The Potential of South Africa as a Developmental State

A Political Economy Critique

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ABSTRACT

At a time when most countries in the world adopted the principles of the Washington consensus with regard to government and the principles of New Public Management with regard to its governance, developments in South Africa from the early 1990s onward seemingly went the other way. Departing from an apartheid-system before 1994 the new democratic state of South Africa inherited a regime based on neo-liberal principles with regard to socio-economic development with consequently a minimalist role of the state in terms of its intervention in the economic arena. Where everywhere in the world government was seen as the problem, the ANC government evidently had other views regarding its role in socio-economic development. The government enacted and promulgated various people-centred policies and strategic programmes, and the ANC adopted the principles of the developmental state with the belief that state economic intervention could enhance and strengthen the government or state capacity to deal with the challenges of poverty, unemployment and gross inequalities. The questions this article tries to answer are whether it is possible for a nation state to go counter to dominant international developments, which dilemmas it faces, which hurdles it has to overcome and whether it could have been effective and efficient in a globalised world in which the dominant powers were clearly opposed to such policies.

The article further explores the potential as well as challenges embedded within an aspiring developmental state endorsing a policy philosophy in favour of state intervention within an international context in which the dominant policy theory
INTRODUCTION

When the ANC government came into power in 1994 it enacted and promulgated various people-centred policies and strategic programmes. The government adopted principles of the developmental state with the belief that the state economic intervention could enhance and strengthen the state capacity to deal with the legacy of apartheid, particularly challenges of poverty, unemployment and mass inequalities. However, the government is faced with many obstacles in order to get a start on a developmental state. There is a strong belief by those nations that adopted neo liberalism that state intervention would impede progress and therefore these dominant and wealthy nations are opposed to the policies of state intervention as incorporated in the developmental state model. Furthermore, they do not consider possibilities for the South African government to follow the route taken by the Newly Industrialised Countries and the Tiger economies’ approach to development.

What are the hurdles faced by a government that wants to pursue its own course in an era of globalisation where most of the world goes in a different direction? This article investigates some of these obstacles. It first addresses the model of the developmental state as such. What is so specific about this model that the South African government is committed to push through for a developmental state? Next the discussion goes into the criticism such a government is likely to face. It is argued that part of the debate is primarily ideological in nature. This is seen in the theoretical debate, but also in the external criticism South African government received from external actors, such as the International Monetary Forum (IMF) and from critics inside the country. It is argued that it might well be that the positions taken in the debate are due to the ideological discussion regarding the developmental state model instead of being based on substantial arguments.

CONCEPT: DEVELOPMENTAL STATE

Since the emergence of the developmental state as a model to deal with socio-economic challenges, the concept has warranted both social and political scientists to explore the nature, scope and role of a state that is developmentally orientated. Various definitions and concepts are attached to the notion of a developmental state. In the literature on the subject many different definitions can be found, but a closer inspection reveals that in essence there is agreement on its fundamental features. According to Kuotsai Tom Liou, the concept of the developmental state model rests on two assumptions concerning the developments in the third world. Firstly, most developmental countries are in such a disadvantaged position
that market forces themselves preclude substantial economic growth and secondly that states in some of these countries are capable of overcoming the barriers facing late developers (Liou 2002:13). The developmental state is a state which is different from the neo-liberal state as well as from the all encompassing communist state and this has primarily to do with its priorities.

Bagchi (2000) views the developmental state as a state that puts economic development as the top priority of governmental policy and is able to design effective instruments to promote this goal. The instruments would include the forging of new formal institutions, the weaving of formal and informal networks of collaboration among the citizens and officials and the utilisation of new opportunities for trade and profitable production. Whether the state governs the market or exploits new opportunities thrown up by the market depends on particular historical conjunctures. (Bagchi 2000:398) The developmental state should be able to switch gears from market driven to state driven growth or vice versa. (Ibid:399). Castells argues that “(t)he developmental state establishes as its principle of legitimacy its ability to promote sustained development, understanding by development the steady high rates of economic growth and structural change in the productive system, both domestically and in its relationship to the international economy” (Castells 1992:55). Mkandawire (2001) views it as a state that emphasises capacity to implement economic policies sagaciously and effectively.

Recently Marwala (2009) describes the developmental state as different from the hollow state and the model of neo-liberalism, because of its emphasis on market share over profit, of economic nationalism over globalism, of protection of domestic industry over foreign direct investments, of technology transfer instead of capital transfer, of a capable state apparatus over privatisation, of corporatism instead of the strict divide between public and private sector, of output legitimacy (effectiveness) over input legitimacy (efficiency) and of economic growth over political reform. (Marwala 2009). In this model the state has to take care of the conditions under which business otherwise could not operate (building the necessary infrastructure), there should be state activism in macro economic stimulation (tax relief, subsidies and R&D support), industrial and trade policy, the regulation of multi national corporations, state entrepreneurship in key industry, and social activism in education, health, nutrition, safety, environmental protection and protection of the population from the business class, because investment in human capital has an enduring impact on economic development. (Marwala 2009:17).

The developmental state is characterised by being primarily aimed at promoting and succeeding in achieving economic growth by building viable institutions that guarantee such growth. The developmental state model favours a strong role for a strong state in steering such development by providing the conditions for development, i.e. health, education and infrastructure, and taking adequate measures to protect national industry in the globalising economy, not in order to maximize profits, but in order to promote the development of its people and to achieve sustainable national economic growth. Making a profit is important, but maximising market shares even more.

Characteristic is an intertwinement of private and public money. It represents an embeddedness of government in economy and society and the building of social capital. Thus willingness is developed to invest in the building of institutions that further economic development and devote resources to improve social living conditions (e.g. education,
health, and sanitation). Hence, the developmental state model is not so much about making money, but primarily about making progress. One needs a strong (hard) state (as opposed to the soft state) which in cooperation with, but if necessary without the market, takes care of the socially needed institutions, out of the idea that the process of economic development is first and foremost to be seen as a process of expanding the capabilities of people. The concept of the developmental state seems to depart, compared to the neo-liberal state, from a rather different definition of what the most urgent problems are that a state should address. From a neo liberal point of view a state should react to imperfections in the free market system, and not try to steer developments therein. In that view a government should take care of anti-cyclical investments, monetary stability; fiscal reticence and be facilitative for the development of profitable business by attracting foreign direct investments, promoting free trade and reducing tariffs that could impede that trade. In the developmental state model such matters do not have have priority.

**APPLYING THE DEVELOPMENTAL STATE MODEL IN SOUTH AFRICA**

What would implementing the ideal type (in a Weberian meaning) of the developing state model imply for South Africa. Arguing from a theoretical framework in which the developmental state model is positioned, it would imply that the South African state would cease to be goal-oriented in maximising profit for business and instead focus on addressing the urgent problems it faces.

According to ECORYS (2008) and the World Development Report (2006) South Africa’s most urgent problems belong to income inequality which remains one of the highest in the world. The Human Development Index (HDI) for South Africa is also low, 0,674, ranking the country 121st out of 177 countries with data. For the period 1996 to 2006, there has actually been a slight rise in inequality in South Africa as a whole. (ECORYS 2008:35). Hence, a developmental state would invest more in education, health and social infrastructure. This is indeed what President Zuma proposed. In his State of the Nation Address (2009) he was explicit to task the state to play a central role in the social and economic development of the country and further serve as a catalyst for sustainable development and economic growth. Although major advances have been made in South Africa in these areas, it is still faced with multiple challenges. Dudley Seers (in Regan 1996) identified three vital aspects of development by focusing on poverty, unemployment and inequality. The country is infested with crime-ridden squatter camps, massive rural to urban migrations which have led to gross problems in solving housing shortages and blockages in the urban areas. The unemployment rate is high and has been exacerbated by the current recession where many blue collar workers are loosing jobs in large numbers. It has been difficult to create jobs hence President Zuma’s promise of creating a half a million job opportunities in his maiden speech as the third democratic leader.

Munslow and McLennan (2009:7) report that official unemployment figures rose from 20% in 1994 to a peak of 29,4% in 2002, falling to 25,6% in 2007. It is generally agreed that real unemployment is higher. Poverty and unemployment remain twin challenges that need attention. The country is also faced with shortages of skilled personnel in technical sectors
which tend to push a country’s developmental progress. South Africa has acute corruption in almost all its government sectors and this has hindered and slowed down service delivery. Lyons and Smuts (1999) suggest that officials pay lip service to the principles they are obliged to uphold.

The imperative for building a developmental state is based on the state’s commitment to address the adverse effects of soaring poverty, rising unemployment and gross inequalities. Taking the developmental state model seriously and taking it to its utmost, would imply also that the South African state focuses on protecting and stimulating the growth of its main domestic industry. This does not imply facilitating the maximizing of profits of that industry, but maximising its market shares. According to the 2004 IMF Survey Index this would refer to the industries of coal, metals, and diamonds, which account for about two-thirds of export growth since 2002. The implication of the original model includes an emphasis on building social capital and institutions that facilitate economic growth and the protection of its key industry.

Instead of welcoming Foreign Direct Investment (FDI) that could take over this business, the developmental state would ensure that the key-industry would remain South African, possibly by taking itself a substantial part in the shares thereof, to subsidise R&D and keep this industry viable even if it fails to be profitable. It would not do this because of profits, but to remain able to steer development on behalf of its population. Eventually the developmental state would tighten the links between the public and private sector in order to ensure that the interests of the public and private sector do not collide, but instead strengthen one another. This implies the promotion and insurance of collective bargaining and minimum wages on behalf of the working population. The developmental state is first and foremost interested in the development of the country as a whole, i.e. all of the population, for which the development of its key industry is a means and not a goal in itself.

THE DEVELOPMENTAL STATE WITHIN THE THEORETICAL FRAMEWORK OF POLITICAL ECONOMY

Some readers will be upset when they read such recommendations and they are not the first ones. The influence of politics on the economy and vice versa has always been central generating raging debates within social and political sciences. This intricate relationship between the political and the economic are underlined in the contemporary society by the deliberations around the notions of democracy and development, but also by notions of what the public sector is able and unable to do, whether it is itself a hindrance or a facilitator, a means to steer and/or row or ideally a means that abstain from both steering and rowing. Political economy is an analytical and conceptual framework to assess the potential of South Africa as a developmental state. According to Staniland (1985) political economy is a way of thinking and acting regarding the distribution of the production in a country and the way consumption wealth is organised in a society. Staniland further defines political economy in a country as the degree to which “politics determines aspects of the economy, and how and to which extent economic institutions determine the political process as well as the dynamic interaction between the two forces”.

The models on which political economy is based vary among countries. Some countries have adopted the neo-liberal (capitalist model of economy), while others choose the
Marxist mode of economy where the state leads or commands the economy. In addition some countries see it wise to use a mixed economy as advocated by the British economist Maryland Keynes in dealing with the economic challenges. The developmental state model claims to be a fourth alternative and as discussed above it very well might be. However, in the debate the opponents and supporters together, use classic political economy to characterise the developmental state and often end up in framing this model in ideological terms, which distort a fundamental reflection on the model. The antagonists of the model have their ideological roots in the Chicago school, the New Public Management movement, the End of History movement started by Fukuyama, Reagonomics, in which government was seen as the problem, instead of the institution that can solve the problems, and the Washington consensus which only favours a marginal and reactive role for governments in establishing economic growth and development.

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The other side often frames its arguments in equally ideological terms. Radice (2008) for instance, relates the developmental state model, to Marxism, Gramsci, and Poulantzas, as well as to classic theorists on underdevelopment and dependency like Frank, Cardoso & Faletto and Wallerstein. They use the developmental state model as an argument to conclude that these authors have provided the superior analysis compared to the proponents of the neo-liberal model. Their claims are substantiated by pointing to those classic scholars and they conclude that these scholars had the same model in mind as is now labelled “developmental state”.

Another ideological distortion in the discussion is that some scholars see as one of the characteristics of the developmental state that it counters the dominance of foreign capital, when this impedes the growth of domestic enterprises (Coleman 1988). This goes counter to the globalizing trends promoted by international institutions such as the World Bank, IMF and other Bretton Wood organisations, which - in equally ideological terms - Wade in 1998 depicted as the Wall Street-Treasury-IMF complex. These organisations, of course, argue as ideological that protectionism eventually hinders global economic development and welfare. In its most extreme view governments are seen as incompetent, who borrow extravagantly to finance some combination of social services or unproductive development projects or the bank accounts of some corrupt politicians (Liou 2002:10). The Asian developmental states were severely criticized by the international community for the same reasons (cf. Brittan Barber).

As for the applicability of the model in Africa, scholars see as a condition for a developmental state that it has a capable apparatus and they point to the lack thereof in Africa. As Peter Lewis argued on the possibilities to export the Asian model to Africa: “While some aspects of this model (for instance, greater political insulation of economic policy makers) could reasonably be achieved in African countries, the extensive co-ordinated economic interventions of the East Asian states are well beyond the administrative faculties of most African governments” (1996).

Also in South Africa itself such arguments are visible. Friedman (2005:20) stated in an ANC document: “Talk of a developmental state in South Africa is premature because neither the institutions of government nor the majority party have established the tendrils in society that would provide the state with the capacity to play that role.” Neocosmos (2006:80) observes that one of the obstacles to development is that there is failure to create specific mechanisms for participation, in addition to capacity and financial constraints in the local government sphere which impact negatively on the pace and prospects of change.
Habib (2008) concurs with Neocosmos that there are institutional constraints that impede development in South Africa. Habib mentions three institutional constraints as the fiscal foundation of the state; capacity of the public service; and the international environment as the major challenges on the developmental state in South Africa.

In South Africa, Mzelemu (2009) writes that the state is failing to change the socio-economic structures that perpetuate racial injustice against black people. Even after fifteen years of democracy, the country is still haunted by the political and economic miscalculation that, despite renowned policies, poverty, unemployment and inequalities are still aggravated by poor or lack of a viable developmental structure. According to the proponents of the model this is just rhetoric. Mkandawire (2001) argues that following the antagonist arguments, it is not easy to give any role to the state in African countries, because, the African state is today the most demonised social institution in Africa, vilified for its weaknesses, its over-extension, its interference with the smooth functioning of the markets, its repressive character, its dependence on foreign powers, its ubiquity and its absence. (Ibid. 2).

The above shows that the debate is full of rhetoric and ideology, which is in itself a pity, because such a debate resembles a dialogue of the deaf, in which nobody listens and everybody not only wants to make their point but also wants to phrase it even harsher and more elusive using forceful terms without any argumentation. By capturing the debate in classic discussions in which theories of Marx and Lenin on the one hand and those of Adam Smith and Friedman on the other hand dominate, the old discussion about laissez faire or bringing the state back in, is just repeated without taking this discussion to a higher level and disregarding the lessons that could be learned from the decades of successful and failed development in different countries in Asia, Latin America and Africa. This makes it difficult if not impossible to reach any agreement about the desirable role of the state in the process of development.

**THE CRITIQUE ON THE DEVELOPMENTAL STATE IN PRACTICE**

**Critique from the IMF**

If it were just academicians that discuss the pros and cons of the development state, governments opting for this model would not worry that much. However, the antagonism toward this model is also seen in the influential international organisations such as the IMF.

This section will concisely describe how the policies of the South African government were assessed in the last decade or so by the International Monetary Fund. It is indicative of how policies explicitly labelled under the umbrella of Developmental State are criticised. An indication of what the IMF contributes to the discussion is seen in the country assessments the IMF publishes every year and how South Africa is assessed in other publications by the IMF.

For instance, in 2005 Robert Burgess and Thomas Harjes hailed South Africa for its prudent and stable macroeconomic policy framework, its fiscal discipline, its reduction of debt and strengthening of public finances. As the report states: “economy has become much more open and increasingly well integrated with overseas markets. South Africa substantially liberalised its trade regime”
However, according to this report further trade liberalisation and stronger competition require flexible labour markets, which could be achieved, among others, through labour market flexibility, reducing the scope of collective bargaining, streamlining, dismissal procedures, easing the impact of minimum wages and reducing the generally high costs of doing business. (IMF Survey, December 2005). A content analysis of what is stated here shows that such recommendations are the opposite of what the developmental state implies. Not protecting national interest, but opening up the economy in the globalised economy, facilitating business to reduce costs – increase profits – and reducing labour costs and wages by diminishing wages and rights.

In its Country Report of 2006 the IMF compliments South Africa with its accelerated economic growth, of which it is, according to the IMF uncertain what exactly caused this growth. Nonetheless the recommendation to grow even faster is obvious. To quote:

> While it is difficult to empirically pin down specific policies that may have caused growth accelerations and a surge in export activities, it is still worthwhile to analyse in any specific case, what could be promising policies. In this respect, AsgiSA aims at identifying the most binding constraints on economic activity in South Africa to determine policy priorities. The importance of a setting conducive to strong export performance, like that observed in most growth accelerations, makes a strong case for also considering greater trade liberalization (IMF 2006:11)

The same was witnessed ten years earlier, by the executive board assessment of South Africa. To quote: “Directors particularly agreed with the ... emphasis on accelerated economic growth and reducing unemployment by facilitating private sector growth and employment.” And some lines further “However, several Directors noted that the civil service wage agreement would constrain the fiscal consolidation process, and place undue pressures on non-wage spending. “Directors welcomed the first steps toward privatisation, including the recent sale of a minority stake in the telecommunications utility. They urged the authorities to accelerate the privatisation program and agreed with the authorities’ intention to use the proceeds of the sales accruing to the government primarily for debt reduction”. They noted that training could be encouraged by the adjustment of the wage scales for trainees…buttressed by funds released by the public expenditure reprioritisation process under way. Several Directors cautioned against the proposed training levy on payroll as it might discourage job creation. “Accelerated trade liberalisation would help further integrate South Africa into the global economy. Directors recommended broad-based tariff reductions that would lower effective protection at a faster pace than currently envisaged and further progress on the SADC and EU free trade area proposals”

The general picture through the years is that the recommendations made by the IMF are opposite to the recommendations coming from the model of the developmental state and that the IMF is quite consistent in its critique. Liberalise, privatise, globalise, combined with reduced labour costs, and a flexible labour market, and a reactive government is the message the IMF sends out. The developmental state does not see such issues as its prime target. It would protect, steer and act pro-active. However, it would have to do that expecting at least hostility.
Critique coming from South Africa itself

In South Africa, a developmental path to development since the popularity in the mid-1990s as well as some critiques which are worthy to highlight and deliberate on. South African academics such as Freund (2007), Gumede (2009), Mc Lennan (2007), Naidoo (2006), have their reservations regarding the status and potential of South Africa as a developmental state within the context of the global era and economic recession. Their partial pessimisms are rooted on what they consider to be the outstanding and fundamental imperative issues of poverty more particularly rising unemployment. According to Gumede (2009:7) the unemployment figures have risen from 20% in 1994 to a peak of 29.4% in 2002, falling to 25.6% in 2007. This situation is further compromised by the fact that South Africa, since 1994, has not been producing enough and quality skilled people or people with the right skills to maintain a competitive edge. At the state level, the issue of state capacity as advocated by Levin (2007:55) is imperative as it includes financial, technological infrastructure, intergovernmental policies and systems as well as human resources. He further argues that for the state to stimulate economic growth, it therefore, requires the financial resources to implement its developmental programmes, the technological infrastructure to make efficient use of its resources, policy frameworks to inform its activities as well as competent people to drive the processes. For a developmental state to germinate roots, government should create a working environment that makes the best use of available human resources (Levin 2007:55). In turn Mc Lennan (2007) posits that such enabling environment could become a foundation through which economy could be built anchored on capacitated administrative machinery capable of delivering to the poorest of the poor.

Trade unions mainly COSATU and its tripartite partner SACP criticisms of a developmental path are inseparable from those directed at the neo-liberal policies (GEAR) and globalisation including its principles such privatization, deregulation and trade and financial liberalisation. COSATU as a working class movement, being anti-capitalism is natural. Nevertheless it advocates for the constriction of a substantive-democratic developmental state that articulates mobilised power within civil society (power from below) with a relatively autonomous, rule-driven and effective state apparatus at all levels of government (Pillay 2007:210). For both COSATU and SACP, a developmental state is born out of a more radical, participatory-democratic development vision or option that is capable of mobilising within civil society in partnership with other social movements locally and internationally. According to Turok (1999: 55) there is a point of contraction more particularly where the government through the RDP gave greater weight to state initiatives in disfavour of civil society participation and critical engagement.

Critiques from the trade union (COSATU) about GEAR was and still is the neo-liberal approach to the economy which according to the sector shrink the economic opportunities more particularly in creating sustainable jobs. In this context, the role of the government is minimal and is more restricted in creating a conducive environment through which the private sector could boom and flourish. The minimalist role of the government as dictated by a neo-liberal capitalist system of economy has devastating effects as it undermines the potential of the state to grow the economy therefore be able to cater for the needs and demands of the public (citizens). The failure by the state to reach 6% economic growth annually translates that the government has to outsource its financial resources or revenues
from borrowing other than obtaining sources from taxes. With regard to government reliance on taxes is that due to economic poor performance, the people who are employed outnumber the unemployed population hence limited taxable citizens. This reliance has far reaching implications to the workers for in order for the government to have sufficient revenue it has to increase the tax to the few people and if those unemployed stay long outside the labour market, could increase the chances of the government to cope with little resources hence the widespread occurrence of poverty, unemployment and underdevelopment.

In the same vein, the SA National Coalition of Non-Governmental Organisations (SANGOCO) felt that the post apartheid state has sold out on its socialist vision as elaborated in the 1955 Freedom Charter. Viewed from this perspective, GEAR was condemned by SANGOCO for paying too much attention to the demands of the global capitalist agenda at the expense of providing for the basic needs of the poor people (cited in Mamphela 2008:153). In its submission to the Poverty Hearing in 1998 it acknowledged that the change from RDP to GEAR strategy contributed in opening the economy to the world’s stronger economies guided by WTO policies. Trade liberation and privatisation therefore becomes part and parcel of GEAR package more particularly in creating friendly investors climate to attract foreign direct investment. It further argues that higher growth without redistribution of such growth is flawed hence its devastating effect on job losses and undermining solidarity. The NGOs apex body in this regard calls for a macro economic framework that promotes solidarity, quality public sector delivery, creates quality and sustainable jobs and affirms quality (Ibid.).

**REFLECTIONS AND CONCLUSIONS**

The article has argued what the model of the developmental state implies with regard to the role of government vis-à-vis the economy and what hurdles it faces when it opts for this model. Part of the problem is that the model is framed mainly within ideological terms and the debate tends to return to the same discussions that went on 50 years ago or even before, without analyzing and learning from the visible trends in developing countries and the progress made in analysing these trends theoretically.

The discontent about the ideological framing of the developmental state does not imply that the viability of such a state can be judged without theoretical arguments. In our view it would help the discussion when the substance of the arguments were central instead of the ideology from which they depart and when the arguments would not be used to settle old-fashioned disputes about the role of the state as such, as a goal in itself, but about the contribution the public sector is able to make in relation to the urgency of problems.

The developmental state model favours a strong role for a strong state in steering development by providing the conditions for development, i.e. health, education and infrastructure, and taking adequate measures to protect national industry in the globalising economy, not in order to maximise profits, but in order to promote the development of its people and to achieve sustainable national economic growth.

The given two assumptions on which the model of the developmental state is build. Firstly, most developmental countries are in such a disadvantaged position that market forces themselves preclude substantial economic growth and second that states in some of these
countries are capable of overcoming the barriers facing late developers. The first assumption certainly applies to South Africa. Despite major advances made since 1994, South Africa still faces enormous challenges that still require concerted efforts. As for the second assumption, there is less certainty that it applies to South Africa. At least there is a lot of discussion about. It is however, pitiful that this discussion is mainly about whether the developmental state model is desirable from a Marxist, Keynesian or neo-liberal point of view, and not a more pragmatic discussion about whether or not it is feasible and what it would need.

The discussion on the developmental state should be released from its ideological loading. Then a discussion could start on how to achieve the goals, what it would need, and who is capable of contributing, instead of continuing the ever returning pointless discussion, devoid of empirical evidence, full of myths and prejudices resembling dialogues between deaf people, on whether we should put our faith solely in government or the free market.

REFERENCES


