# State, Development and Inequality: The Curious Incidence of the Developmental State in the Night-Time

Draft Text as Basis for Contribution to Sanpad Conference, Durban, June 26-30, 2007.
Not to be cited or quoted without author's permission until after delivery and amendment.

## 1 Introduction

The literary amongst you will have realised that my contribution takes its title in part from the Whitbread book of the year for 2003, Mark Haddon's The Curious Incident of the Dog in the Night-Time. This is the tale of the dog's murder told from the perspective of a teenager with Asperger's Syndrome, a form of autism. The radical amongst you will also know of the Post-Autistic Economics Movement, one that demands greater realism and heterodoxy in economics than is offered by the dominant and domineering "autism" of the mainstream, http://www.paecon.net/HistoryPAE.htm. I disapprove of the term "autistic economics" since I myself have a son with special needs, and I see no point of favourable comparison between him and mainstream economics. More by way of pastiche, my contribution is in part a tale of the murder of the developmental state in those dark days of the Washington Consensus. But is not the world of development economics now illuminated by the light shed by the more progressive post Washington Consensus? Does this not offer the prospect of a revival of the developmental state? With minor exceptions, the answer is in the negative. Whilst this demonstrates the limited extent of reform in thinking attached to the post Washington Consensus, it is also appropriate to view the notion of developmental state with a degree of circumspection. As I have emphasised elsewhere, scholarship, ideology or rhetoric and policy in practice, especially of the World Bank, are mutually supportive if inconsistent in different and shifting ways, Fine (2001c). Much the same is true more generally for development in terms of scholarship, policy and ideology - or advocacy as it has now become more gently known, Deaton et al (2006). So we have to be careful in negotiating intellectual autism in the dark, and not to be blinded when emerging into the bright lights of alternatives.

This, though, is an academic paper primarily concerned with some aspects of the theory of the developmental state and inequality. Nonetheless, I am acutely aware of why I have been solicited to address these topics. It is a result of the recent prominence of the developmental state in political discourse in South Africa to which I will turn my attention in the final section. Its sudden and unexpected appearance means that I will be more than normally, if selectively, attentive to the history of the developmental state and inequality as ideas, each covered separately in sections 2 and 3, respectively. As chance would have it, I have on and off been concerned with inequality for more than thirty years and with both the developmental state and South African economic policymaking for twenty. Possibly it is my age, the occasion, or the revisiting of fond and familiar topics that has induced me to be more than normally, even acceptably, self-indulgent in reviewing my own contributions. Immodesty aside, this also has the effect in practice of giving an unattractive air of "I told you so" to the proceedings. And it runs the risk of being accused of flogging dead dogs, murdered or otherwise, ones that have been discarded and no longer seen as relevant. In these respects, I simply beg your indulgence, as well as exercising my own, as the price to be paid for shedding some light on why the developmental state has not been deployed to address inequality in the past in South Africa, or more generally, and why it is being used now, and how it might best be used.

## 2 The Developmental State is Dead – Long Live the Developmental State

This is the third occasion on which I have sought to examine the extent to which the developmental state approach can realise its promise of offering solutions to the problems of development.[1] In the early 1990s, the influence of the developmental state was at its height for a number of reasons, and it seemed appropriate to draw out lessons for the South African economy on which I was working at the time in both academic and policy arenas. First and foremost, the developmental state offered an explanation for the East Asian Miracle, and the sorts of policies that made it possible. Second, it was one of the two main pillars of criticism of the Washington Consensus, the other being adjustment with a human face. Third, it combined contributions from across the social sciences, economics, politics, sociology and history if the latter only to a limited extent.

I returned to the developmental state a decade or so later, by which time its influence was probably at an all time low. Again, there are three reasons for this. Following the sudden and generally

unanticipated Asian crisis of 1997/98, the perspective of miracle was rapidly turned over, and all that had been perceived to underpin it was cast aside or reinterpreted as negative. For Lee (2004, p. 11), "the 1997 Asian financial crisis triggered suspicion by many scholars about the utility of the developmental state model".[2] Second, the Washington had given way to the post Washington consensus, and the positive lessons of the developmental state had been both absorbed and diluted down. Third, the academic literature had itself evolved to suggest that the developmental state brought about its own dissolution. Development itself, brought about by the state, is perceived to undermine both the conditions and need for the developmental state.

There is then a curious incidence of the developmental state by virtue of its sharp shift in influence over time. No doubt, this reflects its own analytical strengths and weaknesses as well as the changing material conditions that it seeks to address and within which it is situated. But it also, as already indicated, is more or less prominent by virtue of its alter ego, the developmental thinking deriving from the World Bank that has always distanced itself from this approach. This was, of course, overt during its commitment to the Washington Consensus which set the analytical, ideological and policy agenda of market versus the state in which the developmental state situated itself on the opposite to the pro-market side. This conflict came to a head with the East Asian Miracle Report of the World Bank (1993). It was motivated and funded by Japan, not least in light of its dissatisfaction with the Washington Consensus for the denial of its own history and in seeking to serve its policy needs in undertaking direct investment in the Asia-Pacific Rim, Wade (1996) and Rigg (2002) for more recent view.[3] In substance, though, far from the Report serving to promote the state in general and the developmental state in particular, it represented the death throes and not the death of the Washington Consensus, drawing the conclusion that the miracle or, more exactly, miracles were market-conforming, when attached to state intervention, and non-replicable. By this is meant that there was extensive state economic intervention but it was only successful when it did what the market would have done had it been working perfectly. Even within its own terms of reference of market versus state, this is vacuous in content, unlike the implication drawn that this perfection of the market through state intervention could not be emulated in other countries.

As a result, the developmental state did not emerge triumphant from the demise of the Washington Consensus. Instead, it was ignored or outflanked by the post Washington Consensus, not least through a remarkable rewriting of intellectual history although one that is far from rare in the practices of the World Bank as it partially incorporates longstanding ideas in opposition to it and claims them as due to its own originality. Thus, whilst the developmental state literature was one of the major intellectual driving forces behind the rejection of the Washington Consensus, and in prompting the East Asian Miracle Report that denied the salience of the developmental state, the Report is perceived to have initiated a turn in the Bank's thinking. Such is the view of Stiglitz himself. Literally in a half-truth (first sentence right, the second wrong), the creator of the post Washington Consensus launches it with the following claim of East Asia, "Their industrial policy, designed to close the technological gap between them and the more advanced countries, was actually contrary to the spirit of the Washington consensus. These observations were the basis for the World Bank's East Asian Miracle study (WB 1993), and it stimulated the recent rethinking of the role of the state in economic development". On the contrary, the rethink long preceded WB 1993 and was denied by it. What this allowed is for the developmental state literature to be denied its intellectual significance as a killer of the Washington Consensus and for its substance to be watered down if not ignored. As I was to write a few years later, it was a case of "The Developmental State Is Dead - Long Live Social Capital?", Fine (1999) although, now in retrospect, this was to exaggerate the influence and role of social capital in commanding the World Bank's continuing antipathy to substantial state intervention. This is to point, however, to how little social capital had to be promoted in order to outflank the developmental state, buttressed as it was by notions of governance, empowerment and so on – anything other than the developmental state.

The subsequent rise, and fall, of social capital within the Bank's thinking has proven to be a misconceived and failed attempt by its social scientists to have themselves taken seriously by its economists, as opposed to them being successfully used by the economists to legitimise their appropriation of the "non-economic" intellectual, ideological and policy terrain. I have discussed this all at inordinate length elsewhere, most recently Fine (2007a and b).[4] But, to return to my two earlier forays into the developmental state literature, they offered both continuities and change in thinking. The most important continuity is the division of the literature into two schools, the economic and the political as I have termed them. They are complementary and mutually exclusive with remarkably

limited overlap between them. The economic school focuses on the economic policies that the state needs to adopt in order to bring about development, and identifies how this has been done in the past, most notably from Latin American ISI through the variety of interventions associated with the East Asian NICs, especially protection, export promotion, targeted investment and finance, and so on. Inevitably, explicitly or otherwise, this involves an economic theory that breaches with laissez-faire, drawing for example on the notion of static or dynamic economies of scale and scope. The political school, on the other hand, is more or less free of economic analysis, and vice-versa for the economic school, addressing the issue of whether the state has the capacity and motivation to adopt developmental policies without really interrogating what these might be. In particular, the focus is upon whether the state has the autonomy in some sense both to adopt policy independent of special interests and to deploy that independence for developmental aims.

If the first continuity across the evolving developmental state literature is that it has been divided into two mutually exclusive parts, the second continuity is one of difference in how it has been able to accommodate empirical evidence as its sphere of application has been extended over time and by time itself. In general, the economic school has not suffered any discomfort in this respect. It is simply possible for it to interpret any case of successful development as the consequence of the right policies having been adopted and failed development otherwise. Wherever there is or has been development, there must have been a developmental state, with Ha-Joon Chang the leading proponent of this view. The situation with the political school has been entirely different. For, it seems that the autonomy of the state has to be refined to take account of each new case study, both in terms of the nature of the state and the conditions which allow it to be so or not. Within the literature, there has been a proliferation of terminology to fill this empirical credibility gap, relative and embedded autonomy, weak and strong states, the role of culture, institutions, bureaucracy, and so on. As Howell (2006, p. 275) puts it, "the notion of the developmental state, too, has become vulnerable to semantic overload, ideological appropriation and empirical amorphousness". It leads him to adopt the notion of "a polymorphous state that reveals contradictory features of developmentalism and predation, rivalry and unity, autonomy and clientelism, efficiency and inefficiency, across time and space", p. 278.[5]

With this portfolio of opposites, anything becomes explicable. This does not mean the developmental state literature is without content because it focuses upon the role of the state in development and on particular mechanisms and pre-conditions. As a result, as already indicated, change is possible within the literature, and is discernible with my second review finding the literature to be much less upbeat than the first, reflecting the Asian crisis, the intellectual climate of more state-friendly post Washington Consensus (undermining and sidelining the status of developmental state as opposition), increased concern over the sustainability and/or the feasibility of late-comer developmental state in light of globalisation,[6] and, if only implicitly, an evolving recognition of lack of integration across the two schools. The latter took the form of bringing class back in, an economic and political category, in suggesting that the East Asian developmental states had brought about their own demise by creating forces more powerful than itself, a capitalist class for example or democratisation in case autonomy had been seen as a consequence of authoritarianism. In retrospect, the developmental state literature now appeared remarkably and paradoxically static as a portfolio of economic policies or as a political structure, each separately divined but together wroughting fundamental economic and social change, eroding their own conditions of existence. In addition, the developmental state had now been round long enough that it can now be used casually and in passing without acknowledging its theoretical and empirical complexities.[7] This is important and, in a sense, paradoxical. For, as the developmental state literature has grown in theoretical and empirical complexity to the point of overburdening itself with refinement and exceptions, so it can become its opposite, something emptied of content, to be flagged in passing, or to mean whatever any contributor cares to make of it, see below in case of South Africa.

There were a number of conclusions that I drew from these literature surveys. First, it is inappropriate to seek a simple synthesis across the two literatures. Rather, second, it is necessary to reintroduce class and economic and political interests more generally at a higher analytical level in order to examine how these are represented through both the market and through the state (and rather than starting from a stance of state versus market). Third, this combination of interests will be attached to a particular system of accumulation of capital with differences that need to be identified in ranging from one country to another and, almost inevitably, from one sector to another within a country. Fourth, this also applies to what are liable to be the specific relationships between industrial and financial systems, as well as the presence and influence of international interests.

In this light, what does my third turn at the developmental state literature reveal? Most important is that there has been something of a revival of the developmental state in the literature, although I have not prepared any hard and fast evidence in support of this assessment. Its renewal comes in three forms. First is business as usual with the developmental state, and the pre-conditions for it, being recognised wherever any development has taken place. This is most notable for China, unsurprising in view of its most recent growth record.[8] More generally, as Boyd and Ngo (2005, p. 1) put it, with more than a degree of exaggeration if not error, "For more than twenty years the theory has captured and held the imagination of researchers working across East Asia. It has extended its scholarly empire far and wide to embrace the political economies of Asia, Latin America, and Africa. The theory has been taken up as much by planners, policy-makers, and international organizations such as the World Bank as by academics". They see it as a convenient intermediary between command and market economies, a challenge both to neoclassical and dependency theory. Indeed, "It has become a stylized fact: the thing itself, a fixity in real-world politics in a trope that makes it possible to assert that 'State X *is* a developmental state'", p. 2. It might have lost some of its "gloss" with the Asian crisis, for "Recipes for success were now said to be the ingredients of failure", p. 4, and sound empirical foundations have been lost with refined contributions from regional experts, p. 2. They appropriately observe, at least for the economic if not the political school, that the developmental state literature has adopted a partial Weberianism that emphasises "legitimacy, rationality, and instrumentality at the expense of monopoly, violence, and domination", p. 2. It is, in short, a state-led theory of economic growth that lacks a theory of the state other than primarily as an independent variable promoting growth, rather than examining the politics of the state that make it the way that it is. This assessment is both rare and late in recognising the limited integration of economics and politics within the developmental state literature, and how the corresponding theory of the state is underdeveloped in terms of underlying classes and the forms taken by them in the state apparatus (as opposed to taking the state apparatus as developmental bureaucracy or ministry for example).[9]

These themes of a proper theory of politics, the state, class interests, the consequences of change, etc, do, however, recur in milder form in the latest literature, reflecting at least implicit dissatisfaction with division between economic and political schools. To a large extent, this is inevitable as any new literature has to negotiate the charge of death, and can only do so by claiming life after death or despite the crisis, changed global circumstances, and the consequences of development itself.

Second, then, revival of the developmental state is notable in the literature that suggests that reports of its death in its classic locations have been exaggerated. It is hardly surprising, under the assault of crisis, neo-liberalism and globalisation, that the developmental state should take something of a battering. But the state does remain crucially important, not least in industrial policy, both in riding and restructuring in the wake of the crisis, albeit in changed circumstances. In South Korea, for example, as revealed by Cherry (2005), it has brokered Big Deals amongst the chaebol, or large-scale conglomerates. This has often been against their individual and collective resistance, especially in coordinating investments and restructuring capacity to avoid undue duplication but equally in a context in which foreign MNCs have now made substantial inroads into the industrial base as a result of the opening up of the economy in the wake of the crisis. This is not so different from the policies adopted by the state in the classic period of the developmental state, although the creation of the chaebol and the absence of, if cooperation with, foreign capital was more to the fore. Is this, then, the death or the continuing evolution of the South Korean developmental state?

Third, though, the life of the developmental state is no longer confined to the nation-state but has been extended to the local or sectoral developmental state. Thus, Ahmed (2006, p. 97) sees electricity policy in India as a challenge to the clean sweep of neo-liberalism imposed by the IFIs, with "the changing nature of state-society … as new coalitions representing [a] different set of interests come to occupy positions of power at different points of time". Alcañiz (2005) examines how nuclear professionals proved capable of resisting privatisation of the Argentine nuclear energy sector, against the more general dismantling of the welfare-developmental state. Jacobs (2003, p. 620) suggests that the developmental state view of Japan has been over-centralised, neglecting the role of prefectures so that, "the term 'centralized' no longer appropriately describes the Japanese developmental state". Lim (2003, p. 233) describes how the internet has allowed popular resistance to the media representation of Indonesia as a "progressive 'developmental state' … bolstering civil society in its resistance to state and corporate dominance". For Thun (2006, p. 4), as admiration for the developmental states of East

Asia spread, "China was no exception, and there were many early indications that Chinese policymakers sought to emulate the example of its neighbours: from plans for 'pillar industries' beginning in the mid-1980s to formal industrial policies in the mid-1990s". He offers three ideal types for decentralised state-led development - the local developmental state, the laissez-faire local state, and the centrally controlled state-owned enterprise - arguing for the need to focus on the needs attached to a specific sector, the car industry in his own case study, to locate it within a specific institutional and local context, and highlighting the importance of local government and inter-firm relations. Whilst there are strong first mover advantages to be derived from the local developmental state, it becomes necessary to neutralise the vested interests created in moving to more competitive but resisted external relations, for sources of supply for example, the temporary infant industry argument within the nation as it were.[10]

Further, Howell (2006) provides some account of the differing ways in which the Chinese local developmental state has been broached, and Pieke (2004) an anthropology of the local Chinese developmental state in which the state is seen as part of society and not just as its regulator. For Zhu, J. (2004, p. 47), "In its transitional phase, China is changing from a centrally controlled economy to a market oriented one. The forces of decentralization, marketization and political legitimization have transformed China's local government into local states with a strong interest in development … China's local state is a developmental state of its own kind".[11] Zhu (2005) sees the Chinese local developmental state in terms of its command of land and regulation of emerging land markets. Zhu, Y. (2004) raises the issue of the Chinese developmental state in light of labour migration. But Keeley (2003) offers a sectoral variant in terms of the Chinese biotech developmental state, emphasising how first and foremost, there is a need for the state to create an indigenous bio-tech corporation that negotiates across different agencies from foreign corporations through its own ministries to scientists, etc – with the prospect if not guarantee of pro-poor outcomes. Fascinatingly from a comparative perspective, Wong (2006) offers a study for the same sector for Taiwan, focusing on how the developmental state needs to move beyond catch-up and to play a dual facilitative and coordinating role, the latter having been eroded – "Gone are the days when government policymakers in Taiwan could play a 'big' leadership role in guiding industrial transformation, mobilizing public and private resources, and know-how around certain targeted technologies", p. 668. Is this the prospect for the Chinese developmental state too, whether relative to localities or sectors? The explicit treatment of innovation itself is an innovation in the developmental state literature, its normally having previously been presumed to be a consequence of other factors (such as involvement of foreign capital). Nonetheless, treatment of agriculture has remained more or less absent.

A fourth area in which the developmental state literature has made some progress in the most recent period is in paying attention to welfare provision. This has been neglected in the past. On the one hand, the decline of the Latin American developmental state is perceived to be a consequence of the destructive claims made upon it by strengthening the labour movement in particular and populist demands in general. On the other hand, the success of the East Asian developmental states is explained in part by a conventional wisdom of low priority to welfare provision relative to developmental goals and the subordination of labour and broader demands to the requirements of capital. Kasza (2006, p. 3) offers ample evidence, for example, that Japan has been considered to be a "welfare laggard". Indeed:

> The mainstream view is that (1) Japan adopted welfare programs comparatively late in its economic development; (2) its policies are less generous than those of the major western European nations, if still more open-handed than those of the United States; and (3) company and family play greater roles in welfare provision than they do in other developed countries, and the state a lesser role.

Further, "This half-hearted character of Japan's welfare state is one of the few points on which leftish and non-leftist scholars of Japan seem to agree ... owing to capitalist greed or to developmental [state] priorities", respectively, p. 4.

Kasza pinpoints this conventional wisdom in order to debunk it. As he concludes, not only in Japan, but also in East Asia more generally, and Taiwan and South Korea in particular, the need for a educated, healthy and highly motivated workforce, "reads the priorities of the developmental state into health [and other] policy", p. 124. He demonstrates this both empirically and by critical reference to the welfare state literature. As he correctly observes, "Most leading figures in welfare scholarship today accept Esping-Andersen's basic contention that several distinct types of welfare regime exist", p. 6.

Esping-Andersen's approach is one that identifies three different types of welfare regime – the social democratic, the liberal and the authoritarian (with Scandinavia, UK and Germany as illustrations) – this itself derived from a more general resources-power approach to welfare provision, "the different degrees of control that class-based political parties have exercised over governments", p. 6. So dominant has this approach been that it has inevitably been extended from a few developed countries to the world as a whole, including East Asia and developing countries. Equally inevitably, such extrapolation of ideal types has floundered as case studies fit more or less uncomfortably within the hypothetical scheme of three welfare regimes whether across or within countries across different programmes of welfare provision.

These anomalies have been more neglected than observed, not least because they have been subordinated to two other concerns. The first is the response of the Asian developmental states to the crisis of 1997/98. The presumption is that welfare provision would come under assault from the presumed initially low levels of provision. This also explains why, and when, welfare has come within the orbit of the developmental state literature. Second, though, is the impact of the globalisation literature, suggesting much the same conclusion in its neo-liberal, and some radical versions, that welfare provision through the state is liable to be undermined by the free international movement of capital and its squeeze upon the nation state's room for manoeuvre in this respect.

The empirical evidence, however, suggests otherwise with expansion of welfare programmes in response to the crisis in some East Asian NICs, most notably South Korea, although this can be explained in terms of the greater need for support prevailing over greater constraints with uncertain outcomes from one country to another, Haggard (2005) and Kwon (2003 and 2005) for example. As a result of these theoretical and empirical developments, the conclusion can be drawn, as emphasised by Kasza, that divergence in welfare provision has predominated over convergence. Thus, in looking at the literature on welfare policy in comparative perspective, divergence has carried the day, and this has reinforced the status of the welfare regimes approach and the notion of Japan and east Asia as a distinct regime (and backward for its level of development). For Kasza, however, there is no evidence for an East Asian welfare model, since welfare policies are not regionally based there any more than they are across (western) Europe, p. 133/4. In contrast, Kasza suggests that a more appropriate conclusion is that the provision of welfare in Japan and more widely in East Asia is not exceptional compared to elsewhere nor homogenous within.

To a large extent, this conforms with my own critical take on the Esping-Andersen and the welfare regime literature, Fine (2002 and 2005). Leaving aside an analytical convergence upon the new welfare economics, in which the state and individuals play games with one another in a context of asymmetric information, my dissatisfaction with the approach is because of its undue generalisation across different welfare programmes within and across countries. This critique has two elements. First, account must be taken of the differences in the nature of what is provided – health, education, water, unemployment benefit, pensions, housing, etc are all distinctive in what they constitute and how they are provided. There can be no presumption that on, or other, or mix of three welfare regimes will address their particularities. Second, by the same token, provision will be both country and programme specific, reflecting economic, political and ideological factors as well as the nature of the service itself.[12]

As a result, in lieu of the welfare regimes approach, I have suggested what I have termed a public service system of provision approach, pssop, to welfare and social and economic infrastructure more generally, one that focuses on the material culture attached to welfare across specific programmes and countries, Fine (2002) and Bayliss and Fine (eds) (2007). In a sense, this is to push against an open door since there is a longstanding tradition of examining the health, education, housing and water systems, etc. To a large extent, though, such a systemic approach has been squeezed out by the pincer movement furnished by neo-liberalism (and a one market-delivery model fits all) and the welfare regimes approach which is almost as insensitive to differing programmes of delivery as opposed to the diverse balance of politics and resources that is supposed to underpin them.

Significantly, then, there is the welcome prospect of the developmental state literature critically interrogating the welfare regime approach as it begins to address welfare provision more fully and accurately. China, the latest developmental state, offers a significant case study. Guan (2005), for example, points to the tensions involved in Chinese welfare policy, a previous duality between urban and rural provision, with state-owned enterprises serving as a pillar for the former. But state-owned

enterprises are being displaced and Guan concludes that, “two decades of social policy reform can be summarized as a transition from the traditional state enterprises model to a ‘societalized’ model, form a pure welfare service system to a marketization service model and from a universal welfare to a selective welfare model”, p. 252. But, in his conclusion, he is forced to qualify these generalisations since “for political stability social welfare decline cannot go too far, and needs to be strengthened in some specific fields … a slowing down in welfare reduction and even some policy reversal after the late 1990s”, p. 255. Yet, partly prompted by the SARS crisis from 2003, the Chinese government is already proposing a total reform of the health system, the leadership potentially choosing to adopt the UK National Health Service model in the National People's Congress of March, 2007, certainly to undertake provision based on the ultimate responsibility of the central state.[13] Similar moves are on the agenda for education but outcomes are liable to depend on the nature of each service involved and the continuing tensions within Chinese development rather than to follow from a given model derived and imposed from study of best international practice.

## 3 Perspectives on Inequality

Of course, welfare provision is a major factor in both the incidence and amelioration of inequality to which I now turn. Inequality is diverse, ranging over any number of dimensions, and often arising only implicitly, as in poverty for example, as one of its more specific aspects. Inequality has also experienced an unusual incidence in the history of economic thought. It was of paramount importance for classical political economy and Marx, albeit in differing ways both as cause and consequence in light of the prominence played by the classes attached to capital, labour and land. With the marginalist revolution of the 1870s, inequality began to experience its marginalisation from mainstream economic theory. The reasons for this were the putative redefinition of economics as the allocation of scarce resources between competing ends by Lionel Robbins in the midst of the Great Depression of the 1930s, the equally putative division between positive and normative analysis, with economics to be predominantly confined to the former, and the increasing reliance upon methodological individualism of a special type (utility maximisation) as the main explanatory factor within neoclassical economic theory.

Consequently, with Pareto-efficiency to the fore and, as asserted by Robbins, the impossibility of making interpersonal comparisons of utility, inequality lost favour within economics as the discipline perfected its technical apparatus associated with individual optimisation (Hicks-Slutsky) and general equilibrium (Arrow-Debreu). Significantly, the macroeconomics of Keynes (and the IS/LM framework to which it gave rise) has also been negligent of inequality, or at least distribution, in contrast to the structuralist perspective on effective demand deriving from Kalecki. Accordingly, discussion of inequality was allocated to the competing ends of heterodox economics and the newly emerged discipline of economic history that filled the void created by the narrow pre-occupations of traditional micro and macro. These remained strong components of economics as a discipline until after the second world war but have since been discarded. Significantly, the old or classical development economics did focus upon inequality, not least in view of its inductive as opposed to deductive methodology, and not least through the work of Simon Kuznets and the search for empirical regularities in the processes of development, Fine and Milonakis (2007) and Milonakis and Fine (2008) for extended discussion of material in previous paragraphs.

By coincidence, possibly not, inequality began to reappear within economics, surreptitiously even unwittingly, just as it appeared to have been excised. With social choice theory, and his Impossibility Theorem, Arrow (1951) did explicitly address the issue of how to decide between different states of the world on the basis of individual preferences over them. The exercise was motivated by the need to have a social welfare function so that policy could decide between alternative outcomes, each presumably Pareto-efficient. In other words, social choice theory obliquely reopened the question of interpersonal comparisons. From that point on, the baton was taken up by Amartya Sen and, whilst not the only one in the race, he has never lost the lead. In his own account of his intellectual trajectory in his Nobel acceptance lecture, Sen (1999) points to the importance of social choice theory as a continuing guiding theme. It induced him explicitly to introduce interpersonal comparisons and ethics into social choice theory itself.

From there, it was a short step to reduce the alternatives available to distributions of income, thereby transforming social choice into measurement of income inequality. At one extreme, inequality could take the form of famine for which Sen posed a food entitlement approach as against food

availability decline. This, in turn, was broadened to entitlements more generally. Ultimately, from entitlements to the capability approach evolved into development as freedom, Fine (2001a and 2008) for more details on the last two paragraphs and much that follows.

My doctoral thesis under Sen was on social choice theory, and curiosity and a wish to exercise technical skills has induced me to return to it from time to time. This gives me some qualification to draw out broader implications out of a watching brief on its evolution, especially for the study of inequality. First, and foremost, with minor exceptions, this literature has from its outset lacked analytical content in a causal sense, as opposed to its ethical content. It is as if it were to accept that there are possible states of the world from which we can choose without explaining why and how these states exist and, equally, that these problems are separable from that choice.

Second, social choice theory, measurement of inequality and the entitlement approach are purely formal in content. On measuring inequality, for example, I have demonstrated that it is necessary to reconcile interpersonal and intrapersonal welfare judgements, and these are equivalent to one another, Fine (1985). Does my welfare count more or less than yours as opposed to the entirely different question of how much my own increase in welfare should count in and of itself. Counting my own welfare more or counting it more relative to yours are conceptually and formally distinct but each has the same outcome in measuring inequality. This highlights, though, the complete detachment of the analysis from the real world. It can only be of significance if we give some consideration to the nature of the individuals and how welfare is being enhanced – my own needs to add a private jet as opposed to adding to my own basic needs; or my private jet as opposed to your private jet or basic needs.

On the other hand, third, the shift to famine and entitlements does offer some specificity – both food and the starving. Although, in other work, Sen has shown considerable antipathy to economic rationality, his work on famine in particular exhibits a tension between the macro and the micro, or the individual and the social. Famine is not a matter of aggregated individual choice; it is a major social phenomena. Yet, the entitlement approach is fundamentally individualistic in its technical apparatus, a slight generalisation of that deployed by general equilibrium theory. It remains formal at the analytical if not the empirical level.

Fourth, much the same remains true of the subsequent shifts, ultimately to development as freedom. Where is the causal analysis, and the specificities associated with specific entitlements, capabilities and freedoms. There is a further issue of the heterogeneously generated meanings of these freedoms to those who do or do not enjoy them that are equally context specific in content and contestation.

I hope to have demonstrated that these problems are a consequence of the way in which inequality was taken out of economics and then, with Sen to the fore, brought back in again. The focus on the ethical has been at the expense of, even complicit with, the idea that we simply have a set of feasible (possibly Pareto-efficient) worlds from which to choose or to make possible on the more active or open interpretation of capabilities and freedoms. But, more recently, inequality has been brought back in once more by an entirely different route. It is neatly captured by the shift between the two separate definitions of economics, one implicit, offered by Joe Stiglitz.

“Economics is the study of scarcity, how resources are allocated among competing uses”, Stiglitz (2000, p. 23).

“The older market failures were, for the most part, easily identified and limited in scope, requiring well-defined government interventions. Because virtually all markets are incomplete and information is always imperfect … the market failures [of the new type] are pervasive in the economy”, Stiglitz (1994, p. 42/3).

In light of the second definition, if there are pervasive market imperfections, then inequality may be greater or lesser in light of the incidence and nature of those imperfections (and correspondingly evolved institutions), and there is potentially room for reducing inequality though lessening imperfections (and, it should be added, vice-versa). It follows that the market imperfection approach to economics in general and to development economics in particular can address inequality and poverty through a causal analysis.

With the new emphasis on poverty amongst IFIs, study of inequality in the form of poverty has mushroomed. Previously, there had been some attention to the inequality-growth nexus through the need for savings (pro-inequality) or for the need for demand (pro-equality). Now there is a political economy of poverty suggesting numbers of mechanisms connecting the two, with an ideological swing towards the idea that pro-poor can be pro-growth and vice-versa, Nissanke and Thorbecke (eds) (2007) for a recent overview in light of "globalisation".

Much of this literature suffers from what I term the XY-syndrome to which the World Bank in particular is highly susceptible. Growth is extremely complex – with Barro-type regressions now offering of the order of 150 or so variables that might affect outcomes. Poverty is no less complex in definition, being multi-dimensional, objective or subjective, absolute or relative, in its incidence and measurement, and in causation. Miraculously, though, putting growth, X, and poverty, Y, together is presumed to render a doubling and interaction of complexity into simplicity. Irrespective of the problems with this literature in practice, and they are legion, it is ill-conceived in principle. The relationship between poverty and growth, or any other variable for that matter, inevitably requires some combination of micro/macro analysis, sensitive to country specificity and to particular mechanisms and incidence. It would be a shame if the developmental state and inequality were to be brought together under sufferance of the XY-syndrome.

## 4 South Africa as Case Study

At this point, across developmental state, industrial policy, welfare provision, growth and inequality, a single conclusion is being drawn concerning the need for country and sector specific analysis. This does, however, need to be located within an understanding of an evolving system of capital accumulation with its attendant configuration of shifting economic and political interests.

These general propositions can be illustrated by reference to South Africa. It has long attracted considerable attention for its inequality, vying for bottom position in international comparisons. Inequality has even worsened by some measures with the demise of apartheid as a minority of blacks have benefited with white privilege otherwise remaining untouched. On the other hand, South Africa had not attracted much attention from those seeking to pin the label of developmental state upon it. It did not really hit the radar of my last previous review of the literature even though it has only just been published. Interestingly, the most recent academic literature has offered some exception to the rule of neglect of South Africa as developmental state but it still remains, as yet, limited by search of academic journals alone.[14] A search by Google offers disproportionately greater rewards, with my downloading being brought to an end on the two-hundredth entry or so that at last had reached developmental state as an element in the research of South African child psychologists, a syndrome I have previously encountered in literature searches.

The reason for this pattern in the literature is that the developmental state has sprung into South African discourse from the political arena. Trevor Manuel (2004), for example, cites Sen extensively and in grasping the developmental state can even be seen as groping towards the pssop approach in lecturing senior public sector managers on their responsibilities in delivering through increased public (welfare) expenditure.[15] Manuel's text is heavily quoted verbatim in President Mbeki's Budget Speech for 2006. And the developmental state has appeared in speeches from a range of Ministers over the last couple of years.[16] Further, in opening its next edition, Southall (2006, xvii) reports that:[17]

> In the introduction to the *State of the Nation: South Africa 2004-2005*, the editors noted that "the African National Congress (ANC) is in the throes of shifting from the Growth, Employment and Redistribution (GEAR) strategy to a more interventionist, developmental state.

Further, they later reveal how the developmental state in principle is to be complemented by plans to launch a massive public sector investment programme, with state-owned enterprises to become, citing Mbeki (2005, p. xix) "drivers of growth and development". I cannot resist the temptation to observe what a remarkable if belated acceptance this is of the MERG (1993) programme, see below, and also to quote my own commentary of almost ten years ago, Fine (1998a):

> Currently, GEAR is generally and rightly, if not openly, admitted to be an empty shell as far as policymaking and judgement of performance are concerned. The only interesting questions in this respect are how long can GEAR hold out as official ideological talisman and what will replace it in substance and rhetoric. These will be open to dispute for which clarity on the nature and dynamic of the South African economy is of crucial importance for progressive outcomes.

The developmental state seems to be the answer to the first question but what of the nature and dynamic of the South African economy?

For this, we are not liable to find answers from the politicians. Inevitably, the posture they adopt is one within the economics school, of the appropriate balance and redirection of policy with little or no critical assessment of own capacity or willingness to deliver, bureaucracy and administration apart, in light of underlying economic and political interests. Equally inevitably, and commendably, COSATU and the CPSA have both welcomed the shift in rhetoric but with some suspicion, given experience of the last decade or more, of what will be delivered and how, Makgetla (2005) for COSATU. Southall (2006, p. xxvii) quotes Jeremy Cronin, Deputy General Secretary of the SACP, "there is now a growing inter-ANC alliance consensus on the need for a strong, developmental state" but observes that, the latter's "present popularity may well be that it can serve as an ideological glue to hold the Alliance together".

In short, when it comes the developmental state, how long or thick is such a piece of string and how long does its glue remain sticky. The notion might be abandoned as rapidly as it has been taken up given that the fluidity between political and academic (and other) discourses in South Africa is remarkably extensive and rapid, possibly uniquely and troublingly so in so far as politicians may then set scholarly agendas (and selectively vice-versa) and intellectual independence and dissent is heavily squeezed if not circumscribed. There has been a flush of workshops, conferences and academic papers on the developmental state and South Africa.[18] For Swilling et al (2004), South Africa even aspired to be a developmental state from the mid-1990s (although no evidence is presented for this and I suspect there is little) but failed to realise this ambition. But nor did it degenerate in this account to the opposite extreme of a "corporate-led globalisation plus the need to accommodate a new black elite [that] resulted in neo-liberal economic policies that conformed to the global 'Washington Consensus' about 'best practice'", p. 17. This view is also questionable since no adjustment under the Washington Consensus let alone the post Washington Consensus, then awaiting in the wings, has ever conformed to the neo-liberal template in its pure form. Rather, discretion and local "ownership" to a greater or lesser degree have always been present in the interventions dictated by the IFIs in practice. What is apparent is that in a few years, the ANC-led Government of National Unity had, through GEAR, adopted policies that were more or less indistinguishable from those being proposed by the IFIs and even from those put forward by the previous apartheid government as its New Economic Model.

Swilling et al suggest that the last decade or more has been marked by an interregnum lying somewhere between, or adrift of, developmental state and Washington Consensus for the "priority was to dismantle the uniquely configured *apartheid state system* that was deeply rooted in South Africa's economy of racial capitalism", p. 16. Most important, they suggest that the foundation has now been provided for greater integration and coordination of policy in the future, for a developmental state to emerge, so that with black empowerment "it remains to be seen whether … [such] strategies, coupled to state-funded investment strategies, will manage to break white control of investment decision-making quickly enough to ensure private sector investment levels climb back up over the 15% of GDP mark", p. 74. Further, in terms of social expenditure, they suggest, "The results have been mixed, with disappointingly low levels of expenditure due mainly to a failure to adequately manage the institutionalisation of these various strategies and approaches. A shortage of funds was never the problem", p. 75. In a companion piece, Swilling and Breda (2005) assess the record of such institutionalisation more closely, concluding that a 'developmental state' (their own inverted commas) is seen to be in operation over the first ten post-apartheid years, not least in proliferation of "innovative institutional experiments aimed at capturing and directing funds into developmental and anti-poverty programmes … [but] the most important contribution that many of these experiments may have made is to institutional learning about what it takes to build institutions that can make a lasting developmental impact on the ground", p. 88. Thus, the benefits that might have been gained are to learn about institutions, institutionalising trade-offs between welfare and development, and institutional capacity itself, p. 130.

Nit-picking aside, there is much to commend these analyses other than that they are at least ten years too late, without explaining why. For much longer, the power of South African corporations has been highlighted in the literature. My own take on this, from almost twenty years ago, was to characterise the South African economy as a mineral-energy complex, MEC. Here is an account taken more or less verbatim from an unpublished paper of ten years ago, Fine (1998a):

*What is meant by the MEC and what is its current structure and dynamics?*

*As discussed in detail in Fine and Rustomjee (1997), the MEC is to be understood as a system of accumulation specific to South Africa and its history. At the simplest level, it comprises a core set of activities organised in and around energy and mining. Contrary to majority opinion, these core sectors continue to carry a, if not the, major determining role in the economy. Further, they have been attached institutionally to a highly concentrated structure of corporate capital, state-owned enterprises and other organisations such as the IDC which have themselves reflected underlying structure and balance of economic and political power.*

*In the 1930s, there was what has been termed a disjuncture between the economic power of mining capitalists and the political power of Afrikaners. The post-war period has witnessed the erosion of this disjuncture in a particular way. During the 1950s, Afrikaner finance capital was built up. In the 1960s, it incorporated ownership of productive capital, not least in mining itself. Until this point, industrialisation only proceeded on a piecemeal basis according to limited diversification out of the MEC core sectors and import-substituting industrialisation for consumer goods under heavy protection. Notably absent was vertical integration of and between the two. This reflected a lack of commitment on the part of the mining houses, lack of resources on the part of Afrikaner capital, and the political impossibility of the state adopting industrial policy to support large-scale capital along a programme of industrialisation.*

*In the 1970s, with the creation of large-scale Afrikaner capital and its integration with the corporate sector as a whole, coherent economic policy became possible for the first time. However, the decade was marked by oil and gold price increases. Economic policy became heavily oriented around a state-sponsored investment programme to expand the core sectors. At the same time, South Africa's conglomerate structure was further consolidated as profits from mining were deployed through the financial system to gain ownership across many sectors. By the 1980s, with the decline both in oil and gold prices, the apartheid system was in crisis, and investment stagnated, precluding a programme for industrialisation.*

*The current structure and dynamic of the MEC has changed again. For it is heavily dependent upon the globalising strategies of South African conglomerates.*[19] *They are little prepared to commit their financial resources to domestic investment in industry, and they are equally concerned to integrate their domestic operations with their international interests. There is no reason why these should coincide with the imperatives of generating viable domestic industry, given the age of capital stock, lack of vertical integration, lack of intermediate and capital goods, and a general pre-disposition to oppose interventionist policy in case it becomes more radical. By the same token, there is extreme pressure for the removal of exchange controls on domestic corporations in order to be able to engage in capital flight. The ethnic divisions between white capitalists have been resolved. It would be unfortunate if those with black capitalists focused primarily on promoting small business and creating a share for a minority of blacks within big business without unduly affecting the scale and scope of domestic industrialisation.*

The macroeconomic policy associated with GEAR for stabilising the economy had the effect of underpinning the capacity for capital flight, exposing the economy to vulnerability however well or badly it performed since success would prompt pressure for relaxation of controls and failure for increased austerity on government expenditure and intervention (often excused by appeal to responsible management and/or lack of capacity). This account was complemented in another paper by specifying detailed strategic considerations for formulating industrial policy, Fine (1997), the summary of which is attached here as an appendix.[20] If South Africa was to become a developmental state, this suggested how.

Further, in the field of welfare, I was responsible for the social and economic infrastructure section of the MERG Report (1993), covering health, housing, electrification and schooling as pssops (although the full term was not yet in use then).[21] Whilst Swilling et al make no reference to this

Report, it fully anticipates their conclusions arguing that the greatest constraint on welfare provision would be institutional capacity to deliver. This is unless, as has indeed occurred by a more circumspect interpretation of the evidence of a decade of institutional learning, other constraints were unnecessarily imposed such as the imposition of user charges, and market- and finance-led imperatives in provision more generally. Once again, these perspectives from my earlier work are reproduced as an appendix from an unpublished contribution of more than ten years standing.

As has been recognised within South Africa, what will be made of the developmental state remains open and to be contested but that the notion has arisen at all reflects both progress and potential although, in returning to the theme of the complex and shifting reactions between ideology, scholarship and policy, these have to be negotiated and are not guaranteed. With a sense of déjà vu, I am reminded of the rise of the notions of globalisation and of social capital, Fine (2004d). The first has been won away from neo-liberal dogma, that the state is withering away under market forces and this is to be welcomed. The rise of the developmental state in South Africa is in part testimony to this victory. Social capital, heavily promoted by the World Bank and highly influential within South Africa, if not so much for Africa more generally, is much less amenable to broader, progressive capture.[22] Indeed, it has now been abandoned by the World Bank social capitalists, accepting the criticisms made in retrospect but justifying themselves in having shifted the social content of the Bank's economic agenda. Whether the developmental state in South Africa turns out more like globalisation or more like social capital remains to be seen and negotiated but my own personal inclination and perspective is one in which scholarly integrity should not be sacrificed for political opportunism with South Africans particularly susceptible to swings in thinking in conformity to political and economic imperatives, from Freedom Charter, through RDP and GEAR to the developmental state.

I fear I have cast myself into a Cassandra-like figure, a dog that did bark in the night but was only murdered in the sense of not being heard. On the other hand, in South Africa, the creation of a developmental state and the assault on inequality are, to coin a far from subtle reference to Sherlock Holmes, a dog that did not bark in the night. This silence in the past offers an admirable clue to a deeper understanding of the country's predicament and the failure to address it. It remains to be seen whether the shift in rhetoric to the developmental state in South Africa will shed bright light where there was night and offer a more dogged attempt to address inequality.

But I want to close on an empirically humbling note for all concerned in the developmental state debate. Three features stand out from the experience of the successful east Asian NICs, although they are rarely observed. First, they had no economists. Second, they had no notion that they were developmental states until they were told so by western social scientists. And, third, the east Asian melt-down hit at the point when returning American-trained economists reached critical numbers and influence. I leave you to draw your own conclusion although replicability does not seem to be on the agenda in these three respects.

Appendix 1

# Industrial Policy and South Africa: A Strategic View[23]

Ben Fine

## Presentation of Main Points

### Introduction

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

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

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

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

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

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

Third, the formulation, implementation and monitoring of policy needs to take account of the vested interests that can influence the policy process and to be assured that strategic goals are being met by including them within contracts where appropriate. Apart from the normal requirements around price, quality and delivery times, These might include wages and working conditions as well as employment levels, export targets, technology transfer and provision of training and adult basic education, etc.

The limited progress made with social plans for the gold mines is indicative of extreme weakness of industrial and other policymaking in South Africa. No serious calculation seems to have been made of the relative merits of mine closures or downsizing, of maintaining the mines for the benefits they bring in employment, multiplier effects and foreign exchange earnings, or of retraining and redeploying a skilled and organised workforce for other employment. What is true in this instance, where the leading issues involved are transparent to a degree, is even more disturbing in other cases of industrial policymaking where neither the capacity exists nor is the attempt made to come to decisions grounded in an overall strategy incorporating full impact analyses, taking account of sequencing, dynamic economies of scale and scope as well as the more direct and observable effects.

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

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

## The Economic Background

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

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

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

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

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

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

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

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

Some key aspects, then, of the South African economy are:

1) A lack of capacity in intermediate and capital goods.

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

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

4) A lack of integration across sectors.

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

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

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

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

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

Industrial Strategy

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

(a) Meeting of basic needs.

(b) Generation of employment.

(c) Education and training.

(d) Sectoral policy.

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

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

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

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

(i) Macroeconomic policy.

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

(k) Restructuring of state assets.

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

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

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

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

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

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

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

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

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

Implementation and Monitoring

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

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

Despite the discrediting of the de Kock reforms of the South African financial systems in practice and in principle, together with a complete change in domestic and external circumstances and in economic objectives, no serious consideration has been given to relations between finance and

industry, and the capacity of government departments to coordinate and innovate in the formulation of policy. This is despite:

1) Inadequate provision of finance for industry.

2) Inadequate coordination of investment across sectors.

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

4) Inadequate coordination across government departments and other agencies.

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

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

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

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

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

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

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

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

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

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

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

Trade policy in South Africa has in general pursued trade liberalisation beyond the level even required by the developments arising out of the Uruguay Round. This is despite the potential for negative impact on the industries concerned and the failure to formulate and put adequate supply-side policies in place prior to liberalisation. The justification for, and impact of, trade liberalisation has rested to a large extent on the calculation of effective rates of protection, EPRs. These are, however, ill-founded conceptually, in practice in how they have been calculated, and as a guide to policy in their imputed effects. In particular, they take no account of dynamic and static economies of scale and scope,

excess capacity, capital-labour intensity, market structure, presence of multinationals, skill requirements of the labour force and management, developments in world markets, product differentiation and quality, commercial risk, age structure of capital stock, the differential impact of non-tradeables, and the substitution between capital and labour in production in response to changing input prices. In this light, it is inconceivable how EPRs can justifiably be used as the basis for industrial policymaking of which trade policy is an integral part. Doubts must be equally strong over its usefulness for measuring macroeconomic impacts on employment, inflation and growth.

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

Appendix 2

## CIEE WORKSHOP FOR SOUTH AFRICAN POLICY MAKERS - JUNE, 1996[24]

### Some Perspectives on the Provision of Social and Economic Infrastructure

Ben Fine

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

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

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

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

Finally, whilst this introduction is more or less free standing, its significance can only be fully appreciated if it is read as a foreword to the treatment of the specific areas of infrastructural provision which are to be found in the MERG document. These too are necessarily dated in some respects, but

they still offer considerable analytical, empirical and policy insights. Hopefully, the reader will be encouraged to consult one or more of these "case studies", whether for housing, schooling, health provision, or electrification.

## SOCIAL AND ECONOMIC INFRASTRUCTURE

### Draft Introduction

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

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

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

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

This means that proposals to deliver infrastructure will not be distributionally neutral. They will favour some constituencies more than others, and often in ways that are not entirely predictable even where they are not overlooked. We have in mind, for example, the work and conditions of women whose unpaid labour within the unenumerated economy must be carefully considered. This is so for reasons of equity. Provision of infrastructure can considerably ease the burden on women whose lives are often dominated by the responsibility for what are perceived to be the menial tasks of collecting wood and drawing water - although women can be denied a livelihood as a result of more systematic, public provision, and the jobs created, the informal economic opportunities and the broader benefits are frequently appropriated by men. Further, the success and goals of policies can be thwarted if due account is not taken of their dependence on the wider socioeconomic circumstances in which they are implemented, such as the demands and stresses and strains placed upon the family, community and institutional structures.

A particularly important example is provided by old age pensions. These comprise the major part of the welfare system for blacks. As a result, they serve a much more important role than simply supporting the elderly. For they provide the rationale for a payments system, often in areas otherwise deprived of such facilities. But, more important, they constitute a general form of household income support underpinning payment for school fees, for example, as well as household expenditure as a whole. Consequently, pensions policy is more than a matter of how much, it also concerns how payments are administered and how they are integrated into economic and social life. They are especially important as a secure source of income, allowing credit to be advanced and accounts to be settled. Whilst pensions constitute a specific issue to which we will not return in the context of infrastructure, these considerations are of great relevance, even if in different ways, to the policymaking for the other components of infrastructure.

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

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

The World Bank has reported that:

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

For the IDRC, the Canadian aid agency:

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

The National Housing Forum's first newsletter observes:

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

One commentator describes, "how South Africa came to have seventeen departments of welfare, arranged in four clusters, coordinated by three other departments and one secretariat". Such

fragmentation and replication was supplemented by a "third significant feature of the 1980s ... the establishment of structures for coordination and control".

Another reports for water that:

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

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

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

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

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

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

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

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

preferential access even if, or with the added advantage of, now passing responsibility for parts of their continuing costs to privileged users.

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

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

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

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

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

Despite our emphasis on the differences in the structure and functioning of the various systems of infrastructural provision, it is possible to identify certain common policy objectives just as some common features of provision have been identified under the apartheid system. Inequality in access has to be tackled. Administrative reorganisation is imperative, both in overcoming fragmentation and overcentralisation. There must be the creation of democratic accountability in the formulation, implementation and monitoring of provision. Internal reorganisation and expansion of provision will require training and mobility of the workforce. And it is essential to acknowledge that

infrastructural provision has had and will continue to have major repercussions for southern African integration - not only in transport and energy but also in housing (given the continuing extent of migrant labour) and the training and disposition of the workforce more generally.

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

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

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

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

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

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

**NOTE**

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

Footnotes

[1] See Fine (1992) and Fine and Rustomjee (1997) for first occasion, and Fine (2004c and 2006) for the second. Here I seek predominantly to cover the literature not discussed in these earlier contributions.
[2] Zhu (2002) also sees the end of the Cold War as leading to the erosion of threat as a galvanising factor in promoting the unity underpinning developmental states.
[3] Crucially, Japan had also become a leading source of aid and so had some muscle in determining how its role should be perceived. But see also Hirata (2002) for the idea that the death of the developmental state in Japan has also opened up growing influence of NGOs on Japanese policymaking.
[4] See also Bebbington (2004), Bebbington et al (2004 and 2006), and Fine (2003).
[5] Note that Doner et al (2005) seek to roll back this polymorphism by reducing presence of developmental state to the presence of systemic vulnerability, itself induced by the constraint of building internal coalitions, scarce resources and external threat. Their casual claims to the contrary, Africa would appear to be replete with counterexamples!
[6] For Painter (2005, p. 336), if unduly homogenising, but in the context of the Hong Kong neo-administrative state:

> The combination of a powerful bureaucracy, incomplete democratic institutions, limited political freedoms, and a dynamic capitalist economy typifies the so-called East Asian developmental state … A common challenge … is to adapt these institutions and roles to the changing nature of the global economy.

[7] As for two studies for Singapore as city developmental state, the term only effectively appearing in Ooi's (2005) title and similarly for Hee and Ooi (2003) and Jha (2004).
[8] There has been almost no work on the transition economies of eastern Europe as developmental states, not surprising in view of their perceived failure. An exception is provided in a comparative study of Hungary and Romania by Negoita (2006) whose emphasis is upon the absence of a capitalist class that, accordingly, needs to be created. For Africa, sample Lockwood (2005), Sindzingre (2006), Shaw (2006), Matlosa (2005), Edigheji (2005), Matlosa (2005) and Nabudere (2006). See also "The Democratic Developmental State in Africa: Conceptual and Methodological Workshop", Centre for Policy Studies, Johannesburg , July 24-25 , 2006, http://www.pidegypt.org/africa/jnb.html.
[9] See also Jessop (2005) and Pirie (2006 and 2007).
[10] For an alternative view, dedicated to Samuel P. Huntington, see Pei (2006) who argues that the Chinese authoritarian but decentralised developmental state will inevitably degenerate into a non-performing predatory state.
[11] See also Edin (2005).
[12] A third element concerns the context-specific construction of the meaning of welfare itself both to those who provide and to those who are provided.
[13] "We will phase in a basic health care system that covers both urban and rural areas", Report on the Implementation of the 2006 Plan for National Economic and Social Development and on the 2007 Draft Plan for National Economic and Social Development, Fifth Session of the Tenth National People's Congress March 5, 2007.
[14] See also Luiz (2002) and Lemon (2005) and Tsheola (2002), the latter deploying the concept casually.
[15] See also Bobby Soobrayan, "Reflections on SA's Perspective on Capacity Development for the Developmental State", Director General, South African Management Development Institute, Presentation to the CAPAM High Level Seminar, *In Pursuit of Excellence: Developing & Maintaining a High-Quality Public Service*, http://www.capam.org/pdfs/Soobrayan_SAMDI.pdf.
[16] For example, for education, http://www.chet.org.za/issues/PandorAcademicFreedom05.doc; for science and technology, http://www.dst.gov.za/media/speeches.php?id=208&print=1; for public service and administration, http://www.info.gov.za/speeches/2004/04052714151001.htm; and for the Presidency, http://www.progressive-governance.net/uploadedFiles/Events/Events/Pahad%20speech.pdf.
[17] But note that the developmental state hardly appears at all in the rest of the volume.
[18] See especially Gelb (2006), Freund (2006) and Hassim (2005) the latter only pegging gender and welfare to the developmental state. See also Akoojee and McGrath (2005) in context of education and training.
[19] Note that between 1994 and 1999, South Africa's (legal) outflow of foreign direct investment was R77 billion compared with an inflow of R55 billion, placing the GEAR focus on attracting FDI into perspective. Further, of the inflow, two-thirds was for acquisition as opposed to new investments, one

third alone for the purchase of privatised energy and telecom facilities, Heese (1999). Further, even this poor record has been based upon the unusual contribution made by Malaysia which came second in volume behind the United States but ahead of the United Kingdom! This is due to political and economic motives that are not liable to be sustained, Padayachee and Valodia (1999).

[20] See also Fine (1998b) for a case study of the steel industry.

[21] I find it amusing to point out that this Report, published in the same year, also took the same title as Putnam's (1993) study of Italy that launched his career as leading social capitalist.

[22] See other references to social capital and Fine (2001b and 2004a and b).

[23] Taken from Fine (1997).

[24] In the event, I do not recall this workshop materialising.

References


Ahmed, W. (2006) "Global Discourses and Local Politics in the Production of Power Policy in India", Development, vol 49, no 3, pp. 94-100.

Alcañiz, I. (2005) "Defeating Welfare Retrenchment: Privatization and Conflict in the Argentine Nuclear Energy Sector", New Political Science, vol 27, no 3, pp. 331-44.

Arrow, K. (1951) Social Choice and Individual Values, New York: Wiley.

Bayliss, K. and B. Fine (eds) (2007) Whither the Privatisation Experiment?: Electricity and Water Sector Reform in Sub-Saharan Africa, Basingstoke: Palgrave MacMillan, in press.

Bebbington, A. (2004) "Social Capital and Development Studies 1: Critique, Debate, Progress?", Progress in Development Studies, vol 4, no 4, pp. 343-49.

Bebbington, A., S. Guggenheim, E. Olson and M. Woolcock (2004) "Grounding Discourse in Practice: Exploring Social Capital Debates at the World Bank", Journal of Development Studies, vol 40, no 5, pp. 33-64.

Bebbington, A., Woolcock, M., Guggenheim, S., and E. Olson (eds) (2006) The Search for Empowerment: Social Capital as Idea and Practice at the World Bank, Bloomfield: Kumarian Press.

Boyd, R. and T. Ngo (2005) "Emancipating the Political Economy of Asia from the Growth Paradigm", in Boyd and Ngo (eds) (2005).

Boyd, R. and T. Ngo (eds) (2005) Asian States: Beyond the Developmental Perspective, London: Routledge Curzon.

Buhlungu, S. et al (eds) (2006) State of the Nation: South Africa, 2005-2006, Cape Town: HSRC Press, http://www.hsrcpress.ac.za/full_title_info.asp?id=2109.

Cannon, T. (2004) "China and the Spatial Economy of the Reforms: Understanding Topocracy and the 'Local Developmental State'", The Centre for China Urban and Regional Studies, Hong Kong, Occasional Paper, no 48.

Cherry, J. (2005) "'Big Deal' or Big Disappointment? The Continuing Evolution fo the South Korean Developmental State", The Pacific Review, vol 18, no 3, pp. 327-54.

Deaton, A. et al (2006) "An Evaluation of World Bank Research, 1998-2005", http://siteresources.worldbank.org/DEC/Resources/84797-1109362238001/726454-1164121166494/RESEARCH-EVALUATION-2006-Main-Report.pdf.

Doner, R. et al (2005) "Systematic Vulnerability and the Origins of Developmental States: Northeast and Southeast Asia in Comparative Perspective", International Organization, vol 59, no 2, pp. 327-62.

Edigheji, O. (2005) "A Democratic Developmental State in Africa?: A Concept Paper", Centre for Policy Studies, Research Report 105, Johannesburg.

Edin, M. "Local State Structure and Developmental Incentives in China", in Boyd and Ngo (eds) (2005).

Fine, B. (1985) "A Note on the Measurement of Inequality and Interpersonal Comparison", Social Choice and Welfare, vol 1, no 4, pp. 273-75.

Fine, B. (1992) "Linkage and the State: The Case of South Korea", SOAS Department of Economics, Working Paper, no 2.

Fine, B. (1997) "Industrial Policy and South Africa: A Strategic View", NIEP Occasional Paper Series, no 5, Johannesburg: National Institute for Economic Policy.

Fine, B. (1998a) "Industrial Policy Revisited – An Exercise in Self-Indulgence", TIPS Conference, September, mimeo.

Fine, B. (1998b) "Vertical Relations in the South African Steel Industry", NIEP Occasional Paper Series, no 13, Johannesburg: National Institute for Economic Policy.

Fine, B. (1999) "The Developmental State is Dead - Long Live Social Capital?", Development and Change, vol 30, no 1, pp. 1-19.

Fine, B. (2001a) “Economics and Ethics: Amartya Sen as Point of Departure”, www.newschool.edu/gf/nser/articles/ 0101_fineb_econandethicssen_fall04_final.pdf
Fine, B. (2001b) “It Ain’t Social, It Ain’t Capital and It Ain’t Africa”, Studia Africana, no 13, pp.18-33.
Fine, B. (2001c) Social Capital versus Social Theory: Political Economy and Social Science at the Turn of the Millennium, London: Routledge.
Fine, B. (2002) The World of Consumption: The Material and Cultural Revisited, London: Routledge.
Fine, B. (2003) “Social Capital: The World Bank’s Fungible Friend”, Journal of Agrarian Change, vol 3, no 4, pp. 586-603.
Fine, B. (2004a) “Social Capital for Africa?”, Transformation, no 53, pp. 29-52.
Fine, B. (2004b)“Contesting Social Capital: A Response to Elke Zuern”, Transformation, no 55, pp. 113-15.
Fine, B. (2004c) “Beyond the Developmental State: Towards a Political Economy of Development”, in Hirakawa et al (eds) (2004), (in Japanese), with English version in Lapavitsas and Noguchi (eds) (2005).
Fine, B. (2004d) “Examining the Idea of Globalisation and Development Critically: What Role for Political Economy?”, New Political Economy, vol 9, no 2, pp. 213-31.
Fine, B. (2005) “Social Policy and Development: Social Capital as Point of Departure”, in Mkandawire (ed) (2005).
Fine, B. (2006) “The Developmental State and the Political Economy of Development”, in Jomo and Fine (eds) (2006).
Fine, B. (2007a) “Social Capital in Wonderland: The World Bank behind the Looking Glass”, mimeo.
Fine, B. (2007b) “Social Capital” mimeo, for special issue on buzzwords submitted to Development in Practice.
Fine, B. (2008) “Economics and Scarcity: With Amartya Sen as Point of Departure?”, in Mehta (ed) (2008), forthcoming.
Fine, B. and D. Milonakis (2007) From Political Economy to Freakonomics: Method, the Social and the Historical in the Evolution of Economic Theory, London: Routledge, forthcoming.
Fine, B. and Z. Rustomjee (1997) South Africa's Political Economy: From Minerals-Energy Complex to Industrialisation, Johannesburg: Wits University Press.
Freund, B. (2006)“South Africa: A Developmental State?”, http://www.nu.ac.za/ccs/files/Freund%20Developmental%20State.pdf.
Gelb, S. (2006) “A South African Developmental State: What Is Possible?”, presented at the Harold Wolpe Memorial Trust’s Tenth Anniversary Colloquium, http://www.wolpetrust.org.za/conferences/colloquium/gelb.pdf.
Guan, X. (2005) “China’s Social Policy: Reform and Development in the Context of Marketization and Globalization”, in Kwon (ed) (2005).
Haddon, M. M. (2003) The Curious Incident of the Dog in the Night-Time, London: Jonathan Cape.
Haggard, S. (2005) “The Political Economy of the Asian Welfare State”, in Boyd and Ngo (eds) (2005).
Hassim, S. (2005) “Gender, Welfare and the Developmental State in South Africa”, UNRISD Project on Gender and Social Policy, http://www.sarpn.org.za/documents/d0001335/index.php.
Hee, L. and G. Ooi (2005) “The Politics of Public Space Planning in Singapore”, Planning Perspectives, vol 18, no 1, pp. 79-103.
Heese, K. (1999) “Foreign Direct Investment in South Africa (1994-1999) – Confronting Globalisation”, paper presented to TIPS Annual Forum, Johannesburg, September.
Hirakawa, H. et al (eds) (2004) Beyond Market-Driven Development: A New Stream of Political Economy of Development, Tokyo: Nihon Hyoron Sha (in Japanese).
Hirata, K. (2002) Whither the Developmental State? The Growing Role of NGOs in Japanese Aid Policymaking”, Journal of Comparative Policy Analysis, vol 4, no 2, pp. 165-88.
Howell, J. (2006) “Reflections on the Chinese State”, Development and Change, vol 37, no 2, pp. 273-97.
Jacobs, A. (2003) “Devloving Authority and Expanding Autonomy in Japanese Prefectures and Municipalities”, Governance, vol 16, no 4, pp. 601-23.
Jessop, B. (2005) “A Regulationist and State-Theoretical Analysis”, in Boyd and Ngo (eds) (2005).
Jha, P. (2004) “India: From Developmental to Predator State”, in Munshi and Abraham (eds) (2004).
Jomo, K and B. Fine (eds) (2006) The New Development Economics: After the Washington Consensus, Delhi: Tulika, and London: Zed Press.
Kasza, G. (2006) One World of Welfare: Japan in Comparative Perspective, Ithaca: Cornell University Press.

Keeley, J. (2003) "The Biotech Developmental State? Investigating the Chinese Gene Revolution", IDS Working Paper, no 207, Institute of Development Studies, University of Sussex.
Kwon, H-J. (2003) Transforming the Developmental State in the Republic of Korea, Economic and Social Commission for Western Asia, ESCWA, United Nations, Social Policy Series, no 6.
Kwon, H-J. (2005) "An Overview of the Study: The Developmental Welfare State and Policy Reforms in East Asia", in Kwon (ed) (2005).
Kwon, H-J. (ed) (2005) Transforming the Developmental State in East Asia, Basingstoke: Houndmills.
Lapavitsas, C. and M. Noguchi (eds) (2005) Beyond Market-Driven Development: Drawing on the Experience of Asia and Latin America, London: Routledge.
Lee, S. (2004) "The Politics of the Asian Financial Crisis in Malaysia and South Korea", Journal of the Asia Pacific Economy, vol 9, no 1, pp. 10-31.
Lemon, A. (2005) "Shifting Geographies of Inclusion and Exclusion: Secondary Education in Pietermaritzburg, South Africa", African Affairs, vol 104, no 414, pp. 69-96Lim M. (2003) "From War-*Net* to Net-War: The Internet and Resistance Identities in Indonesia", International Information & Library Review, vol 35, no 2, pp. 233-48.
Lockwood, M. (2005) The State They're In: An Agenda for International Action on Poverty in Africa, Bourton on Dunsmore: ITDG Publishing.
Luiz J. (2002) "South African State Capacity and Post-Apartheid Economic Reconstruction", International Journal of Social Economics, vol 29, no 8, pp. 594-614.
MacLean, S. et al (eds) (2006) A Decade of Human Security: Global Governance and New Multilateralisms, Aldershot: Ashgate.
Makgetla, N. (2005) "A Developmental State for South Africa?", Discussion Paper for Cosatu's Central Committee.
Manuel, T. (2004) "Budgeting Challenges in the Developmental State", Speech by the Minister of Finance at Senior Management Service Conference in Cape Town, 20 September, http://www.treasury.gov.za/speech/2004092001.pdf.
Mbeki, T. (2005) "Address of the President of South Africa to the Second Joint Sitting of the Third Democratic Parliament", Cape Town, February 11th, http://www.info.gov.za/speeches/2005/05021110501001.htm.
Mehta, L. (ed) (2008) The Limits to Scarcity, London: Earthscan, forthcoming.
MERG (1993) Making Democracy Work: A Framework for Macroeconomic Policy in South Africa, Cape Town: CDS.
Milonakis, D. and B. Fine (2008) Reinventing the Economic Past: Method and Theory in the Evolution of Economic History, London: Routledge, forthcoming.
Mkandawire, T. (ed) (2005) Social Policy in a Development Context, UNRISD, Basingstoke: Palgrave MacMillan.
Munshi, S. and B. Abraham (eds) (2004) Good Governance, Democratic Societies and Globalisation, New Delhi: Sage Publications.
Negoita, M. (2006) "The Social Bases of Development: Hungary and Romania in Comparative Perspective", Socio-Economic Review, vol 4, no 2pp. 209-38.
Nissanke, M. and E. Thorbecke (eds) (2007) The Impact of Globalization on the World's Poor: Transmission Mechanisms, Basingstoke: Palgrave.
Ooi, G. (2005) "The Role of the Developmental State and Interethnic Relations in Singapore", Asian Ethnicity, vol 6, no 2, pp. 109-20.
Padayachee, V. and I. Valodia (1999) "Malaysian Investment in South Africa: South-South Relations in a Globalising Environment?", paper presented to TIPS Annual Forum, Johannesburg, September.
Painter, M. (2005) "Transforming the Administrative State: Reform in Hong Kong and the Future of the Developmental State", Public Administration Review, vol 65, no 3, pp. 335-46.
Pei, M. (2006) China's Trapped Transition: The Limits of Developmental Autocracy, Cambridge: Harvard University Press.
Pieke, F. (2004) "Contours of an Anthropology of the Chinese State: Political Structure, Agency and Economic Development in Rural China", Journal of the Royal Anthropological Institute, vol 10, 3, pp. 517-38.
Pirie, I. (2006) "Economic Crisis and the Construction of a Neo-Liberal Regulatory Regime in Korea", Competition and Change, vol 10, no 1, pp. 49-71.
Pirie, I. (2008) The Korean Developmental State: From Dirigisme to Neo-Liberalism, London: Routledge, forthcoming.
Putnam, R. (1993a) Making Democracy Work: Civic Traditions in Modern Italy, Princeton: Princeton University Press.

Rigg, J. (2002) “Of Miracles and Crises: (Re)Intepretations of Growth and Decline in East and Southeast Asia”, Asia Pacific Viewpoint, vol 43, no 2, pp. 137-56.
Sen, A. (1999) “The Possibility of Social Choice”, American Economic Review, vol 89, no 3, pp. 349-78.
Shaw, T. (2006) “Two Africas? Two Ugandas? An African ‘Democratic Developmental State’? Or another ‘Failed State’?”, in MacLean et al (eds) (2006).
Sindzingre, A. (2006) “Financing the Developmental State: Tax and Revenue Issues”, presentation at Overseas Development Institute, London, http://www.odi.org.uk/speeches/states_06/5thApril/Presentations/SindzingreDevelopmentalStateTaxationODI06.pdf.
Southall, R. (2006) “Introduction: Can South Africa Be a Developmental State?”, in Buhlungu et al (eds) (2006).
Stiglitz, J. (1994) Whither Socialism?, Cambridge: MIT Press, 1994.
Stiglitz, J. (2000) Economics of the Public Sector, New York: Norton & Company, third edition, first edition of 1986.
Swilling, M. and J. van Breda (2005) “Institutionalising the Developmental State: The Case of the ‘Special Funds’”, Centre for Civil Society, Economic Policy and Poverty Alleviation Report Series, Report no 4.
Swilling, M. et al (2005) “Economic Policy-Making in a Developmental State: Review of the South African Government’s Poverty and Development Approaches, 1994-2004”, Centre for Civil Society, Economic Policy and Poverty Alleviation Report Series, Report no 3.
Thun, E. (2006) Changing Lanes in China: Foreign Direct Investment, Local Governments, and Auto Sector Development, Cambridge: Cambridge University Press.
Tsheola, J. (2002) “Basic Needs in the Northern Province and South Africa’s Globalization Agenda”, African Development Review, vol 14, no 1, pp. 48–74.
Wade, R. (1996) "Japan, the World Bank, and the Art of Paradigm Maintenance: The East Asian Miracle in Political Perspective", New Left Review, no 217, pp. 3-37.
Wong, J. (2006) “Technovation in Taiwan: Implications for Industrial Governance”, Governance, vol 19, no 4, pp. 651-72.
World Bank (1993) The East Asian Miracle: Economic Growth and Public Policy, A World Bank Policy Research Report, Oxford: Oxford University Press.
Yuchao Z. (2004) “Workers, Unions and the State: Migrant Workers in China's Labour-Intensive Foreign Enterprises”, Development and Change, vol 35, no 5, pp. 1011-36.
Zhu J. (2004) “Local Developmental State and Order in China's Urban Development during Transition”, International Journal of Urban and Regional Research, vol 28, no 2, pp. 424-47.
Zhu, J. (2005) “A Transitional Institution for the Emerging Land Market in Urban China”, Urban Studies, vol 42, no 8, pp. 1369-90.
Zhu, T. (2002) “Developmental States and Threat Perceptions in North-East Asia”, vol 2, no 1, pp. 5-29.
Zhu, Y. (2004) “Workers, Unions and the State: Migrant Workers in China's Labour-Intensive Foreign Enterprises”, Development and Change, vol 35, no 5, pp. 1011-36.