intervention. Not surprisingly, this has often continued to favour those who already possess advantage in income and wealth. In schooling and health, for example, the effect, through different mechanisms, has been to devolve facilities to those who have always enjoyed
preferential access even if, or with the added advantage of, now passing responsibility for parts of their continuing costs to privileged users.

Eighth, current government policy has often embraced the principle of equality of provision at most in name alone. In particular, the failure to address the legacies of apartheid leads to a perspective upon equality of provision which, paradoxically, reproduces and even intensifies the practices of separate (and unequal) development. Specifically, backlog in provision to blacks is generally perceived to be a problem - too much demand in conflict with too few resources - whilst provision to whites is seen as adequate and not a problem. We consider it imperative that the separate components of infrastructure be treated as a whole, with existing and prospective provision being addressed simultaneously across the population as a whole. For reasons of efficiency, as well as of equity, the previously racially separate provision of infrastructure must be dismantled.

Ninth, then, these eight, previously listed, factors have influenced the separate components of infrastructure unevenly. And they have interacted with one another quite differently across the different aspects of infrastructure. Moreover, this has fundamentally reflected the balance of conflict across the separate arenas involved as the struggle to overthrow apartheid, to survive within it and to reconstruct the future have all been pursued. Whilst it is common to refer to a crisis of apartheid and each of its constituent parts (including infrastructural provision), South Africa has experienced acute critical phases of change alongside a chronic impasse in many areas of economic and social life, and violence has been a major source and consequence of this situation. And the results, as expressed in the pace, nature and extent of change, have been very different in health, education and electrification, etc in accordance with the different economic and political role that each has occupied. Local government legitimacy has apparently been more important in housing, electrification and education, for example, than it has been in the provision of health services.

But the nature of infrastructural provision is equally differentiated in societies other than South Africa. Each country has its own housing, energy, education, transport and welfare systems. We refer to these as "systems of provision", a term that could be equally applied to goods and services that are not usually designated as infrastructure - as in the food system, for example. Our analytical starting point is that each system of provision constitutes an integral structure, with a logic and dynamic of its own. It is structured by the different activities that take place from production through to final use, and incorporating finance, delivery, work organisation, etc. There is a different mix of public and private enterprise, and a different interaction with the rest of the economy (as in input-output linkages, for example) and with the society more broadly (as in the political and social significance of the provision concerned).

Both in assessing the current prospects for infrastructure and in formulating policies, it is essential to consider each of the aspects of the systems of provision involved and how they interact with one another. Otherwise, unforeseen bottlenecks might arise, insufficient finance be available, inappropriate technology employed, affordability prove elusive, or even redistributional objectives prove frustrated as compensating effects are displaced along the system of provision. Again, the incidence of such impacts cannot be specified in abstract but will be contingent upon the particular systems of provision to which they are attached.

These themes will be taken up in the following sections for different components of infrastructural provision. In principle, policy should be developed in considerable detail to cover the different aspects of the economic and social activity concerned. But our main concern is with the macroeconomic implications of infrastructural development. Although, given our approach, the divide between where macroeconomics ends and microeconomics begins is somewhat arbitrary, we will seek to address those aspects of provision which directly affect the functioning of the economy as a whole and those which are liable to prove major problems if not targeted by policy.

Despite our emphasis on the differences in the structure and functioning of the various systems of infrastructural provision, it is possible to identify certain common policy objectives just as some common features of provision have been identified under the apartheid system. Inequality in access has to be tackled. Administrative reorganisation is imperative, both in overcoming fragmentation and overcentralisation. There must be the creation of democratic accountability in the formulation, implementation and monitoring of provision. Internal reorganisation and expansion of provision will require training and mobility of the workforce. And it is essential to acknowledge that
infrastructural provision has had and will continue to have major repercussions for southern African integration - not only in transport and energy but also in housing (given the continuing extent of migrant labour) and the training and disposition of the workforce more generally.

These considerations are not the ones that have been prominent in previous macroeconomic discussion of infrastructural provision, although they have been addressed in studies of the individual areas involved. Rather, focus has been upon what level of provision is to be made, whether it is affordable and how it might be financed. In particular, relatively conservative analyses have been concerned with how expensive it would prove to bring the standards of all to the level enjoyed by whites. This is an inappropriate approach for two reasons. First, it takes as standard, and as the starting point, what are the systems of provision associated with apartheid. But these have undesirable characteristics over and above those associated with inequity - as in the dominance of curative medicine in the health system, for example.

Second, cost and financing are not necessarily going to be the binding constraints on infrastructural provision, and focusing attention upon them may have the unfortunate effect of leading to neglect of the ability to deliver the intended services, even when finance is available. Further, the attempt to address infrastructural provision primarily in terms of financial constraints leads to an undue and often simplistic emphasis on the role of user charges and access to credit and funding. It is preferable, however, to give first priority to guaranteeing provision of the service and to ensure that the way in which this is financed or priced is not an impediment. This is not to suggest that all infrastructure must be provided free of charge, without reference to ability to pay or to recovery of costs. But these issues must be specifically situated in relation both to the system of provision to which they are attached and to the alternative sources of revenue and finance available within the economy.

Thus, it does not make sense to attempt to recover capital costs in user charges if this leads to under-use once facilities are in place, and may prevent facilities from being put in place as unaffordable. Such is clearly the case currently with housing, and it would also impinge upon schooling and health care provision.

In addition, the principle of free universal provision of basic services is an important one, even if the option of charging those who are wealthy is an attractive source of finance and equity. For, without such a commitment, the economic and political security of provision for the disadvantaged is always open to erosion and, in any case, the wealthy are often well-placed to retrieve compensation for the charges that they incur for infrastructure - whether through negotiation of cost of living increases or fringe benefits in employment, for example, quite apart from what is often a greater voice in government itself.

Almost without exception, the conventionally measured social rates of return to infrastructural provision are higher than private rates of return. There must be doubts about the methods and accuracy of such calculations, but they constitute a powerful case for funding provision. But, however well done, the imputed benefits of provision inevitably depend upon projecting the positive achievements of the past onto the future. From a policy perspective, the lesson to be learnt is that measures must be taken to ensure that delivery and use of infrastructure is effective. This will be a major concern of our policy analysis.

Finally, as mentioned previously, what follows does not provide a comprehensive policy package for infrastructural provision, even within the four particular programmes which are only partially covered. Accordingly, the costings that are provided need to be set against the overall fiscal balance of income and expenditure as well as against the priorities to be determined by policymakers both across programmes and over time.

NOTE

The discussion of social and economic infrastructure is to be found in Chapter 4 of: Making Democracy Work: A Framework for Macroeconomic Policy in South Africa, A Report from the Macroeconomic Research Group (M ERG), published by Centre for Development Studies, University of the Western Cape, 1993, distributed by Oxford University Press, Cape Town.
Footnotes

1 For the other three, see Fine (2004, 2006 and 2007).
2 A peculiar claim in light of the demise of the Soviet Union but indicative of a red under every bed. Note, though, that Johnson has become a critic of America for its over-extension of militarisation.
3 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, Milonakis and Fine (2009, Chapter 14).
4 See also Fine and Stoneman (1996) and Fine and Rustomjee (1997, Chapter 2).
5 The following draws upon Fine (2008).
6 Taken from Fine (1997).
7 In the event, I do not recall this workshop materialising.

References


