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Caught between a rock and hard place

The state of play for South Africa's beleaguered development state

Saliem Fakir

A brief introduction to the politics

The post-Polokwane period heralded a new era for the ANC. It hasn't been called as such but an internal coup and revolution did take place. For many it brought fears of political and economic uncertainty. Zuma had the taint of corruption tagged upon him long before he got elected as president.

The pre-Polokwane era had a distinct etch on the framing of the economy and the Zuma era was expected to take a left turn. However, any concrete evdence of this is still to be seen.

Zuma's rise to power was facilitated through concerted support from the ANC's left-leaning alliance partners – the South African Communist Party (SACP) and the Congress of South African Trade Unions (COSATU).

They got the man they wanted into power and as a reward a few of their people were placed in the presidential cabinet. But they had only won the political battle, not the economic one.

From afar, the economy goes on as before, embedded firmly in the idea that the markets should be left to do their thing.

Not even Gucci clad, Julius Malema, the ANC Youth League leader (and unwavering supporter of Zuma), calling noisily for the nationalisation of the mines has been able to shift ANC policy.

If anything, economic policy is as centrist as before, or worse, and, most ominously, the global financial crisis has brought about an interregnum in economic policy thinking.

This despite the fact that the Zuma era comes with a greater emphasis for a developmental state and more intervention within the economy.

All the talk of budget restraint and deficits is forcing a movement to the centre rather than the left. It has become a useful excuse to beat leftist tendencies from within the alliance partners. One can always revert to the status quo by saying prudence is needed in the face of a global financial meltdown.

Nonetheless, there is no real policy that one can distinctly point to for South Africa – a point which will be discussed in further detail later.

Dilemmas in the South African economy

The financial crisis has exposed our vulnerabilities to the global markets and that 15 years of democracy has not fundamentally shifted the nature of economic power. Private capital still dominates, and happens to be mostly white owned.

The state is not short of resources, at least not to the extent that it has to go the IMF and World Bank for help. It has had a successful tax revenue stream, although admittedly this has come under strain. The most recent budget speech (27/10/2009) given by the Minister of Finance, Pravin Gordhan, shows we will have to run government on deficit spending for the next four years.

POLICY BRIEF

However, we have not done such bad banking deals, like Iceland or Ireland, that we require international financial institutions to rescue our economy, and we have no seeming financial peril as far as the banking sector goes.

On this score we are on safe ground. There are, though, deep structural problems with our economy that makes the shift from high growth to high redistribution a challenging prospect.

The high growth paradigm founded on macroeconomic stability and private sector led growth has not reduced South Africa's poverty and unemployment rates since 1994. But securing a future requires building it from the bosom of the present, and this is where the messiness begins.

The treasury estimates that there will be, for this year, a 70-billion-rand shortfall in tax revenues. This only compounds our problems as this must be coupled with a massive shrinking in the manufacturing and mining sectors due to a loss of exports.

Pravin Gordhan predicts South Africa's economy will, for the first time, show a negative growth rate of -2%.

Despite the country's big public spending programme – with an estimated R780 billion on infrastructure – the budget deficit could rise above 8% in the 2009–10 financial year, from the current 3,2% deficit, owing to the drop in revenue combined with the global recession.

The ANC's solution: the developmental state

The idea of a developmental state – which the ANC has long debated – surfaced through ANC patchwork of Polokwane resolutions and promised a new economic era. The developmental state, as vague as the idea still is, has rough sketches here and there. But it implies, in general a more activist role for the state in the economy.

The progressive role the state can play is an intrinsic part of the ANC's National Democratic Revolution (NDR) – and key to attaining both control over the "commanding heights of the economy" and meeting the objectives of the NDR.

The ANC has always recognised that gaining power over the economy is the only way in which its political vision will manifest, but it has never quite achieved this alignment. The past five years of steady growth, close to 5%, was an illusion of prosperity that has come unstuck as a result of the global meltdown. For the ANC, there is no point in having political power when the power to allocate resources is held at ransom to economic forces that are not always attuned to the needs and objectives of the NDR.

This sums up precisely the ANC's dilemma as it has not really won control over the economy and some have even suggested that it has handed more and more of the economy to those very forces that seek to undermine its political power and hegemony.

The development state vs the neo-liberal tract

Remember that the left within the ANC had long argued that the "Class of 1996" project, as they dubbed it, needed to be turned on its head. The Class of 1996 was a reference to what they see as the Mbeki era's neo-liberal policies as framed under the Growth, Employment and Redistribution Programme (GEAR).

GEAR's main role was to ensure macroeconomic stability; reduce currency volatility; inflation target; bring about black economic empowerment to shift ownership of capital from white hands to black hands; ensure that private capital continued to see South Africa as a safe haven for investment; and make profits.

The calculation was – and perhaps it has its merits – that once the ANC has had control over the state it would be in the position to mobilise state resources, and have access to various levers within the state machinery to transform the economy into the sort of mixed economy where an organic balance existed between state measures for capital accumulation against private forces of capital accumulation.

It would at best create a stalemate or shift power in favour of its NDR goals.

All of these macro-policy instruments have come under attack, before and after Zuma came into power. One of the early policies that was attacked was that of inflation targeting, which partially explains why the former Reserve Bank Governor, Tito Mboweni, feeling rather besieged by Zuma's left allies, threw the towel in and vacated his offices.

Mboweni was also seen as a mascot of Mbeki era pro-capitalist policy together with former Minister of Finance Trevor Manuel, who resides in the presidency holding onto one of the most powerful posts, in the National Planning Commission (NPC).

The NPC is said to set the tone of government line ministries and departments' policy agenda for the next five years. Its aim is to guide government planning strategically and ensure various trade-offs that need to be made at the highest level of decisionmaking in government.

It would, if Manuel had his way, frame the economic policy focus.

Most recently, the NPC released its Green Paper for discussion.

The immediate reaction to it from the left within the ANC was personal attacks on Manuel. The NPC has been accused of trying to take control of all government policy and, most importantly, that of economic policy.

Manuel is accused of wanting to bring back the Class of 1996 project. The left sees his presence in the Zuma cabinet as a hindrance to pushing a leftist leaning in the framing of economic policy.

Why the debate on economic tools is not economic policy

But coming back to Mboweni and his inflation targeting – which has its merits and demerits – it is a false bogey, picked on by the left, because one can't really transform an economy simply by monetary measures. It is a tool to keep inflation down but can't direct the substance of the economy, and in this regard it is a blunt instrument.

The real economy is built from real stuff – the skills, knowledge, innovation, technology, manufacturing and building things we need to sustain economic development and growth. But on this question – the future direction of the economy – the Zuma era is still to refine and direct.

Monetary policy, like currency policy, is necessary but always insufficient as a tool in its own right. There is little one can do by tempering the circulation of money or the volatility of the currency without addressing the fundamentals first.

The debate on currency exchange rates comes from the premise that by keeping the rand low we can improve the competitiveness of South African exports. There is some truth in this.

However, in the last 15 years we have had no industrial policy to speak of. An industrial policy strategy or plan is said to be announced in January of next year. We are relying on old industries and sectors whose credence as future foundations for growth and development is somewhat suspect given that China and India are likely to shift the global game on this question.

They are already hammering the growth potential of the South African textile and car manufacturing industries, not to mention others.

If we are to succeed, we best build those industries that will face the path of least resistance from global competition.

For now we are wholly dependent on financial flows into the stock market and the purchase of minerals. The industrial base is being eroded and this year saw several industrial sectors – such as the textile industry – having to be bailed out.

The fight over who controls economic policy

Part of the reasons why you won't see a succinct and distinct economic policy framework is that pitch battles are being waged within the Zuma's cabinet over economic policy control and direction at present.

At the centre of the conflict sits Zuma's Planning Minister, Trevor Manuel, who in the past was the major driver of South Africa's economic policy against the new Minister for Economic Development, Ebrahim Patel. Then there are two other key figures: the Minister of Finance, Pravin Gordhan, and the Minister of Trade and Industry, Rob Davies.

All of them are key to setting a successful economic policy framework in place. But Patel's five person ministry has neither a department nor budget to speak of. He was recently removed from chairing the economic cluster (a cabinet forum where overlapping ministries involved in the economy meet as a group), and Manuel was recently shuffled by Zuma and taken out completely from the economic cluster to preserve the peace between comrades.

Manuel has also been left out of other key clusters which are important for the country's economy, snipping his vocal cords in the process to diminish his voice even though the NPC is viewed as essential to holding the different parts of government together.

It may well end up being reduced to an ineffectual government function.

At the heart of the conflict is ideology and perhaps tactic, although the ANC won't admit it. The battle of ideas is between pragmatists like Manuel and Pravin – seen largely by the left as private sector and market friendly – versus the interventionists such as Davies and Patel; Davies hails from the Communist party and Patel has a long history with the unions.

Can state enterprises do the job of fixing the economy?

The ANC's NDR and control over the economy hinges on having an effective player in the market – the role it sees as being that of state enterprises.

State led capital accumulation will be key in how successful interventionist policies by the state are going to be.

At Polokwane the ANC recognised that more needs to be done to make state-owned enterprises (SOEs) effective tools for bringing about a greater developmental agenda within the economy.

Its resolutions noted:

> *Strengthening the role of state-owned enterprises and ensuring that, remaining financially viable, SOEs, agencies and utilities – as well as companies in which the state has significant shareholding – respond to a clearly defined public mandate and act in terms of our overarching industrial policy and economic transformation objectives.*

SOEs can sink deep routes in the economy by channelling public funds through infrastructure and industrial development. They can also direct the way the private sector makes future investment decisions.

The focus on Black Economic Empowerment (BEE) as a transformational tool, during the Mbeki era, has by default resulted in less of an emphasis on key SOEs as drivers of economic change where new models of ownership, enterprise and economic innovation take place.

Where BEE has led to a handover of shares from the white economy to a few within the ANC cadre of black elites, it has done nothing to shift economic power. If anything, BEE deals have become a hindrance. They have corrupted the play of economic transformation.

BEE deals by their nature involve onerous lock-in periods, BEE partners are not allowed to sell the shares until a certain time-period has lapsed – usually 10 years. They are not ideal to drive state orientated objectives. Being locked-in also means that old capital continues to hold sway over the choices of black ownership and decisions over investments – which amounts to greater restrictions because of the need to service debt.

Locked-in BEE deals do not represent productive entrepreneurship but rather a capture of political influence by old capital given the high-flying names that have become synonymous with prominent BEE deals. They mark a lazy way to economic wealth. The returns for the rest of the populace have at best been questionable.

BEE deals, following the financial crisis, have had to be recapitalised given that share prices have taken a hiding and dividends are not strong enough to help pay the interest and capital. The refinancing and restructuring of BEE deals has meant more debt has to be serviced.

BEE deals in general give the ANC access to capital to keep the party machinery going, as every year's election proves the case.

SOEs themselves have been instrumental in shaping the transformation of white owned capital and firms by giving preference to those firms that have BEE partners. In this way they perpetuate the broader problem of how BEE deals represent the capture of "rents" by a few rather than true economic development.

The key challenges for SOEs in South Africa

Then there is the SOE's primary focus on service delivery and issues of financial efficiency, which have rendered SOEs less effective vehicles for building capacity to engage investments in new production. SOEs, in general, have at their heart the primacy given to representational issues.

There is a long way to go with SOEs. They too have come under the influence of corporatised models of management and at some point wholesale privatisation of these assets was mooted, which has only fed the corporatised culture that has come to dominate.

In a corporatised culture, financial incentives follow the trend that commercial enterprises foster – measuring one's self by the obsession with the bottom-line. The financialisation of SOE performance tends to work against workers interest and developmental goals – this forces a peculiar culture and mindset: if, SOEs do not show good financial results assets are trimmed, no new investments may be encouraged, infrastructure may not be upgraded or workers are made redundant.

SOEs should be sources of new capital accumulation rather than a sink of capital. In so doing, their wealth generating capacity should naturally spawn new entrepreneurship and diversification of investment. Thus far, several of the SOEs like the SAA, Denel, SABC, Eskom, Transnet and others have sucked state resources and in some cases total management incompetency has gone on unchecked, causing great damage to some key state parastatals with a loss of revenue and staff morale.

SOEs can have a greater impact on strengthening the economy. However, their conception as dependent entities of state where their role is solely to roll out social and infrastructure programmes limits their roles as agents of economic change.

State directed and controlled capital accumulation give greater power to restructure the economy and

SOEs should be a key element of that strategy – their role and culture has to change to make them better suited to the new developmental agenda that has become the vision of the post-Polokwane discourse.

Conclusion: What we don't have we must build now before it is too late

The Zuma era ANC has already embarked on the review of SOEs with a view to reshape their mandate and make them play a bigger role in the industrial development of the country.

What have we reaped after 15 years? Sadly, our gini-coefficient shows no sign of improvement. The latest results show we are even lower than that of Brazil. We have failed the poor. Our unemployment is embarrassingly high – hovering anywhere between 27–30%. And, the global financial crisis has not made it any better – the first three quarters of the economy have already shed close to one million jobs.

When the global economy picks up again we will have our economy lifted by the wave of external growth, but the question of the internal dependency syndrome we have fostered on the populace will continue and will have to be resolved.

The internal dependence is the inadvertent consequence of politicians promising the earth. The state has essentially turned itself into a "nanny-state" having to provide all the needs of it citizens with shrinking coffers.

The state has been able to shift the income share – in the form of grants, free water, electricity, housing subsidies and land grants – from the rich to those members of the populace whose share and capacity to generate income has declined rather drastically over the last 15 years.

It is true at one level we have been able to improve poverty through this income shift, but at another level we have only dug the poverty trap deeper because the social welfare net cannot be sustainable and also inculcates a sense of hopelessness.

More than 13 million people are on grants of one sort or the other, which costs the state about R118 billion, and this is set to cost about R140 billion by 2012.

The task of income generation and contribution cannot solely be the burden of a small population of the employed and entrepreneurial class – this is unsustainable. The income burden will have to be expanded through meaningful job creation, encouragement of entrepreneurship and by expanding the ways we create wealth through a more sustainable growth path of the economy.

There has to be real income shift, not through the giving of handouts but by giving South Africa's people the opportunity to find meaningful jobs and who in turn, through their own entrepreneurship and ingenuity contribute to its knowledge, development and growth.

The ANC recognises that private capital will not carry this burden of poverty alleviation. In the last 15 years the agenda of private capital has been to maximise its own growth and expand its footprint in the rest of Africa and globally. Indeed, many have done so.

It will have to shift the burden of taking on this responsibility within the economy to state institutions. The state will not only have to distribute the share of income it receives but also, stridently, contribute to the growth of this income. This is the next challenge for economic policy in South Africa and the defining moment for the idea of a developmental state.

To gain the commanding heights over the economy a competent bureaucracy and interventions in the economy are required where revenue streams do not only grow the share of one segment of the economy but aid all its participants.

Biography

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Saliem is the head of the Living Planet Unit at the World Wildlife Fund South Africa. The unit's work is focused on identifying ways to manage a transition to a low-carbon economy. From 2007-2008, Saliem was a senior lecturer at the Department of Public Administration and Planning and associate director for the Centre for Renewable and Sustainable Energy at the University of Stellenbosch. Prior to that, he worked for Lereko Energy (Pty) Ltd (2006), an investment company focusing on project development and financial arrangements for renewable energy, bio fuels, waste and water sectors. He also served as director of the World Conservation Union South Africa (IUCN–SA) office (1998-2005). Saliem is a columnist for the South African Centre for Civil Society, where he writes regular columns on a range of issues. Saliem's qualifications include a B.Sc Honours in Molecular Biology from WITS, a Master's in Environmental Science from Wye College London, and the completion of a senior executive management course at Harvard University.

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