THIRD QUARTER 2018 - ISSUE 70

www.ifaaza.org

NEW AGENDA

SOUTH AFRICAN JOURNAL OF SOCIAL AND ECONOMIC POLICY

The Economy of Exclusion

Also inside: Land Reform / Decolonisation / Drakensberg Inclusive Growth Forum

ISSN 1607-2820

RSA R30 (VAT incl.)

WOMEN ECONOMIC EMPOWERMENT FROM THE DEPARTMENT'S PERSPECTIVE

By Lindiwe Zulu, Minister of Small Business Development

During the month of August, we celebrate the important role that women continue to play in contributing to the development of our society. We also celebrate the sacrifices women have made towards the advancement of the South African Economy. In particular, we celebrate the achievement of women entrepreneurs who have succeeded despite all odds in the Small Business and Cooperatives environment.

As women, we have a duty to mobilise and participate in the economy. Government will continue to mobilise society behind a common goal of empowering women. It's time to train and groom women for more leadership roles in the country.

Our government has embarked on a radical socio-economic transformation trajectory. This is a very simple philosophy which moves from the premise that the economic landscape of our society is not plain. This philosophy means a fundamental change in the structure, systems, institutions and patterns of ownership, management and control of the economy in favour of all South Africans, especially the poor, the majority of whom are African and female, as defined by the governing ANC which makes policy for the democratic government.

Our government has made a commitment to set the country on a path of radical economic transformation in order to accelerate our onslaught on the triple challenge of poverty, inequality and unemployment.

Four years since the establishment of this department, our collective efforts to unlock the potential of SMMEs, cooperatives, and informal businesses mostly in rural areas and townships remains firmly on track. The struggle for Radical Economic Transformation and economic inclusion is proceeding irreversibly.

Through the Broad Based Black Economic Empowerment (BBBEE) legislation, the private sector is encouraged to contribute towards Enterprise and Supplier Development. It is found that there are lots of resources earmarked for SMME development yet they are underutilised.

In our country and in many other African countries and the world at large, women entrepreneurs are still concentrated in low productivity sectors and firm growth rates are marginal. There are a very few number of women-owned businesses that are operating at the high-end level. We, therefore, need to empower women entrepreneurs in the lower SMME cohorts and low-growth sectors to grow and operate in high-growth sectors that have the potential to create jobs, increase income, lift millions out of poverty and lead to greater economic and social transformation. We need to work very hard to move women from the periphery into the mainstream economy in South Africa.

The empowerment of women is critical for the economic growth of women in South Africa. Women are still bearing the bulk of poverty. Given the challenges we face, we require all the economic growth, dynamism and ingenuity we can get in the years ahead. Thankfully, a key part of the solution is staring us right in the face – unleashing the economic power of women and bringing the world's largest group into the fold to come up with tangible solutions for the Continent.

The Department of Small Business Development (DSBD) has been assigned a role of ensuring that small businesses and cooperatives are playing an integral role in achieving economic transformation and empowerment in South Africa. In this regard, the NDP asserts that 90% of jobs shall be created by SMMEs and cooperatives by 2030.

This is in realising that SMMEs and Cooperatives have a huge potential to drive economic growth, create employment, and can source innovation and new ideas. However, South Africa still lags behind other developing and middle-income countries in promoting the growth and sustainability of small businesses; the impact of government initiatives in this sector over the past fifteen years has fallen far short of what is needed to support job creation.

Women constitute the largest underrepresented group in South Africa in terms of business start-up and ownership. Encouraging more women to become involved in enterprise and grow existing businesses has significant potential to impact positively on South Africa's economic performance. However, as in other parts of the world, women SMME owners struggle to access finance and other non-financial support to start, grow and manage their businesses and to upscale them from the informal to the formal sector and from low-growth productivity to high-growth productivity sectors.

Radical economic transformation will benefit all women. The ANC remains the organisation for the people and we look forward to seeing more women participate in the economy through programmes with the help of the government. We want women to participate in different sectors of the economy such as aviation, ICT, maritime and renewable energy. We want to redress imbalances created by the apartheid government that ensured the triple oppression of women.

My department stands ready to support women entrepreneurs who have the potential to make a difference. We have financial and non-financial support programmes that are meant to benefit our people who have historically been excluded from the economic mainstream.

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New Agenda is a publication of the **Institute for African Alternatives (IFAA)**

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Published by **IFAA**

Layout
Amazon Media

Printing
Formeset Printers

Supported by: ROSA LUXEMBURG FOUNDATION

Distributed by: ON THE DOT

New Agenda **is accredited with the Department of Higher Education and Training.**

New Agenda annual subscriptions
South Africa R200 (incl. postage)
Abroad US$65
New Agenda is sold at CNA and Exclusive Books

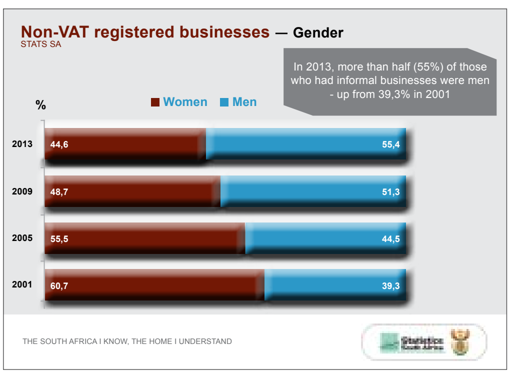
When Sleeping Women Wake, Mountains Move

Women entrepreneurship is an important socio-economic lever to spur the development of nations. The reasons for this are not difficult to find. Women domesticate and build families and as such they provide endogenous architectural designs for nation-building. When deep social challenges invade prospects for survival of families and children, women bear the brunt.

In South Africa we pride ourselves on having representative figures who kept the warmth of homes going when husbands were incarcerated in prison. Names of matriachs Albertina Sisulu, Winnie Madikizela-Mandela, Epainette Mbeki, Zondeni Sobukwe and Ntsiki Biko amongst others loom large in our collective memories. Many more who may not be known by name come forth when we discuss the effects of migratory labour which shaped the South African society. Women had to keep families and nations of sending countries together. The notion therefore of women entrepreneurship is steeped in history of struggle especially in South Africa.

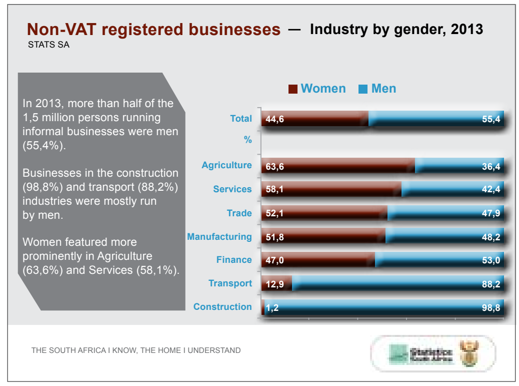
In West Africa, the struggles of women for economic freedom and emancipation is in the markets and in this regard the Makola market in Ghana, where women ply their trade, comes to mind. When a military ruler made an unpopular decision in the '70s the Makola women threatened a naked protest. More recently, in 2017, the Ga women of Dome market in East Accra repeated the threat of marching naked to fight a municipal decision that worked against them. Thus fighting economic struggles is part and parcel of entrepreneurship battles as women fend off encroachment by amongst others male-inspired rules. With limited data that is systematically collected on entrepreneurship we have chosen the survey of employers and the self-employed (SESE).

The evidence emerging from data about self-employed people shows that there is a major scope creep with women being systematically replaced by men between 2001 and 2013. Whilst in 2001 women constituted 61% of persons in the informal sector, in 2013 women constituted only 45% with men having a 55% share in this sector.

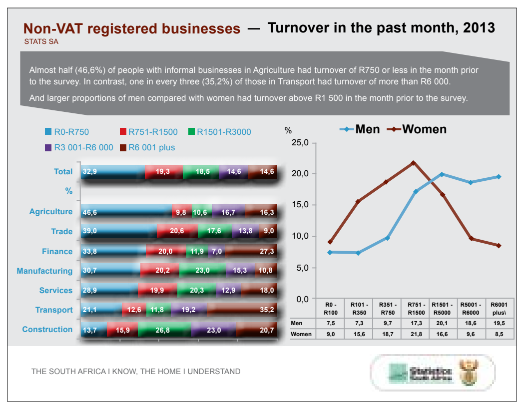


So the struggles women face in the world of entrepreneurs continues to be very challenging especially in South Africa. And unlike in West Africa where the market women mobilise their voice politically, in South Africa, despite the gender protective laws, unfortunately the evidence shows that women are systematically displaced in the production and appropriation of material resources.

The evidence shows that wild women dominate the agricultural, services, trade and manufacturing sectors, at the aggregate level men do so in the informal sector (see below). And they are predominantly in sectors such as finance, transport and construction.



Furthermore, the data shows that men secure higher incomes than females. The sectors in which men participate provide more profit than those where women are located and in fact the sectors in which men are found generate more revenue than those in which women are engaged.



What then does the evidence prove and what action may it inspire from policy making? In the main it is clear that gender sensitive policies are hardly found in practice. They remain only as reference points that South Africa may gloat with but in practice have no impact on women's struggles of appropriating material benefits for themselves and society. The eyes of policy are sealed from practice. What is necessary then is for policy-makers to be seized with the continuous instance of when the tyre hits the tarmac and respond appropriately.

Dr Pali Lehohla
Resident Research Adviser
GEN Africa

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Short learning programme in Sustainable Sanitation Management programme in the Faculty of Science and Agriculture, University of Limpopo

The University of Limpopo is ready to roll out a short learning programme which is aligned completely with its Vision and Mission statements in that it has responded to, and has focused on, the developmental needs of the community, particularly those in a local government sphere where municipalities are required to prove their competence in Sustainable Sanitation Management, reports the Executive Dean of the Faculty of Science and Agriculture, Prof Hlengani Siweya.

The development of the programme resulted from discussions and collaboration with local municipalities, the Office of the Limpopo Premier, national Departments of Water and Sanitation, and Cooperative Governance, Human Settlements and Traditional Affairs and the South Africa Local Government Association (SALGA). It will be the first ever offering of its kind in South Africa and probably in the whole of Africa. There is a growing need for sustainable sanitation, which remains a huge gap in the country, especially in the Limpopo Province. This qualification is pertinent and will achieve international acclaim with a local reach for municipalities in South Africa and the Southern African region.

The National Development Plan (NDP) reads that "... in 2030, the county's economic and social development will reflect an understanding of ... available water resources" and "... agricultural water use will support productive and inclusive rural communities". On the other hand, the Limpopo Sanitation Association (LSA), founded in July 2016 by sanitation stakeholders across Limpopo Province, has come up with baseline study data for water and sanitation. Among other critical areas, this includes: Dry Sanitation; Water, waste, and urine recycling at schools; Bulk bio solids recycling; and Hybrid recycled grey water flush systems. These developments are encouraging and we believe that our short learning programme has the potential to make a significant contribution to the realisation of the objectives of the NDP.

Prof Hlengani Siweya: Executive Dean

The purpose of the Sustainable Sanitation Management short learning course is to equip participants, especially municipal officials, with relevant knowledge and associated management, planning and implementation skills on sustainable sanitation. Participants from Water Services Authorities, Water and Sanitation Providers as well as all water users will thus be able to make informed decisions on the management of water and sanitation in municipalities and other affected areas. Moreover, knowledge on the water and sanitation management will advance the implementation of national and provincial Water and Sanitation policies of the Republic of South Africa.

The certificate programme will be available to relevant government departments, municipalities, private sector, non-governmental organisations and the general public who have an interest, experience and responsibilities for municipal water and sanitation administration. While the University of Limpopo has undertaken its own needs analysis, close contact with local municipalities and the SALGA has indicated a great need to develop this course in the Limpopo Province, the Republic of South Africa and the SADC countries. The provincial SALGA office has also shown a keen interest in this arrangement and we are still in discussion regarding the offering of this programme within the Limpopo Province with those municipalities that we have been in contact with.

Whilst the National Senior Certificate (NQF level 4) or equivalent qualification is the minimum entry requirement, preference will be given to candidates working in a water and sanitation environment. The programme comprises the following compulsory modules:

- Sanitation Safety Planning and Public Health
- Faecal Sludge Management and Urine Harvesting
- Wastewater, The Untapped Resource
- Sanitation Management Today and in Future
- Sustainable Sanitation Applications and The Environment

Mr Trevor Mulaudzi, a man with passion for sustainable sanitation

To qualify for the certificate, candidates must complete all five compulsory modules; each module is a separate unit, although integrated into the certificate in Sustainable Sanitation Management. The programme will be offered over a four-month period with contact time offered in blocks to accommodate those already working in the industry.

Mr Fhatuwani Trevor Mulaudzi is the Programme Coordinator and is also responsible for marketing and recruitment of students.

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RAMAPHOSA'S DILEMMA

By ***Ben Turok***

President Ramaphosa's recent speeches and interventions in government appointments has brought a note of optimism into public dialogue. There was a tangible sigh of relief that the Zuma years may be over. Yet a great deal more has to happen before the disastrous situation Ramaphosa inherited can be turned around. The question everyone is asking is: can he do it? Can he overcome the awful legacy he inherited? What social forces can he rely on especially as he seems to be making the call against corruption his main platform?

Ben Turok

His natural base, the ANC, is bogged down in controversies about leadership and the competition for positions, exacerbated by the proximity of the 2019 elections. Also, given that there is substantial evidence that corrupt practices have infested the organisation at all levels, the campaign against vote buying and manipulation of conferences will surely meet resistance in various places.

The President undoubtedly has substantial powers in the state system. He has shown that he can act with resolve. But to make a serious impact on the functioning of the whole system he needs the positive support of the whole public service. That, in my view, he is nowhere near achieving. At the recent Kgalema Motlanthe Foundation conference (see pages 12-19) one participant pointed out that we have a state system which is often dysfunctional with many different centres of power, each with their own rules. If Ramaphosa is to move the state to a higher plane he will have to do a great deal more to establish a coherent system where all are committed to the same goals.

The trade union movement has traditionally been a major force in support of progressive policies. Ramaphosa might have had hopes that his elevation to the Presidency would bring support to his evident commitment to revive our stagnant economy and his continuous call for job creation. But the union movement is deeply divided and is in any case now so focused on wage increases that broader political issues seem to be forgotten.

And so, a certain amount of attention is now focused on the role of business. The appointment of a group to encourage foreign investment is an important indicator of priorities. Another is the new willingness of big business to engage in dialogue with government and the proposals for several summits in which they will evidently be called upon to play a major part. And the business press is showing a degree of support for the new president, though it is also reporting on the reluctance of business to invest in the real economy. The endless reshuffling of the same people in various mergers and acquisitions continues as does the obsession with the financial system.

Which brings us to the last category, civil society. The Motlanthe Foundation pulled off a small miracle in bringing together a most diverse set of personalities at the conference in the Drakensberg which met in the most congenial atmosphere with no obvious disagreements. Indeed, there was clearly a meeting of minds and aspirations for the country, which shows that the divisions that seem to plague public discourse can be bypassed if the right atmosphere is created.

It may be that the dissension and discord that is so pronounced in our public life may yet find an alternative in the form of the voice of civil society organisations. We are particularly heartened by the emphasis made by Gauteng Premier David Makhura in his closing address in which he said that his provincial government depended a great deal on the voice of civil society organisations.

This Institute hopes to be part of that voice in these critical days and weeks ahead. NA

TOWARDS A SMART, OPEN ECONOMY FOR ALL

By Jason Bell, Sumayya Goga, Pamela Mondiwa and Simon Roberts

The authors are with the Industrial Development Think Tank (IDTT) which is housed in the Centre for Competition, Regulation and Economic Development (CCRED) at the University of Johannesburg (UJ).

How do we explain why South Africa has not made more progress in reducing its high levels of poverty, unemployment and inequality? It is an irony that a country endowed with several precious minerals and a well-developed infrastructure should be suffering this triple burden. In this extract from a study carried out by the authors, we get a glimpse of their penetrating analysis of what has happened to the economy over a 24-year period. The usual causes are there: state capture, poor coordination between government departments, a burgeoning public service with rising real wages, rent-seeking corporations, failure to diversify and continuous support for capital-intensive and resource-based industries. What should worry us, though, is the evidence they present of a country in an advanced stage of deindustrialisation. Lest we despair, the authors offer a comprehensive vision of the way forward.

It is evident that South Africa's economic development trajectory has not delivered a 'better life for all' over the past 24 years. It is not generating prosperity and economic justice for the majority of the population, with unemployment remaining stubbornly high alongside persisting poverty and extreme inequality. Our analysis demonstrates that this is due to the failure to transform the structure of the economy. Moreover, the structural weaknesses make the economy unfit to tackle the challenges of the fourth industrial revolution.

> **The economy is not open and is deeply unfair.**

South Africa is at a critical inflection point. The sustainability of a market economy is at risk from its failure to deliver better outcomes under widespread liberalisation. It is incumbency rather than effort and creativity which is being rewarded. Those with resources can bring innovations to the market while the majority is excluded. The economy is not open and is deeply unfair. These realities have to be faced, and hard choices must be made. It requires a broad rethink rather than piecemeal initiatives in order to place re-industrialisation and industrial policies at the centre of the country's development strategy.

Charting a new path means rethinking the political compromise reached in 1994. This evolved, with BEE and substantial extensions of services and social grants, but has left the economic structure unchanged to a very significant extent. However, far-reaching frustration with the failure to deliver inclusive development means the state has instead been viewed as a means to directly capture rents. There has also been growth in the number and real wages of public sector employees, as part of a small middle class, even while state performance has worsened in many areas. A byproduct has been the fragmentation of the state, and this has emerged as an over-arching theme. This is especially concerning given the coordination and leadership challenges posed by rapid technological change and the digital economy.

While there have been changes, the most striking feature of the last 24 years has been the strong continuity in the structure of the economy. Almost a quarter of a century since the end of apartheid and the legacy of support for capital-intensive and resource-based industry lives on. Indeed, the economy has regressed in many ways rather than being structurally transformed through moving into more diversified, complex and higher productivity areas. The failure to diversify is evident in the trade data, with a lack of substantial change in the export profile over more than two decades. This is in stark comparison with many other upper-middle-income countries which have upgraded within sectors and moved productive resources to more dynamic and sophisticated industries and related services. In South Africa the industrial investment which has occurred has been oriented largely toward resource-based industries rather than diversifying away from these areas.

As South Africa has prematurely de-industrialised, services have grown rapidly in importance. But here also the trajectory is fragile. Much of the growth has been in low-value traditional services. Financial services and information communication technologies (ICT) have grown in value-added terms but not in employment. Nor has growth of financial services and much higher international financial flows been accompanied by higher levels of investment. The processes of industrialisation which are urgently required include services such as in engineering and design.

Manufacturing is critical to driving growth through forward and backward linkages to other sectors in the economy. In the agriculture sector, for instance, productivity improvements in the sector have been on the back of developments in the manufacturing sector, including production of agricultural machinery and chemical fertilisers. Conversely, the loss of manufacturing capabilities has a knock-on effect on other parts of the economy too, since the manufacturing sector drives technology investments and has a symbiotic relationship with high-value services (Andreoni and Chang, 2016b).

> **“Almost a quarter of a century since the end of apartheid and the legacy of support for capital-intensive and resource-based industry lives on.**

There has also been a strong element of continuity in the persisting high levels of concentration within industries and markets, even while ownership structures have altered. Large and increasingly internationalised firms have maintained high profits although not investing, while substantial barriers to entry mean levels of competition continue to be weak notwithstanding vigorous competition enforcement against cartels. While large firms have a key role to play in realising scale economies and making investments in new technologies, dynamic competitive rivalry is crucial for productivity improvements (Roberts, 2010). In the absence of competitive rivalry, firms can continue to capture rents without investing, while keeping competitors out of the market. The result is a more closed and less dynamic and competitive economy, with knock-on effects on employment and skills.

High levels of concentration have been maintained alongside rapidly growing international portfolio capital and direct investment flows and the increasing importance of institutional investors. In practice, these have worked against long-term investment with a greater emphasis on short-term financial performance. In a vicious circle, weak domestic economic »

growth has further led to firms directing profits towards expansion through mergers and acquisitions rather than making greenfield and brownfield expansions. This has included acquisitions across and outside Africa (and, making funds available for investment in other countries but also increasing concentration at a regional level).

Three separate studies into structural transformation in large and important industries analysed the patterns in metal and machinery, automotive, and the agriculture and agro-processing industries. The studies assessed the de-industrialisation in more detail along with the role of linkages and key interests. They also indicated the ways in which poor policy choices and implementation have been responsible. In important regards, policies such as favourable energy pricing reinforced the position of traditional minerals and energy-intensive industries for a considerable period. Monetary and exchange rate policies did not properly take into account the effects of the commodities boom, allowing the exchange rate to appreciate substantially undermining non-commodity diversified tradeable goods and services.

The metals and machinery industries illustrate the hollowing out of capabilities during the 2000s as import penetration increased substantially and a trade deficit grew in diversified downstream activities in fabricated metals and machinery. At the same time, the exposure of upstream basic metals to volatile international prices has not been taken into account in broader policies, with weakening linkages with mineral inputs and calls for protection when international prices turn down. The single most important grouping of machinery and equipment has not seen effective cluster initiatives to build capabilities through addressing inter-related challenges of skills, technology

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. . . internationalised firms have maintained high profits although not investing.

and achieving higher productivity. Procurement policies aiming at building local industrial capabilities have been undermined by non-compliance through capture by narrow interests of state-owned enterprises.

The automotive industry has had a sustained set of industrial policies and has achieved higher levels of exports of motor vehicles. However, the industry study highlights how the export focus and the lobbying influence of multinational Original Equipment Manufacturers (OEMs) has meant the support provided has undermined stronger capabilities in local components manufacture. This contrasts with countries such as Thailand where the industrial policies incentivised assembly of fewer models but at much larger scales than in South Africa in order to have a base for local components manufacture.

In the agriculture and agro-processing industries there has been widespread liberalisation of markets, except for sugar which continues to enjoy effective protection. The growth in high-value fruit exports illustrates the linkages between agricultural production, and advisory and logistics services through to local and international retail. It has occurred in the absence of concerted support and suggests much greater potential for positive structural transformation than has been realised. By comparison, value chains in processed foods highlight the challenges of increased concentration and the role of multinationals with regards to smaller local participants.

Until recently, policy has also largely neglected the critical role of retailers.

The industry studies highlight the costs of failing to coordinate policies across departments and raise the question of how policies have been determined, implemented and who they have benefitted. They point to the central challenge of engaging with multinational businesses and the ability of larger players to lobby government to protect their rents. These considerations extend beyond narrow industrial policy boundaries.

Structural transformation requires deliberate industrial policies coordinating investment in interdependent activities to build capabilities. In the words of Alice Amsden (1997:478), in late industrialising economies “governments’ role has been one of joining with the private sector to socially construct competitive assets (resources, capabilities and organisations) rather than to create perfect markets”. The coordination needs to work across policies on mining, energy, trade, development finance, competition, technology, sector industrial development and procurement. While government has espoused value chain policies, in practice they have largely failed to address the coordination challenges and discipline more powerful interests, as illustrated in metals and machinery. Instead the fragmentation of the state, with its accompanying proliferation of departments, has opened up more space for successful lobbying by large international businesses and aided rent-seeking. Inconsistent stances have been taken across government. The impact on industrial policy has been profound as it has made effective interventions across departments and the combination of policy instruments near impossible.

In the absence of an effective and coordinated industrial policy, technological change will likely worsen the economic divide rather than bridge it. The isolated examples of what is possible through upgrading, such as in fruits, demonstrate what can be achieved.

This highlights the need to understand the dominant coalition of interests. The compromises reached in 1994 meant that the economic structure of the South African economy was left intact, reflecting the lobbying power of big business. The political settlement was premised on growth by established business, attracting international capital investment through fiscal stability, and improved labour rights to accommodate the interests of organised labour. The framework did not set the conditions to ensure high levels of effort in learning and technological upgrading nor did it open up markets to wider participation and discipline the rents of incumbents. The international commodities boom hid the overall trajectory. While the economy grew, there was a hollowing out of capabilities of downstream diversified manufacturing sectors. At the same time, the divide between South Africa's 'two economies' resulted in an expanded social grant system and expansion of services. BEE was the main tool through which black people could benefit from the existing economic structure, but the BEE deals could only ever benefit a very few and reinforced rather than changed the distribution of economic power and wealth, notwithstanding the incorporation of 'broad-based' in BEE.

The effective economic exclusion of large parts of the population led to clamour for a change in approach. However, what emerged under the Zuma administrations was an increasingly clientilistic political settlement, with a fragmentation of control within the ANC as rents were competed over from national to local levels of government. Higher wage settlements in the public sector kept public sector workers on-board, but industrial unions fractured. The impact of patronage politics on industrial policy was profound with, for example, energy, mining and procurement policies in conflict, and land reform separated from agricultural development and water affairs.

WAY FORWARD

We need an economy that is more dynamic, competitive and sustainable, where innovation and productivity lead to better jobs with high wages, and where entry is supported. In order to do this, there needs to be a new vision for re-industrialisation under a political settlement which prioritises long-term investment in productive capacity and rewards effort and creativity rather than incumbency. It requires a broad rethink rather than piecemeal initiatives, in order to place re-industrialisation and industrial policies at the centre of the country's development strategy.

It is important to acknowledge that in many areas there have been strategy documents, including the industrial policy framework and action plans, which have set out objectives and policy levers but these have been undermined by the fragmentation of the state and the failure of government departments to follow through. This has no doubt partly been due to state capture, the full extent of which is becoming uncovered with each passing day. What is required, however, is to face up to the hard choices for the structural transformation required.

The elements of this vision and the main planks in addressing the structural transformation challenges are set out as follows:

a) Building a broad coalition for re-industrialisation

South Africa's course for re-industrialisation and inclusive growth needs to be based on a broad coalition which focuses on productive investment and widening economic participation. The narrow coalition of elites, buttressed by higher government salaries and social grants for important constituents, has undermined investment and reinforced rather than changed the existing structure of economic power. Re-industrialisation requires public investment to provide effective public transport and education for economic activity, alongside long-term private investment and entrepreneurship.

The levels of poverty and inequality are unsustainable, and the youth is bearing the brunt of the high unemployment rates. The creation of jobs and livelihoods are a priority for avoiding further unravelling of the social fabric. President Cyril Ramaphosa is in the process of forging a 'new social pact' between government, business and labour. The previous pact benefitted the insiders, with emphasis on wealth 'trickling down', but this did not drive industrial development. Though the current political settlement has accommodated the small black middle class to an extent, including through public sector jobs, the burden of 'black tax' is a constant reminder that things need to change. Higher earnings for a small minority of the black population is not sustainable.

What is the new political settlement that informs the new 'social pact' or new deal to ensure that it delivers

"In the absence of an effective and coordinated industrial policy, technological change will likely worsen the economic divide rather than bridge it.

real economic transformation? A new political settlement for industrialisation must speak to and mobilise key black constituencies, including industrial trade unions, through effective skills upgrading and investment, and productive black entrepreneurs through opening up economic opportunity. The settlement must speak to their aspirations, especially in urban areas where the majority now live and where industrial agglomerations are built. It must reach and sustain a shared and binding commitment which, through shared growth and investment, will lead to a reversal of the growing inequality in wealth. The settlement needs agreement around the expectations for large firms, rewarding long-term domestic fixed investment, innovation and dynamic competitive rivalry with effective government policies regarding infrastructure, procurement, skills development, technology and opening regional and international markets. It must be captured in a national agenda, which is designed and delivered locally, where people have a strong sense of identity, and a stake in the outcomes.

b) A commitment to structural transformation and the consolidation of fragmented government structures

The vision for industrialisation must be integrated with overall economic planning and be based on an understanding of sectoral dynamics and opportunities, taking land, water and energy into account. Successful industrial policy requires analysis of the challenges and opportunities, design, intervention and coherence. Experience from other countries highlights that this needs to be led politically from the apex of government and that lessons learnt along the way need to be incorporated in an iterative process of continuous improvement of policy design and implementation.

The vision includes a re-shaping of government departments bringing together those that relate to technology, industry, trade, development finance and regulating markets, and providing for clear leadership and coordination with areas including skills development, energy, minerals and agriculture. This needs to be accompanied by improving the institutional capacity and accountability of public institutions, rather than their number.

c) Understanding and pursuing opportunities

The importance of the region for South Africa's growth needs to be factored into future industrial policies. The most important market for much of South Africa's diversified products and services has become the wider southern African region, although it is losing market share in a number of products. Partly this reflects the lack of commitment to a shared regional vision for industrial development across southern Africa. South Africa's re-industrialisation must therefore be in line with the Southern African Development Community's (SADC's) regional industrial development strategy, which seeks to jointly uplift the economies in the region. South Africa must import as well as export. Regional value chains are crucial, for instance, in the mining capital equipment sector. In agriculture, as South Africa moves to higher value products it needs to import more staple foodstuffs from the region. In the context of climate change, it is important to recognise that the great majority of water resources in SADC are not being used effectively and, in periods when South Africa is experiencing drought conditions, it could take advantage of the ample rainfall in countries to the north by supporting the expansion of their agriculture, importing staple foods, and ensuring a more competitive regional agro-processing sector.

> **"... the BEE deals could only ever benefit a very few and reinforced rather than changed the distribution of economic power and wealth.**

d) Incentivising and investing in capabilities development

The fourth industrial revolution is bringing the role of technology into sharp focus in moving countries forward. While the apartheid government heavily supported innovation and industrial development in organisations related to its own objectives, post-apartheid governments have had more broad-based innovation strategies. Technology is, however, embodied in investment, and the low level of investment in the economy means poor progress in technological upgrading. A strategy for building capabilities must bring together technology policy, investment and industry incentives to present a coherent path for firms.

Incentives, technological change and development finance therefore all need to work together along with cluster initiatives at the local level. Incentive programmes should include conditionalities to ensure that there are wider benefits to the economy and care needs to be taken to avoid creating or entrenching firm dominance. Cluster initiatives have a key role to play in linking skills development, shared facilities for technological capabilities such as design, testing and prototyping, and in supporting firms to pool resources, creating economies of scale and developing supply markets. Understanding how collective action can be supported for private investment in capabilities by groups of firms is central to building dynamic industrial clusters, along with effective institutions of industrial policy. Local and provincial governments have played a leading role in the few cases where clusters have been successful given the geographical embeddedness of cluster initiatives.

e) Confronting concentration

Changing the profile of ownership and control is critical to public support for any economic agenda and this includes directly addressing the concentrated structure of the South African economy. Competition between firms is at the heart of an economy's dynamism. First, rivalry between firms promotes productivity improvements as firms invest in upgrading and improving production capabilities in order to win market share. Second, the competitive dynamics within a market determine the ability of new participants to bring new products, and in the South African context, this refers to the possibilities for accommodating black entrepreneurs (Roberts, 2017b). Third, the exertion of market power can contribute to inequality by facilitating a transfer from the poor to the wealthy in the form of profits and shareholder dividends emanating from anticompetitive conduct (Baker and Salop, 2015).

Competition law enforcement under the Competition Act addresses the behaviour of firms and evaluates mergers but does not create competition in the face of barriers to entry. The South African economy requires a broader competition policy, as part of industrial policy, which facilitates the entry and expansion of businesses, especially black entrepreneurs, and reduces barriers to entry. In addition to noting concentration, the industry studies point to the importance of understanding vertical integration in some value chains. Co-ordinated interventions are required at the different levels in order to support entry. The interventions need to be coupled with development finance to enable the investment in capabilities and learning necessary to grow efficient businesses. Specifically, there is a need for 'patient capital' given the time required to build the scale and reach required to be competitive, and the appetite for risk in financing rivals taking on powerful incumbents. Development finance institutions need to be both aligned to industrial policy and make significant funds available for funding investments and supporting entry of businesses.

South Africa's course for reindustrialisation and inclusive growth needs to be based on a broad coalition which focuses on productive investment and widening economic participation.

Effective regulation for competition and entry is an important aspect, especially in sectors where there are strong network effects such as telecommunications. Local government policies are also crucial for opening-up opportunities for rival businesses, such as the ways in which retail space is configured. The analysis of barriers to entry has further highlighted the importance of access to markets for rivals, for instance, a possible 'supermarkets code' where retailers commit to open up shelf space to smaller businesses and engage in supplier development initiatives.

f) Reorientation of macroeconomic policy for industrialisation

A reorientation of macroeconomic policy is required to ensure the long-term management of natural resource earnings, consider the appropriate exchange rate, take into account the causes of inflation and dis-incentivise volatile capital flows. Fiscal policies need to prioritise longer-term investment.

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LOCATING STATE CAPTURE WITHIN A BROADER THEORY OF CHANGE

By Mcebisi Jonas

Mcebisi Jonas is the former Deputy Minister of Finance of South Africa.

Mcebisi Jonas

What has happened over the past two decades that has brought the economy to a standstill and given rise to populist movements and higher levels of social discord? In this speech delivered at the launch of the Kgalema Motlanthe Foundation, Mcebisi Jonas pinpoints the capture of the state as the avalanche that weakened it, in turn having a negative effect on growth, output, jobs and revenue. He sees the discontent among the poor, which is a consequence of these macro issues, as fertile ground for the growth of racially-based ideologies and populist rhetoric by some political parties.

INTRODUCTION

What I have been asked to talk about here today is how state capture has impacted on our socio-economic transition. I will focus on the state, on the economy and on broader society, looking at how state capture has seriously weakened those institutions required for nation-building, service delivery, and inclusive growth.

The core argument of this short paper is that state capture has seriously weakened the state, reduced business and investor confidence, caused policy uncertainty and undermined levels of state legitimacy to compact with the private sector. This has in turn weakened the state's capacity to grow output and jobs.

In this sense, state capture reinforced and exacerbated the contradictions and weaknesses in our political economy. Dismantling state capture will not necessarily address these contradictions and structural weaknesses, but will create the conditions under which these weaknesses can then be tackled. In other words, the dismantling of abusive patronage networks is a necessary but not sufficient condition for fundamental change.

This paper flights some of the actions that are needed to rebuild trust and cohesion, and to address the structural weaknesses that in a very real sense allowed state capture to take root and flourish. In doing this I will identify some of the risks that present, and how these can be mitigated. Importantly, I will draw attention to the new forms of agency that require mobilisation to give renewed impetus to our socio-economic transition.

THE CAPTURED STATE

Any modern industrialised economy requires robust engagement between the state and private sector around interests and policy perspectives. This should be an ordinary part of the social contract between the state and its citizens, and mechanisms and institutions must respond to, and allow, such organised and transparent engagement. But it would be naïve to think that all engagements between business and government take place through collective, public processes: there are sometimes specific issues that affect small groups or individual businesses, there are issues that require resolution of competing claims or interests, there are decisions to be taken which bring benefits to some and costs to others. With the awarding of a mining licence, zoning of business rights or the selection of a supplier through a tender process, there are winners and losers. And here a line has to be drawn between legitimate and proper representation of interests and the abuse of influence or connectedness.

What we have witnessed in South Africa, especially over the past decade, has been the systemic abuse of influence by connected patronage interests. This abuse went all the way to interference in executive appointments in Cabinet and interference in the appointments of Board Directors and executive management in the SOEs. Resources were diverted from service delivery to private wealth acquisition – not unlike the pre-industrial structures of political and commercial power that Karl Marx described in the nineteenth century as "primitive accumulation".

Both the strategic and technical capacity of the state was weakened as meritocracy was subordinated to the deployment and appointment of "enablers" of capture at executive, administrative and technical levels. Hard skills in corporate governance, finance, supply chain, risk, and the technical professions were hollowed out, as state institutions were repurposed away from their service delivery mandates. These losses incurred by state inefficiencies resulted in fewer resources available for pro-poor and anti-inequality fiscal expenditure.

And as cases of corruption and capture became public knowledge (as in the case of South Africa with its free press and robust civil society), there was/has been the corresponding loss of state legitimacy required to lead society behind a common purpose. This has directly undermined social coherence and fuelled mistrust, which in turn was used to weaken institutions meant to fight crime, corruption and state capture.

THE ECONOMIC IMPACT

Daron Acemoglu and James Robinson's 2012 book on *Why Nations Fail* explores the implications of state capture for long-term growth and development. They put the emphasis not so much

> **" . . . elite and corrupt interests controlling rents actively resist structural and institutional change.**

on the interaction between people in these networks of privilege as on the institutions that lie behind the networks. Societies remain poor if their political institutions are shaped to "extract" and protect wealth and privilege; they grow and become prosperous if institutional arrangements are "inclusive" and reward innovation and enterprise.

Ruchir Sharma (2016) in his book *Rise and Fall of Nations: Forces of Change in the Post-Crisis World* makes a similar point that institutions themselves reflect the economic structure of the country. Where wealth is created primarily through innovation and productivity gains, societies tend to have strong and enduring institutions. Where wealth is created primarily through rent-seeking, institutions will always be under threat as elites compete for the spoils. In this respect, state capture reflects the structural weaknesses of the economy, and the structural weaknesses are reinforced and reproduced through state capture. This presents something of "a chicken and egg" paradox – strong inclusive institutions are required to restructure an economy towards more shared and sustained prosperity, but elite and corrupt interests controlling rents actively resist structural and institutional change.

In the South African case, the past decade has seriously set us back in our efforts to restructure and transform the economy. Just how weak our economic position has become is revealed in the following stats. For a number of decades before 2010, SA growth closely tracked world GDP growth, reflecting its status as a commodities exporter. But since 2010, SA's growth has lagged behind the rest of the world and is getting worse. It was 2.6 percentage points behind the world average growth rate in 2017. SA's growth has consistently been below that of other emerging economies, and the rest of sub-Saharan Africa. Sustained low growth has resulted in reduced revenue and less space for substantial fiscal stimulation to kick-start the economy.

In the last four years, SA has fallen from the 2nd biggest recipient of FDI [foreign direct investment] in Africa to the 6th biggest, receiving only 4% of FDI into Africa in 2016, down from 11% in 2013. Business confidence has drifted down and at the end of 2017 was at its lowest point in 16 years, barring the few months after the financial crisis. The banking sector has reported a marked decline in take-up of credit over the course of 2017.

Perceptions about political instability, about the lack of policy certainty, as well as rising costs and ease of doing business has resulted in South African firms investing in liquid financial markets and fixed investment abroad. South Africa's fixed capital investment as a percentage of GDP stands at 19% and had contracted for six of the last nine quarters ending 2017. Fixed investment in China stands at 47% of GDP and South Korea at 30%.

Abhorrent levels of inequality have continued unabated. Consistent with the thinking of Thomas Pikkety, it is evident when looking at inequality in SA that incomes from assets (savings, houses, pensions, investments, shares, etc) have grown faster than wage income. In other words, growth (even the little we have had) has benefitted those already endowed with assets (ie white South Africans).

Secondly, as the SA economy has restructured from a low skills mining, » agriculture and manufacturing economy towards a high skill services economy, the rates of return to skilled workers have been higher. The salaries of skilled people have increased roughly twice as fast as the salaries of unskilled people. Simply because skills are in short supply, the salaries of skilled people have gone up faster. This has been exacerbated by our poor education and training outcomes. In other words, inequality has gone up because of the failure of the education system to produce sufficient numbers of skilled people – as well as our reluctance to import skills. This is directly linked to the incapacity of the captured state to rally the whole of society behind fixing the education system.

SOCIAL IMPACTS

With economic stagnation, growing inequality and unemployment, social discontent has increased, not only among the unemployed but also among the working and middle classes who saw living standards decline. This discontent has fuelled the rise of anti-democratic populism, which has especially taken root amongst the youth. The growth of populism is not only a South African phenomenon. Social anxiety associated with the objective and near universal decline in middle class and working class living standards post the Great Recession has directly fuelled the backlash against democracy across the globe. And following a decade of low growth, a hollowed out, inefficient and fiscally starved state has been unable to diffuse the growing resentment against elites and technocrats. Yascha Mounk distinguishes three primary dangers of populism, (1) Firstly, populism, both left- and right-wing varieties, defines enemies as opposed to political adversaries, who can then be vilified and dehumanised. (2) Secondly, populists claim to speak "for the people", and "once you've said that you alone speak for the whole of the people, any form of opposition to you immediately becomes illegitimate … allowing you to abolish independent institutions like the courts, to suppress critical voices in the press, and to concentrate more and more power in your own hands". (3) Thirdly, populists do not just provide ideological alternatives within the democratic system; they reject the democratic system itself.

In the SA context, rising youth unemployment and increased social discontent has fed the growth of populism both within and outside the ANC, together with a developing narrative that constitutional provisions, a free media, and an independent judiciary were constraints to transformation. The discourse of indigenisation was used to extend and consolidate abusive patronage networks, and undermine constitutionally provided checks and balances. Fortunately, our institutions of democratic accountability proved resilient, supported by a core network both within the Alliance and civil society. But high levels of social discontent remain, as do the objective conditions fuelling these growing populist sentiments, which could still be manipulated by those with everything to lose as the abusive patronage networks get dismantled.

COMPONENTS FOR A DISRUPTIVE SOCIO-ECONOMIC TRANSITION

The co-incidence of unfavourable global conditions and the growing recognition that we are stuck in a high inequality-low growth trap, suggests that we urgently construct a new consensus to transform the economy towards more equal and higher growth.

Four sets of actions are needed to address institutional and structural constraints to inclusive growth:

(1) Dismantling abusive patronage networks

Key to any efforts to build a new consensus for inclusive growth will be to:

- Firstly, dismantle the deeply embedded patronage networks that have eroded public service delivery, interfered with good governance and accountability, and destroyed the legitimacy of the state.
- Besides just dismantling the high-profile networks, key too will be to address the conditions that enabled the institutionalisation of these networks. This is central to preventing new networks from being established.
- Thirdly, it is important to focus on the less high profile but equally damaging networks that operate in local and regional politics and governance institutions, and that continue to undermine service delivery for the poor and vulnerable (hidden state capture).
- Fourthly, the security cluster which was found to be complicit in the state capture project needs to be overhauled, and new checks and balances put in place to ensure that the security cluster impartially upholds the rule of law as prescribed in the Constitution.
- Fifthly, the cleaning up of the SOEs which began in earnest must be accelerated, to become the front-line forces of the developmental state, rather than the liability they have become.

(2) Building a compact for inclusive growth

As has been argued by many others, South Africa is characterised by economic stagnation, low fixed investment, growing wealth and income inequality, and rising unemployment.

The last 24 years have seen significant changes in the pattern of earnings, though less so in patterns of wealth. The income earned by black people has gone from roughly one-third to just over half of national income over the past twenty years. Black South Africans now constitute about half of the top 10% of income earners but only a quarter of the top 1% of earners. But black unemployment and levels of inequality have not reduced. And while the black share of income has increased, the black share of wealth in the economy has not increased.

To address this requires both investment-led growth and active redistributive measures. Economic growth without transformation will reproduce and exacerbate inequalities which in itself will make growth unsustainable. Transformation without net growth in investment and output will see unemployment and poverty increase, and will over time reduce the fiscal redistribution capacity of the state. Reduced wealth will also increase elite conflict, making consensus more difficult to manage.

Lessons from the high-growth Asean bloc over the past few decades offer useful insights: high levels of investment in fixed capital in the productive economy; high levels of investment in R&D and technology; a strong focus on exports; a strong focus on human capability; a pragmatic (trade-led) approach to international relations; greater emphasis on meritocracy and technocracy; and close collaboration between the state and private sector.

Four change levers require activation to kick-start inclusive growth:

- Identifying and working with the state and private sector role-players to resolve constraints to competitiveness and investment (costs and reliable supply of electricity, logistics costs, costs of broadband, skills, regulations, infrastructure, finance, etc).
- Working with our HEIs [Higher Education Institutions], DST [Department of Science and Technology], the science councils and the private sector to expand new technological capacities and knowledge. Key to this will be to develop fiscal instruments that incentivise investment in R&D and innovation, as well as initiatives with the banking sector to expand access to financial instruments such as venture capital for technology development and start-ups.
- Supporting the development and implementation of industry level compacts that are able to broker trade-offs that achieve productivity gains, strengthened competitiveness and transformation outcomes.
- Building new state capabilities for economic restructuring (facilitation of industry level compacts, structuring industrial and innovation incentives, public-private investment structuring, international trade negotiations, and influencing multi-lateral agenda setting).

(3) Creating a national obsession with education and skills development

Good quality basic education is both a developmental goal itself and a crucial ingredient of economic development. Good quality basic education is crucial to the supply of skills necessary to run a modern, complex, competitive and expanding economy.

Basic education (numeracy, literacy and other cognitive skills) is essential to vocational skilling. A broken education/skills pipeline (with resulting scarce skills) has five major consequences:

- Firstly, high-income returns to skills exacerbates income inequality.
- Secondly, the system directly reproduces social inequality through streaming learners from poor rural and township schools (and TVET colleges) towards unemployment, while streaming the children of elites towards highly paid professional and technical vocations.
- Thirdly, high returns to skills reduces competitiveness with countries that do not suffer from scarce skills.
- Fourthly, shortages of skilled workers are a constraint on sustainable growth.
- Fifthly, the shortage of skilled workers reduces the effectiveness of government bureaucracies.

The education/skills pipeline in South Africa needs to be fixed as a central component of the consensus for inclusive growth. Despite the relatively high fiscal allocations to the sector, our basic education system has very poor learner outcomes by international comparison (in literacy, numeracy, problem solving and especially maths and science). This requires a new national obsession with fixing our broken education and skills pipeline. It will also require innovative solutions to deal with current labour market deficiencies around skills availability and costs while our education system is being revitalised.

Three change levers for the sector require to be activated:

- Strengthening school (and TVET) performance monitoring and accountability (holding the DBE/DHET and school principals more accountable for learner performance);
- Rapidly improving the capacity of school leadership and educators (including competency testing of school principals and teachers; importing maths and science teachers as necessary; fresh approaches to teacher re-training and development; and
- Aligning the skills pipeline with the labour market demands of a dynamic and rapidly transforming economy, and addressing urgent skills gaps (for example through skills importation). ››

(4) Building a high performance state

There are a number of challenges that should be urgently addressed if we are to improve state performance, including state co-ordination and coherence failures; weak policy execution; corruption; the hollowing out of capacity; fiscal risks; and the legitimacy of the state to mobilise society and strategically significant stakeholders behind key programmes.

Four change levers are proposed:

- Restructuring and rationalising the state, including consolidating the number of ministries to derive efficiencies, avoid duplication, and strengthen co-ordination.
- Re-looking at the devolution of functions and capacity across the three spheres. Urgent here will be to develop practical solutions to address the service delivery challenges presented by the increasing number of unviable municipalities that are incapable of playing the developmental role they were established to perform.
- Gearing South Africa's metros to contribute more to national investment and revenue targets, and address growing challenges associated with rapid urbanisation.
- Supporting the restructuring of SOEs. Besides being re-purposed to combat corruption, entities such as Eskom, by way of example, simply have too much unhealthy spread in the energy sector, controlling generation, transmission and distribution. This mitigates against competitiveness and efficiencies in the energy sector, the costs of which are passed on to both consumers and the shareholder (in this case Treasury). Apart from the governance and management challenges at Eskom, the power sector has changed profoundly in the past five years, and it will change even more radically in the next ten years. For example electricity sale volumes are lower than a decade ago, future growth is uncertain, and solar and wind energy are now cheaper than Eskom's average cost of supply. We have to anticipate the changes disruptive technologies will bring and recognise that Eskom needs to adapt and change from its current form to ensure that it is fit for the future. Similar inefficiencies exist in other SOEs such as SAA, Transnet, PRASA and others.

CONCLUSION

I will conclude with some thoughts on agency. Brokering a new consensus for inclusive growth will require new levels of leadership vigour across political formations as well as business, labour and civil society. This leadership is critical to address the trust deficit and negotiate the trade-offs necessary for inclusive growth.

This requires fresh thinking on agency, and about the specific and complementary roles of the state, markets and civil society. Specifically, what is required is (1) a strong state which can lead economic restructuring, deconcentrate economic ownership and grow productivity in new sectors and new entrant firms, as well as mitigate the social impacts of vulnerability and deprivation; (2) a strong and dynamic private sector which can continually innovate and grow productivity to retain and increase market competitiveness; (3) a strong civil society which can champion socio-economic justice, defend democracy and guard against corrupt capture by elites (often under the guise of indigenisation); and (4) political leadership capable of putting the interests of long-term prosperity above short-term expediency and the immediate needs of political-business complexes, and which is trusted by all strategically significant role-players in the economy.

Some of the critical elements of this eco-system are in place. Civil society organisations and pro-democracy institutions in South Africa remain strong and vibrant. But more needs to be done to build a more coherent vision within civil society, as well as begin expanding the focus from anti-corruption and democratic accountability to increasingly take up issues of socio-economic justice. Some components of the private sector remain robust, especially in the financial services sector. But other historically competitive sectors like manufacturing, mining and agriculture have lost competitiveness on the back of rising input costs and reduced market share (arising partly from reduced tariff and duties protection). Firms have also invested insufficiently in retooling and in innovation and technology, both as a result of policy uncertainty and also due to the more lucrative returns from liquid financial markets. Twenty-four years into democracy, South Africa has largely failed to develop a patriotic and innovative private sector, and in the context of building a more inclusive economy, a socially conscious private sector.

Without a new vision of where we are going, without a trust-based model of economic governance, and the necessary coherence, co-ordinating capacity and accountability, the new consensus that is being proposed will be stillborn. The current optimism associated with the leadership transition must urgently translate into a coherent programme.

Dynamics within the governing party will be a major deal breaker. The ANC remains highly fractured around competing patronage interests, with these contestations continuing to find expression in state governance and functionality. This undermines the legitimacy required to lead society, and negates its potential role as the modern prince leading the transition to a more just and equal society. NA

CONSENSUS IS POSSIBLE: THE DRAKENSBERG CONFERENCE

Notes from Mary Turok

Mary Turok is a former ANC MP and a struggle veteran.

The gathering of about 400 South Africans from an array of backgrounds at Champagne Sports Resort in the Drakensberg in June was dubbed a 'Dialogue among Equals'. It was the launch of the Kgalema Motlanthe Foundation, and it could prove to be the start of ongoing dialogue between former Ministers and Members of Parliament, senior public servants, the youth and all sections of civil society who gathered to find common ground and develop action plans for a "New Dawn". The Kgalema Motlanthe Foundation will produce a public report with concrete proposals. In the meantime, conference participant Mary Turok recorded the proceedings and shares her notes here.

Former President Kgalema Motlanthe opened the conference with the words: "Such a gathering is not a solution in itself, rather it seeks to inspire action, build on present initiatives and realise the aspirations of Mandela and Sisulu. The conference should impel us to share ideas and have an active plan to ensure growth in the next decade."

President Cyril Ramaphosa, in his keynote address, applauded Motlanthe for bringing together a wide range of South Africans to participate in a dialogue to imagine the way to a renewed South Africa that is truly free and prosperous and which offers pathways for young people to find jobs and live in environments free of fear. It was an opportunity to dream – of good schools, hospitals, cities and towns with efficient transport systems, he said.

"We are here to find solutions to the troubles we have and to make a firm contract that can be achieved and not be disrupted by obstacles. I urge you to spend time to conceive of such a society because we have already made great progress. Today's young people did not live under apartheid but have to live under its legacy. What needs to be done to develop an inclusive society? It needs concerted hard work, voices and evidence – not just slogans but sound data and collaboration. Economic and social transition will need courageous leadership and mobilisation."

Looking back on the conference, the diverse, extensive and frank discussion can be grouped under the following themes:

1. Changing the dysfunctional state system
2. Exclusion
3. Making space for inclusion
4. The need to expose corruption
5. Overcoming economic exclusion
6. Civil society matters
7. Building an honest public service

CHANGING THE DYSFUNCTIONAL STATE SYSTEM

Associate Professor at the School of Governance at the University of the Witwatersrand, William Gumede, observed that throughout the world crises have led to social transformation when civil society becomes energised about the need for change. This, he said, makes it possible to be optimistic about our current national crisis.
He told participants that one of the major causes behind South Africa's dysfunctional state system is that it has multiple sets of rules imposed by multiple authorities and accompanied by diverse command structures from different sectors. In other words, national governance needs to be refashioned into one system with the public service playing a critical role in a unified state, which is accountable to civil society.

Dr Aaron Motsoaledi, Minister of Health, confirmed Gumede's view, saying that Ministers have no power over budgets, the hiring of staff or even procurement. These decisions and procedures fall under provincial governments and are in the hands of the provincial MECs. Motsoaledi said a consequence of South Africa's co-operative governance structure was that eight of the nine provincial health departments have had to be placed under the administration of the National Treasury.

Ben Turok pointed out that planning is another of our major weaknesses. Although South Africa knew of the importance of forward planning when the ANC took power, it failed to lay the basis to create a new system, and he asked why that had happened. Turok suggested that one of the reasons for this lack of planning was South Africa's over sensitivity to the demands and expectations of the International Monetary Fund (IMF) and the World Bank. The first Minister of Finance had promised Madiba we would get international respectability, he said. Nowadays we are over-sensitive to the requirements of rating agencies and must remember that they have their own interests and should be treated with caution.

One young participant, Sithembile Mbete, pointed to further governance weaknesses. She warned that we need to review how we hold consultations. Conferences have become a huge industry, but may not be the place for high-level discussion. We have good elections, she said, and the rule of law is working, but it is under pressure and development has still not happened. She pointed out that many of the skills needed for future development already exist among young people, yet 500,000 graduates are unemployed. The state has demonstrated little understanding of this situation leaving many young people systematically neglected.

EXCLUSION

The President told the conference that the World Bank Report shows that the root causes of high poverty are linked to the history of exclusion, which is still entrenched on a large scale in land, capital, labour and productive markets. The legacy of exclusion makes it difficult to build a social compact. Insufficient skills, skewed distribution of land, low levels of competition, poor collaboration, inadequate water supply and failing education and housing provision highlights South Africa's critical needs: South Africa needs durable institutions, protection for vulnerable individuals and capacity to process claims so that people don't lose trust. Operating as a central, capable state is essential and the government must establish institutions to promote people's interests instead of their own. The abuse of people alongside the concentration of assets in the hands of a few must come to an end. He listed some of the country's major challenges: labour tenants must have security of tenure; the shortage of skills is a serious impediment to progress; the quality of education is far too low; drop-out rates are too high; progress is very slow; and gender inequality must be confronted.

Bonang Mohale, the CEO of Business Leadership South Africa, declared, "this is no time to celebrate." South Africa needs to build the foundation for a new future. He pointed out that the poor consume 3% of GDP. Add to that the findings of the High Level Panel's report on poverty, unemployment and inequality, and we can see there is an urgent need to find practical solutions, focusing on creating an economy that benefits all. He added that the main challenge facing our democracy is that 39.6% of the population is under 16 and therefore the emphasis must be on youth.

MAKING SPACE FOR INCLUSION

"Why is the state calling on individuals to solve problems when it is failing?" asked youth leader, Shaeera Kalla. She signalled a challenge by warning that youth today have no dreams. "Who is to lead the youth in all areas, including survival? Why are youth a separate challenge from the main focus on poverty and inequality?" In the past, she said, youth were not a separate group. She said there are a rising number of organisations, but a lack of leadership. This must be tackled by communities, not individuals, and needs collaboration between the state and the private sector, with the state playing a leading role.

This led Bishop Malusi Mpumlwana, General Secretary of the South African Council of Churches, to proclaim, "South Africa is deeply wounded. We should focus on steps to undo exclusion".

THE NEED TO EXPOSE CORRUPTION

Professor Ivor Chipkin from Witwatersrand University's Public Affairs Research Institute said that since 2009 there have been multiple changes in leadership within and outside government. For a long time there was very little organised opposition, he said, and parliament has been largely muted. Criticism, he said, came largely from outside, for example from former Public Protector Thuli Madonsela and the courts. He said the corrupt network in leadership obscured the real policies, demonstrating that the transition was flawed.

Former Deputy Finance Minister Mcebisi Jonas pointed out that state capture has undermined the state. It has reduced business confidence and weakened its capacity to produce and create jobs. Yet addressing state capture alone will not be sufficient to create change, he said. South Africa needs to transform society. He pointed out that the Gupta influence is not limited to the last 10 years. Prior to 2008 they were already undermining the potential of the state to transform and crippling the Cabinet. In addition to the slow growth of the economy, a captured state cannot deal with inequality. We need to dismantle the criminal network and the conditions that enabled it and to focus on hidden state capture that undermines service delivery, he said. This will require the overhaul of the security structures that are complicit in state capture and the repatriation of assets.

OVERCOMING ECONOMIC EXCLUSION

Jonas went on to say that wealth has grown faster than income, which has stalled progress. This will increase social discontent, which will fuel anti-democratic populism. He also referred to the emerging racist rhetoric. He warned that there will be resistance to the process of change currently underway as it interferes with some private interests. The structure of the economy is critical, he said, saying that if it depends on rent-seeking it will be weakened. He also emphasised the need for exceptional leadership. We have the capacity to control education and skills development, and we must bear in mind that without net growth the state cannot be transformed.

Ben Turok pointed to the importance of the mining sector, noting that mining output is not linked to industry. He said South Africa used to manufacture the engineering components needed by mining but has lost more and more of this capacity. He said the state speaks of promoting manufacturing yet that is not being implemented. Instead it is handled by separate departments. This meeting should insist that government design is integrated into institutions to build a single economy, he said.

How do we change our country, asked Gumede? How do we grow skills and change structures? Is the National Development Plan appropriate? We need to re-position established South African companies to link sectors of the economy to the real economy. He added that South Africa needs to coordinate, be imaginative, transform small business, empower and manage the public service, and change gender boundaries, all with the help of civil society. We need a follow-up forum when we have decided what to do, with civil society to help.

CIVIL SOCIETY MATTERS

Quoting alarming statistics, the former Statistician General, Pali Lehotla, pointed to the increasing unemployment, rising dissatisfaction with local services, poor performance of black students and the failure of the police to act against criminals. He called for wider consultation and the transformation of hope into reality. Quoting the seven development plans linking the Reconstruction and Development Programme to the NDP, he pointed out that there has been no coordination in implementation. Diversity in command must be changed into unity in command.

David Makhura, Premier of Gauteng, praised civil society activism. “We would not have emerged without it!” The Foundation should create an ongoing dialogue on civil society activists, he said and the government must see civil society as a partner in development not as an enemy. The spirit of constitutionalism cannot be kept alive without civil society activism. He warned against overburdening the Foundation but said dialogue is of fundamental value. We should not be impatient, he said, but we need a government that listens. Using his own province as an example he said we must change Gauteng into an inclusive model.

Social scientist Professor Paulus Zulu asked how society can be restored. The task was to develop a new morality, he concluded, saying South Africa has questionable and mediocre leaders who consume conspicuously in a sea of poverty. This results in alienation, he warned.

BUILDING AN HONEST PUBLIC SERVICE

Sipho Pityana, newly appointed president of Business Unity South Africa, pointed out that the Public Service Commission is meant to report to Parliament once a year but Parliament does not hear from it. He also pointed out that the Public Service Commission does not have the same powers as the Public Protector.

Former Chairperson of the Public Service Commission Professor Stan Sangweni quoted the NDP which says that the public service is a career choice. Recruitment should be based on merit not politics, and said that civil servants are agents of social change. Yet today, he said, our system of executive appointment, which came to us from England 150 years ago, is faulty. Why is there no Public Service Commission that can do this in South Africa? Even though the Interim Constitution had a clear role for the PSC in public appointments the current public service has absolutely nothing to do with appointments. The Executive was behind this change, he said, with Executive protocol enabling ministers to appoint. This meant there was no authority in the current Constitution.

A report on the public service published in 2008 which was compiled by a powerful core of technocrats said we need to change the terms of the public service, for example by making them permanent to provide stability. Not only must they be competent, he said, but we also need integrity and ethics in our politics and politicians. We must introduce lifestyle audits. The Report has been shelved, he said, and South Africa now faces the task of replacing its archaic system. NA

LAND REFORM'S POLITICAL SOLUTIONS MUST NOT FAIL POLITICALLY

By Luke Jordan

Dr Luke Jordan is the CEO of Grassroot, a community organising tech start-up that he founded in 2015. He worked at the World Bank in India from 2011-14 and at McKinsey in China from 2005-10.

Luke Jordan

Whether you are for or against expropriation of land without compensation, everyone has questions about who will get land and how it will be done. Dr Jordan proposes some answers to this complex and controversial subject. He offers some solutions which, if done properly, could create opportunities for hundreds of thousands of small-scale black farmers and the many rural communities in which they live, without creating a new, land-owning elite.

It is sometimes said that land is a political problem, and hence little amenable to technical solutions. In other words, the forces pushing land reform are political in nature, concerned with altering the balance of forces in society, rather than solving a technical challenge of, say, market access or legal redress. In this argument, the calculus of for-and-against comes down not to the technical merits of solutions, but to their effect on those forces and the political factions and parties that represent them.

This article will not argue against that interpretation. Instead, it will argue that by a happy accident the most technically sound solution will also be the most politically beneficial to those who undertake it. Conversely, it will argue that both a minimalist solution and a symbolically potent maximalist one will generate political dividends that are both shallow and fleeting. Put simply, the creation of a strong, broad base of hundreds of thousands of small but not too small black commercial farmers can provide a political base that endures for decades. Another exercise in elite transfer, or a symbolically rich shambles, will not.

That kind of base provided the bedrock of all the parties that drove East Asia's rise. Such a base keeps Japan's ruling party in power today, more than seventy years after its first government. Conversely, shallow land reform, or a form that merely swaps elites, achieves little, as shown in example after example in South Asia and Latin America. The lure of short-term political gains, or the fear of significant political risks, has been the end of many a ruling party, and doomed their countries to decades of a middle-income trap.

The temptation is clear. Nationalise land and redistribute it through licences, and one creates a potent new form of local patronage while delivering an immediate boost to legitimacy.

"

Land reform that creates farms so small they cannot sell to markets will not work technically or politically.

But the short-term power of that new patronage, dispensed through local branches, will only increase centrifugal forces. Factionalism will become worse, not better. Even if the worst is avoided, any licencing or redistribution process that runs through the state will require subjecting the rural landless and urban poor to the procedural efficiency of local government. Multiplying and escalating service delivery protests show just how much legitimacy the poor grant that government. Try putting a land reform process through our current state and any political dividend outside of patronage will quickly shrink to zero. All that will happen is that rage currently directed at the twin targets of non-delivery and wealth inherited from injustice will concentrate with even greater focus and even greater rage on non-delivery.

An alternative is one more thin transfer from an old elite to a new one. In some quarters, that is exactly how land reform is viewed – a means to create an asset base for a now income-rich but asset-poor black middle class. Certainly, our current state seems to be built mostly to benefit that class, and it is notable quite how much more passion the social media wielding middle classes have put into this issue than the urban or rural poor. But the political gains from even that solution are likely to be transient and illusory, as South African farmland, without significant investment and expertise, is simply not that valuable an asset. Moreover, it will, if anything, sharpen the growing divide between the popular and middle class wings of the ruling coalition, threatening to exacerbate splits between them. Once more, a rush for short-term political gain or an attempt to dodge a difficult problem will yield just more factionalism and disillusion.

Of course, every policy document will pay a great deal of lip service to post-transfer investment, support and market access. But twenty years down the road, if anything is clear it is that the presently configured South African state cannot deliver on such promises unless extreme, structural political pressure is brought to bear on it (and often not even then). Where will that pressure come from in the immediate aftermath of reform? Every method above has, as a structural feature, the dissipation of political pressure right after the immediate glow of large-scale reform fades – but it is precisely in that period when the need for rapid, sustained delivery of support is most important. The very mechanism of transfer must bring along with it investment support and advice, or it will fail. We know by now how much reality exists in the paragraphs of South African White Papers.

In short, any method of reform that involves a state intermediated transfer and lacks deep structural support for post-reform development will lead to a short glow, and then a rapid escalation of factionalism, disappointment and anger. What, then, is the alternative?

Any answer must concentrate above all on creating a large base of hundreds of thousands of viable, small, commercial black farmers. Each of those terms is important, and the whole collapses without any of them. Land reform that creates farms so small they cannot sell to markets will not work technically or politically. Subsistence farming is simply another form of poverty, and, most importantly, creates no off-farm jobs in rural areas. Too large, and, again, all the problems of elite transfer reappear. We have done this before and the political dividends were small and vanishing. Without viability baked into the very mechanics of the reform, no gain in justice, growth or political stability will endure for more than a handful of years.

So politically and economically viable land reform must create such a class in the very mode of its operation. It must provide that class with sufficient credit to invest in the land, to have working capital, and to ride out the inevitable bad year or two when they begin. It must provide an incentive for both the providers of capital and for the holders of skills and market access to integrate those farmers aggressively and early. It must create a dedicated funding stream that can build extension services and market access in ways that first bypass and then swallow a state apparatus which is likely beyond repair.

A policy that twins a land value tax, imposed only on inherited land and with size exemptions, with a dedicated fund for equity grants and credit underwriting, can achieve these goals. A tax set at expropriation levels and set on the value of the land itself, that is without improvements, can deliver a symbolic breakthrough, and provide a large set of funds to jolt the rural economy out of austerity, and answer the need to preserve investment. If constructed well, it could split the coalition of finance and farmers that, united, provide such an impediment to expropriation without compensation. It can answer the redistribution and restitution needs without needing a broken state apparatus to handle the transfer of land, and it can keep the reformed land out of the hands of a new elite.

That may not be the only instrument. Land reform is a vast topic and more than one policy instrument might make it politically and economically viable. But any such instrument will be complex in its inner working. It will have to be firmly anchored in a vision of a prosperous, democratic rural South Africa. It will have to break decisively with twenty years of failed policy papers. It will require, above all, leadership. The political challenge it poses to the ANC may then boil down to this simple question: Do you still have the capacity to lead this country? NA

UNDERSTANDING LAND REDISTRIBUTION POLICY-MAKING AND POLICY IMPLEMENTATION: CASE STUDIES FROM THE EASTERN CAPE

By Nonzuzo Mbokazi

Nonzuzo Mbokazi is a PhD candidate with the Families and Society Research Unit at the University of Cape Town. Her doctoral study is focused on low income mothers and childcare state policy. Nonzuzo has a strong interest in public policy and is of the view that sociology can help to better understand how institutional inertia affects public policy initiatives, which are so pertinent to a developing country such as South Africa.

Nonzuzo Mbokazi

After analysing land redistribution policy and implementation in the Eastern Cape, the writer is of the view that the issue of land redistribution is driven more by market-led considerations than the concerns of landless rural inhabitants. She also highlights the confusion that characterises the process of land redistribution with the involvement of several tiers of government, resulting in high levels of disaffection among intended beneficiaries.

Editor's note: This article was written before the recent parliamentary committee participation process.

INTRODUCTION

Policy-making and policy implementation are complex and convoluted processes involving both technical-rational and competitive dimensions, and they entail questions around what governments do, how they do it and why they do it, as well as the consequences of state actions for society as a whole. This article examines policy-making and policy implementation, and the relationship between them, with regard to land redistribution in the Eastern Cape Province in South Africa.

PUTTING LAND REDISTRIBUTION IN CONTEXT

Since 1994, the South African state has developed and implemented a wide range of land reform policies. Land reform, as stipulated in the Constitution, is composed of three pillars:

Land Restitution, which seeks to return specific tracts of land of great historical, cultural or ancestral significance;

Land Tenure, which is supposed to address the legacy of communal tenure in former homelands and the rights of tenants on predominately commercial farms; and

Land Redistribution, which focuses on the overall racially imbalanced ownership of land arising from colonial dispossession and tries to restore land to landless black citizens without necessarily compromising agricultural productivity.

This article focuses on redistribution, which has gone through a range of specific nation-wide programmes since the mid-1990s. Since its introduction, the laudable aim of land redistribution has been subordinated to market-led land redistribution in which the state regulates, assists and facilitates market transactions and post-settlement support on redistributed farms.

Furthermore, an examination of the three sequential redistribution programmes, often referred to by their acronyms SLAG (Settlement Land Acquisition Grant), LRAD (Land Redistribution for Agricultural Development) and PLAS (Proactive Land Redistribution Strategy), make it clear that there is an increasingly 'productivist' emphasis; in other words, production in-and-of-itself on redistributed farms is now the key objective.

The land policy formulation process in South Africa is complex, marked by significant intra-state tension and dynamic interaction between multiple actors. Likewise, implementation of redistribution programmes entails a complex mix of state bodies, which do not necessarily act in any coordinated and uniform manner. Implementation, in the case of land redistribution, involves land and agricultural ministries at both central and provincial levels, as well as both district and local municipalities. The relationship between these state bodies is often characterised by confusion, absence of coordination, competition and conflict, all of which clearly impacts on the redistribution of land and resettlement of farmers at farm level.

For instance, in the case of land redistribution policy formulation it is possible to speak of two cycles during the first ten years of democracy (Hall, 2009). Though the delineation of policy cycles cannot be reduced neatly to ministerial changes, the replacement in 1999 of land minister Derek Hanekom by Thoko Didiza reflected deeper divisions within the land ministry around land policy. Hanekom had a reasonably open relationship with the National Land Committee which

. . . the laudable aim of land redistribution has been subordinated to market-led land redistribution in which the state regulates, assists and facilitates market transactions and post-settlement support on redistributed farms.

represented landless people and their concerns and, under his ministerial oversight, the SLAG programme – which was more about redistribution than productivity – was introduced (Davids, Habib and Southall, 2003:331). Didiza soon replaced SLAG with the LRAD programme, which was more directly in line with World Bank thinking about land reform, private titling and agricultural productivity. Despite Didiza's occasional threats about expropriation of land in the unspecified future, the relationship between the state and agro-business seemed more cordial during her ministerial reign (Davids, Habib and Southall, 2003:333).

The intricacies of this division-ridden process within the state, cutting across both agricultural and land ministries, and the shifts in land policies, is ably discussed by Wiedeman (2004) at least for the 1993 to 2000 period. Regrettably, no such comparable analysis exists for the post-2004 period when the PLAS programme was introduced and this article hopefully will be able to offer some insights into this latter period. At the same time, any shifts with specific reference to land policy content, and changes in the very character of the policy formulation process, need to be understood as part of a broader restructuring of the policy formulation process in South Africa and changes in the state-society relationship and interface (Mbatha, 2014:5).

LAND REDISTRIBUTION AND DECISIONS: POLICY-MAKING

Overall, the meaningful participation of farmers in actual and potential land redistribution in the formulation and implementation of land redistribution policies and programmes is minimal if not entirely non-existent. This is despite the fact that the state has initiated and organised numerous workshops on land over the past 20 years in which it has engaged with civil society organisations around land issues. Rarely have potential or actual land redistribution farmers been present at such workshops, in large part because they remain nearly completely unorganised. Instead, NGOs have tended to dominate these workshops. At the same time, NGOs have organised alternative workshops (without inviting state land officials) attended by small and isolated grassroots groups (a mix of farm workers from commercial farms, former Bantustan residents and redistribution farmers). In doing so, a list of land demands are often formulated and then issued to the state. These demands go far beyond current state land policies, including calls for expropriation of land, but the state has in large part ignored these calls for radical land reform.

In this sense, policy-making (including around land redistribution) represents a degree of continuity with the apartheid state, despite the more inclusive and democratic electoral system since 1994. The former Research Manager for the Investigative Division of the Commission for Restitution of Land Rights for the Eastern Cape and Free State (as well as currently Director of the Board of the NGO called Border Rural Committee), Monty Roodt said about post-apartheid continuities when speaking of the market-led land reform process:

> The impact of apartheid is enormous. I mean 7-9% was allocated to blacks in reserves in 1913 which was later increased to 13% in 1936. And that was supposedly set aside for more than 80% of the population. This was inherited in 1994 and of course the response to land reform which some people regard as inadequate because of the willing buyer-willing seller clause which basically entrenches centuries of colonial dispossession.

“. . . the replacement in 1999 of land minister Derek Hanekom by Thoko Didiza reflected deeper divisions within the land ministry around land policy.

The ongoing existence of the willing buyer-willing seller model of land redistribution is testimony to the insensitivity of the post-apartheid state to popular demands around land, as it reflects the importance rather of multilateral financial institutions and notably the World Bank – and often through quite explicit and direct inputs – in the formulation of land redistribution policy. This, as Roodt argues, simply reproduces the colonial and apartheid practice of land dispossession. Overall then, land redistribution policies seem to reflect the interests of agrarian capital and the World Bank.

In this context, several observers and commentators have criticised land policy formulation (including in relation to the Eastern Cape). Hadju (2006), for example, points to the still-existing unequal power relations between policy-makers and local actors (including potential and actual land redistribution farmers), leaving the latter with the notion that they have limited control over their own future (Hebnick and Cousins, 2013:18). Public policy-making is meant to be inclusive of a range of key groupings, including legislators at national, provincial and local government levels, state office bearers, civil society and the broader body politic (Ijeoma, 2013:227). In practice, this often does take place. Thus the former Director of Parks and Recreation, Kevin Bates, explains that:

> When it comes to policy-making, by-laws are what basically entail public involvement in the making of policies. Us officials have the so-called professional knowledge and stand by council and to pass a by-law you need public participation.

Regrettably, this public participation is often absent. Just as the content of land redistribution policies and programmes increasingly entail some form of elite capture (as discussed earlier) the process leading to these policies and programmes also entails a form of elite capture. To reiterate, power is unequally distributed such that policy-making is not driven by public demands. As noted by Roodt, “There is serious power imbalance; for instance the rural people don’t really have trade unions to represent them or social movements or powerful NGOs”.

This means that an inclusive policy process around land redistribution policy is difficult to guarantee, if only because there is no sustained pressure on the state from popular organisations to act as a counterweight to the dominant interests of powerful agrarian constituencies in the country and the state’s inclination to work alongside them. Radical demands for land reform are therefore overlooked by the state or at least not taken seriously. Nomonde Kiaka-Kahpha, a community development worker co-ordinating a land access and resource management programme at Masifunde (an NGO in Grahamstown), shared her views on whether Masifunde had ever been involved in the process of land policy-making in any genuine sense. She explained:

> As with other organisations in the region we are always challenging that space, [but] we are not given that space because they [the government] say we are anti-government. We take part when there are policy proposals; then we will show the bill to the people concerned and explain it to them. So this is what we are doing as an organisation on the ground. Our recommendations are seldom, almost never, taken into account. We deal with the aftermath of the policies.

Based on this, it can be seen that the policy-making process (with particular focus on land redistribution in the Eastern Cape) easily marginalises groups which are meant to be engaged in the process of making public policy in South Africa. In describing the power relations between policy-makers and civil society, a former Director of Land Affairs in the Eastern Cape, Michael Kenyon, in fact claimed that marginalisation from policy-making is broader than already argued. He claims that:

> The policy process in the Eastern Cape has been racist because it has excluded white commercial farmers who have expertise; some of them are hostile to land reform but not all of them are hostile. You can't ignore them, you have got to take them on board; how you do it is a different matter. What input do farm workers have into the policy process/people trying to farm in the trust [former Bantustan] areas? What are their particular needs? They may have different needs and different requirements of policy.

While I find it difficult to comment on the claim about the marginalisation of white farmers in the Eastern Cape, Kenyon does highlight that the voices of farm workers and former Bantustan residents (and presumably other land-hungry people) are not being heard and their "requirements of policy" are probably not being incorporated into land redistribution policies. [By] Having a policy-making process on land which is in the main exclusive and elite-driven simply reproduces an apartheid-style of governance though in a less extreme form.

In the end, all relevant groupings have knowledge around land issues in post-apartheid South Africa, and they construct it in contrasting ways (Van Zyl, Kirsten and Binswanger, 1996:200-201), with some relying on everyday experience and others on technical expertise. But particular bodies of knowledge are privileged in shaping the

policy-making on land redistribution, and often this is knowledge generated by so-called experts or (as discussed above) knowledge backed by power. This knowledge is often based on ill-conceived assumptions and assertions about the problems ingrained within the land question in contemporary South Africa, such that lives and livelihoods of rural people continue to be marked by poverty, marginalisation and inequality. Thus, the form and content of land redistribution policy-making reflects the values, preferences and aspirations of economic and political elites.

GOVERNANCE PRACTICES: POLICY IMPLEMENTATION

To quote again from the Masifunde community development worker, "Our recommendations are seldom, almost never taken into account. We deal with the aftermath of the policies." In a very real sense, this seems to encapsulate the state of affairs when it comes to the land redistribution policy process. Landless and land-hungry rural people in contemporary South Africa only have the opportunity to engage with this policy at the implementation stage; but even then questions may be raised about the extent and character of this engagement.

In this context, Sinoxolo Gqala from the Department of Rural Development and Land Affairs argues: "The principle of the 'willing buyer-willing seller' has hindered our people from getting land through redistribution. Government has implemented policies which had good intent but in reality have not been so successful because of other hindrances."

Roodt, formerly of the commission on land restitution, also stresses a similar point: "The fact that the state needs to buy land for the beneficiaries is a major impediment, the cost is huge and what tends to happen is that people inflate the prices to cash in on the process of redistribution."

Land redistribution is taking place in the context of a neo-liberal paradigm, a paradigm which has been regularly criticised by land-based NGOs and the grassroots groups associated with them. This market-driven model of redistribution is facilitated and implemented by the state, a state which does not even incorporate grassroots groups into the implementation process in any meaningful way – it is, in effect, simply imposed upon them. Hence, even in the case of business plans drawn up by Communal

Property Associations (CPAs) for their respective redistribution projects, they are required to incorporate a strategic partner and ensure that the partner receives payment for services rendered. This is despite ongoing concerns expressed by the farmers about the racist and patronising inclinations of white mentors and the exorbitant payments received by them.

This though may not simply reflect neo-liberal inclinations amongst state officials, as intimated by the critique of the willing buyer-willing seller approach in the quotation from Gqala. A serious problem which hinders implementation of land redistribution policies is the question of state capacity, including efficient and adequate leadership within the state to implement redistribution policies effectively. The former Director of Land Affairs, Michael Kenyon, based on his institutional memory and subsequent developments, highlights the following:

> Leadership within the state body is certainly problematic, between political and senior executives. If you look at how many director generals and ministers there have been in the department of rural development and land reform. What continuities have there been in the executive management? That in itself says there have been too many challenges and a lot of levels of consistency and too many bad decisions. I think top management and political management has to take responsibility.

The discontinuities and sometimes outright confusion within the land (and agricultural) departments within the state bureaucracy,

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. . . there is no sustained pressure on the state from popular organisations to act as a counterweight to the dominant interests of powerful agrarian constituencies in the country and the state's inclination to work alongside them.

which exists at all levels, speaks to incapacity problems and inhibits the prospect of engaging in a highly consultative process when it comes to implementation of land redistribution polices at farm level.

Under the state's flagship National Development Plan of 2012, and despite a new stress on broad-based and comprehensive rural development, there is clear confirmation of the prominence of productivist land reform practices, including strategic partnerships (Hebnick and Cousins 2013:38). This is also made clear in recent policies from 2013 related to land reform and redistribution, including the State Land Lease and Disposal Policy (SLDP), the Recapitalisation and Development Programme Policy (RDPP) and the Agricultural Landholding Policy Framework (ALPF). These policies effectively redefine the very character of land redistribution in South Africa.

I will discuss these three policies introduced under the programme PLAS in 2013 which are tuned to building an emergent black commercial agricultural class, and how the implementation of these policies is experienced by the people it impacts, the land beneficiary farmers.

SLDP categorises farmers as small-scale and large-scale; however, it is claimed that in practice it prioritises large-scale farmers. Because of this, resource-poor people become marginalised under PLAS. Successful PLAS farmer applicants for example are likely to be those with already existing business interests (or with some capital to invest) such that a landless or land-hungry resident from the former Ciskei or Transkei would not be taken seriously as an applicant. The explicit objective of the RDPP is to "usher black emerging farmers into the agricultural value chain as quickly as possible' (Rural Development and Land Reform 2013:17). RDPP offers an amount of money to Communal Property Associations (CPAs) to buy necessary agricultural implements for the functioning of the farm. But this leads to a relationship of extreme dependency and reliance on the state such that if RDPP were to be discontinued, PLAS farmers may go under. As a farmer from the Outspan project in a farm outside Grahamstown explained, "we need money from the government. This usually really assists us in getting through with the farming. Without the government we can't do anything."

It is clear to see that for productivity to take place at the farm level, it is very important for both government and the farmers to meet each other half-way: government, by ensuring that the resources needed by the farmers for productivity are sufficient, and the farmers by using those resources effectively and wisely and equipping themselves with a skill-set to ensure sustainability and longevity in farming. The rationale of the ALPF is to attain higher levels of efficiency of land use and to optimise "total factor productivity" (Van Wyk, 2014: 1). The key objectives of the policy are to "facilitate the participation of small farmers into mainstream agriculture" and "facilitate the redistribution of land and agricultural landholdings to co-operatives and family-owned landholdings" (Rural Development and Land Reform, 2013:17). In so doing, the ALPF is calling for all redistribution beneficiaries to assume relationships with the private sector (elements from within agrarian capital) as only then can redistribution serve the functions of productivity and profitability (Van Wyk, 2014). ALPF assumes that strategic partnerships are a key way forward for land redistribution farmers to be productive farmers. However, this in itself does not take into account how strategic partnerships have transpired, or have been implemented, on farms where LRAD and PLAS farmers are in partnerships. Particularly noteworthy is the social relationships which exist within these partnerships. In this respect, there is a significant degree of discontent amongst farmers. As a Masizakhe Communal Property Association farmer said:

> Mentoring should be about showing us the way. We have been on that farm for almost a decade but there is nothing although the mentorship has just started in 2010. When you follow this you find that you are being cheated openly. The problem is that there is no transparency, especially with the man we are with under the 'strategic partnership'. The irony of the CPA being called Masizakhe (let us build ourselves) but we have a mentor that we do not really trust nor does he allow us to build ourselves. The mentor is supposed to teach people according to the constitution but that is not what is being done and when you try to challenge this you are seen as an agitator. That is the problem – really (Masizakhe 'Litha' Farmer, 2014).

Another farmer from the CPA said, "If you want to see apartheid you must go to that farm which I am a CPA member of". This is a very bold claim, as it effectively means that the relationship between the mentor and the mentee farmers on this farm is marked by racist attitudes and the white farmer who is the mentor is seen as patronising – at least from the perspective of the beneficiary farmers.

CONCLUDING REMARKS

Reflecting on the land redistribution policies which have been implemented there is clear acknowledgement that the SLAG, LRAD and PLAS programmes have serious shortcomings. What would be useful is an analysis of actors who interact at the operational/local level on a particular issue and include those directly affected and involved in land redistribution. If combined with projected timeframes we could be taking a step in the direction of realising a bottom-up perspective rather than the conventional top-down approach that seems to be the practice so far.

My findings show that land reform has been dominated by state institutions and recent shifts in policy have done nothing more than continue the top-down, technocratic tendency of the past, with predictable emphasis on conventional models of land use based on large-scale commercial farming. This kind of public policy-making and implementation is consequently a pitfall of the land redistribution tier of land reform as experienced by its beneficiaries.

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This paper was first presented at The IFAA Forum, a platform for young progressives to share academic work and debate topical issues. NA

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SOUTH AFRICA'S FISCAL CLIFF BAROMETER

By Moeletsi Mbeki, Jannie Rossouw, Fanie Joubert and Adèle Breytenbach

Moeletsi Mbeki is a businessman and political analyst; Jannie Rossouw is Head of the School of Economic and Business Sciences, University of the Witwatersrand; Fanie Joubert is Senior Lecturer in the Department of Economics, University of South Africa; and Adèle Breytenbach is Senior Lecturer in the Department of Economics, University of South Africa. The authors write in their personal capacity as the Fiscal Cliff Study Group (FCSG).

The authors express concern that South Africa is headed for a fiscal cliff due to declining revenue and rising expenditure, the bulk of which is composed of social assistance payments, public sector wages and debt service obligations. They call for greater competition in the political and economic system as well as a strong commitment to curb expenditure of the three large components.

INTRODUCTION

This paper looks at the danger of a looming fiscal cliff facing South Africa. Initial research on the fiscal cliff (Rossouw et al, 2014) assessed social assistance payments and compensation of civil servants to calculate the point where this expenditure will absorb all government revenue.

As the interest burden on government debt developed into an additional concern since 2014, the fiscal cliff is re-defined in this paper as the point where social assistance payments, civil service remuneration and debt-service costs will absorb all government revenue. The earlier research on the matter is restated in this paper to cover these three concerns. The calculation of the barometer commences from 2014, i.e. when pressure from all three components rises.

The 2018 Budget has shown that the compensation of civil servants plus social assistance payments plus debt-service costs will amount to 70.4% of the main budget revenue in the 2018/19 fiscal year (2018 Budget). This is a considerably larger burden than the comparable ratio of 55% in the 2007/08 fiscal year.

At the same time, the domestic economy is suffering subdued growth, which implies that government revenue is under pressure. Historically in South Africa, government revenue growth shows a close correlation with nominal growth in the gross domestic product.

REGIME RESTRUCTURE

Subdued growth since the international financial crisis of 2008 shows that South Africa cannot continue with the same fiscal policy and the same type of regime as before. From the 20th and 21st centuries South Africa has had three regimes, namely the British imperialists who ruled from 1902 to 1909; the Afrikaner elite who ruled from 1910 to 1993; and the African elite who ruled from 1994 to the present. The objective common to all three regimes has been to exploit South Africa's vast mineral resources for their benefit and that of their international partners through the use of cheap black labour. This model has now reached the end of its usefulness and a different political construct for a successful economic performance is necessary.

South Africa therefore needs a new, fourth political regime that should focus on:

(i) The education, health care, transport and electric power supply systems, which should support a new paradigm in South Africa, namely a reliance on knowledge and skills, rather than the mining and export of raw materials;

(ii) Public services, including the role of traditional leaders, must be reconfigured to serve the people;

(iii) South Africa's economic relations with its Common Monetary Area (CMA), Southern African Customs »

Union (SACU), Southern African Development Community (SADC) and Common Market for Eastern and Southern Africa (COMESA) neighbours must be renegotiated and restructured, as the current structure (particularly through the SACU revenue-sharing agreement) places an undue burden on South African taxpayers;

(iv) Trade and investment relations with non-African partners must be renegotiated; and

(v) The economy must be restructured to be more investment-driven rather than consumption and finance-driven.

As a starting point, discussions must take place among the South African government and the country's key economic actors. These are the Chamber of Mines, AgriSA, the Banking Association of SA, the Steel and Engineering Industries of Southern Africa, the Manufacturing Circle Labour Federations, universities and professional associations and foreign multinational corporations operating in South Africa. In today's world no country can industrialise without the full participation of the main stakeholders in its private sector.

For South Africa to overcome its economic and political malaise of low growth and corruption, it needs to address lack of competition between firms in the domestic economy and lack of competition between political parties in the political arena. Only competition in the economy will pull South Africa out of its mineral resource dependence for exports and drive exports for manufactured products. This is what will lead to greater industrialisation.

Only real competition for power between political parties will overcome the underperformance in the public sector and public sector corruption. The electoral dominance of the ANC means that corruption within the ANC government is cost-free as there is not a similar size party to punish the ANC for corruption.

Challenging the ANC has to entail a feasible structure in opposition parties. The ruling ANC holds 249 seats (62.3%), while the main opposition party, the Democratic Alliance, holds 89 seats (22.3%) in Parliament. The remainder, i.e. 15.4% (62 seats), are held by no fewer than 11 different political parties. This construct does not allow for a serious challenge to the ANC's governing role in the near future.

There is an iron law for African liberation movements such as the ruling ANC: After 15 to 20 years in power their electorate starts to abandon them because they fail to deliver on the promise of creating prosperity for the masses by restructuring the colonial or neo-colonial economy. Instead, leaders of liberation movements get themselves incorporated into the inherited colonial or semi-colonial elites. In the case of South Africa, it seems that this iron law has some slippage: The best change for a serious political challenge to the ANC will be in the 2024 election, i.e. 30 years after the first democratic elections.

. . . the interest burden on government debt has grown substantially. In nominal terms the debt-service cost ballooned from around R52.9 billion in 2007/08 to R187.8 billion in 2018/19.

The challenge facing any new government that replaces the ANC (or perhaps the new ruling faction in the ANC in replacement of the Zuma administration) is to ensure the adoption of new inclusive development policies. At the same time the new government has to avert the looming fiscal cliff facing South Africa. The fiscal position is under pressure from both the revenue and expenditure sides, thus pushing South Africa closer to the fiscal cliff where the compensation of civil servants plus social assistance payments plus debt-service costs will exceed 100% of main budget revenue.

FISCAL ANALYSIS

After the democratic elections in 1994, the new ANC government in South Africa faced a tight fiscal position. It is indeed true that the financial sanctions against South Africa, advocated by the ANC in exile, had the desired effect: the fiscal position of the South African government was particularly precarious. The ANC turned this around successfully after 1994 and can do so again if corruption is eradicated.

In the 1993/94 fiscal year, the South African government's deficit before borrowing amounted to 5.6% of GDP (SA Reserve Bank, 2013:33; see also Calitz, Du Plessis and Siebrits, 2011:8). Sustained economic growth after democratic elections in 1994 and in the period up to the financial crisis resulted in a considerable improvement in the fiscal position of the South African government. By 2006/07 the government had a surplus of 0.7% of GDP of income over expenditure (SA Reserve Bank, 2013:34). At the same time government debt declined to 23% of GDP (Calitz, Du Plessis and Siebrits, 2011:8). This fortuitous position could not be sustained after the international financial crisis of 2008, as the South African government recorded substantial deficits in expenditure over revenue with a concomitant increase in government debt. During the same period, South Africa saw a change within the ruling ANC, with the corrupt Zuma administration taking control in 2009. Corruption contributes significantly to South Africa's poor economic performance.

In the calculation of the affordability of the government sector (central and provincial) in South Africa, it is important to note that the country does not have unlimited capacity to borrow. With limited borrowing capacity, the focus in fiscal prudence should be on expenditure restraint and the sources of revenue.

Government borrowing (i.e. the difference between revenue and expenditure) can be considered in different ways. One guiding principle is that borrowed funds should only be used for capital projects which will improve productive capacity, thus contributing to economic output and the capacity of the country to service such a debt commitment.

Another consideration is the borrowing guideline embodied in the Maastricht conversion criteria of the Euro Zone countries, i.e. 3% of GDP. This borrowing guideline is generally accepted as a standard benchmark for assessment of annual government deficits. Nevertheless, De Grauwe (2009) states that the Maastricht benchmark has "... very little to do with economics, and very much with politics ..." On this basis, the budget deficit of the South African government should not exceed 2.5% of its GDP, as 2.5% is currently the country's long-term potential output growth ceiling (Anvari et al, 2014). The only way to break this binding constraint is through a regime change advocated above.

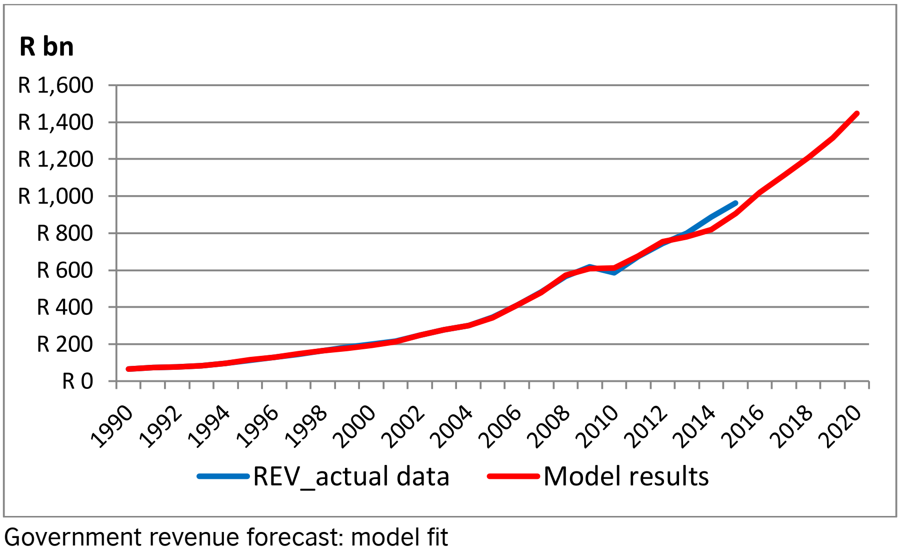
Social grants and the provision of free services (housing, water, sewage and electricity) alleviates poverty and addresses South Africa's skewed income distribution, but at the same time it aggravates the country's fiscal pressures. Bosch et al. (2010) showed that South Africa's Gini coefficient decreases from 0.71 to 0.59 when social grants and the provision of free services are taken into consideration in the calculation of income distribution. Social grants are the largest of these forms of assistance. The initiative to expand social grants was announced in the Budget Speech of the Minister of Finance for the 2002/03 fiscal year (Manuel, 2002) and subsequently grant beneficiaries increased from 4.2 million in 2002 to 18 million in the 2018/19 fiscal year (see McEwen and Woolard, 2015 on the annual growth in beneficiaries since 2002).

In the period since the global financial crisis of 2008, civil service employment and the compensation of civil servants increased rapidly (see Breytenbach and Rossouw, 2013 on this matter). The number of civil service employees increased from some 1.3 million at the start of 2008 to more than 1.5 million by 2016 (SA Reserve Bank). This contributed to sharp increases in the compensation of civil servants, rising from R195 billion in 2007/08 to R587.1 billion in the 2018/19 fiscal year. Treasury expects this value to rise further to R677.3 billion by 2020/21 (2018 Budget).

Owing to increased borrowing by the South African government, evidenced by the increase in the deficit before borrowing in consecutive fiscal years and by the increase in government debt as percentage of GDP, the interest burden on government debt has grown substantially. In nominal terms the debt-service cost ballooned from around R52.9 billion in 2007/08 to R187.8 billion in 2018/19 – that is roughly triple the amount in the scope of a decade. Treasury estimates that it will reach as much as R223.9 billion (or 14.5% of government revenue) by the end of the medium term forecast period (i.e. 2020/21).

This increased fiscal pressure leaves the options of higher taxes to increase government revenue, or lower government expenditure. It is therefore necessary to assess future economic growth prospects and the economy's growth potential to estimate government revenue. An econometric model was used to forecast government revenue expectations. The specifications of the model are available from the authors.

By back testing the model it is evident that the modelled values (Model results) has a good fit to the actuals (REV_actual) which makes it an acceptable forecasting tool. See Figure below.



Government revenue forecast: model fit
Source: Own calculations

Owing to sustained lower economic growth, government revenue is therefore under pressure. As a result, continued growth in expenditure on compensation of civil servants, social grants and growth in interest of government debt pushes South Africa closer to the fiscal cliff (see Rossouw, Joubert and Breytenbach, 2014 on this matter).

Since 2008 these three disconcerting expenditure trends increased substantially as a percentage of total government revenue. Compensation of employees remains the heavyweight amongst the three and rose from 34.5% of revenue in 2008 to an alarming 46% in 2018. It remains to be seen if the tapering in this item (as evident from Treasury's budget forecasts) will materialise. Debt-service costs overtook social assistance payments as a percentage of tax revenue during the 2016/17 fiscal year. It rose from 9.4% of revenue in 2008 to just below 14% by 2018, while social assistance rose from 11% in 2008 to 12.6% by 2018.

The growth trend in these expenditure items at different periods are used to calculate the fiscal cliff cut-off point, i.e. the point where these three expenditure items account for all government revenue if expenditure growth trends since 2008 are retained, and the fiscal cliff barometer. This is shown in the figure below for 2014, 2016 and 2018, respectively.

The fiscal cliff barometer is calculated as follows:

$$\text{Barometer} = \left[1 - \left(\frac{\textit{years to cliff}}{\textit{total years forecasted}}\right)\right] \qquad \text{(Equation 1)}$$

Equation 1 essentially calculates the probability of an event happening or not. The barometer values can theoretically range from one to minus infinity, that is [;1), as the years left to the cliff materialising goes from immediate (zero years left) to a long period (possibly infinity). However, in practice only values between one and zero need to be taken into account as a value of zero indicates that the years to the cliff equals the total years of forecast. In summary, a high value (e.g. 0.9) will indicate a high probability of the fiscal cliff being reached, while a low value (e.g. 0.3) will indicate a low probability of the fiscal cliff being reached. Also important in the above equation is that the formula is able to take into account rolling forecast periods, which makes it more dynamic.

Applying Eq.1 to the three data points indicates that the fiscal cliff barometer declined from 0.717 in 2014 to 0.119 in 2018 (see Table below). This notes a marked improvement of the likelihood of the cliff not materialising. However, two things need to be taken into consideration. First, the model used for forecasting is sensitive to changes in assumptions, therefore even minor changes could materially influence the outcome of the model (especially when forecasting over long periods, in this case 30 year plus, into the future). Secondly, even though the situation improved, a value of above zero (i.e. 0.119) indicates that the cliff will still materialise within the forecast period, albeit at a later date. Nevertheless, the government has taken steps since 2014 to avert a fiscal cliff.

Table: Fiscal cliff barometer for 2014, 2016 and 2018

Year	Years to cliff	Total years forecasted	Barometer
2014	13	46	0.717
2016	27	44	0.386
2018	37	42	0.119

Source: Own calculations

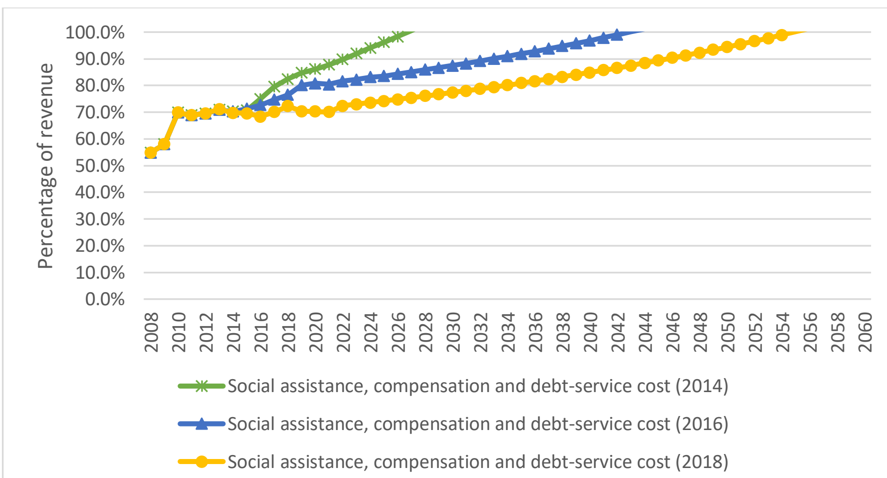


Figure: Fiscal cliff cut-off projections for 2014, 2016 and 2018
Source: Own calculations

During the 20th and 21st centuries South Africa has had three regimes . . . the British imperialists who ruled from 1902 to 1909; the Afrikaner elite who ruled from 1910 to 1993; and the African elite who ruled from 1994 to the present.

> **Social grants and the provision of free services (housing, water, sewage and electricity) alleviates poverty and addresses South Africa's skewed income distribution, but at the same time it aggravates the country's fiscal pressures.**

This figure depicts the total of the three expenditure items (social assistance payments, compensation of employees and debt-service costs) as a percentage of government tax revenue. It is evident that there has been a downwards shift in the lines, from 2014 to 2016 and again to 2018, indicating that the probability of the fiscal cliff materialising has declined. However, as indicated with the barometer values above, it is evident that the cliff is still on the horizon, even though it has been pushed back a few years into the future. There is no room for complacency, thus confirming the importance of the economic restructuring argued above. Without the restructuring, we are mortgaging the future of the children of South Africa.

CONCLUSIONS

Subdued economic performance since the financial crisis of 2008 places the fiscal position of the South African government under pressure. The model used in this paper confirms that subdued growth in government revenue will continue for some time. This limits the ability of the South African government to introduce new expenditure initiatives, for instance a nuclear power generation programme or national health insurance.

The fiscal cliff remains a clear and real danger looming for South Africa. Steps to avert the fiscal cliff have been taken by the South African government, but the fiscal cliff barometer nevertheless shows that the cliff remains a clear and present danger. This leaves no room for complacency in government's fiscal policy approach, particularly in respect of social assistance payments, civil service remuneration and debt-service costs.

South Africa can only overcome this malaise by embracing a new fourth political regime to restore a faster economic growth trajectory. In the period running up to successes being reaped from this new regime, the country should avoid a fiscal cliff.

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BEYOND THE FISCAL CLIFF? SOME QUESTIONS FOR REFLECTION

By Vishnu Padayachee

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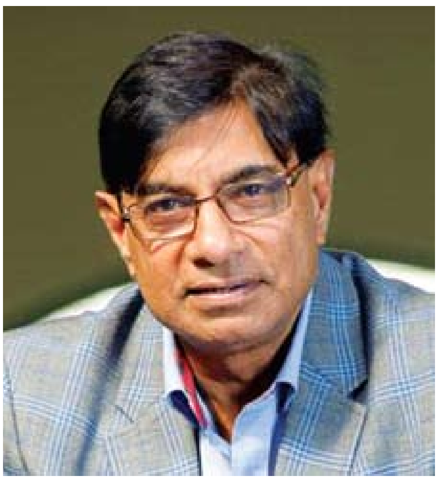

Vishnu Padayachee

Since the transition to political democracy in South Africa there have been fierce debates around the role of the state in the economy. The article by Moeletsi Mbeki and his co-authors express the views generally held by those who prefer a lesser role for the state and who have serious concerns about the effects of budget deficits. For the other side – those who favour a bigger role for the state – Professor Padayachee writes a rejoinder to the Mbeki et al. article. While he broadly accepts the arguments about profligate spending, he points out that deficits are a symptom – and not the cause – of many weaknesses that plague the South African economy.

There are some parts of the Mbeki et al. paper (see page 29) with which I agree, at the broadest level. Who can disagree with the argument that care needs to be exercised by government to head off a further deterioration in state finances in a context of low growth, declining revenue and constant or rising demands on the current government expenditure side. Their assertion that the government must pursue a more "inclusive development" path is widely accepted. Their argument that there must be more emphasis on "education, health care, transport and electric power supply systems, which should support a new paradigm in South Africa, namely a reliance on knowledge and skills, rather than the mining and export of raw materials" (p29) may not be new but neither can it really be contested. Increased competition among firms and political parties is a useful

> **"South Africa simply cannot survive or prosper without a civil service of more or less current proportions especially at lower and middle management to deliver essential services to the poor.**

reminder of things that need to happen in our economy and politics. In terms of institutional change their argument for improved state-business relations is also widely agreed upon.

Having developed the 'spooky' and 'alarmist' device of a 'fiscal cliff' they then place a big question mark over state spending on essential poverty alleviation measures such as social grants. They elliptically avoid the hard question implicit in their argument, ie whether government must, or should, cut down on social grants. This is simply not an option in current or near future conditions, and the game they play here is, to put it mildly, somewhat disingenuous. On the other hand, I agree on the need to keep a beady eye on the rise in the government's wage bill, but again note that South Africa simply cannot survive or prosper without a civil service of more or less current proportions especially at lower and middle management to deliver essential services to the poor.

So while there are clearly concerns about the public sector wage bill, some context is important. The real wage growth has been at the higher levels and the problem is that, in a skill-constrained setting, public sector wages have to track private sector salaries. Mbeki et al. appear to believe that the public sector employment dynamics operates independently of the overall labour market. That's simply not true.

The focus of analysis should be on the distribution of wage costs across the hierarchy of the civil service, and the resultant imperative to cut down on a top-heavy civil service where the largest relative share of the state wage bill is likely to reside. That includes the national cabinet, the cabinets of the nine provincial governments (whose *raison d'etre* is questionable), the anachronism in democratic South Africa of funding burgeoning 'royal household' expenses and all the wasteful expenses associated with the

> **The focus of analysis should be on the distribution of wage costs across the hierarchy of the civil service. At the heart of a progressive fiscal policy should be a commitment to drive public capital investment to promote growth and increase employment.**

obscene privileges enjoyed at those higher levels.

The issue of their third and new big worry, rising debt service costs, I will return to later.

Mbeki, et al. make the following absolutely critical point: "The economy must be restructured to be more investment-driven rather than consumption and finance-driven" (p30). This is an essentially post-Keynesian position if, as I assume, a significant part of this investment is to be public sector investment in infrastructure, research, etc. But capital investment expenditure is more than bricks and mortar and bridges and other infrastructure. Our biggest resource is our people and the expenditure on education and health is in fact critical social investment.

If the authors believe that such investment must be privately generated they should be more explicit and then explain why they believe that this is possible in the context of South African business's effective 'capital strike' and in the absence of an initial 'crowding in' state-led growth phase, as proposed in the MERG Report in 1993.

But beyond all this nit-picking, I would characterise the Mbeki, et al. paper in the context of a neo-classical literature that since the late 1970s has been constructed to oppose an activist fiscal policy, based on the view that rising public debt is bad for growth. Fiscal discipline was the first point in John Williamson's decalogue which lay at the heart of what became known as the Washington Consensus (see Williamson, 2000). Whether Mbeki, et al. meant to follow in these muddied and now discredited footprints or not is a matter open to debate. But by not being very specific about where their 'fiscal cliff' scenario will inevitably take them, they leave themselves open to such negative interpretations.

Though published only in 2010, the famous Reinhart-Rogoff (RR) paper neatly encapsulates this 'new consensus macroeconomics'. Let me set this out briefly.

A few years after the Lehman Bros crash, a hugely influential paper was published by Carmen Rienhardt and Kenneth Rogoff (2010) that purports empirically to show the negative consequences of rising public debt on growth. In this now famous and influential paper, one version of which was published in the world's top mainstream journal, the *American Economic Review* in 2010, Rienhardt and Rogoff argued that over the period 1946-2009 advanced economies with a public debt/GDP ratio of above 90% had an average real annual GDP growth of –0.1%. Where public debt/GDP was at lower levels, average annual growth ranged between 3-4%. Public debt levels of such a magnitude were, in other words, bad for growth. This is a key argument behind what constitutes the Treasury or orthodox view of economics and the basis of the bizarre George Osborne-inspired term "expansionary fiscal contraction". »

In a powerful rebuttal published in the post-Keynesian *Cambridge Journal of Economics* (2104) in which they replicated the RR analysis, Herndon, Ash and Pollin come to the conclusion that growth rates in fact averaged 2.2%, not –0.1% over the same period for the same group of countries (Herndon et al., 2014). They conclude: "we … believe that the debate generated by our critique of RR has produced some forward progress in the sphere of economic policy making. In particular, it has established that policy makers cannot defend austerity measures on the grounds that public debt levels greater than 90% of GDP will consistently produce sharp declines in economic growth" (Herndon et al., 2014).

Despite this critique, the RR paper has been and remains highly influential in the US and Europe, and sadly also in some countries in the Global South. It captured the spirit of the neo-classical position on debt that has dominated thinking on fiscal policy since the early 1980s and reset the policy agenda for a post-crisis world. Nobel Prize winning economist Paul Krugman, a fierce critic of RR, has conceded that the RR paper "may have had more immediate influence in public debate than any previous paper in the history of economics" (in Herndon et al, 2014).

The effect of these new neo-classical interventions since the 1980s has been to severely limit, if not entirely exclude, a role for the state in macroeconomic policy. It is not my intention to fully engage the RR debate here, save to use it to show that policy-makers concerned about growth and inequality can be spooked by such paralysing analyses, leading them to hand total control of monetary policy to an independent central bank, to reject any activist role for fiscal policy, and to funnel all attention on reducing public debt to the almost total exclusion of growth-enhancing public investments. That appears to have been what has happened under the ANC in South Africa since the 1990s. It is time for some degree of pragmatic re-balancing.

At the heart of a progressive fiscal policy should be a commitment to drive public capital investment to promote growth and increase employment, while not losing sight of the dangers of profligacy. In order to assist in this regard serious attention needs to be given to the separation of the budget into two accounts: one current and one capital budget. The current government budget to be used for countercyclical purposes is to be balanced annually; the capital budget deficit would be limited to no more than an average of 3pc of GDP over say a 5-year cycle.

Contrary to some perceptions, this imperative to control the current budget deficit is very much in line with post-Keynesian ideas as well as that of inequality researchers such as Thomas Piketty (2012) and Steve Pressman (2015). The separation would allow for greater transparency in the budget process, with the overall objective of ensuring control over profligate consumption expenditure, especially in the higher levels of the government's wage bill, while allowing for growth-enhancing capital expenditure in areas such as infrastructure, and non-wage expenditure on education and health among others to grow even at the short-term risk of running deficits.

Having separate capital and current budgets is not new to South Africa. In 1937 the government "onder die invloed van Keynesianisme" (translated as 'under the influence of Keynesianism' (Gildenhuys 1989:641) established a Revenue Account separate from a Loan Account. Current expenditure was financed from the Revenue Account and capital expenditures from the Loan Account. These accounts were only re-integrated from 1967 on the recommendations of the Franzsen Commission (Browne, 1973:2/22) and in the wake of the dismantling of Keynesian thinking.

Once a separate capital account is set up, consideration must be given to the establishment of a representative National Investment Board to make decisions on allocation of funds for all capital expenditures in line with social and economic needs and across sectors, regions and other dimensions. Both Keynes in 1928 and Beveridge in 1942 proposed such a capital allocation

> **. . . the focus of policy attention must be on growth (and employment) and not on the budget deficit (or inflation).**

institution located within the state. But I would not go as far as Beveridge who proposed that even private entrepreneurs "must win approval of the National Investment Board" before undertaking investments (Wasson, 1960:218).

Mbeki, et al do us a service by developing a neat technical device of the 'fiscal barometer' to remind us of the dangers of profligate state consumption spending. But by (implicitly) targeting cuts in areas such as social grants and state provision of essential free services to the poor they are being neither realistic (given South African economic and social conditions) nor progressive and forward looking in their theoretical thinking and policy advice. In fact, while it may not have been their intention, they push us back to a world view that has not worked anywhere in the interests of the poor and the working class, but one that has served only the interests of rentiers and their ilk.

The real problem with the budget is that we're operating under very low levels of economic growth. If growth picks up, revenue immediately picks up and we're out of the woods. So the focus of policy attention must be on growth (and employment) and not on the budget deficit (or inflation). And the role of the state in boosting growth and employment is essential under conditions such as those prevailing in South Africa today.

In the end Mbeki, et al offer little or nothing apart from the following vague and somewhat trite conclusion:

> . . . the fiscal cliff barometer nevertheless shows that the cliff remains a clear and present danger. This leaves no room for complacency in government's fiscal policy approach, particularly in respect of social assistance payments, civil service remuneration and debt-service costs. South Africa can only overcome this malaise by embracing a new fourth political regime to restore a faster economic growth trajectory. In the period running up to successes being reaped from this new regime, the country should avoid a fiscal cliff (p33).

How is this 'embrace' of a fourth political regime to happen? What are the main policy drivers of the faster economic growth they (rightly) want restored? How precisely is the fiscal cliff to be avoided, by cutting which budget line items? And who is going to convey the message to the recipients? What will be the political costs to the ruling party of a cut in social grants (even in the state bureaucracy)? These are the hard questions that an analysis like that attempted by Mbeki, et al must address if they are going to avoid being labeled both alarmist and ultra-conservative. NA

NOTES

Thanks to my colleague, Imraan Valodia, for comments on an earlier version of this paper.

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THE ECONOMY OF THE IMAGINATION

By Richard Haines

The writer is the Chief Executive Officer of the South African Cultural Observatory and played a central role in the founding of this national research arm of the Department of Arts and Culture. He was also Professor and Head of the Department of Development Studies in the School of Economics, Tourism and Development at Nelson Mandela Metropolitan University until 2015 and established the Unit for Economic Development and Tourism in 2011.

Richard Haines

Prof Haines points out that the economy is not just about factories and farms and the services that they offer, important though they may be. He introduces us to the creative world of ideas, innovation and inventions and the contribution they make to national economies. He outlines the role of the state in stimulating the sustainable and production-rich processes associated with creative industries and for tapping into the social, cultural and heritage capital that is embedded in societies.

TOWARDS THE CREATIVE ECONOMY

There is an increased awareness in policy circles that creativity and innovation are the driving forces of the global economy and for some scholars the knowledge economy has been supplanted by the creative economy (Araya and Peters, 2010; Howkins, 2013). Increasingly in the new knowledge and creative economies, novel forms of value are being created. While the industrial economy used mostly land, labour and capital, the new economy uses creative industries to produce meanings from the world of ideas. This shift has been accompanied by new notions of public space (physical and virtual) and more democratic and interactive forms of creativity. Copyright industries, patent-based industries, research and development (R&D), and other creative industries – predicated strongly on intellectual property – have been reinforced by the diversification of Information and Communications Technologies (ICTs).

The upsurge in interest in the creative economy and the complex relationship between creativity, culture and economic development were reinforced by the 2008-9 global economic crisis which indicated the limitations of the traditional industrial economy. Certain scholars argue there was a shift from the information economy to the creative economy (Venturelli, 2000; Florida, 2014). Creativity and the power of ideas are accorded more prominence by academics and analysts in understanding the nature and processes of economic growth and prosperity (Howkins, 2013; Neelands et.al., 2015; CBI, 2015). Successful centres of development are predicated on the rise and presence of the 'creative class' (Florida, 2014).

Increasingly, public officials at local, sub-national and national levels are looking at leveraging arts and culture policy as tools for developing new kinds of communities with high levels of well-being and prosperity (Florida, 2014; Neelands et al., 2015). The Sustainable Development Goals (SDGs) stress the power and impact of culture as an enabler and driver, as well as considering creative cities as centres for growth (UNESCO and UNDP, 2013). According to UNCTADStat, world trade in creative goods and services had more than doubled from $208 billion in 2002 to $509 billion in 2015. The global creative economy in the period 2002 – 2015 realised an average 7.3% annual growth in the export of creative goods, displaying good resilience in economic downturns (UNCTADStat, 2016).

A report on the mapping of South Africa's creative industries (DAC, 2014) found that South Africa's creative economy sector contributed over R90.5bn to the national economy. This comprised 2.9% of the GDP in 2013/14, exceeding the contribution of agriculture (at 2.2%). Later reports show a similar trend in GDP contribution, although use different measures. A 2017 South African Cultural Observatory report shows that South Africa's CCIs have grown on average at 4.9% per annum over the period 2011 to 2016. This can be viewed as a significant growth compared to the total growth of the county's economy, which was only 1.6% per year over the same period. In 2015, cultural occupations made up 2.52% of all employment in South Africa (Snowball & Hasidi, 2017). The cultural sector also provided employment in non-cultural 'support' occupations for 4.2% of all those who had a job in 2015 (ibid). Altogether, the 'Cultural Economy' accounts for an estimated 6.72% of all employment in South Africa (ibid.).

There are encouraging signs for development planning in South Africa. Certain strategic productions of the Department of Arts and Culture (DAC) have shown an appreciation of enhancing the creative and cultural industries and ensuring that their

impact on the South African economy is prioritised. Additionally, the Department of Trade and Industry (DTI) and the Department of Science and Technology (DST), along with associated regional agencies, have expanded their establishment of structures and enterprises to promote innovation and high-end technology advancement. For a middle-income economy, South Africa's capacity for innovation, ingenuity and creativity has been quite impressive. Yet, there is a need to rethink approaches to economic development – a substantial undertaking beyond the scope of this article. Rather, the emphasis is on providing a series of observations to highlight the significance and importance of creativity and creative industries in future scenarios for stimulating and conditioning economic development and robust nation-building in South Africa to be more systematically applied in official planning exercises. This is a call for acknowledgement and expansion of the 'economy of the imagination'.

The rethinking of economic and related development theory can be seen in the growing importance internationally, and especially in the EU and UK, of 'smart specialization' and 'place based' strategies in regard to economic and industrial policy at national and regional levels. An important touchstone for these perspectives is the enhancement of structures and practices of innovation. Such approaches also emphasize the importance of institutions and networks; the play of social and cultural capital; and the economic dynamics of place and space. They also, implicitly, draw attention to the development history of a country or region, and accord greater attention to the deployment of partnerships and multi-agency and multi-stakeholder governance.

More broadly, it is argued, establishing an innovative and creative economy requires almost paradoxically, a comprehensive set of interventions that range beyond the formal economic sphere. The 'economy of the imagination' is a shorthand concept to describe the forms, experiences, institutions and networks of creative and innovative work which stimulate creative economic activities and spaces. Precise delimitation of such activities is a sophisticated process due to the changing nature of the actors, agencies and networks involved over time as well as the particularities of 'national character'. This is why an historical dimension is an important aspect.

There is emerging body of research in support of such an approach. For instance, Chapain and Communian (2010) argue that effective institutional clustering of CCIs should be accompanied by a 'knowledge pool' perspective which underlines the role of both the personal dimension and the wider local and regional networks and structures that shape the creative economy in the relevant local or regional space. The burgeoning interest in embeddedness by economists is another such indicator.

It is further argued that South Africa has an under-appreciated milieu of innovation and creativity situated within and without the formal national economy. While charting this 'economy of the imagination' requires substantive research and analysis, there is already distinct scope for leveraging assets and resources within this broad space to promote creative economy and national economy more generally.

THE CASE FOR A DEVELOPMENT HISTORY

To embrace the future creative economy, strong emphasis is needed on re-valuing the past. The emerging study of development history (Haines, 2014b) is significant as it is indicative of the growing realisation of the importance of comprehending the dynamics of human agency within economic development processes.

Constructing an alternative, 'rich' understanding of human interactivity (Sen, 1999; Nussbaum, 2000) that facilitates socially grounded decision-making is a challenge to scholars (Hurst, 2011). Critical historical inquiry, conditioned by an appreciation of the complexity of social relations, can provide us with narratives and analyses to show what could/should be possible. The effects of 'multiple subjectivities' and differing perspectives, rather than being antithetical to the maintenance of communities, are the stimulus for creative adaptation (Allen and Varga, 2010).

Secondly, the onset of the global economic crisis of 2008-9 highlighted issues of unfettered capitalism and environmental degradation. This interest generated new explanations for economic/business behaviour and models which trace industrial development paths and/or historical trajectories of countries (Grinin, 2012; Hagemann, 2013). Such emphases have also led to questioning of neoclassical economic discourses which have been hegemonic within mainstream development theory and policy since the 1980s (Blanchard, Dell'Ariccia and Mauro, 2010; White, 2009; McInley, 2010). The widespread interest in Thomas Piketty's book, *Capital in the Twenty-First Century* (Piketty, 2014), is suggestive.

Drawing inspiration from Kuznet's mid-century work on the historical and statistical analysis of tax records, Piketty contends that for the past 250 years, the divide between the rich and poor has continued to widen and is bound not to change unless there is substantive intervention. However, for McCloskey (2015), the most fundamental problem in Piketty's book is that he fails to account for a central set of events. These include the play of macro ideas such as the Great Enrichment, which saw a significant improvement in the lives of the poorest on the planet, many of whom are better off than their ancestors. McCloskey's argument is that the Great Enrichment cannot be explained by the accumulation of capital but by piling idea upon idea.

> **" . . . the global creative economy in the period 2002 – 2015 realised an average 7.3% annual growth in the export of creative goods - UNCTADStat.**

SOCIAL, CULTURAL AND HERITAGE CAPITAL

The continued interest in social capital illustrates the importance of understanding the profound set of interactions between state, society and the market, prior to interventions aimed at enhancing economic development, and is widely accepted within the social and economic sciences (Haines and Hurst, 2011). The term has diverse intellectual origins and a variety of meanings. In part, the idea of social capital is informed by the revitalisation of economic sociology starting in the later 1980s (Granovetter, 1985). While the works of scholars (Putnam, 1993; Putnam & Helliwell et al., 1995; Putnam, 2002) were more sociological in nature, economists have been increasingly attracted to the challenges of quantifying social capital (Barrett, 1997).

Productive social capital has several inter-related aspects including civic engagement in public affairs; the prominence of horizontal relationships through reciprocity and cooperation as opposed to the vertical relations of authority and dependence; solidarity networks; trust and tolerance; and meaningful participation in voluntary associations. The relationship between social capital (of benevolence) and economic development is strong, as demonstrated in studies of the continued success of economic districts in Northern Italy where horizontal relationships contrast with the more hierarchal and vertical relations of the South (Putnam & Helliwell, 1995).

Related to the increased invocation of social capital in policy circles is the question of cultural capital (Lareau &

Weininger, 2003). There are different theoretical strands, with the work of David Throsby underpinning the sub-field of cultural economics (1999). Within the social sciences more generally the writings of Pierre Bourdieu (1986; 1990a; 1990b) are particularly influential. He argues that different kinds of capital can be encountered in immaterial forms of social or cultural capital as opposed to economic and physical capital. Non-financial social assets (including education) enable social mobility beyond limits usually defined by the constraints of wealth and class. In his later writings he saw cultural capital also becoming a kind of 'informational capital' suggesting that culture in a wider sense is also a source of power for certain groups (Bordieu, 1990a; and 1990b). Such work is significant in the shift to post-industrial and post-knowledge economies where creativity and innovation become an economic development objective in their own right.

Heritage capital is promising to development theorists and considers the ways value and meaning are attached to experiences, activities, structures and objects. Whether heritage capital is but a sub-division of cultural capital is a matter of debate. It is more than knowledge processed in the present, through accessing the past (Graham, 2002), as heritage-constructed value can reside in cultural as well as physical capital (Haines & Shelver, 2014).

Along with the increased recourse to social and cultural capital in development policy is the extension of the work of Granovetter (1985; 1988) on the question of 'embeddedness' which considers the ways in which economic outcomes are conditioned by social relations, institutions and agency. Recent scholarship has provided strategic insights into the process by which creative economic production is constructed and embedded (Montanari, et.al., 2016; Jones, et.al., 2015). One can distinguish between (i) social embeddedness which takes cognisance of the cultural and institutional origins of firms and organisations (ii) network embeddedness which strengthens collaboration, competition and exchange of information and (iii) territorial embeddedness which explores how [creative] firms are 'anchored' in particular places (Jones, et.al., 2015).

"A report on the mapping of South Africa's creative industries (DAC, 2014) found that South Africa's creative economy sector contributed over R90.5bn to the national economy, or 2.9% of the GDP in 2013/14.

Also influential is the idea of locale or territory as dynamic, historically shaped, and multi-dimensional as opposed to a passive 'space' or 'site' (e.g Sucacek, 2008: Elden, 2010), conditioning the processes of innovation, production and accumulation (Harvey, 2009). The valuing of place as an act of economic activity in its own right, is among the insights provide by heterodox economics and economic geography (e.g. Krugman, 1995; 2010). The establishment of one of the EU's top aerospace industrial parks in Andalucia, Spain, in a remarkably short space of time, was predicated on an explicit visioning process by the developers:

> The ghost's words to Kevin Costner, in the baseball movie Field of Dreams – 'If you build it, they will come' – could be the thinking behind Aeropolis ... a symbol of Andalucia's ambitions to become a cornerstone of Europe's aerospace industry (cited Haines et. al., 2015).

SOUTH AFRICAN INGENUITY PAST AND PRESENT

The emphasis on history allows one to better grasp the particularities and hidden advantages of countries. This is particularly so in South Africa and development history would highlight the ingenuity at work within the social and formal economies. South African auxiliary services during WWII were known among Allied forces for their ability to fix insoluble mechanical problems. This kind of social capital continues to exist, manifesting itself in an array of informal services and firms. The ability of backyard mechanics in South African townships has been an important factor in ensuring the sustainability of the taxi industry. Likewise, the existence of small craft industries is also testimony to the spirit of ingenuity in the national economy. The presence of several enterprises providing internationally competitive services in the fields of classic car restoration is one such example.

The export success of South African boat building businesses (especially yachts) is a further indicator of the spirit of innovation in the national economy. Interestingly, a number of these firms have managed to gain market shares by means of personal funding. The provision of relatively modest but important innovation funding by the Department of Science and Technology (DST) to the Marine Industries Association of South Africa (MIASA) through the recent »

Marine Manufacturing Innovation Fund (MMIIF) initiative is an example of the kind of interventions needed to strengthen local capacity in the marine industry' value chains linked to boat building. A further challenge is to facilitate the entry of black South African entrepreneurs into these niche areas.

The experiences of the post-apartheid local defence industrial sector is also illustrative. With relatively little spent on research and development, private and public enterprises have generated impressive technological expertise and products. This is evidenced in the number of buy-ins and transfers of technology to overseas defence corporations; companies such as Paramount continue to win international contracts. State-owned Denel's record in niche product areas is impressive. The 2015 *Defence Review* and the 2017 Defence Industry Strategy both acknowledge the under-investment and recommended rebuilding of the sector to match the drive for national sovereign defence industrial bases in developing economies (DoD, 2015; & NDIC, 2017). Because of the significant overlap between civilian and military production, the maintenance of a defence industrial base can assist in the reinforcement of high-end, high-tech industrial capacity.

The ability of a range of internationally established recognised South African firms, such as Specsavers, Nandos, South African Breweries and various financial and mining corporates, bears further testimony to an innovative, entrepreneurial spirit. There is also significant and often under-appreciated capacity tied up in South African-based private companies and State-Owned Enterprises (SOEs). In the inter-war years, Sasol was established as the world's first, and largest, oil-from-coal refinery and has continued to develop leading technology for the conversion of low-grade coal into synthetic fuels and chemicals (Bruton, 2010).

South Africa has a significant number of world-class innovations and inventions. For instance, physicist Allan McLeod Cormack, with the help of British electrical engineer Godfrey Hounsfield of EMI, collectively helped develop the X-ray CT scanner which secured them the 1979 Nobel Prize in Medicine. More recently, SA-born Elon Musk, present CEO of Tesla Motor Corporation, has established himself within the pantheon of technology entrepreneurs in the USA. Products and inventions include the dolosse sea buffer system from an East London city engineer; the eponymous Kreepy Krauly pool cleaning device; and Pratley Putty, which is reputed to be the only South African invention to have travelled to the moon (Bruton, 2010).

Black South African innovators and creative entrepreneurs in the post-apartheid period include Harvard engineering graduate Siyabulela Xuza who moved from constructing rockets in his mother's Mthatha home to developing nano-material for personalised energy systems for devices such as smartphones. Xuza is the youngest member of the energy advisory panel to the African Union. Another example is Ludwick Marishane who invented a water-less bathing lotion, earning him the 2011 Global Student Entrepreneur of the Year Award. He is still the youngest person in South Africa to file for a patent at 17-years-old. He points out the many pitfalls facing young, marginalised entrepreneurs and innovators in a country such as South Africa, including mainly a need for funding and lack of social capital.

DEVELOPMENT ON A BUDGET

There are a many ways in which development interventions can occur without large amounts of funding. One area for consideration would be for government to consider making optimal use of volunteer activities and resources. Improving and/or sustaining the networks of volunteer agencies and actors is an obvious step. Encouraging the development of more partnerships at local, sub-national and national levels which leverage volunteer capital is a worthwhile strategy. Collecting and cataloguing relevant information on voluntary interventions would constitute a vital aspect of policy research. Such work is a means of building social capital and identifying ways of fostering social cohesion. Volunteer resources and capital can enable state strategies and policies, such as Project Phakisa, the potential use of private fishing vessels and craft in offshore marine security activities. There is precedent for such an experiment in South African WWII maritime history (Wessels, 2000). Efforts at re-invigorating models of citizenship in South Africa would provide more scope for public duty and community-mindedness. The organisation required for anti-apartheid activities is indicative of this potential.

The quest for more frugal ways of developmental intervention in public and private spheres would have positive spin-offs. There is emerging literature on the notion of 'frugal innovation' originating in developing countries but becoming global. For Leadbeater (2014), frugal innovation is a model for creating solutions in a world facing a variety of challenges such as pressure on environmental and habitat resources, and increased demand for goods from consumers with modest incomes. There are four design principles underpinning efforts to generate solutions, namely, 'lean, simple, clean and social'. A book by Radjou, Prabhu and Ahuja (2012) uses the Hindi word for a smart, improvised solution (Jugaad Innovation) and shows how Western economies can learn from entrepreneurs in India and other developing/emerging economies who manage to be creative within a context of scarcity, since the poor are consumers (and not aid/charity recipients). The authors argue that the tendency of Western and multi-national corporations to produce expensive and overly-sophisticated products is being increasingly challenged by the new breed of innovators/entrepreneurs.

But embracing notions such as 'frugal innovation' are problematic in developing economies. Homer-Dixon (2000) argues that in certain developing economies there is an 'ingenuity gap'; the gap between a society's need for practical and innovative ideas for problem solving and the actual supply of such ideas. Also the scalability of some survivalist strategies is not always viable. The challenge for South Africa is to identify and encourage such behaviours among its citizenry and ensure that the country's relative competitive advantage in ingenuity is maintained and expanded.

CONCLUSIONS: RECONFIGURING THE STATE

While state reform is seen as one post-2010 macro-economic development strategy, the form and function of the state is conceived in administrative and hierarchical fashions. The emphasis on the construction of a capable and development-oriented state provides some scope for new departures, but as recent scholarship indicates, there are ideological and institutional constraints. Part of the contradictions are unresolved tensions between administratively facilitated processes of political consolidation and accumulation and the need to stimulate sustainable and production-rich processes, participants and structures.

The portents for smart state construction are not as encouraging as they should be with modest short- and medium-term economic growth rates and recent international corruption and transparency indices. The persistence of high levels of income and social inequality within private and public sector employment plays a role with an increase in remuneration at the top echelons, paralleling trends in executive pay within the private sector. Of direct concern within party politics are the high levels of pay within the agencies of local state and other parastatals. Income allocation fuels fights for position within the ruling party and has potential to undermine the inculcation of democratic and civic mindedness by public officials to the detriment of the efficacious functioning of government. Such concentration of pay at top echelons undermines efforts to create more entry level employment within the state.

"In 2015, the broader 'Cultural Economy' – or all those employed within, for and supporting creative work – accounted for an estimated 6.72% of all employment in South Africa or just over a million jobs.

Given the finite resources available to the state for building social cohesion, the current arrangements need to be addressed with collective will, and may require some financial sacrifices. There is precedent for such interventions in the workings of the post-revolutionary Cuban state and within some Latin American and European Union social democratic economies. Interestingly, the economies that have made the most progress in the post-2008 period in reducing poverty have accomplished this by focusing on achieving higher rates of economic growth via a productionist state (see China) and keeping inequality under some degree of control, and not through spending public money via an administrative state. In Sub-Saharan Africa, as Daouda Sembene indicates, higher inequality seems to have mostly offset the positive impact of growth on poverty (Sembene, 2015) Overall, given the expansive work facing South African state agencies on a national and extra-national terrain, and the accompanying financial and institutional constraints, a qualitative, transformative as opposed to an incremental approach to state reform may be advisable. Short-term political gains and processes of accumulation will need to be weighed against longer-term and more sustainable modes of state restructuring. Ironically, the more creative approach should prove more expansive in terms of constructing social and political cohesion. The state needs to devote more resources to innovation rather than remain as a locus for efforts to maintain an apparent status quo. There is real scope for policy-makers to construct a smarter state with more strategic purpose utilising creative partnerships. In view of international experience, it would seem that such constructions be associative rather than state-led. Shifting from an administrative to a productionist paradigm (Haines, 20014a) within state structures will quicken moves to establish a capable state. There needs to be more recourse to the citizenry and a greater willingness to embrace change and experimentation in development work. In such exercises the major challenge will be to rely more on local ingenuity and knowledge. NA

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DECOLONISATION RECONSIDERED

By Ben Turok

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Ben Turok

Decolonisation has been a recurring theme in narratives on Africa's social, economic, political and cultural development. In South Africa, the debate on decolonisation reached fever pitch in 2016 with the Fees Must Fall Movement on university campuses. Of the many issues that surfaced in the course of the debate, however, few seemed to have spawned consensus on what is to be decolonised and how. That shouldn't surprise anyone given the class and racial divides in the country. In a speech to students and Faculty at the University of the Western Cape's Africa Day celebrations, Prof Turok considers some of the issues raised by decolonisation and highlights those that he feels need our urgent attention.

I want to commend UWC for making a fuss about Africa Day. South Africa is far too distant from the rest of Africa. I was privileged to live in Tanzania, in Kenya, in Zambia. I have been on long visits to Nigeria, Ghana, Senegal, Ethiopia. I feel rather sorry for those of you who have been stuck in this little corner of Africa and don't know the continent. This is not about economic opportunities for those who study economics, or trade arrangements. This is about the knowledge of the rest of Africa. If you haven't been to Nigeria you have missed something. They are the most vital, lively people on the continent and I think South Africa suffers for its isolation. I hope today makes up for some of this.

I want to start with a little story. In 1966, I escaped from house arrest in South Africa and after some months landed up in Nairobi, where the government did not want any South African exiles. So I applied to Tanzania and was offered a job. My wife and three sons joined me in Nairobi and we drove down towards Dar es Salaam. When we got to the Tanzanian border post there was a barrier and a policeman who said I must fill in an immigration form. I was happy to do that. I had a letter from Tanzania's ministry of home affairs, and I started filling in the form. All went well until I got to the bottom of the form and it asked for my 'race'. The choice was 'European, African, Other'. So I said to the policeman, "I am a South African refugee. What do you want me to do?" He said to me, "you are European. Look at your children. All white." I said to him, "Yes, they are white but they are not European. We have never been to Europe. We are from South Africa. So I can't fill in 'European'." He said, "well, then I am not letting you in."

We had a long argument, and my children were all rather excited by this debate. It went on and on and he said, "I will not let you in until you fill in this form". Finally I said, "let's compromise" and under 'Other' I wrote 'white African'. He said okay! When my children went to school in

Dar es Salaam they registered as white Africans, at a time, of course, that in South Africa they would have registered as 'Europeans'.

I felt I wanted to be decolonised. It may sound strange to you, but I did not want to say I was European. Something stuck in my throat. I have been in the ANC for donkey's years, in prison, and so on. How could I write down that I was European? So I stuck with that label, whether you like it or not. My children are white Africans.

Now, let me turn to the theme of today. I want to talk about three things. Firstly, we need to talk about colonisation. What are we 'decolonising' when we talk about colonisation? Secondly, I want to talk about decolonisation across Africa. It seems to me very appropriate that on Africa Day, of all days, we should not only think about ourselves as South Africans wanting to be decolonised – and there is ample good reason for that – but we need to talk about decolonisation, or what we called anti-colonialism, in Africa. Finally, I want to talk about decolonisation in South Africa, a major problem.

What is colonisation? It seems to me that in the current debates in our universities something has gone a little bit lop-sided. What are we 'decolonising'? We are decolonising colonisation. But first we have to know what is colonisation? I think there are five criteria for colonisation:

- The first one is political control imposed by a colonial power. That is what they did, across Africa, and indeed Latin America and Asia. Political control – that's colonisation. Those who are students of psychology, don't forget that political control was an essential ingredient of colonisation.
- Two, that political control was backed by instruments of coercion. The police and the army were extremely important parts of colonisation.

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So that is colonisation: multi-dimensional, political, militarist, coercive, ideological, [with] racial characteristics and false ideologies.

- Three, the objective of colonisation was the extraction of material resources. In India, the textile industry was ruined by the way the raw materials were extracted. Of course in Africa it was about minerals, and still is about mineral extraction.
- Four, the justification for all that was racial criteria. We as Europeans, as whites, are superior and so colonialism was justified by racial criteria. That's a very important dimension.
- Then five, ideological distortions. Consider Helen Zille's comments on colonialism – “we have modernised Africa, we brought development to Africa.” Yes, colonisation did bring certain advantages, but to say that the essence of colonialism was modernisation and development and the bringing of 'civilisation' to Africa is a very serious distortion of the whole history.

So that is colonisation: multi-dimensional, political, militarist, coercive, ideological, [with] racial characteristics and false ideologies by the dozen. That is what colonialism is, and when we talk about decolonisation we have to address all those factors, and not just any single one.

So what happened in Africa? I have been very fortunate to have been in Africa during the very period of decolonisation or the anti-colonial struggles. I have known some of the leaders of the African continent personally and I am very conscious of the independence movements. I know some of us who study politics and history tend to pour cold water on liberation movements. We say Mandela was a sell-out, Nkrumah lost his way. It is very easy to attack Nyerere, Kaunda and Nkrumah, not to forget Mugabe, with all his sins, and to say that they failed.

But in the historical context of building liberation movements, of fighting against colonialism, and then striving to decolonise those same countries, those were important figures in our history, and when we talk about decolonising Africa, all of them wanted to decolonise Africa, even as they were part and parcel of negotiations and transfers of power. Let us pay tribute to independence movements. Let us also remember that when colonial rule transferred power in India and in Africa it took a long time. I think it took six years for Nkrumah to come to power. What the British were doing was building a public service in the image of the British public service. I have met military officers in Tanzania who were trained at Sandhurst [Military Academy] in the UK, and who saw themselves as British military officers, although they were Tanzanians speaking Swahili.

The object of the transfer of power was not decolonisation. The object of the transfer of power was to create an internal force which would continue the same systems that ruled under colonialism, namely a local elite, a compliant military grouping, a police force, all steeled and trained in the principles of the British government rather than the African governments. Therefore, there were delays in the transfer of power, and delays in the decolonisation that all these leaders wanted.

They installed the Westminster parliamentary system. I have been a victim of the Westminster parliamentary system for 20 years in South Africa. When I came into parliament all those years ago and I sat down in my bench, I picked up a piece of paper. It said Order Paper. When I said, "what is the agenda for today? I am looking for an agenda," they said, in parliament you don't have agendas. You have an Order Paper and you use the language of the House of Commons. Even today, if you go into our parliament, the language is the language of the House of Commons and not the language of South Africa. We have not decolonised our parliament. We see black faces, and they are the majority, but the culture and the style, even the heckling that goes on in parliament today, is merely copying the House of Commons. They are saying "let's be like the British". That is not decolonisation.

I sometimes feel, and I know some of you are going to be critical when I say it, that South Africa is the least decolonised country on the continent. I have lived in Tanzania. I have lived in Zambia, Nigeria and so on, and I feel very free in those countries. Even if I don't have a brown skin like most of you, it's not white either, and it's not European. But in South Africa I am labelled white in the census. What the hell is that?

I repeat, as a long-standing member of the liberation movement, I sometimes feel that we are the least decolonised [country] on the whole continent. I am sure students here who are from the rest of Africa know what I am talking about.

After independence, the governments certainly tried to decolonise. In the realm of academia, Nigeria built 21 universities after independence. Tanzania had no university, and the first thing Nyerere did was to build a university. That's decolonisation – to break with European cultures as much as possible. In Tanzania, Nyerere insisted on Swahili as the medium of instruction in schools. My kids went to school in Dar es Salaam and even though had come from Joburg they had to learn Swahili very fast, and they were proficient in no time. That was the culture of Tanzania. That's decolonisation. But in South Africa, what are we talking? One of the languages is English, which is an indigenous language of course. Some say French is an African language. Okay, but that's not decolonisation.

The Lagos Plan of Action of 1980, written by powerful economic professor Adebayo Adedeji, was adopted by the OAU. It is a policy of self-reliance. It was really directed against structural adjustment (the IMF and World Bank), and was designed to encourage Africa to develop its own policies, to become self-reliant, not only ideologically and politically, but also economically. The African Union today still has the Lagos Plan of Action as one of its main documents.

Unfortunately, it was never implemented. It was discussed. It was taught at universities, but never implemented by government. The reason for that is quite simple: As soon as the Lagos Plan was published, the World Bank released the Berg report, a counter-attack. It was written by Professor Elliot Berg, an American, and that report took the opposite view. Instead of self-reliance it advocated international trade.

It was structural adjustment in terms of fiscal discipline, smaller governments, reduced public services, and cost recovery for public services. In Zimbabwe, Mugabe started off with free education and free healthcare. People in the rural areas flocked to the schools and the clinics and Zimbabwe built the foundations of a really good socialist system. But then came World Bank policies and Mugabe introduced cost recovery. People had to start paying for services of one kind or another. The dropout rate, the fall-off, was enormous and the consequences were terrible.

> **We are divided as a society in a way that very few societies in Africa are divided. We don't find white colonies in Nigeria or Ghana.**

The same thing happened across Africa. People had to pay for public services, for schooling, for health, and so on, all imposed in terms of 'fiscal discipline,' today referred to as fiscal consolidation. It's the same story ... cut back, cut government. The Lagos Plan of Action was understood and accepted as a very serious and sensible policy. If you read Nyerere, you can see how concerned he was about self-reliance, about dignity, about being self-reliant and not an exploiter. That was the message that Nyerere was always putting forward – don't be an exploiter and be self-reliant.

He wanted the people, especially those in the rural areas, to become self-reliant, establish cooperatives, communities, and so on. Don't give me fish, give me a fishing rod. We all know that slogan. It comes from Nyerere. He said don't give us charity. Give us the means to serve ourselves, to be self-reliant. That was decolonisation. And that was what Nyerere stood for.

That was followed by the period of aid – ODA [Overseas Development Assistance] and foreign aid. When I was in parliament I somehow got sucked up into the whole business of foreign aid and I was invited to many meetings in Europe and many other places to meet so-called relevant partners. The IMF, World Bank, OECD, you name it. I remember one meeting in Ghana. It was quite a big conference, and Africans would say, "we are partners, »

partners in ODA, development aid". Then someone from Europe or America would stand up and say, "yes, we are partners". But being partners means equality between two people. Can you say you are partners when one person is giving the other money? At one meeting I got up and said, "can't we distinguish between donors and recipients?" The response was a firm "No. We are partners."

This lie of being partners was extended across Africa, in the name of development aid, pretending that Europe was a partner in the development of Africa. It was just a pretence. Who sets the tone? Who sets the tune? Who sets the agenda? The donor does, and Africa is [at the] behest [of] that kind of foreign intervention. Frankly, Africa will not be totally decolonised until we stop this kind of dependency on foreign support.

South Africa is in danger of talking as though foreign aid, or even foreign investment, is going to be our saviour. That's not true. South Africans are your own saviours, and if you don't know that you really don't know anything.

When it came to Mbeki and the African Renaissance, I was part of the constructors of Nepad, and was Chairperson of a group of African members of parliament representing the whole continent. We discussed Nepad, which was also based essentially on self-reliance and building our own resources.

Unfortunately that is all gone. Our government, and even the ANC, for whatever reasons, have abandoned Nepad and have abandoned African Renaissance, and that is why I am so pleased to be here today, with you who respect Africa more than other people do.

Turning to South Africa, our colonial power is internal. The formulation of internal colonialism or colonialism of a special type is very appropriate. But what bothers me is that after 24 years the legacy of that internal colonialism is still very strong. We are divided as a society in a way that very few societies in Africa are divided. We don't find white colonies in Nigeria or Ghana. Even in Nairobi, where there was a settler community, you don't find the kind of structures you have in Cape Town. White suburbs. I live in a white group area, I confess. What the hell is that, 24 years after our independence?

"...we can't deny the continuation of colonial relationships in our society.

Let us recognise, and be bold about it, that the legacy of internal colonialism is still very strong and affects our society every day. The question in my mind, as one who believes in non-racialism, as one who believes in the Freedom Charter, as one who believes in the Constitution of South Africa, and that South Africa belongs to all of us, I hope that that formulation does not cover up the fact that the colonial legacy is still very strong. We can't deny that. Even though we are for non-racialism, even though we are against racism, we can't deny the continuation of colonial relationships in our society. We have universities which are essentially white and universities which are essentially black. I am not naming names. I think our universities should be open about it, and study what is the legacy of internal colonialism in South Africa. Let's be frank about it, and fight against it and bring it down. That's decolonisation.

I told you that I am a white African. I have no identity crisis at all. I know what I am. I know what I have done. I know what I stand for. I apologise for nothing at all. I know my identity (applause), and I am not going to get into debates about my identity. I know who I am. I understand if some people want to raise questions about their role in society, but let us not say that that is more important than understanding the legacy of internal colonialism as a system.

There is a system here. It's not just race discrimination. It's not just prejudice. It's not just 'I don't feel comfortable in this community' or ideas like that. There is a system in place, which is reinforced every day, through business, through governance, through institutions, through the law, through the justice system. That system has to be challenged, and it seems to me that universities should be the place where that system is properly challenged. All colonial relationships, across the board, have to be challenged in every sense.

Some of you are anti-capitalist. I am anti-capitalist, but South Africa is not only capitalist, it is colonial. If you look at ownership patterns, if you look at the structure of the economy, if you look at management systems, there is no doubt that this is capitalism. Furthermore, the fact that capital is not reinvesting in South Africa but investing abroad [means] they are treating this [country] as an island, as a colonial enclave where you extract wealth. Once you have extracted it, you send your wealth overseas. That is colonialism. Why is it that Anglo American went to register overseas? Why have so many of our companies registered in London? Why do they do that? That's colonial. They went home to mother, to put their money in a safe place in mother's bank. That's colonialism.

We have a hell of a lot to do. We have a big anti-colonialism agenda left, and decolonisation should not be mystified into some obscure psychological distortion. It is the reality of a system that is in place and which is doing a lot of damage, every day and all day. NA

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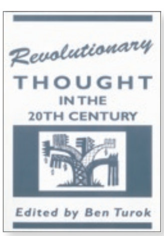

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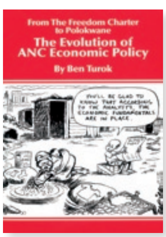

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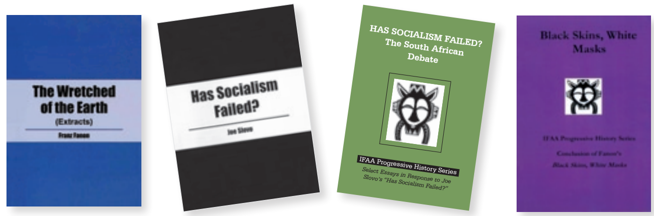

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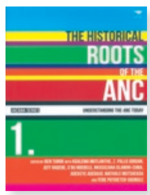

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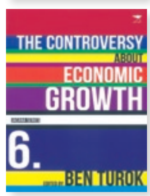

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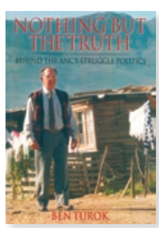

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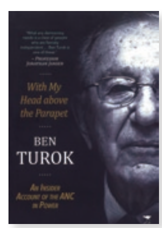

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