

Developmentalism and the state of skills readiness

“The case for South Africa as the next African Giant Tiger”

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ABSTRACT

At a time when the global economy is still recovering from the aftermath of the Great Financial Crisis (“GFC”), the world is forced to pause and reflect on the global economic imbalances between the Eastern and Western economies and the implications for emerging economies. Policy makers are questioning the traditional wisdom of free markets, the role of government in facilitating the development and growth of the economy, and the extent to which government can intervene in the economy to address market failures.

In this article, while many emerging markets including South Africa (“SA”) were not directly affected by the GFC, SA it did however feel the effects of the European recession through a decline in trade exports. Notwithstanding the global recession and the gloomy outlook for Europe and United States of America, the economic outlook for the rest of the African continent and BRICS economies remains strong, with many African economies set to enjoy growth rates of 7%. It is recognised in this article that even though Governments cannot create wealth, they nevertheless can play a key role in the process of economic development. Economic growth represents an essential prerequisite for political stability in SA. However, efforts aimed at stimulating growth rates can be hampered by a lack of administrative capacity. The lack of administrative capacity can also impose a dominate constraint on policy making in contemporary SA. This article finally argues that a vibrant interventionist policy approach by governments will be the right step and balance to address the issues of a developmental state and those of skills acquisition.



INTRODUCTION

The question therefore becomes, how can SA position its economic, trade, labour and social policies, such that the country becomes the first *African tiger* and *Gateway into Africa*? What are the constraints to SA becoming the next African tiger and what lessons can SA learn from the success of East Asian economies such as Malaysia? What are the needs of a developmental state and are these needs related to skills readiness? A developmental state can and should become very interventionist in the way programmes are structured and implemented. It is within this context that this article argues that a developmental state's policy must become the core element in government's programme of action.

In the case of Malaysia, the government used a combination of policy measures to achieve most of its targeted growth. It employed growth promoting measures favoured by proponents of neo-liberalism. It placed a high premium on political stability and continuity of government, macro-economic stability, an efficient civil service, human resource development, agricultural reform and export orientation. Further, it pursued interventionist policies on a scale unprecedented in Malaysia's history. It was successful in redirecting vast resources to the disadvantaged Malays without negatively impacting economic growth. Faced by deficits during the world recession of the mid-1980s, the government was prepared to adapt its policies and to forge a partnership with the private sector. Its adaptability to changing conditions was a hallmark of the government's economic management.

While the Malaysian model cannot be superimposed on South Africa, lessons can be learned and adapted to suit local conditions. The Malaysian experience emphasises the importance of economic growth since growth played a key role in the successful restructuring of the economy, poverty reduction and the redressing of ethnic imbalances. To this end it points to the importance of economic fundamentals. However, it also provides a concrete example that the government has a necessary and indeed crucial role to play in redressing poverty and historical imbalances since these are not automatic outcomes of neo-liberal policies.

The Malaysian government also strongly promoted a developmental state, where government plays a central and dynamic role in shaping the economy domestically while asserting its international autonomy. Critical for a government to fulfill this role is strong capacity and capability, which enable it to respond proactively to domestic and global challenges and opportunities. The route and approaches followed by individual developmental states will not necessarily be identical and will be shaped by their national histories and current realities, as well as by the choices made by citizens and leaders. However, a common feature of all developmental states is the need to establish a coherent and effective system of public administration and public sector training and capacity building.

This article will argue that the foundation to building a developmental state is to develop: (1) an educated population with high levels of numeracy and computer skills; (2) a knowledgeable society with high levels of scientific literacy and appreciates the role of computers in building a knowledge economy; (3) a harmonious society with a strategic partnership amongst labour, government, industry and society; (4) an efficient public service and (5) a society that efficiently allocates and distributes resources.

SKILLS CHALLENGE

The genesis of SA's skills policy regime is intricately linked to its history as an Apartheid state, the legacy this presented in the labour market, and the efforts post-1994 to ameliorate the iniquities of apartheid education. As a democratic nation, South Africa therefore found itself not only having to deal with the legacy of apartheid education and the resultant (absolute and relative) skills shortages associated with this, but also in a situation where reintegration into the international economy mandated skills biased changes to the methods of production and the world of work. The result, too few workers with adequate skills, or labour supply was not able to match labour demand. At the same time, the country faced an unemployment crisis of historic proportion. The result, labour demand was not large enough to absorb the supply of labour. This seeming contradiction came to be known as the mismatch between labour demand and supply. The South African government has prioritised training and education as a means towards cultivating a competent and skillful public service. Evidence of this is the number of pieces of legislation and policy frameworks that the government has adopted to address the problem of skills shortage both within and without the South Africa public service.

The past seventeen years of democratic rule in South Africa have been characterised by policy making and legislative reform aimed at correcting the injustices of the past. Skills development is incontestably crucial to debates regarding the effectiveness of a development state. 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.

The nature, understanding and context of the skills deficit have been identified at all levels, by the highest political office. A review conducted by the Presidency of the Republic of South Africa in 2010, highlighted the need for accelerated service delivery during the second decade of democracy and urges government departments to "focus on practical implementation as distinct from setting out a policy framework which now exists, through the adoption of project management practices and community development works".

To enhance the implementation of strategic objectives and outputs in departments, capacity building coupled with enabling processes for improving the delivery of services on provincial and local government levels is critical. The South African government is currently faced with the challenge of reconstructing the public service into an institution which is representative of all South African citizens. In doing so it must reconcile the historical labour imbalances caused by apartheid as well as the skills required to address the pressing need of, service delivery for millions of South Africans. It is therefore critical that public service institutions have the required skills to effectively discharge their mandates. If these skills are lacking in public service institutions the impact will have severe repercussions on the country.

ROLE OF A DEVELOPMENTAL STATE IN THE SOUTH AFRICAN CONTEXT

The goal of a democratic state is to establish a society in which the citizens are intellectually, socially, economically and politically empowered (Marwala 2007). In order to achieve



this goal, certain conditions need to be in place in order to mobilise social, economic and political forces to capacitate the state to galvanise the productive forces that would ensure that these goals are achieved (Marwala 2005). One school of thought regarding the mechanism, through which these productive forces can be galvanised, is to reorient the state as a developmental state (Chang 1999). By so doing, sufficient productive forces will be unleashed to advance industrialisation and this will principally require significant investment into technical education in primary, secondary and tertiary levels (Marwala 2005a). This technical education should focus on creating a society that has sufficient analytical, numeracy, creative, computer and communication skills in society.

Government is intimately involved in the macro and micro-economic planning in order to grow the economy (Onis 1991). It has generally been observed that successful developmental states are able to advance their economies much faster than regulatory states that use regulations to manage the economy. As an example, it took the USA approximately 50 years to double its economy while it took China, which is a developmental state, approximately 10 years to double its economy. Based on these findings, is it logical to infer that for a country to meet its social, economic and political obligations, it should become a developmental state? What are some of the characteristics that define a developmental state and is it possible to establish such characteristics in *South Africa*.

As a comparative analytical concept, the 'Developmental state' was first coined by Chalmers Johnson as a concept descriptive of how Post-Second World War Japan was able to reconstruct itself successfully. It was subsequently, used to describe the significant development strides made by the 'Asian Tigers' (South Korea, Singapore, Taiwan and Hong Kong). A distinctive feature of these countries was the centrality of government in leading a concerted drive for economic growth, and ensuring the mobilisation of national resources toward national development priorities.

CHARACTERISTICS OF A DEVELOPMENTAL STATE

In order to understand the concept of a developmental state, it is important to highlight some of the characteristics of a developmental state (Thompson 1996; Woo-Cumings 1999). Developmental states generally put strong emphasis on technical education and the development of numeracy and computer skills within the population. This technically oriented education is strategically used to capacitate government structures particularly the bureaucracy. What emerges out of this strategy is that the political and bureaucratic layers are populated by extremely educated people who have sufficient tools of analysis to be able to take leadership initiatives, based on sound scientific basis, at every level of decision making nodes within the government structure. Developmental states have been observed to be able to efficiently distribute and allocate resources and, therefore, invest optimally in critical areas that are the basis of industrialisation such as education. The complexity of the transformation agenda in South Africa makes the task of efficiently distributing and allocating resources difficult to achieve (Marwala 2005c). The other characteristic that has been observed in successful developmental states is economic nationalism. This characteristic is also observed in developed states such as the USA during tough economic times. The characteristic of the national question in South Africa, which makes the notion of *South Africans* a highly

complex concept given the vast diversity of the South African population, makes economic nationalism not a viable option in South Africa.

The other characteristic of a developmental state is its emphasis on market share over profit. The developed segment of the South African capitalist system is sophisticated and it has a huge component of short term investments also known as *hot money*. This makes profit, particularly short term profit, a significant actor in the investment decision making process. Developmental states have been served for their protection of their embryonic domestic industries and have also been served to focus on aggressive acquisition of foreign technology. This they achieve by employing their most talented students to overseas universities located in strategic and major centres of the innovation world and also by effectively utilising their foreign missions (Marwala 2005c; Marwala 2006). Furthermore, they encourage and reward foreign companies that invest in building productive capacity such as manufacturing plants with the aim that the local industrial sector will in time be able to learn vital success factors from these companies. On constructing a harmonious social-industrial complex, developmental states strike a strategic alliance between the state, labour and industry in order to increase critical measures such as productivity, job security and industrial expansion.

Even though developmental states do not create enemies unnecessarily and do not participate in the unnecessary criticism of countries with strategic technologies that they would like to acquire, they are, however, skeptical of copying foreign values without translating and infusing them with local characteristics. Developmental states generally believe that they will attain state legitimacy through delivery of services to citizens rather than through the ballot. In South Africa, state legitimacy is achieved through the ballot however the main shortcoming is that the society has not reached an equilibrium stage where the feedback mechanism between voting pattern and service delivering reinforce each other. Now that the characteristics of a developmental state have been highlighted it is important to briefly describe industrialisation because it is an important component of a developmental state.

The vital driver for success in developmental states is industrialisation. The goal of industrialisation is to create a country that produces goods and services with high added values. For example, instead of exporting minerals unprocessed, people can be employed to beneficiate these minerals and manufacture goods such as watches and thus add economic value to the final products. The process by which countries add aggregate economic values to the products and services they offer is directly dependent on the level of industrialisation in the country's economy. The South African economy can be segmented into the so-called "two economies" where one part is highly industrialised and the other is underdeveloped. For South Africa to unify these "two economies" and tackle some of the serious problems it faces, it needs to build a developmental state reconciling those foundations.

THE DEVELOPMENTAL STATE AND TRANSFORMATION OF THE SOUTH AFRICAN PUBLIC SERVICE

A persistent theme in public discussion has been the state of skills in the South African economy and society. This issue has been approached in a number of ways but three



important points emerge as markers in the debate around skills development. Firstly, the South African economy continues to experience a shortage of skills in key economic and public sectors. Such a shortage is not a new phenomenon. A shortage of skills has long been a feature of South Africa's economic, public and social landscape. The principal, but not the only, cause of persistent skills shortages has been the effects of pre-1994 apartheid government policies and the structural shifts that have occurred in the economy, from being an inwardly focused economy concentrated on minerals and manufacturing to becoming a more diversified and globally oriented economy.

A second marker in discussions about skills shortages is that there is no quick fix solution to the skills problems that have developed over a substantial period of time. Improving and developing South Africa's stock of skills will not be fully resolved through short-term measures, such as increasing the flow of immigrants to the South African labour market.

Thirdly, there has been much reference to skills development as one way of supporting economic growth. This is an important and complex issue. It is not one that can be approached in terms of simple relationships between skills and growth. There are numerous factors that impact on a country's economic performance. Availability of skills in the labour force is one of these. However, other equally important factors are the level of inequality and access to markets. What is clear is that the availability of skills is an increasingly important factor affecting the level of investment in any economy.

The South African government has committed itself to taking concrete steps to raise the skills profile of the labour market. This will be achieved through short-term measures to address immediate shortages, and longer-term solutions to address structural imbalances in the labour market. Key decisions taken by government in this regard include:

- facilitating the placement of new entrants in the labour market through learnerships and internships;
- facilitating the recruitment of skilled foreign workers in areas of critical skills shortages, while ensuring the concurrent development of South Africans in those fields;
- providing career guidance, and counseling to school leavers to assist them to pursue further studies in fields that are relevant to the needs of the economy; and
- fast-tracking the implementation of the Human Resource Development (HRD) Strategy by all government departments.

The South African government has set a target of halving poverty and unemployment by the year 2014. This is an ambitious goal given the country's legacies of economic stagnation and racially based poverty, inequality, and social exclusion. Until the mid-1990s, apartheid policies sought to exclude the black majority in South Africa from participating equally in all areas of society while perpetuating a strict racial hierarchy, with the greatest allocation of resources going to people of European descent and Africans receiving the least.

Since 1994, when a democratically elected government came into power, a range of policies have been introduced to transform South African society by reorganising politics, the economy, and society through democratic and highly participatory modes of governance. To date the outcomes of official policies aimed at stimulating economic growth are mixed.

The initial attempt by the government at increasing rates of growth came in the form of the Reconstruction and Development Programme (RDP) which was adopted in 1994 as the basis for bringing about this transformation through government-funded infrastructure

development. Government, through the implementation of the RDP, set a number of goals to develop strong and stable democratic institutions and practices characterised by representativeness and participation; to become a fully democratic and nonracial society; to embark on a sustainable and environmentally friendly growth and development path; and to address the moral and ethical development of society.

The implementation of the RDP brought about stability and moderate annual economic growth of about 3% during the period between 1994 and 1996. In essence, the RDP represented a highly interventionist micro economically orientated policy of physical and social infrastructure development targeted at the poorer sections of South African society. It required a sophisticated state bureaucracy to succeed and appears to have failed at least in part because the South African state did not possess the requisite administrative capacities (Simkins 1996).

The RDP was replaced by the Growth, Employment and Redistribution (GEAR) Macroeconomic Strategy in 1996. Current official attempts to enhance economic growth center on the GEAR policy initiative. In contrast to the microeconomic focus of the RDP, GEAR is intrinsically a macroeconomic strategy based on "... the premise that job creation is the way to address poverty and that to increase employment opportunities higher economic growth is required" (Nomvete *et al.* 1997:3).

Key elements of GEAR include a deficit reduction scheme, tariff reductions, stable real exchange rates, conservative monetary policies, and "moderate wage demands" (Biggs 1997 4). Although macroeconomic policy frameworks like GEAR play a vital role in the process of economic growth, the strategy had a much greater focus on achieving macroeconomic stabilisation and economic growth by lowering the country's budget deficit and reducing inflation and redistributing economic resources by creating employment opportunities. GEAR aimed at achieving annual economic growth rate of 6% by 2000. A more central role for the private sector was envisaged in GEAR through increased investment and manufacturing-led export growth. The economy performed reasonably well in an unstable international environment, averaging about 2.8% per year from 1996 to 2000, while employment continued to fall or stagnate in the latter half of the 1990s.

According to Borhat, "A shift in the policy stance towards government having a more direct role in promoting economic expansion" has taken place in South Africa in the post-GEAR period. This shift is evident in the implementation of a host of microeconomic strategies aimed at improving people's skills, increasing public sector efficiency, and removing constraints to business development. These efforts arise from the theory that increased government expenditures on social and economic infrastructures will encourage private economic investments. The Accelerated and Shared Growth Initiative for South Africa launched in 2006 as the latest policy framework for pursuing economic growth and development, emphasises the importance of publicly funded infrastructure projects as a key to improving the productive capacity and the future growth potential of the economy.

The increasing role of the state in addressing the challenges of poverty and inequality in South Africa should be viewed in the context of government's conception of the role of the state as developmental. A developmental state, according to Minister of Finance Trevor Manuel in 2004, is one "that was determined to influence the direction and pace of economic development by directly intervening in the development process, rather than relying on the uncoordinated influence of market forces to allocate resources." The developmental state of

South Africa, then, took it upon itself the task of establishing substantive social and economic goals to guide the process of development and social mobilisation.

This concept of the state as developmental locates the national government at the forefront of directing social and economic development policy and implementation. Former President Thabo Mbeki recognised as early as 2005 that there was a need to “massively improve the management, organisational, technical and other capacities of government” so that it meets its objectives. At that time, Mbeki called for “a thorough review of the functioning of the government system as a whole,” to develop proposals on “improving the skills and competence within the Public Service, alignment of planning and implementation, and issues pertaining to the mobilisation of the Public Service to speed up social transformation.”

Fulfillment of its envisaged role places enormous pressure on the Public Service, a key component of the state machinery in South Africa. It assumes that the Public Service has the capacity to meet this obligation, both in terms of effective strategic policymaking and delivering and expanding essential and basic services. However, the shortages of appropriately skilled people at all levels of the Public Service inevitably negatively impact the effectiveness and efficiency with which the national government supports and enables social and economic development.

Concerted efforts have been underway to transform the Public Service and build its capacity to deliver in accordance with the expectations of a developmental state. Three phases characterise this process of transformation: rationalisation and policy development; modernisation and implementation; and accelerated delivery.

These phases have not been sequential, as activities have often moved back and forth through the phases at different times, with government engaging simultaneously in policy formation, elaboration of legislation, and implementation. In the first phase, the legal apparatus of the apartheid state was replaced by policies and laws that are consistent with the values, rights, and obligations enshrined in the 1996 Constitution of the Republic of South Africa. In this phase, key undertakings in the Public Service were to amalgamate previous homeland administrations and racially segregated departments and to start addressing the inherited and profound racial and gender biases and imbalances, particularly at the management level of the DPSA.

In the second phase, the benefits of fiscal discipline were starting to bear fruit, as the government sought to foster the conditions for sustainable economic growth and create more opportunities for employment while competing in global markets and intensifying the fight against poverty by improving the social security net and expanding the social wage. In the third phase the emphasis has been on accelerating service delivery. It is now widely recognised that development requires an effective state that can play a catalytic role, encouraging and complementing the activities of individuals and business firms” (Chhibber 1997:17). An essential prerequisite of the “developmental state” is some minimal level of administrative capacity. Simkins (1996:85) has argued that the RDP failed because of the “lack of state capacity”.

Simkins (1996, 89) identifies three dimensions of this *state incapacity*. Firstly, there exists “program incapacity” which refers to the difficulties involved in implementing specific programs in a complex, evolving and uncertain policy environment. Secondly, the reconstruction of the South African civil administration at the provincial and local levels from the former provincial and homeland bureaucracies has created a structure incapable

of efficient policy implementation. And thirdly, the establishment of the controls essential to good government takes time and is not always adequate.

THE EVOLUTION OF A DEVELOPMENTAL STATE IN SOUTH AFRICA

The period 2002-2004 reflected a watershed moment in South Africa's post-apartheid history. Having established macroeconomic stability based largely on orthodox measures of fiscal discipline imposed on first economy, and having realised the depth of structural inequalities between the first and second economies, government has resorted to a more interventionist role aimed at resolving the problems of joblessness and poverty.

The concept of a 'Developmental State' is a core element in government's programme. The concept goes back to some of the African National Congress' (ANC's) original policy texts developed in the early 1990s. These are now gaining ascendancy in the implementation phase. A 'Developmental State' is an enabling State that is able to intervene strategically while carefully marshaling scarce resources. State intervention will be selective and targeted, based on sectorial planning. However, where the state chooses to intervene, its intervention would be pervasive and far-reaching (Erwin 1992:38). At the heart of many ANC government policies is a strong emphasis on State coordination that will strategically steer the system via a regulatory framework of legislation, financial incentives, reporting and monitoring requirements. Much of this steering requires high levels of management information, State planning and cross, departmental coordination (Chang 1994:23)

The conventional economic rationale for government intervention rests heavily on the concept of market failure. According to Peters (1997:34), market failure can be narrowly defined in terms of economic efficiency or more broadly defined to include both economic efficiency and equity considerations. In the narrow definition, market failure refers to the inability of a market or system of markets to provide goods either at all or in an optimal manner. A somewhat broader definition is contained in Wolfs (1989:19) observation that "... markets may fail to produce either economically optimal (efficient) or socially desirable (equitable) outcomes..." serves this purpose. In the real-world government intervention occurs to ameliorate both forms of market failure. Traditionally economists argued that the existence of market failure justified state intervention in those areas of economic activity where market failure was deemed present. Evidence of market failure thus provided a prima facie case for microeconomic policy intervention, and the purpose of such policy intervention was to induce allocative efficiency in market outcomes (Chang 1994:34)

In addition to government intervention aimed at generating economic efficiency in cases of perceived market failure, common ethical arguments are often used to justify government intervention. Widespread support exists for the contention that the distributive results of efficient markets may not meet socially accepted standards of equity, or accord with a desire to reduce extremes of wealth and poverty. A common ethical argument for public policy intrusion into economically efficient market outcomes is based on the idea of equal economic opportunity. It is sometimes claimed markets resort to ethnic, gender or racial stereotypes as a filtering device in labour markets, and that these biases are reflected in employment patterns. Exponents of these arguments call for government intervention in



labour markets in the form of equal opportunity programs and affirmative action schemes (Chang 1994:35)

CONSTRAINTS TO IMPLEMENTING A DEVELOPMENTAL AGENDA IN SOUTH AFRICA

Economic development plays a pivotal role in the alleviation of endemic poverty in South Africa and the attendant success or failure of South Africa's fledgling democracy. Rapid economic development is crucially dependent inter alia on an efficient public service, which can effectively implement government policy. The economic literature on government failure generally, and public choice theory specifically, can shed considerable light on the nature and limitations of government intervention in market economies. Both anecdotal evidence and the Ncholo Report (1997) provide graphic illustrations of widespread attempts by government to intervene through the creation of policy. In South Africa administrative capacity represents an important role in developmental policy-making.

The most significant approach to the phenomenon of government short coming is public choice theory. In essence, public choice theory applies the postulate of non-market or political processes underlying policy formulation and implementation, and has developed a critique of government intervention flowing from the application of this methodology. (O'Dowd 1978:67)

O'Dowd (1978:69) argues that all forms of government failure fell into a generic tripartite classification; namely *inherent impossibilities*, *political failures*, and *bureaucratic failures*. The first type covers the cases where a government attempts to do something which simply cannot be done; the second, where although what is attempted is theoretically possible, the political constraints under which the government operates make it impossible in practice that they should follow the necessary policies with the necessary degree of consistency and persistence to achieve their stated aim. The third type covers the cases where although the political heads of the government are capable of both forming and persisting with the genuine intention of carrying out a policy, the administrative machinery at their disposal is fundamentally incapable of implementing it in accordance with their intentions. In the present context, O'Dowd's (1978) *bureaucratic failures* category is especially salient since it encapsulates the problem of state incapacity dealt with by the Ncholo Report (1997).

The public choice perspective on government failure draws heavily on agency theory, which views the public sector in a representative democracy as an interlocking series of principal-agent relationships. For instance, Moe (1984:765) observes that "the whole of politics can be seen as a chain of principal agent relationships, from citizen to politician to bureaucratic superior to bureaucratic subordinate and on down the hierarchy of government to the lowest-level bureaucrats who actually deliver services directly to citizens". This view leads to an approach to public sector reform, which seeks to reduce the scope for agency failure in these relationships. Agency failure basically arises because agents lack the incentives to act in their principal's interest.

The most prominent approach to this problem has been a contractualist one. Perhaps the most radical application of this approach has been followed in New Zealand, although the wide range of contractualist instruments introduced in that country have mainly sought

to govern relationships in which bureaucrats function as agents either of elected officials, funding agencies, or civil servants placed further up the hierarchy of government. These contracts have included performance agreements between departmental heads and their portfolio ministers, contracts between funders and purchasers, purchasers and providers, funders and regulators. Although the legal status of these contracts varies, with only some being legally binding, their general aim has been to specify as precisely as possible the requirements of the principal and to ensure that agents can be held to account for their performance (Moe 1984:765).

This contractualist approach can often only be followed after a major restructuring of the public sector has occurred with large-scale bureaucratic structures being broken up into single-objective, trackable and manageable units so that it is easier to devolve managerial responsibility and establish clear lines of accountability. Agents can then be held accountable to single rather than multiple principals, resources can be matched to defined tasks, and agency failure can be addressed by shifting from controlling the input to monitoring the output of these organisations. (Moe 1984:34). The managerialist emphasis on organisational restructuring, and giving managers “the freedom to manage”, would seem to be an important aspect of what (Hood 1991:3) calls the “New Public Management” (NPM); that is, “the set of broadly similar administrative doctrines which dominated the bureaucratic reform agenda in many of the OECD group of countries from the late 1970’s” which prepared the way for New Zealand-style contractualism.

The difference between the widely applied managerialist approach and the contractualist approach, which has been distinctive to New Zealand, parallels the contrast between “letting managers manage” and “making managers manage”. The managerial approach assumes that once public managers have been released from detailed regulation of their resource decisions, they will be empowered to search for and implement more efficient ways of delivering their department’s services. The impact on organisational efficiency of managerialist reforms does, however, depend crucially on the generic management skills and commitment to efficiency values of the people appointed to management positions in the public sector. (Moe 1984:45). From a contractualist perspective, there is always the risk that managers will opportunistically prefer the *status quo* to the difficulties of uprooting established practices and “downsizing” their workforce. To reduce this risk, managers need to be made accountable for outputs which are specified through contractualist instruments, since the supply of such outputs can be directly attributed to public managers and their departments whereas the outcomes of their activities tend to be influenced by many factors, some of which are beyond their control.

The release of the *Provincial Review Report* by the Department of Public Service and Administration in September 1997 marked the beginning of a new era of transparency in South African civil administration. The Ncholo Report (1997) provides a frank analysis of state capacity in South Africa. Although claims by Simkins (1996) that state incapacity has been a crucial factor in constraining economic development in post-apartheid South Africa have validity, it must nevertheless be recognised that numerous other domestic, regional and international influences have also contributed to retarding the rate of economic development. For instance, since the mid-1990s South Africa has experienced a massive out migration of skilled human capital, chiefly young educated middle-class English-speaking whites. Similarly, during the transition period from apartheid, senior Afrikaner bureaucrats

designed and implemented lavish redundancy schemes and pension plans which they then took advantage of once the new administration assumed office, thus depleting the public sector of experienced managers. Simkins (1996)

Since April 1994 considerable progress has been made in the consolidation and reorganisation of these inherited structures. The Ncholo Report (1997:2) has outlined the main features of this reorganisation as follows:

- Amalgamation of the previous racially based administrations (RSA, Own Affairs administrations, Homelands, Self-Governing Territories, and previous provincial administrations) into a single public service split between nine provinces and the new national departments,
- reallocation of staff and resources by the provinces into new departments based on the national structures,
- creation (in some cases) of new district level services, and
- rationalisation of provincial departments in line with the allocation of resources.

At the same time, the GNU has sought to change the objectives and priorities of the South African public service along the following lines (Ncholo Report, 1997, 2). It has begun the longer and more difficult process of improving service delivery whilst at the same time having to cut expenditure. Provincial administrations have reprioritised services in accordance with the policies of the new government, begun to develop management skills to make sure that services are delivered better, improved the representativeness of the Public Service, especially at senior levels, made efforts to bring services closer to the people of the country, especially in rural areas, and begun to re-orientate services to focus on the disadvantaged groups in society.

In addition to the severe constraints imposed by the negotiated guarantee of job security for all serving civil servants, the transformation process was further constricted by a deliberate policy of changing the employment profile to better reflect the demography of South African society. In practice, this has meant hiring people of colour and women wherever possible. The instrument used to circumvent the job security guarantee has been a “voluntary severance package (VSP) scheme”, in terms of which substantial payments are made to bureaucrats who decide to leave the public service. The effects of these constraints have been to severely damage the administrative capacity of the South African public sector. In many key departments, virtually all of the former top managers, predominantly white male Afrikaners, have taken voluntary redundancy. The result is a dearth of expertise, with national and provincial departments competing for scarce experienced public administrators (Ncholo Report 1997:23)

Ramatlhodi (1997:21) has summarised the latter problem as follows, the situation at the moment is far from ideal. Some national departments appear to be more determined to siphon off what little capacity we have left rather than to strengthen our structures. Far too often, provinces work hard to find suitable managers to serve their various administrations, only to find that their most capable people are “hijacked” by a national department – sometimes with a mere three days’ notice.

One way of comprehending the myriad of findings of the Ncholo Report is to conceptualise them in the language of public choice theory. This not only enables one to reduce an exceptionally long list of government failures to manageable proportions, but also

paves the way for a useful discussion of rational policy formulation in the face of constraints on administrative capacity.

A broader perspective would locate the problem of government failure and its role in retarding economic development in South Africa within a more universal state-economy-society set of relationships, both nationally and internationally. After all, the demise of the apartheid state has coincided with the intensification of globalisation and the widespread adoption of “neo-liberal” policy prescriptions by international financial agencies. South Africa is by no means alone amongst transitional economies in experiencing economic and social difficulties and many of these can doubtless be traced back to changes in the structures of international economic exchange processes (Simkins 1996:34).

The Ncholo Report illustrates government failure, although the nature of this government failure appears predominantly in the form of bureaucratic failure and is overwhelmingly concentrated at the provincial level; other kinds of government failure are also evident. Moreover, notwithstanding the promising prospects for the GEAR macroeconomic strategy of the GNU, the current degree of bureaucratic failure has already severely inhibited development-orientated microeconomic policy making (like the RDP) and seems set to preclude the formation of a *Developmental State* in South Africa. By retarding the rate of economic growth and undermining the success of development projects aimed at poor South Africans, state incapacity could threaten the very basis of political stability in South Africa. Simkins (1996:39).

Accordingly, the question arises as to how policy makers should react to government failure. The 1997 *World Bank Development Report* identifies two generic approaches to this problem. Firstly, policy makers can attempt to “... match the state’s role to its existing capability, to improve the effectiveness and efficiency of public resource use” (*World Bank Development Report* 1997:25). Secondly, they can seek to “... reinvigorate the state’s capability through rules, partnerships, and competing pressures outside and within the state” (*World Bank Development Report* 1997:25). Although these approaches can be employed as alternative strategies, they can also be used in tangent as complementary strategies as in the *World Bank Development Report’s* conception.

The development of state capacity in South Africa is not a controversial issue and represented an important dimension of the Ncholo Report. At least three possibilities seem feasible, two of which have been extensively canvassed in the Ncholo Report. Firstly, the administrative doctrines of New Public Management (NPM) could be invoked that is, a contractualist approach emphasising performance monitoring, managerial responsibility, output rather than input evaluation, and other organisational restructuring strategies could be adopted. Much of this is recommended by the Ncholo Report, for example, the Report (1997:15) notes that “monitoring of provincial administrations and their departments does not focus on using the information gathered to improve service delivery”. Similarly, it argues that “... regulations and the resulting culture of a lack of initiative and not holding individuals accountable ...” must be changed in favour of the NPM stratagem of *letting managers manage* (Ncholo Report 1997:16).

Whilst the introduction of NPM techniques should reduce the degree of bureaucratic failure in the South African public sector, good reasons exist for believing that it will not be as successful as it seems to have been in advanced industrial democracies. Chief amongst these is the lack of administrative training and experience in the South African civil service

attendant upon its transformation. It follows that NPM policies should be augmented by a second approach aimed at building up administrative skills through educational programs. This is well-recognised in the Ncholo Report, for instance offers the following diagnosis of incapacity, "the staffing of new department structures in some provinces has resulted in unevenness in skills among staff, especially at the lower levels. This lack of skills in addition to the numerous vacancies in many provinces has created an urgent need for capacity building in the areas of management, finance, administration, technical and professional staff. Ncholo Report (1997:16).

However, experience in other less developed countries has indicated these kinds of reforms seldom effectively reduce bureaucratic failure. Grindle (1997) has examined the behaviour of public organisations in several countries and has argued that organisational culture plays a decisive role in organisational performance. This line of argument has a conceptual counterpart in the debate over the NPM-inspired reforms in advanced countries, where it has been argued that leadership can have decisive effects (Dollery:1997). The significance of leadership has been endorsed in a series of case studies of cultural transformation in New Zealand government agencies. These writers found that the primary catalysts for the development of a "commercialist" culture in these agencies have been the "change agents" who were recruited from the private sector to fill the chief executive positions in these organizations. (Spicer *et al.* 1996).

To break the hold of a bureaucratic public service culture at the senior levels of these organisations, many of these chief executives took the radical step of requiring all managers to reapply for positions. This enabled them to rapidly build up a management team comprising senior managers drawn from outside the organisation as well as relatively junior staff who were not only expected to be less resistant to change but also to welcome the opportunity to leapfrog their more senior colleagues into management positions. They clearly saw their leadership role as being to transform their organisations but also to "infiltrate" these organisations with "followers" who could strive with them to affect this transformation by overcoming resistance to change from those individuals with an interest in protecting their jobs, careers, "turf", professional standards and cherished organisational beliefs. It would thus appear that cultural change would have to accompany NPM policies and administrative capacity building in the South African civil service for these latter two strategies to prove successful. Regardless of whether this overall approach of raising "... state capacity by reinvigorating public institutions" (*World Bank Development Report 1997:3*) does indeed ameliorate bureaucratic failure in South Africa, what cannot be doubted is that it is a medium-term strategy. But the fledgling transformational democracy in South Africa is too fragile and the need for state-enhanced economic growth too urgent for time-consuming policies to be allowed to run their course. Accordingly, the second broad approach of "matching the state's role to its capacity ..." should be employed in the special circumstances of contemporary South Africa, at least in the short-term (*World Bank Development Report 1997:3*).

In essence, limiting the role of the state in South Africa to perform only vital core functions follows the second public choice policy prescription for decreasing the extent of government failure. It accepts the reality that in modern South Africa the scarcity of administrative capacity represents an important constraint on developmental policy making. This assumption has the implicit support of the Ncholo Report. Over and over again its authors stress the inhibitory character of the skills shortage in the public service. The following extract

(Ncholo Report 1997: 49) exemplifies this line of reasoning, but there are similar sentiments expressed elsewhere in the Report “Whilst there are many skilled and capable people in the provincial Departments, there is a serious skills deficit. This has been compounded by a loss of experienced staff through the granting of unplanned and non-systematic voluntary severance packages, and the restrictions of the Public Service Regulations on the numbers of senior posts. Competition from the private sector for professionals with suitable financial qualifications and the limit on the salaries, which provinces may offer has further reduced the availability of these staff. Provinces have no mechanism for providing incentives for such staff to join them. “

Given conventional wisdom on the crucial role the “Developmental State” can play in the development process (Chhibber 1997); the demands on national resources for poverty alleviation and other vital tasks are so acute that South Africa simply cannot afford the vast resource-intensive and highly inefficient public sector that it has inherited. Accordingly, scarce public administrative skills should be concentrated in those areas where they can yield the greatest social benefits. The *World Bank Development Report* (1997:4) identifies the core functions of the state to include the establishment and maintenance of law and order, the maintenance of macroeconomic stability and a *no distortionary policy environment*, the provision of basic services and infrastructure, environmental protection, and “protecting the vulnerable”.

It could be argued that focusing the South African public sector on vital core functions and “privatising” the delivery of other public goods, like social welfare services, might well serve to enhance the economic and political power of the white community who has traditionally controlled many of the most important non-government organisations. Moreover, given the existing highly unequal distribution of wealth and power in South African society, any further concentration of economic control towards the white community could have a serious destabilising effect on the process of democratic transition. What is abundantly clear from both the Ncholo Report itself and the present analysis is that the status quo in South African public administration is untenable. Not only has state incapacity frustrated efforts to date to ameliorate the lot of poor communities in South Africa, but unless urgent steps are taken to improve matters this is likely to remain the case. Moreover, in the developing world South Africa is by no means alone in facing the problem of state incapacity. As 1997 *World Bank Development Report* has argued, state incapacity has inhibited numerous attempts by poor countries to deal effectively with the problem of poverty. Accordingly, the problem of state incapacity deserves far more attention from scholars in policy analysis and public administration.

FOUNDATIONS FOR BUILDING A DEVELOPMENTAL STATE

How does South Africa build a robust developmental state? What are the important characteristics of the industrial strategy that would get South Africa to advance at the fastest rate possible? What are the vital drivers in South Africa’s social sphere that would accelerate development? On building a robust developmental state two aspects are vital and these are to vastly increase the level of educational attainment in the South African population and to increase the knowledge content in society particularly in the field of mathematics,



science and computing. In particular, South Africa ought to vastly increase the numeracy and computer skills in the population and this can be achieved by introducing a robust early education strategy. This is because by the time the young learners go to school they have already acquired all the skills they require to develop numerical, computers and visualisation skills.

It is vital that South Africa produces a cadre of highly educated people who are able to conduct advanced research and development to identify important areas of growth potential, plan the executions of the required solutions and monitor the implementation of the solutions proposed with a view of correcting the mistakes and reinforcing the successes. The vital characteristic of South Africa's industrial policy should be manufacturing but this should be synchronised with other key strategies such as rural development and agricultural policy. Since manufacturing is highly dependent on the productivity and the efficiency of the workers, it is vital that government, labour and industry reach a strategic pact that is focused on long term strategic goals rather than short term goals.

LESSONS FROM MALAYSIA

In summary key findings related to Malaysia's economic success include a strong, flexible and viable development state which is mandated to directly intervene in economic growth. The Malaysian public service remains a catalyst for modern public policy development. Moreover, the Malaysian government place strong emphasis on implementation and execution of government's policy through regular monitoring and accountability instruments. Key policy initiatives include Malaysia's bold vision 2020, which maps out a path for coordinated effort for growth in the public service. In addition, Malaysia places emphasis on the development of a Knowledge-based Economy Master Plan. Structural reforms have of the public service have played a vital role in streamlining and shaping service delivery. Further, the Malaysian public service characterised by an ethnic Indian minority, exhibits a distinct public service ethos, geared towards efficient bureaucracy. Deployment of resources on the basis of affiliation to the ruling governing party is an absent feature of the Malaysian government with public service employees equipped with a strong skills set to execute their task.

The administrative reform efforts in Malaysia focused primarily on structure, quality, productivity, technology, systems and procedures, moral and ethical values and cooperation between the public and private sectors. Multiple approaches have been used to ensure successful and effective implementation of the administrative reforms introduced by the Government. These approaches include training staff for reform, consensus building for acceptance of reform, recognition and rewards for implementing reform, promotion and successful planning of restructuring service categories, documentation and dissemination for implementation of reforms, use of incremental and integrated changes, generation of political support and support of key institutions.

The successful implementation of the administrative reforms contributed to the strength of the public service and enabled it to successfully implement the Government's policies and programmes. For this, the public service has rightfully earned high regard from both political leaders and the Malaysian general public. The Malaysian model offers insights for the public

service of developing countries as well as an interesting case for developed countries that are engaged in public sector reforms.

Given that change is the only constant in our environment, the public service has to continue to adapt, adjust and modernise if it is to play a critical role in the development of the country. To facilitate this, the internalisation of the core values of quality, productivity, accountability, discipline, innovativeness, caring, ethics, trustworthiness and more will continue to be stressed until these become a way of life for the Malaysian Public Service. Only through the internalisation of these principal values can the government service continue to earn respect and legitimacy from the society.

A number of factors have contributed to the high growth, redistribution and poverty alleviation rates of Malaysia over the period of the NEP. A major lesson for South Africa is the importance of **growth** and growth enhancing strategies. The importance of growth cannot be underestimated because in its absence there would be nothing to redistribute. The potential for civil strife along the lines of the 1969 racial riots in Malaysia will be greatly exacerbated if government-driven redistribution policies are not pursued in tandem with its growth promotion strategies. However, too high expectations should be tempered by the fact that programmes can only be designed within the context of what is affordable, lest the growth process itself be jeopardised.

In order for South Africa to reduce its *high levels of poverty* more jobs must be created in the formal sector so as to absorb the vast supply of surplus labour. This necessitates a high employment growth rate that will be facilitated by economic growth of a labour-intensive nature. A rapidly growing economy will also provide the government with growing revenue, boosting its redistributive potential, especially in the field of education and training, healthcare and housing. Because South Africa is unlikely to achieve as high a growth rate as Malaysia and given that racial imbalances are worse than they were in Malaysia, the timeframe for poverty alleviation would certainly be longer.

The Malaysian experience has shown that a high-quality *civil service* is essential for successful policy implementation. It is therefore of critical importance that the transformation of the South African public service be expedited. In this regard education and training and innovative programmes should be aimed at changing the mindset within the civil service to one that values efficiency and service orientation. A competent, professional and service-oriented organisation will enhance the implementation of public policy and programmes aimed at improving the lot of the millions of South Africans living in poverty.

Furthermore, Malaysia was successful in paying low wages because of a weak and repressed labour movement. Since repression and authoritarianism is not a solution in South Africa the state will have to intervene to broker an accommodation with labour and capital, which recognises the needs for growth as well as the redistributive expectation of the impoverished majority. The success of a policy of export orientation will also be contingent on political stability and economic development in the Southern African region since it constitutes a natural market for South African exports. South Africa unfortunately is not in as favourable a position as Malaysia as regards its location in a fast growing regional economy.

In South Africa the development of the productive potential of the poor can become central to the growth and redistribution process. For this to materialize South Africa need to invest more wisely in *human resource development*. The system of basic education needs to be refined in order to obtain a much higher return on current education expenditure. Valuable

resources are expended on policy implementation only for policy to change soon thereafter. New initiatives need to be thoroughly researched prior to approval and implementation and must be reoriented towards vocational education and training programmes which respond to the changing needs and requirements of the South African economy. It should address, in particular, the narrow skilled manpower base and develop the capacity of poor South Africans to fill this void. Education policy should also cement the partnership between government, the private sector and NGOs to increase investment in education and continuous training. Human resource development therefore has an important role to play in enhancing economic growth but at the same time can also advance the development status of poor South Africans.

Malaysia pursued its growth and redistribution strategies on the back of immense *government intervention* in the economy. The government ensured that economic fundamentals, for example, macroeconomic and political stability, a productive agricultural sector and an efficient civil service were in place. However, contrary to the dictates of the international financial institutions such as the World Bank, it did not follow economic orthodoxy by pursuing neo-liberal economic policies prescribing no government intervention in the economy.

Precisely because early neo-liberal policies did not deliver the so-called *trickle down* the government was forced to intervene strongly in the economy. This it did systematically and through multiple channels to foster development and redistribution to ensure that poverty and the identification of race with economic function were eliminated. The government was pragmatic in its approach and did not hesitate to amend or abandon interventions that were not working. In doing so it ensured that Malaysia did not degenerate into social conflict. There can be no doubt that the spectacular achievements in poverty eradication and the restructuring of wealth ownership would not have happened were it not for Bumiputera-biased government intervention in the form of the NEP. Government intervention did have a negative spin off in the form of classic nepotism, which for its negative consequences, South Africa should seek to avoid. However, the question is not whether the South African government should intervene in the economy, but how.

Direct emulation of the experiences of Malaysia and other South East Asian countries may not be feasible because their development strategies were born of particular historical, social and political circumstances. However, their experiences are nevertheless valuable because they refute neo-liberal contentions and indicate how the role of the state in developing economies can be concretely defined. They also indicate how policies in various forms and combinations can be effectively used in the pursuit of economic development.

Malaysia has certainly illustrated that elements of an open market together with a more interventionist approach that offsets distortions, can be successfully employed. Southern African countries and, especially South Africa can learn from government intervention in Malaysia and fashion economic policies to suit South African conditions. Not only should the South African government ensure that the country establishes and maintains a growing economy, but it needs to be proactive in ensuring that poverty and social inequalities are dramatically reduced. In order for this to materialise, it has to pursue policy interventions that will ensure that growth translates into redistribution and poverty reduction and a concomitant increase in the quality of life of poor South Africans. Failure to achieve such an outcome will propel South Africa down the path of civil strife and economic degeneration.

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