FACING THE CONUNDRUM: HOW USEFUL IS THE
‘DEVELOPMENTAL STATE’ CONCEPT IN SOUTH AFRICA?¹

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Abstract: Developmental states are often associated with high economic growth. Japan in the 1950s-80s, South Korea in the 1960s-90s, China since the 1980s and Brazil since 2000 are all examples of developmental states, most of which grew at phenomenal rates. The National Development Plan (NDP) in South Africa sets out the intention of the South African government to transform the government into a “capable and developmental state able to intervene to correct our historical inequities…” (Manuel, T in the foreword to the NDP 2012:1). However, what the South African government means by the term ‘developmental state’ is not entirely clear. In addition, academic literature yields a variety of interpretations on what a developmental state is. To help bring some clarity this paper distinguishes between the East Asian developmental state and the Scandinavian developmentalist welfare state. A contemporary emerging market example of the former is China, while Brazil is an example of the latter. The paper furthermore draws on Bernard and Boucher’s distinction between a ‘social investment state’ and a ‘transfer welfare state’. The paper argues that the former is a more precise description of what is meant by the Scandinavian developmentalist welfare state. Subsequently the paper discusses the applicability of the developmental state framework to South Africa. Specifically, it argues that the East Asian model neither is a model that would work in South Africa, nor is it a model that South Africa would wish to apply. The paper further argues that South Africa currently resembles more a transfer welfare state than the Scandinavian-Brazilian social investment state. The social investment state, though, is closer to what South Africa needs.

1. INTRODUCTION

Developmental states are often associated with high economic growth. Japan in the 1950s-80s, South Korea in the 1960s-90s, China since the 1980s and Brazil since 2000 are all examples of developmental states, most of which grew at phenomenal rates. The National Development Plan (NDP) in South Africa sets out the intention of the South African government to transform the government into a “capable and developmental state able to intervene to correct our historical inequities…” (Manuel, T in the foreword to the NDP 2012:1). Although the NDP uses the term “developmental state”, the precise meaning it ascribes to the term is not clear.³ An overview of the academic literature on

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³ On its website the NPC (2012b) states that “This model has been applied to the success of East Asian countries from the 1960s in achieving rapid economic growth alongside improvements in human wellbeing; in the Indian state of Kerala to bring about improvements in human wellbeing (without comparable economic improvements); and in Scandinavia to realise full employment
the developmental state indicates a similar lack of clarity. For instance, China and Brazil are two examples of states described as developmental states. However, China and Brazil differ vastly, both in terms of the nature of their economies and the policies pursued by their governments.

Hence, the paper in Sections 2 and 3 clarify the meaning of the developmental state concept and differentiates between the East Asian developmental state model pursued by China and the Scandinavian developmentalist welfare state model pursued by Brazil. The paper also relates the developmentalist welfare state to what Bernard and Boucher (2007) call the ‘social investment state’, which they distinguish from the ‘transfer welfare state’ and the ‘liberal state’.

Section 4 below discusses the applicability of the developmental state framework to South Africa. Specifically, it argues that the East Asian model is neither a model that would work in South Africa, nor a model that South Africa would wish to apply. The paper further argues that South Africa currently resembles more a transfer welfare state than the Scandinavian-Brazilian social investment state. However, policy should increasingly focus on South Africa becoming a social investment state rather than a transfer welfare state.

2. THE DEVELOPMENTAL STATE: A CONCEPTUAL FRAMEWORK

Economists and other social scientists, as well as policy makers use the concept of the ‘developmental state’ quite frequently. Over the course of time though and due to the differing interpretations of those who use the concept, its meaning has become less clear. There is also the danger that the political use of the term may render its meaning rather hollow over time, reducing it to a political buzzwords. Nevertheless, given its use in policy circles, it might be useful to unpack its meaning.

and establish welfare states. There is no prototype of a developmental state: each country has pursued a unique set of policies in response to its own set of challenges.” Even though there is no prototype, one would have expected that for the term ‘developmental state’ to have any content and meaning, there should be some similarities between the examples cited.
Chalmers Johnson coined the term ‘developmental state’ in his 1982 seminal book entitled ‘MITI and the Japanese Miracle’. At the height of the Cold War the typical distinction was between a capitalist state such as the USA and a communitist/socialist state such as the USSR. Johnson (1999:32) used the concept of the developmental state as a description of the Japanese state and to contrast it with the binary distinction between the market-based focus of the US system of capitalism and the complete state-dominated system of the Soviet Union. A developmental state would be a state where government plays a large, active and significant role in the economy, but in support of some selected, mostly private industries.

Key elements of the ‘developmental state’ as understood by Johnson and that crystallised in the experience of some East Asian economies are (cf. Evans 1989, Baissac 2009, Pekkanen 2004):

1) A singular focus on economic growth as the prime directive of the economy and society. Indeed, growth provides the legitimacy of the system.
2) A state-led industrial policy with the government actively supporting selected industries.
3) A professional bureaucracy that is highly capable and well connected to industry.
4) A labour market and an education system that is subjected to the singular focus on growth.
5) An authoritarian regime intent on maintaining stability so as not to undermine economic growth.
6) Establishing a very high saving rate that can be used for investment and capital deepening.
7) Establishing an export-led growth model.

The Japanese developmental state served as a model for several East Asian economies. Most notable of these are South Korea, Taiwan and Singapore, which were some of the more successful developmental states that generated high growth. However, the list also includes the Philippines and Indonesia, which were two less successful developmental states. All these East Asian economies can be categorised as the second-generation
developmental state, following the first-generation Japanese model. China can be classified as a third-generation East Asian developmental state.

2.2 The developmentalist welfare state or social investment state

Evans (2010) and Chang (2010) offer interpretations of the developmental state that are broader than the traditional East Asian model. Evans (2010) argues that, unlike the 20th century developmental state that focuses on manufacturing, the 21st century developmental state will focus on the tertiary/service sector. Furthermore, Evans (2010:48) argues that the service sector will increasingly in future be knowledge-based. As such, governments should focus on human capabilities and therefore expand capability-expanding services. Instead of focusing on the production side and capacity of firms as the 20th century developmental state did, the developmental state of the 21st century should, according to Evans, focus on improving human capabilities. Evans in particular attempts to reconcile the concept of the developmental state with, inter alia, the human capabilities approach of Amartya Sen. As such, Evans (2010) suggests that government should focus primarily on education and health, together with other expenditure that expand human capabilities.

Chang (2010:88) expands the definition of the developmental state to include not only the pro-corporate developmental states of the East Asian model, but also the so-called left-wing Scandinavian ‘developmentalist welfare state’. Whereas the legitimacy of the East Asian developmental state depends on it reaching high economic growth, the legitimacy of the Scandinavian developmentalist welfare state depends on it reaching its social equity objectives through, among other, its welfare policies and active intervention. As such, following Chang (2010), one could distinguish between the East Asian developmental state deriving its legitimacy from growth and the Scandinavian developmentalist welfare state deriving its legitimacy from welfare enhancement and full/high employment.

The close link between economic, social and political decisions found in Chang (2010) can also be found in Evans (2010). Evans (2010:50) notes that the 20th century developmental state could separate growth policy from social and welfare policy in establishing partnerships between government and the private sector. However, he
argues that such separation cannot be done in the 21st century developmental state. He argues that “[p]olicies that expand capabilities may look like ‘social policy’ or ‘welfare policy’ but they are essential to growth policy.” Evans (2010) therefore argues for the 21st century developmental state to include a human capabilities focus. Such a state should also have deliberative procedures that allow for the participation of members of society. (This means that the 21st century developmental state of Evans (2010) might be very similar to the developmentalist welfare state of Chang (2010); the extent of similarity would depend on whether or not welfare in the latter is meant to include the expansion of citizen’s capabilities and not just a redistribution of income.)

The focus on human development and how it relates specifically to the model pursued in the Scandinavian countries is also found in Bernard and Boucher (2007). Bernard and Boucher (2007) identify a trilemma that governments may face at times: they have to keep inequality under control, maximise economic growth and ensure fiscal restraint, i.e. maintain fiscal sustainability. In terms of how states relate and attempt to overcome the trilemma, Bernard and Boucher (2007:220-6) distinguish three types of states: the Anglo-Saxon liberal state, the Scandinavian social investment state and the continental transfer welfare state.

In a liberal state private investment by individuals is responsible for the care of dependents, education, training and life-long learning, as well as the maintenance and restoration of health (Bernard and Boucher 2007:220-223). Because the liberal state tolerates more inequality, there are fewer efforts by the state to ensure more equality in private investment in these social investment goods. Therefore, those individuals who are too poor to afford high-level education or care givers to look after their children and elderly invest less in social investment goods, which in turn perpetuates the inequality. The level of inequality and the accompanying proportion of people with relatively low income also limit the tax base of liberal governments, which in turn, limits what such governments can spend. However, because welfare and social investment expenditure by liberal governments is limited, their need to raise taxation is also limited. This leaves more room for private expenditure and investment for those who can afford it, while it ensures fiscal sustainability.
In contrast to the liberal state, the government in the social investment state is responsible for the care of dependents, education, training and life-long learning, as well as the maintenance and restoration of health (Bernard and Boucher 2007:220-223). As Kuhnle and Hort (2004) argue, the foundation of the Scandinavian model is universalism – i.e. everyone, irrespective of income or wealth, has access. What poorer individuals could not afford in a more liberal state, the government now provides to everyone. Thus, social investment states have a more equal distribution of wealth and income. In addition, given that the focus is not on transfers, but on education, health and freeing up of time to work by government taking care of dependents, the state also improves productivity and international competitiveness. This supports economic growth and will allow individuals to generate the income and thus the taxation needed to support social investment.

Compared to a social investment state, the transfer welfare state has a larger component of passive social transfers such as old-age pensions, generous unemployment compensation (particularly for the long-term unemployed) and early retirement compensation (Bernard and Boucher 2007:224). Inequality in a transfer welfare states might be less than in a liberal state, but the expenditure does not improve productivity and international competitiveness. As such, unemployment and especially long-term unemployment might be relatively high, which, in turn, undermines the tax base and compromises the revenue-raising capability of the government. Thus, with high expenditure and a limited tax base, transfer welfare states might face more fiscal pressure than either the liberal or the social investment states.

Indeed, in their factor analysis focusing on 20 OECD countries Bernard and Boucher (2007) identify four ‘regimes’ or groups of countries:

a) the Anglo-Saxon countries with their liberal regimes,
b) the Scandinavian countries with their social investment regimes,

c) the Continental North European countries (Germany, Belgium, France, the Netherlands, Austria, and to some extent Switzerland),
d) the South European countries (Greece, Spain, Italy, and to some extent Portugal).

Social investment states such as Sweden also pay large amounts of transfers – but the focus of the system is social investment. Thus, it is not just a matter of degree; social investment states focus more on enabling expenditure and less on passive transfers (cf. Bernard and Boucher 2007).

The countries are: Nordic (Sweden, Denmark, Norway, and Finland), Anglo-Saxon (the US, Australia, New Zealand, Canada, Ireland, and the UK), Continental North European (Germany, Belgium, France, the Netherlands, Austria, and to some extent Switzerland), and South European (Greece, Spain, Italy, and to some extent Portugal).
c) a southern European group of countries that closely fit the transfer welfare regime and
d) a northern European group of countries that fit somewhere between the social investment regime of the Scandinavian countries and the transfer welfare regime of the southern European countries.

Southern European countries experienced more fiscal pressure and were not as competitive internationally as the Anglo-Saxon liberal and Scandinavian social investment states. Indeed, Bernard and Boucher (2007:225) report that both Scandinavian and Anglo-Saxon countries outperform the other countries in terms of competitiveness (as measured by the Global Competitiveness Index and the classification of the Robert Schuman Foundation). The effects of the global financial crisis on the EU and in particular the performance of southern Europe relative to northern Europe and the Scandinavian countries only serve to emphasise what Bernard and Boucher found prior to the crisis.

The framework of Bernard and Boucher does raise the question whether the term ‘social investment state’, in placing the focus on social and human aspects of development, is analytically not a more accurate term than the more generic ‘developmental state’ term. It describes the focus of such a state better and helps to distinguish it clearly from the liberal and transfer welfare states, not just conceptually, but also in terms of performance.

The term ‘social investment state’ also helps to distinguish the developmentalist welfare state more clearly from the East Asian developmental state – the latter focuses primarily on growth, with human development being of secondary importance. (Ironically, in terms of rising inequality the East Asian developmental state more closely resembles the liberal state.) The East Asian developmental state focuses more on real investment, exports, low wages and low unit labour cost to drive growth and productivity. In the past this growth also yielded the income (both public and private) needed to maintain the high real investment and ensure fiscal sustainability. As such, the East Asian developmental state is more like a fourth category alongside the liberal, transfer welfare and social-investment categories of states identified by Bernard and Boucher (2007).
3. DEVELOPMENTAL STATES IN PRACTICE

How do social investment states (developmentalist welfare states) differ from the East Asian developmental state in practice? This section first presents in broad outlines the characteristics of one notable example of the social investment state (developmentalist welfare state), Brazil, before contrasting it to the East Asian developmental state.

3.1 The Brazilian developmental state

Although Brazil is classified as a developmental state, when considering the characteristics of the policy package that the Brazilian government implemented, it is clear that Brazil, and particularly the Brazil of Lula da Silva (President of Brazil from 2003-10) fits much closer the more specific description of the social investment state (or developmentalist welfare state). The Lula administration succeeded the Cardoso administration. The latter was responsible for large-scale reforms, including the privatisation of SOEs, opening up the economy to foreign investment and competition and establishing macroeconomic stability by establishing fiscal sustainability and getting inflation under control (see Trubek, Coutinho and Schapiro 2013).

Innovation became the foundation of the Lula da Silva government’s industrial policy. The Lula government announced its first industrial policy entitled Política Industrial, Tecnológica e de Comércio Exterior (PITCE, or Industrial, Technological and Foreign Trade Policy) in November 2003. PITCE focused sharply on innovation and a drive of the economy towards knowledge-intensive sectors (Mendes 2013, Arbix and Martin 2010:17, Trubek et al 2013:289-90). In May 2008 the Lula government launched the Política de Desenvolvimento Produtivo (PDP, or Production Development Policy), which replaced and expanded upon PITCE (Mendes 2013). The PDP intended to support industry, specifically the mining, steel, aviation, and biofuels sectors, to become global leaders (Mendes 2013). The PDP was designed in reaction to the effects of the appreciation of the Real that undermined the competitiveness of some Brazilian industries (Mendes 2013).

During the 1960s, 1970s and 1980s Brazil was what Arbix and Martin (2010) call a dirigiste or military-developmentalist state. In an effort to influence and direct the economy, as in many developmental states, the Brazilian developmental state controlled a range of SOEs. However, unlike the East Asian developmental states, the Brazilian developmental state was built on import substitution and protectionism, both pursued behind high tariff walls (for an overview, see Arbix and Martin 2010 and Trubek, Coutinho and Schapiro 2013). Also see Evans (1989).
The PDP addressed these effects by focusing on the improvement of innovation and competitiveness of Brazilian industries (Koeller and Gordon 2009).

Figure 1 – Real GDP growth rate in South Africa, China and Brazil

Source: IMF

The achievement of Brazil under the Lula administration is not so much a lifting of the economic growth rate (Figure 1 shows that its growth rate was as subdued as the South African growth rate and much less than the Chinese growth rate), but rather the substantial fall in the Gini coefficient. It fell from 0.593 in 2001 (in 1990 it was 0.61) to 0.53 in 2010, with 21% of the drop due to the cash transfer scheme under the Bolsa Familia programme (Arbix and Martin 2010:26, 29, Trubek 2013:293). The Bolsa Familia is largely a cash transfer social welfare programme that grew out of the Bolsa Escola programme of the Cardosa administration. The cash grants in the programme in part are based on human development conditionalities such as school attendance and vaccinations (Arbix and Martin 2010:25). While in 2003 this programme reached 1.2 million families, by 2009 it reached 11.9 million families. Trubek et al (2013:293) note that with an average of four people per family, the Bolsa Familia programme reaches approximately 48 million people, or 25% of the Brazilian population. Arbix and Martin (2010:27) also argue that income distribution further improved because of the increase in the minimum wage.
With conditionalities for social expenditure that supported health and education and a focus on innovation, Brazilian policy under the Lula government focused on an improvement of both short- and long-term human development, productivity and international competitiveness. As such, it contained elements of the Scandinavian social investment model. This suggests that, as in the Scandinavian case, Brazil can be described as a social investment state.

3.2 Comparing the East Asian developmental state and the Scandinavian-Brazilian social investment state

Most of the East Asian developmental states followed an export-led approach to growth. The Scandinavian countries and Brazil are not nearly as export oriented as the East Asian developmental states. Most of the East Asian export-oriented economies started out as low-wage countries. Countries like China still use their low wages as a source of comparative advantage to stimulate exports and subsequently growth.

As their comparative advantage rests on low wages to keep unit labour cost down, labour rights were, and are, limited and wage increases might not reflect the full increase in productivity. In such an economy the low wages also mean that consumption constitute a very limited sales base for companies. Hence, aggregate demand in such a country needs to come from exports or investment, or both. Investment rates in East Asian economies are high relative to many other countries. Indeed, in most of these countries investment leads to significant increases in capital deepening. Investment also contributes significantly to growth. To finance such high levels of investment most of the East Asian economies have high saving rates, often in the form of retained corporate earnings. Low levels of consumption as well as high levels of exports and investment also mean that industries are not primarily geared towards the needs of members of society. Japan, the East Asian ‘tiger’ economies and China all fit this description to a large extent.

Also note that usually, after pursuing the East Asian developmental state model for some decades, the high levels of investment and capital deepening in many East Asian economies resulted in over-capitalisation and a fall in the marginal product of capital. The latter means that to yield the same economic growth rate requires increasingly higher levels of investment relative to income – something that is not sustainable. Japan was the
first to run into a problem of over-capitalisation in the late 1980s. It failed to restructure its industries, and the stimulus packages announced since then did little to lift the growth rate again. The East Asian ‘tigers’ also over-capitalised. Some years prior to the Asian crisis Young (1993, 1995) already warned that these economies were over-investing and that the marginal product of capital is falling. The Asian crisis of 1997/8 highlighted the weaknesses of these developmental states. Countries such as South Korea subsequently largely dismantled their developmental state and went into a much more free market oriented direction, a policy that seems to be generating good results.

Figure 2 – China: National accounts components

China is the latest East Asian developmental state displaying signs of over-capitalising. China increased its investment as percentage of GDP from 34.4% in 2001 to 40.8% in 2008 (see Figure 2). Following the drop in exports as a result of the global financial crisis of 2007/8, China in effect substituted investment for exports. From 2009-11 investment averaged 46%, while exports fell from a high of 37.1% in 2005 to between 26% and 30% during 2009-11 (see Figure 2). Consumption in China also fell from 45.1% of GDP in 2001 to 35.2% in 2008, remaining stable after 2008. However, since the global financial and economic crisis economic growth in China has fallen from approximately 12% to roughly 8%. Thus, higher levels of investment and capital deepening have failed to yield previous high levels of economic growth. Therefore China faces the challenge that other
East Asian developmental states faced, i.e. to shift its growth model away from exports and a dependence on low wages towards a higher-wage-higher-consumption model.

Contrasting with the East Asian developmental state model, is the model used in Brazil. Brazil does not focus that much on exports, which constitute between 10% and 15% of Brazilian GDP, while consumption is maintained at approximately 60% (see Figure 3). Investment has increased from 17% in 2001, to 19.1% in 2008, a level that it has maintained since (see Figure 3). As Arbix and Martin (2010:30-1) state: “What seems to be taking shape in contemporary Brazil is a new development model of ‘growth with equity’ that relies not just on export demand but also increases in domestic consumption that build on more buoyant income, labour markets, and government income transfers.”

Given relatively higher wage levels in Brazil, it can largely depend on domestic consumption and investment to drive aggregate demand (compared to China’s dependence on exports and investment). Higher consumption stimulates services and local manufacturing for local consumption.

Of course, in a model that depends more on domestic consumption, local producers must compete with imports and therefore still need to improve their competitiveness, i.e. reduce unit labour cost. However, it should presumably be easier to compete in one’s
home market than in foreign markets. Unfortunately, competitiveness remains a problem in the Brazilian economy. There are indications that the Rousseff government, which succeeded the Lula government, increasingly attempts to protect industries (Mendes 2013). These measures include a tax rate of 30% on vehicles with less than 65% of their value-added originating in Brazil, and loans from the Brazilian Development Bank (BNDES) to prop up selected domestic industries. These policies roll back the outward and innovation focus of the Lula government and hark back to the protectionist policies found in the import substitution development state of earlier periods in Brazil. In addition, with a combined federal, state and municipal tax burden of 36% and questions about the quality of services, Brazil in 2013 also saw protests against increases in municipal transport fees (Gaspari 2013).

4. **DOES SOUTH AFRICA FIT ANY OF THE DEVELOPMENTAL STATE MODELS?**

The discussion below argues that South Africa does not fit the description of an East Asian developmental state. In addition, the discussion also indicates that South Africa resembles a transfer welfare state more than a social investment state.

4.1 **Does South Africa resemble a developmental state a la China?**

The discussion below uses the characteristics of a typical East Asian type of developmental state identified above to consider the extent to which South Africa fits the East Asian developmental state model.

i. **Deriving legitimacy: A primary focus on economic growth vs improving welfare**

The South African government as a whole does not have a singular focus on growth, but a stated policy intention to reduce unemployment, poverty and inequality. In addition, the South African constitution sets out a series of social rights that, depending on the state’s ability to afford them, need to be realised progressively. The realisation of these rights implies an increase in the social wage, which may divert resources from what would otherwise have been a policy strictly focused on growth. This also means that a singular focus on growth is simply not feasible under the current constitution. Rather, the state seems to derive its legitimacy from being a democracy intent on intervening to
“...correct our historical inequities...” (Manuel, T in the foreword to the NDP 2012:1). These inequities reflect in high levels of unemployment, poverty and inequality.

**ii. State-led industrial policy that support state-selected industries**

The South African government has an industrial policy plan in the form of the Industrial Policy Action Plan (IPAP), launched in the 2007/8 fiscal year. At the time of writing IPAP was in its fifth iteration, focusing on the 2013/4-2015/6 period. Industries already targeted by IPAP are the automotive, the clothing, textile, leather and footwear as well as the business process services industries (see DTI 2012). With the possible exception of the automotive industry, no manufacturing industry is performing spectacularly or contributing significantly to exports, even though IPAP has been in place since 2007/8. According to the Minister of Trade and Industry (DTI 2013:6): “The overriding goal of the IPAP in this policy context is to prevent industrial decline and support the growth and diversification of South Africa’s manufacturing sector.” IPAP includes a focus on improvements in competitiveness, innovation, tariff reductions on intermediate goods and sharpening competition policy. It also includes a focus on the development of Industrial Development Zones. Though IPAP focuses on specific sectors of manufacturing, the policy is hardly the lynchpin of the government’s economic policy. The expenditure of the Department of Trade and Industry, which administers IPAP, is budgeted to grow to R11.4 billion over the medium term to 2015/6 (this amount includes R5.5 billion to support the improvement of manufacturing competitiveness and R2.1 billion for Special Economic Zones)(National Treasury 2013:124). This would, using the National Treasury’s GDP forecast (National Treasury 2013:165), constitute only 0.27% of GDP. Given the poor performance of the manufacturing sector in South Africa and the unlikelihood that the DTI’s capacity and hence activities can be scaled up multiple times, means that IPAP’s impact is probably going to remain limited.

**iii. The labour market**

The labour market in South Africa is certainly not subjected to a singular focus on economic growth. In East Asian countries labour rights were proscribed and limited, keeping wages relatively low. Because the East Asian countries pursued an export-oriented policy, they ensured their international competitiveness and hence their low unit
labour cost, by keeping wages low. As discussed further below, wage levels in South Africa are significantly higher than in China, and the NDP explicitly precludes the possibility of decreasing wages (cf. National Planning Commission 2011b). Labour unions in South Africa will simply not agree to the type of labour practices found in East Asian countries. Given the central role of the labour unions in the ruling tri-partite alliance (comprising the ANC, the SACP and COSATU) there is little possibility for the watering down of existing labour rights. If anything, labour rights are strengthened, as can be witnessed in the introduction in 2013 of legislation to limit labour brokers.

iv. Authoritarianism, state autonomy, state embeddedness and democracy

Van Dijk and Croucamp (2007:669) note that developmental states usually are rather authoritarian and require the containment of civil liberties in the interest of growth. However, they also note that since the first settlers arrived, South Africa has had a consolidated, political culture of social resistance to imposed state formation. Currently this culture is observable in the high prevalence of local authority protests. It is also observable in the campaigns of some very active social pressure groups such as the Treatment Action Campaign, Section 21 and Equal Education.

The typical East Asian developmental state, however, is not democratic. Instead, it possesses what Evans (1989, 1995) calls ‘embedded autonomy’. Embedded autonomy describes “…an apparently contradictory combination of Weberian bureaucratic insulation with intense immersion in the surrounding social structure” (Evans 1989:574). Thus, such a state is supposed to be autonomous, formulating policy independent of various interest groups, without being captured by sectional interests. It is nevertheless embedded in society, meaning it has ties to interest groups in society. With labour being suppressed in the interest of economic growth, these ties would be predominantly with the business sector. These political and business elites would all be focused on growth. However, in a society where labour is not suppressed, embeddedness implies that ties exist to both the corporate sector and labour. Caught between the interests and ideological views of business and labour, the political elite in such a society might find itself in policy paralysis - and more so if it depends on the one group to generate tax revenue and on the other for votes.
Baissac (2009:10) argues that ideological divisions among the ruling elite in South Africa are widespread, creating uncertainty about whether the government’s policy will tilt right or left. He also argues that this contrasts with Botswana, Mauritius, Brazil, China, South Korea and Taiwan where changes in government do not affect the direction of economic development policy. Johnson (1982) made a similar point about the autonomy of the MITI in Japan – it operated rather autonomously of the political leadership in Japan. Thus, for the East Asian type developmental state to operate fully requires a rather technocratic pursuit of an overarching growth objective, with the technocrats being insulated from changes in the democratic winds. In a country such as South Africa, with its history characterised by a long struggle to establish democracy, such insulation of the technocrats might not be acceptable to the general voting public.

In South Africa ideological division also exist on the desirability of the developmental state. What is of interest, though, is that the attitudes of those on opposite sides of the ideological divide towards the developmental state became more complex and on the surface might look like a shift in opinion. Baissac (2009) traces the origin of the idea that South Africa should implement a developmental state to the left wing of the ruling tripartite alliance. In contrast the Democratic Alliance (DA), which is the official opposition and to the right of the ANC, in a 2010 policy document rejected the ANC’s call for a developmental state. Instead the DA argued for a standard liberal market economy with conservative fiscal and monetary policy. However, the position of these role players on the developmental state became more complex with the government’s adoption of the NDP.

Some COSATU affiliates as well as prominent members of the SACP have rejected the NDP despite the final version of the NDP stating its aim as that of creating a ‘capable and developmental state’. These COSATU affiliates and members of the SACP argue that the NDP is similar to the GEAR policy that the government implemented in 1996 (NUMSA 2013; SACP 2013; Coleman 2013; Cronin 2013). COSATU and the SACP criticised GEAR as being a neo-liberal policy, thus hardly the description of a developmental state. Criticism of the developmental state from both the business sector and the DA virtually disappeared once the government adopted the NDP.7 Nevertheless,

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7 With respect to the NDP, the DA (2011) states that the DA “...agree with many of its key findings and proposed solutions.”
it is notable that in the draft version of the NDP the document only speaks of a ‘capable state’ (cf. National Planning Commission 2011a chapter 13), with the term ‘developmental state’ not appearing at all in the whole document. However, the final version of the document speaks of a ‘capable and developmental state’ (cf. National Planning Commission 2012a chapter 14). Thus, the developmental state framework might not have been the original point of departure of the NDP and it raises the question whether or not the term ‘developmental’ might merely have been included in a textual ‘find-and-replace’ exercise in an effort to placate the left wing of the alliance.

Nevertheless, the division of opinion between the ANC and some of its alliance partners indicates the divisions among the ruling elite. Such a division undermines the unitary focus of the ruling elite that a developmental state of the East Asian variety requires.

v. The low saving rate

Compared to the typical pattern seen in East Asian developmental states, the saving rate in South Africa is still very low. The same is true of investment. East Asian countries such as Japan had higher saving rates imposed, while the low wages in countries such as China and the subsequent higher corporate profits allow for higher levels of retained earnings and thus corporate saving. Enforcing a higher rate in South Africa will probably elicit some resistance. In its consumption and saving pattern South Africa much more resembles Brazil. Both in Brazil and South Africa consumption is approximately 60% of GDP - compare this to China’s ratio at approximately 35% (see Figures 2, 3 and 4).
vi. South Africa an export-driven economy?

Although the stated policy of the South African government since the implementation of GEAR up to and including the NDP is that South Africa should use exports as a driver of growth, exports remain muted (and the current account remains perpetually in a deficit). The NDP projects exports to increase by 6% per annum up to 2030. Although the NDP envisions that small and medium-sized firms will create the majority of jobs, the plan sees exports as a major, if not the key driver of growth and employment. Employment growth will occur through the backward linkages between export firms and the domestic (services) economy. The plan states that although, due to competition, the country cannot compete in either low- or high-skill industries, it could do so in so-called ‘mid-skill manufacturing and services’ and niche markets that do not require economies of scale.

Key to any export-led initiative is the competitiveness of the country and central to competitiveness is unit labour cost. The Diagnostic Document of the National Planning Commission (2011b) states that the average wage in South Africa is five times the level in China and India, three times the level in Mexico and Malaysia and significantly higher than in Brazil, Russia and Turkey. Brazil, Mexico and Malaysia are peer countries that
presumably also fit the mould of ‘mid-skill countries’ (though countries like China increasingly produce high-tech electronic goods and sophisticated cars).

The NDP makes it clear that wage reductions are not on the cards. On this point the plan probably is correct. Given the significant wage gap inherited from the apartheid era as well as a very militant labour sector, the reduction of wage levels, even in real terms, is politically untenable. If anything, the battle seems to be to contain wage increases (and as recent developments in the mining sector show, it sometimes is quite literally a ‘battle’).

With wages not decreasing, productivity will need to increase to make South Africa internationally more competitive. However, that requires improved skills and education – something South Africa is not excelling at. Due to the financial crisis many export markets are also stagnant or shrinking. A stagnant or shrinking international market combined with being not very competitive internationally limits the possibilities to expand South African exports. The National Development Plan largely disregards this. The plan suggests the examples of exporting nuts, cherries and berries. However, it is doubtful that enough such markets exist to significantly help increase employment in our economy by 85% within eighteen years.

vii. A competent bureaucracy

One of the key elements needed to ensure a successful developmental state is the existence of a competent bureaucracy (Johnson 1982; Evans 1989, 1995). However, for several reasons large components of the South African civil service underperform (Van Dijk and Croucamp 2007; Baissac 2009; Lodge 2009; Von Holdt 2010). Several key government departments experience significant inefficiencies that relate to a lack of skilled staff as well as the effects of the ANC’s policy of cadre deployment. With respect to skills, consider the serious shortage of mathematics and science teachers, as well as engineers, doctors and nurses. There is also a lack of management skills in national and provincial departments, including the education and health departments. Local authorities also suffer from a lack of skilled officials, ranging from financial management experts to engineers and technicians responsible for water purification and road building and maintenance. The reasons for these problems form the basis for several studies that specifically consider the role of a skilled civil service in the implementation of a
developmental state in South Africa (see for instance Van Dijk and Croucamp 2007, Lodge 2009, and Von Holdt 2010).

With the advent of democracy the new government inherited a white-controlled civil service that served the previous regime. Though the existing civil service was to some extent technically capable and well-trained, the new government for obvious reasons did not trust it to implement policies that addressed the dismal social and economic position in which the very same civil service kept blacks just a few years earlier. Thus, the new government set about transforming the civil service into an institution that would be sensitive to what is needed to implement a successful socio-economic transition.

Figure 5 – Public opinion on the delivery of basic services

Unfortunately, in many national, provincial and local government entities cadre deployment and the pressure to transform the racial composition of the civil service meant the loss of skills and institutional memory of systems and procedures. This also meant that in many cases the transformation was not accompanied by an improvement in service delivery. The Limpopo textbook scandal and the continued existence of so-called ‘mud schools’ and overcrowded classrooms in for instance the Eastern Cape almost a generation after the advent of democracy illustrate the problem with service
delivery. The National Treasury also has placed several provincial departments under effective administration following significant management and financial problems.

Furthermore, public opinion about the performance of basic service delivery has declined steadily: from 81% of people thinking that service delivery is performing well in May 2004 to 51% in November 2012 (see Figure 5). In addition, the number of service delivery protests increased from below 40 per year in the period prior to 2009, to a 113 just for the first seven months of 2013 (see Figure 6). Corruption and nepotism is also widespread in many government departments and tender processes.

*Figure 6 – Number of major service delivery protests*

![Number of major service delivery protests](image)

*Source: The Presidency, Development Indicators (2013:97)*

The government has made great strides in the provision of housing and electricity to households. Since 1994 it has built 5 677 614 additional formal houses (The Presidency, Development Indicators (2013:35)). This means that the percentage of people living in formal housing increased from 64% in 1996 to 77.7% in 2011. In addition, the proportion of households with access to electricity increased from 52% in 1994 to 76.5% in 2011/2 (The Presidency, Development Indicators (2013:35)). However, with respect to electricity generation the country has been close to full capacity utilisation since 2008 (see Figure 7). Belatedly the government is building two large power stations, but until they come online, demand pressure will continue.
The parastatal sector in South Africa is another component of the public sector that appears to suffer serious management shortcomings. The South African government repeatedly have had to bail out South African Airways, while the South African Broadcasting Corporation suffers continuous internal management squabbles.

**Figure 7 – Electricity supply and demand**

Despite these shortcomings and the shortage of competent civil servants, some policy initiatives have been quite successful. The rollout of social grants, the turn-around of the Department of Home Affairs, the efficiency of the National Treasury and SARS are some of the success stories. Nevertheless, given that a competent civil service is key to the success of an East Asian type developmental state, South Africa with its problems in education, health and local government does not resemble those states and the extent to which these sectors are resistant to reform will undermine the possibility to implement an East Asian type developmental state.

**4.2 DOES SOUTH AFRICA RESEMBLE A SOCIAL INVESTMENT STATE A LA BRAZIL?**

Does South Africa fit the description of the social investment state – or rather that of the transfer welfare state?
i. Social welfare

As is the case with Brazil, South Africa has a rather extensive welfare system that reaches 16.5 million out of a population of 52 million (see Tables 1 and 2). Of the 16.5 million grants, 11.7 million are child support grants of R290 per month. Total grants equal 3.7% of GDP.

Table 1 – Number of grant recipients (thousands)

<table>
<thead>
<tr>
<th></th>
<th>2012/13</th>
<th>2013/14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Old age¹</td>
<td>2 831</td>
<td>2 931</td>
</tr>
<tr>
<td>Disability</td>
<td>1 179</td>
<td>1 180</td>
</tr>
<tr>
<td>Foster care</td>
<td>529</td>
<td>569</td>
</tr>
<tr>
<td>Care dependency</td>
<td>130</td>
<td>135</td>
</tr>
<tr>
<td>Child support</td>
<td>11 406</td>
<td>11 699</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>16 095</td>
<td>16 514</td>
</tr>
</tbody>
</table>

¹. Projected numbers at fiscal year end
2. Includes recipients of war veterans grant

Source: National Treasury (Budget Review 2013/14)

As mentioned above, the Bolsa Familia programme in Brazil reaches approximately 25% of the Brazilian population, which means that the South African welfare system might be even more comprehensive than the Brazilian system. One difference between the South African welfare system and the Bolsa Familia is that the latter is often conditional, meaning recipients accept certain responsibilities such as having their children inoculated or sending them to school as a precondition for receiving the grant.

Table 2 – Monthly social grant amounts (Rand)

<table>
<thead>
<tr>
<th></th>
<th>2012/13</th>
<th>2013/14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Old age grant</td>
<td>1 200</td>
<td>1 260</td>
</tr>
<tr>
<td>Old age grant, over 75s</td>
<td>1 220</td>
<td>1 280</td>
</tr>
<tr>
<td>War veterans grant</td>
<td>1 220</td>
<td>1 280</td>
</tr>
<tr>
<td>Disability grant</td>
<td>1 200</td>
<td>1 260</td>
</tr>
<tr>
<td>Foster care grant</td>
<td>770</td>
<td>800</td>
</tr>
<tr>
<td>Care dependency grant</td>
<td>1 200</td>
<td>1 260</td>
</tr>
<tr>
<td>Child support grant¹</td>
<td>280</td>
<td>290</td>
</tr>
</tbody>
</table>

¹. Value will increase to R300 in October 2013

Source: National Treasury (Budget Review 2013/14)
Innovation, education and the mobilisation of resources

Lodge (2009:256) notes that national investment in research and development in South Africa is proportionately comparable to poorer EU members. However, he also notes that the national innovation system needs much more investment in human capital, in particular in mathematics at school level. Whereas the welfare system with its extensive grant system can alleviate poverty, to be a social investment state would require an effective policy that goes beyond welfare payments and endow people with the skills and resources to generate higher income and allow them more choices.

However, if the government wants to implement a developmental state that focuses on human development and specifically the development of skills to create competitive industries, it will have to especially address the dearth of skills in the public education and health sectors. The role of public sector labour unions is one aspect that especially deserves attention given that these unions hold up serious reforms. However, the problem goes further than the unions, with management and leadership in the public education and health sectors being just as serious a problem.

The NDP does highlight the problem with education. It also highlights other problems that undermine South Africa’s competitiveness. These problems range from slow broadband access, constrained energy supply and other infrastructure limitations. The government seems set to address some of these infrastructure gaps with its large-scale infrastructure spending plans.

The problems in its bureaucracy therefore not only prevent South Africa from being a developmental state in the East Asian mode, but also prevent it from being a social investment state (there are of course also other issues, as discussed above, preventing South Africa from being a developmental state in the East Asian mode). With its problems in education and health and its failure to spur innovation, together with its significant transfer system, the South African state currently resembles more closely a transfer welfare state than a fledgling social investment state.
It is not so much that South Africa spends too little on education and health care (in fact, as percentage of GDP it spends quite a significant amount: 6.4% and 3.9% respectively, budgeted for the 2013/4 fiscal year when using consolidated National, Provincial and Social Security Expenditure (National Treasury 2013:163 Table 6)). Rather, the problem is the low quality of these services and hence the limited return they yield. Thus, South Africa is not a transfer welfare state by design, but by default: its deficient policy and policy implementation in the areas of health and education leaves its grant and social transfer policy as the effective social policies. As a result of the problems in health and education, there is little prospect for welfare-dependent households to acquire the needed human capital to escape their welfare-dependent living conditions. This can be problematic, as the analysis by Bernard and Boucher (2007) indicate that in the longer run transfer welfare states are more prone to experience fiscal sustainability problems.

5. CONCLUSION

South Africa is the first country setting itself the goal of becoming a developmental state. Other countries that have been described as developmental states were only described as such ex post facto. Precisely what the value added is of adopting the mantle of a developmental state is somewhat unclear. If the value in the South African context is derived from the provision of a single, all-encompassing summative term that will help sell the underlying policy, then its value is absent. As the discussion above indicates, the concept of the ‘developmental state’ is itself unclear. In both academic and policy debates it has too many, often mutually exclusive interpretations to serve as a tool to create policy clarity. Furthermore, there are already divisions among the tri-partite alliance about the specific content that the NDP wants to give to the concept (even though that content is itself rather vague). Far better than using the more general concept of the developmental state, is the distinction of Bernard and Boucher (2007) between the Anglo-Saxon liberal, the Continental transfer welfare and the Scandinavian(Brazilian) social investment states, augmented by a fourth type of state, namely the East Asian developmental state. So, against the background of the above discussion, where does, and more importantly where should South Africa fit into this classification?
i. South Africa as an East Asian type of developmental state?

South Africa does not fit the model of the East Asian developmental state. It does not have the singular focus on growth, the necessary suppression of labour in the interest of that growth and the efficient bureaucracy to ensure successful policy implementation. It also has a very limited industrial policy. Although the policy identified and supports selected industries, it is nevertheless small. The submissive civil society needed for a developmental state model is also absent in South Africa. Unlike the East Asian developmental states, consumption constitutes a much larger component of GDP, and the wage level underlying that consumption means that South Africa does not possess the cheap labour setup of the typical East Asian developmental state. In all these respects South Africa resembles Brazil more than China.

ii. Remaining a transfer welfare state

South Africa can remain a transfer welfare state. However, given low employment levels, the extent to which the state can afford welfare payments and transfers will remain limited. If, due to low skill and education levels as well as frayed labour relations, growth weakens or stalls, the tax base will remain constrained. In the longer run a limited tax base might put even the existing welfare system under pressure. Even if fiscal policy remains sustainable in such a setting, the government will be limited in what it can do. Quality education, health and local government services will then remain private expenditure choices from which the poor will largely be excluded. As a result, inequality will most likely be perpetuated. Whether the possible perpetuation of inequality will be politically sustainable is questionable.

iii. Becoming a liberal state?

Alternatively, should the transfer welfare state prove to be unaffordable due to low growth in the tax base, South Africa could become a liberal state where the government cuts back on transfers, and relies on private investment to produce quality education, health and local government services. The only hope that this option has to alleviate poverty is if the private initiative it unleashes generates so much growth that it drags the poor out of poverty – a trickle-down effect. Given the current lack of schooling and
skills of many of the poor as well as the shift in most sectors towards the use of more knowledge-intensive workers, it remains unclear how the poor, then having to depend on their own investment in education and health, will be lifted out of poverty. Thus, in this case too inequality will most likely be perpetuated, raising similar questions as to its political sustainability.

iv. South Africa as social investment state?

The remaining option would be to become a social investment state that focuses seriously on improving education and health outcomes and implement measures that make participation in the labour market easier. Such policies would focus on human development both to address marginalisation in society and to improve the competitiveness of the South African economy. Improving competitiveness is done not only to stimulate exports, but also to enable local producers to compete better with imported goods, and thereby alleviate pressure on the current account.

However, a social investment state will have to address the various shortcomings of the civil service and problems with the implementation of policy, in particular in education, health and local government service provision. This will also entail dealing with public sector unions, improving the skills of the civil servants and require the implementation of an ethos of excellence in the civil service. In addition, such a social investment state will have to maintain a focus on innovation and competitiveness and resist pressure to implement protectionist policies. In short, a social investment state will require a significant reform of the public sector.

v. Overcoming the conundrum

The above means that currently South Africa faces a conundrum:
1) the East Asian developmental state with its singular growth objective and suppression of labour does and will not fit South African conditions – its implementation will be politically unfeasible and possibly even unconstitutional.
2) the transfer welfare state might be fiscally unsustainable in the longer run and does little to lift the welfare dependent out of dependency and into skilled and thus better-paying jobs,
3) though fiscally more sustainable, the liberal state might not allow the poor enough resources to undertake private investment in education and health and therefore does little to lift the welfare dependent out of dependency and into skilled and thus better-paying jobs,

4) while the social investment state might potentially endow people with the human capital needed to participate in skilled and thus better-paying jobs, it requires reforms of public education and health, as well as many other government services, in addition to reforms of the civil service. All these reforms might be very problematic to secure.

From the above it can be concluded that the East Asian developmental, the transfer welfare and the liberal states are unlikely to address the key challenge of endowing people with the human capital needed to participate in skilled and thus better-paying jobs and thereby lift the economic growth rate. The social investment state would be the preferred model with its emphasis on human capital development. However, if the needed reforms are not forthcoming, any intention to create a social investment state will falter, probably leaving South Africa in the current default position of being a transfer welfare state.

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