DEVELOPMENT POLICY RESEARCH UNIT

AFRICAN DEVELOPMENT BANK GROUP

The Role of Institutions in Underpinning Inclusive Economic Growth in South Africa

14 October 2015 – Radisson Blu Hotel Sandton, Johannesburg

INTRODUCTION

The Development Research Department (EDRB) of the African Development Bank (AfDB) commissioned research on "*The African Economy: Development Policy in Practice*", using a team of African researchers, and in collaboration with experts from Korean Institute for International Economic Policy (KIEP).

The research involves a detailed examination of institutions, processes, mechanisms and practices in four African countries: Nigeria, South Africa, Tanzania and Zambia; against the background of Korea's development experience. The South African research team is co-ordinated by the Development Policy Research Unit (DPRU) at the University of Cape Town, and focused on the role of institutions in underpinning inclusive economic growth in South Africa.

"*The African Economy: Development Policy in Practice*" research explores the interplay of institutions and economic development in Africa. In particular, it examines the role of the state in economic development and the dynamics of fostering institutions for structural transformation. Where possible, lessons were drawn from the development experience of South Korea. The focus of the studies generated further research questions and hypotheses which provide valuable insights for policy makers to consider for development effectiveness purposes.

The research works across three conceptually distinct, but overlapping areas of the development literature. The first concerns the political economy of development specifically questions about the relevance of the concept of the developmental state. The second concerns the role of institutions and the interplay of institutions and organizations in the economic development process. The third concerns the possible transference of development experiences across countries and, in particular the lessons to be drawn from the experience of South Korea for Africa. The interplay between these themes may be summarized as follows: Korea is taken as the prototype "developmental state". As such, its historical developmental trajectory is particularly relevant. Second, institutions determine the kind of developmental state that emerges. At the same time, development involves institutional change, implying, among other things, that as the developmental state evolves, it changes aspects of the institutional set-up. As such, the articulation of institutions in the context of the developmental state is of particular interest. Third, institutions are always context-specific. This implies that there are several combinations of institutional attributes that could be conducive to the emergence of a developmental state. Understanding the various attributes and characteristics of developmental states are of particular interest.

On 14 October 2015, seven experts presented their findings in Johannesburg, South Africa on the role of institutions in underpinning inclusive growth in South Africa, drawing lessons, where possible from the development experience of South Korea. This report provides an overview of these author's findings and discussions that occurred thereafter.

MACROECONOMIC POLICY IN SOUTH AFRICA SINCE 1994

PROF. KENNETH CREAMER

In reviewing macroeconomic policy in South Africa over the twenty-one years from 1994 to 2015, it is instructive to analyse the evolution of the conduct of fiscal and monetary and exchange rate policies over the period. An analysis of these key policy instruments provides insights into how government has responded to changing local and global economic conditions and gives an indication of how South Africa's post-apartheid government has sought to intervene in re-shaping the economy's overall trajectory, towards a more inclusive path of growth and development, capable of expanding opportunities for all people in South Africa.

Firstly, fiscal policy in South Africa is the country's most important instrument from macroeconomic management and for social and economic transformation. Key objectives of fiscal policy included managing counter-cyclical demand, avoiding inappropriate increases in national debt, driving infrastructure expansion and maintenance, and addressing inequalities. Since the end of apartheid, a major long term fiscal goal has re-prioritised expenditures to become more racially equitable which has included the improvement of service delivery and the quality of spending. However, fiscal policy and its impact is heavily influenced by domestic and international economic conditions. The global capitalist system has increased inequality as return on assets for the wealthy have been increasingly higher than economic growth and advances in technology and financialisation have left poor populations behind. However, tactful investment into infrastructure expansion, for example, can be used as a tool to fight inequality within South Africa as a means of improving service provision.

There have been four key period's in South Africa's fiscal policy since 1994. The first period spanned from 1994 to the early 2000s where government reduced the country's fiscal deficit from 28 percent of GDP to 24 percent of GDP. The second period from the early 2000s to 2008/09 was shaped by a global commodities boom that allowed government to balance the budget and run a fiscal surplus in 2006/2007. The third period from the 2008/09 crisis to 2014 witnessed an increased budget deficit as government played a countercyclical role, tax revenues fell, and expenditure rose. The current period that started between 2014 and 2015 has been denoted by low levels of growth and deepening budget deficits as tax revenues have fallen and incorrect optimistic growth projections increased expenditures which has exacerbated the situation.

While fiscal budget deficits are driven both by the business cycle and inefficiencies in the fiscal process, South Africa's deficits since 2009 have been shown to be more structural in nature due to excess spending; implying that government would run deficits even in a high growth environment. This presents a risk to macroeconomic stability as national debt has been growing faster than other BRICS nations since 2008, amounting to 43 percent of GDP in 2014.

Assessing potential future debt scenarios in a high or low growth environment, coupled with a consolidated or non-consolidated fiscal position, national debt could continue to rise to 60,3 percent of GDP by 2025 (high growth, consolidated fiscal position) or fall to 41,6 percent of GDP by 2025 (low growth, unconsolidated fiscal position). However, consolidation of the fiscal budget could reverse socioeconomic gains that South Africa has made through cash transfer programs – the proportion of the population living below the multidimensional poverty line fell from 37 percent in 1993 to 8 percent in 2010. Thus, the promotion of public-sector investment to 'crowd in' private sector investment and stimulate growth while increasing tax revenue is absolutely crucial for South Africa's fiscal policy agenda.

Moving more briefly to South Africa's monetary and exchange rate policy, the country's inflation targeting framework which was adopted in 1999 has helped decrease and stabilise inflation and real short-run interest rates, allowing for increased GDP growth which has helped increase employment in the country. However, the open economy tri-lemma between monetary independence, free capital movement, and fixed exchange rates means that the South African Reserve Bank has had limited ability to target a competitive value for the Rand. Alternative approaches to manage the exchange rate have been proposed, such as a Tobin tax, but due to South Africa's dependency on capital inflows this approach seems unfeasible.

Overall, the key contribution of macro-economic policy to South Africa's overall programme of social and economic transformation is to ensure that, over a sustained period, the state has sufficient resources to advance its reconstructive mandate, in this regard it is also crucially important to avoid a situation of ever-rising national debt. At the same time, ongoing macroeconomic management of the economy is required to maintain economic stability in the face of, sometimes wholly-unanticipated, internal and external shocks.

South Africa would best be served by a macroeconomic policy configured in such a way that fiscal policy is enabled to play a leading role in reconstructing, upgrading and equitably expanding the country's public services and related social and economic infrastructure, with monetary and exchange rate policies playing a supportive and stabilising role.

Discussion

After the presentation three questions were asked by audience members which Prof. Creamer responded to:

1) *Does unsecured credit lending pose a threat to macroeconomic stability in South Africa, given the recent curatorship of African Bank and increased defaulting debt in the lending vehicle?*

It's a problem that needs to be addressed, but unsecured credit lending does not pose a threat on a macroeconomic scale as of yet.

2) *What are the dynamics between politics and the exchange rate in South Africa?*

There should be an attempt to manage the exchange rate to some degree. However, past a certain threshold of around R 20 to US$ 1 there would be little management that could be conducive to a stable macroeconomic environment. The politics of exchange rate management is difficult because it could be *used in attempt to control expenditure (margin budgeting) and that taxes are usually lobbied by the most privileged in a society.*

3) *What recommendations do you have for stimulating public investment in South Africa?*

Investment in public infrastructures that have forward and backward linkages to other sectors, especially in manufacturing where value added can be the highest.

THE POLITICAL ECONOMY OF NATURAL RESOURCES

ROSS HARVEY

Natural resource wealth in developing countries, and its apparent inability to contribute to sustained and inclusive development, continues to present a formidable challenge to policymakers and academics alike. South Africa is no different. Despite substantial endowments of both renewable and non-renewable resources, the economy has performed well below expectation since 1994, and is forecast to grow at only 2% in 2015. Inequality and unemployment are increasing even though inflation is slowing. In contrast to South Africa, South Korea, which has little to no natural resource wealth, managed to develop rapidly since 1945 and is thriving. How is this possible and what differentiates these development paths?

At the core, intangible capital and natural resource management explain why there has been slow improvements in economic development and equality in South Africa compared to South Korea. Between 1995 and 2005, South Africa and South Korea diverged significantly mainly due to the fact that South Korea managed to grow its produced and intangible capital with very little natural resources. Contrariwise, South Africa has managed to generate more produced and intangible capital than other countries on the continent, but has not optimized its vast subsoil wealth for maximum development benefit. In 1995, South Korea's total wealth was evaluated US$ 7 trillion while South Africa's was US$ 2.9 trillion. By 2005, this gap widened with South Korea's total wealth growing to nearly US$ 12 trillion whereas South Africa only grew to US$ trillion.

Overall, historical blunders by policy makers to not utilise natural resource rents to invest in and develop other manufacturing sectors that are more-value adding and require high skill levels and technologies, which promote innovation and learning, has created a vulnerable economic environment dependent on international mineral markets. Moreover, due to the poor governance, growth stimulated by mineral resources in South Africa has declined. The most recent MPRD-AB 2008/13 has created increased costs to access natural resources, increased confusion about mineral rights among stakeholders, and political manipulation of natural resources which have benefited small, elite groups.

What this has created is a paradox of plenty where South Africa is defined by natural resource wealth, high levels inequality, communal tenure, BEE-driven oligopoly, and MPRDA-driven rent-seeking. This is quite opposite of South Korea's current economic climate defined by no natural resource wealth, a relatively equal society, private property rights, an evolution from an oligopoly to a slight more competitive business environment which is relatively rent-seeking.

Going forward there are some inclusive development options for South Africa to stimulate growth and alleviate inequality. Firstly, establishing the initial conditions of South Korea's – insofar as is possible – where a sharp focus in developing intangible capital. Secondly, eradicate the definitional ambiguity and ministerial discretion in all legislation, but maybe especially mining, to eliminate conflicts of interest. Thirdly, sticking to one growth and development strategy – such as the NDP – should be paramount as opposed to attempting to following contradictory non-plans.

Discussion

After the presentation one question was asked by an audience member which Mr. Harvey spent time elaborating on:

1) South Africa has truly represented what it means to have the Dutch Disease. Do you think that missing the commodities super cycle in the early 2000s may have been a good thing for South Africa? In other words, the debt that South Africa could have taken on to support investment and infrastructure could have created a debt trap for the country. Do you agree?

There is an article by Davis (1995) that builds on this argument and attempts to dismantle the Dutch Disease argument, which is relevant to this vein of thought. Theoretically, there are purported channels in which the Dutch Disease work as a basis for development. Mainly, if there are poor linkages in an economy that will not allow structural change to occur.

With the regard to the commodity boom, had we had better quality institutions in South Africa that managed capital better, we would have been more likely to have attracted investment and not had to take out loans and rack up debt. So, there is a definite argument that missing the commodities boom was a missed opportunity for South Africa. However, we cannot assume that we have down-stream beneficiation in South Africa; our institutions do not support that. Thus, the linkage and investment effects we would wish to happen in such a situation may in fact not actually happen, which makes this question interesting in theory.

THE DEVELOPMENTAL STATE: LESSONS FROM SOUTH KOREA'S DEVELOPMENT EXPERIENCE

DR. WILLIAM GUMEDE

Successful developmental states have not become so because of active state involvement per se in the economy. It is the kind, or rather the quality of state involvement, and the quality, capacity and intelligence of state institutions, including the state bureaucracies, that is at the heart of successful developmental states. In East Asia, Japan, South Korea, Singapore and Taiwan were particularly successful in institutional innovations, including transforming their bureaucracies into capable and effective ones, to manage the complex delivery systems of successful developmental states.

Overall, from observing many developed and emerging markets, the forms and levels of state capacity and political commitment which enable successful developmental states include:

- Efficient, merit-based public service
- Effective central coordinating agencies
- Public bureaucracy partnerships with private sector
- Networks of state-owned companies and development finance agencies that drive development
- Public bureaucracies which drive and industrial strategy that upgrade the industrial base from low- to high-value
- Dedicated efforts which boost human capital linked to the industrialization path
- Low-levels of corruption in public bureaucracies
- Comprehensive political will
- Governing in the broader interest
- Collective national mind-set

Using South Koreas as a case study, we can assess how the country was able to transform from a poor, developing nation from the 1950s to a developed one by the late 1980s and early 1990s. This success was dependent on the country's strong partnership between the state and private sector along with steadfast investment into ICT and energy while establishing wide, value-adding linkages throughout the economy. Though the Asian financial crisis in 1997/98 decreased GNI per capita and growth in South Korea, which required it to take a US$ 58 billion from the IMF, the country rebounded in the following years due to fast-acting economic reforms that were implemented; by 2010, GDP growth in South Korea was 6.3%

Political economy lessons for South Africa in this regard mainly focus on the need for government to establish a collective mind-set and become more pragmatic in policy prescriptions. Creating "growth coalitions" between the bureaucracy, business, organized labour and civil society in South Africa is key to secure buy-in for economic development reforms. The challenge for the country is how to make the public bureaucracy meritocratic – an essential element of the successful developmental state – while pursuing affirmative action and equity programs at the same time, which may, if wrongly applied, lead to a poor skills match in the public sector, which would fatally undermine the capacity of the public bureaucracy. Whether South Africa can muster the required political will – to get its ruling political and business elites to set aside ideological, patronage and narrow political interests to pursue the combination of strategies which East Asian developmental states followed to make their countries prosperous, remains open to question.

Discussion

After the presentation two questions were asked by audience members which Dr. Gumede addressed:

1) *What have been the top barriers and political missteps government has made in South Africa that has held the country back along its development trajectory.*

Smart industrialization has not been happening in South Africa. There has been a substantial lack of supply chain linkages throughout the economy which has led to ineffective use of capital. Congruently, the public education system in South Africa is so poor that the country could not achieve high growth if it wanted to. This is what really distinguishes South Korea from South Africa - human capital was highly integrated into South Korea's industrial path where this has been absent in South Africa. In addition to this, Black Economic Empowerment Legislation has not empowered the amount of people it set out to, nor has it helped create industrialization incentives. This is mainly in part to the fact that the ANC has been captured by a variety of interest groups, which has led to corruption within the party. The moment governing shifts *away from the wider interest of society to the interest of a single party or group, the development state model becomes ineffective. A collective mind-set it crucial to be a successful developmental state.*

2) *Given that we do not have effective operational institutions in South Africa, what can we do to stimulate development in this context?*

Establishing micro-partnerships on a local level rather than national level can avoid the principal of government to be captured by interest group agencies. This could be state-owned-enterprises partnering with small-to-medium sized enterprises in the private sector. Moreover, it is crucial for political party agreements to occur on a bi-partisan level. This would translate into the ANC and the DA agreeing on two to three development initiatives, on which they could collaborate on.

Institutions & Development SA: Lessons from South Korean Experience

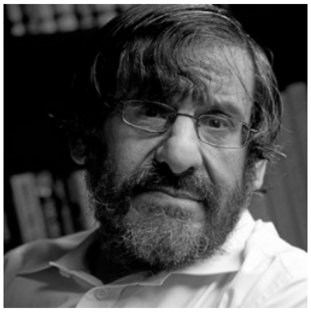
Ebrahim-Khalil Hassen

South African institutions encompass actors that focus on short-term tactical gains, while South Korean institutions, in contrast, have shown to coordinate themselves for mutual gain and wider societal change. South Africans agree that an endpoint of higher employment, less inequality, and the eradication (or substantial reduction) of poverty are goals worth striving for. However, current economic institutions in South Africa are unlikely to support sustainable and inclusive economic growth. In this sense, current institutions hinder development in South Africa.

The overarching picture that emerges is of high levels of contestation over institutions in South Africa. Three features of this contestation are important:

1) Policy incoherence in economic policy
2) Profound tensions between democratic and traditional leadership
3) Evidence of elite defection and other strategies

Key comparisons of South Africa and South Korea in this context stem around how each country addresses inequality, the role of elites in society, and the functions of markets and equity. In South Korea, inequality was addressed substantially and income was redistributed immediately at the onset of the dictatorial government, along with the diminishing of business elites. In South Africa, generational wealth that was built up throughout apartheid still plays a major role in growing inequality and BEE legislation has created elite alliances between business and government. Lastly, the push for a market-based economy in South Korea has allowed it to compete in the world market. Contrastingly, South Africa’s lack of structural development has made it vulnerable to international price swings, especially in commodities.



FROM SERVICE DELIVERY TO PUBLIC SERVICE: THE ROLE OF THE SOUTH AFRICAN STATE IN PROVIDING PUBLIC SERVICES

PROF. STEVEN FREIDMAN

Comparing the provision of services to citizens in Korea's 'developmental state' to that in post-1994 South Africa faces an apparently insurmountable problem: the rationales behind the two were entirely different. In Korea, public services were provided within a framework which assumed that welfare is a conduit to growth. In South Africa, growth was meant to be one among several conduits to welfare. Thus, the relationship between government performance and service provision in the context of addressing inequality is different between these two countries.

What the South African data shows, is that the quantity and quality of service provision in the country does not match up. The quantity of social grants and HIV/AIDS medical aid have shown to have substantive positive impacts on poverty. However, quality of service provision shows another story. For example, despite a growing number of newly built schools, the performance of students taking the Annual National Assessments has not improved. This has also been the case in healthcare and housing in the country where satisfaction of said services by recipients have been reported to be low.

Thus, the mainstream notion that places the blame on incompetent governments for the ineffectiveness of service provision is not appropriate for South Africa. It is not the quantity of service provision that is lacking but rather the quality. Thus, a very different approach to that which underpinned Korea's development must be considered. The question is not how the provision of services can contribute to growth in South Africa's formal economy, but rather how it can contribute to enhancing the economic contribution of those excluded from participating in its growth. The rhetoric describing the growing level of inequality in South Africa highlights that poor public provision is to blame. However, this is not the case. It is South Africa's pattern of market economy that has not changed over the years, even after apartheid, which has contributed to this inequality. The economic structure of elites still pervades despite a slight changes in demographic and racial make-up. Since resources collected from the formal sector will be required to implement such an approach it means that, instead of relying on services to produce growth, the South African approach will need growth to fund the provision of better services designed to enhance economic activity outside the formal sector. Therefore competence is not necessary here, but a better structure of relationships between business and government to negotiate.

Overall, if a sustainable development path is to be found which will relieve the provision of public services from solving problems which it can at best ameliorate, it will need to be negotiated between business and government. If the Korean route to development lay in a pre-democratic government able to work with business to create a sustainable growth path, in South Africa, the same goal – sustained growth – can be achieved only by a process of negotiated compromise by parties who recognise that they need each other even if they wish they did not. If Korea's route to prosperity lay in imposing on society a path which democracy was seen to obstruct, South Africa's lies in a deeper democracy and new relationships between the key economic and social actors. If this emerges, it will not only promise more effective service provision, but a more promising response to the economic legacies which, until now, effective service provision has been expected to address.

Discussion

After the presentation two questions were asked by audience members which Prof. Friedman addressed:

1) *Why has there been such a mismatch between the quantity and quality of service provisions?*

The main factor behind this mismatch has been largely political. There has been a consistent pattern in the design of policy over the past decade that shows a mismatch between what policies say should be provided and findings on the preference of the beneficiaries. An example of this includes the considerable energy devoted to extending mortgage finance to the poor in South Africa despite evidence of strong resistance to mortgages because they were associated with repossessions for non-payment.

2) *Why is it in some government institutions, like the National Treasury, you find high efficiency and productivity that is aligned through an overall consensus but in others you find the opposite?*

The key here is accountability. The National Treasury is efficient because the degree of accountability by the business sector and markets are high. It seems highly likely that, if all government officials at all levels were subject to the same accountability pressures as the Treasury, public provision would be far more effective – and more popular – than it is. There are significant pressures for accountability in South Africa. But their context limits the extent to which they can ensure high levels of provision for all citizens – it also ensures very little pressure to provide better service to the poor. More affluent suburban residents (most of them drawn from the racial minorities) are organised enough to ensure that the government is forced to account to them when services are not provided or the quality of provision is poor: they are, ironically, better at ensuring that officials listen to their concerns despite the fact that the suburbs vote overwhelmingly for the opposition. This may explain why in a survey some years ago, white city residents were found to be more satisfied with municipal services than their black counterparts.

KOREA'S 'DEVELOPMENTAL STATE' AND ITS POLITICAL & INSTITUTIONAL UNDERPINNINGS

PROF. BRIAN LEVY

A bureaucracy is embedded in politics and nested in principle-agent relationships between the state, service providers, and citizens/clients. There are three broad state types when we talk about governance. Firstly, a capable state is characterized by good governance, programmatic political competition, a rational 'Weberian' bureaucracy, business-government relations that are at arms-length, and institutions which abide by the rule of law. Secondly, a developmental state is characterized by top-down leadership, a rational 'Weberian' bureaucracy, government's active involvement in forcing the pace of economic transformation, and institutions which abide by the rule of law. Thirdly, a clientelistic state is characterized by multiple elite factions striving for political control, personalized bureaucracies and business-government relations which seek to benefit the elite, and institutions are characterized on a de fact instead of a de jure basis – the rule of law is weak.

In messy democracies, which encompass many middle income countries, hybrids of these three state types exist – elements of personalized and rule boundedness characteristics.

Korea's initial development state conditions, which started in the 1950s, was characterized by economic, social, political, and cultural factors that played a role in its growth path. Notably, the economy was labour intensive as opposed to natural resource intensive; growth was driven mainly by investment; and inequality was low. Also, the society is homogenous in nature; developmental leadership was extremely strong at the time; and its deeply-rooted Confucian culture of hierarchical reciprocity places an obligation on elites to serve society.

Evidently, the initial conditions in place in Korea in the early 1960s were far more propitious for the establishment and consolidation of a developmental state than those that prevail in contemporary South Africa. Thus, to achieve development initiatives that entail a multitude of principles and stakeholders, a problem driven approach should be pursued in South Africa. Along this approach are a spectrum of reform options. On one side of the spectrum are incremental, adaptive tactics that work around obstacles that are present in the South African developmental state. On the other side is a multi-stakeholder tactic which aims to expand reform space by trumping political elites that dominate the current policy space.

An adaptive tactic would focus on promoting South Africa's Skills Education Training Authorities (SETAs) and establishing local manufacturing and agro-processing clusters to create export-focused special economic zones. A multi-stakeholder tactic would take an informational and participatory approach to strengthening public service provision. Political and business elites will rarely spontaneously embrace reforms that transfers rents to historically excluded groups so there must be governance activism for inclusive development. This would include developing the agricultural sector by building the bargaining power of small farmers; increasing human development for all by bringing transparency and participation out of technocratic shadows; and establishing cities that work for all citizens by incorporating inclusive services.

Discussion

After the presentation two questions were asked by audience members which Prof. Levy addressed:

1) *These incremental and multi-stakeholder approaches that are proposed here seem quite daunting. How do we tackle alleviating problems around inequality when the concept of inequality in itself is multidimensional?*

They key to these concepts are that is better to put aside grandiose visions of infeasible transformation and focus instead on more modest initiatives that bring together stakeholders around specific, narrowly-focused but achievable development goals – with the accumulation of multiple, smaller achievements providing basis for the re-emergence of virtuous circles of hope and possibility. It is through incremental cumulative changes along these lines – not transformational dreams – through which messy democracies have made progress.

2) *Given this framework, how do we know where to begin? How do we know what initiatives to focus on first and how do we develop the appropriate policies to support them?*

Colloquially, the South Korean model of development from the 1950s-forward was 'shoot then aim'. Government made quick decisions on what initiatives and policies to pursue and if they worked they continued to pursue them, if they did not work they abandoned them immediately. In South Africa, we cannot waste our time trying to formulate the perfect plan to execute or we will miss the boat, as we did during the commodities boom in the early 2000s. We must learn while running; we must 'shoot then aim', not 'aim, aim, aim, aim then shoot'.

INSTITUTIONALIZING INCLUSIVE GROWTH IN SOUTH AFRICA:

ANTONY ALTBEKER

There are two versions of inclusive growth in the context of economic development: growth that happens where inclusion is an add-on, and then the process of including poor populations is the growth process itself. In the latter, people participate in new economic activities or economic activities that become more productive. Both of these versions of inclusive growth have merit and each is necessary, but the latter is superior along many dimensions.

Generally, it is essential to distinguish between deepening inclusion (improving the terms of inclusion) and broadening inclusion (widening the reach of inclusion). South African policy has been better at deepening inclusion rather than broadening inclusions – this is despite having developed elaborate systems of redistribution to moderate this. Here, it is plausible that some institutions actively narrow the inclusivity of economic activity.

The way inclusivity is primarily measured in South Africa is with employment, yet the employment rate in the country is among the lowest in the world. This is largely due to the fact that there is a large gap in the labour market – the agricultural sector – where low skilled, labour intensive workers are usually employed.

Going forward, there are three options for inclusive growth in South Africa: 1) build a much larger agricultural sector, 2) build and exceptionally large non-agricultural economy, and/or 3) build a social safety net. The National Development Plan's current approach addresses inclusion through strengthened social safety nets, but mostly through employment creation.

The NDP proposes creating 11 million jobs by 2030 – assuming and employment elasticity of growth of 0.60 and GDP growth rate of 5.40 percent per anum. Moreover, the types of jobs that the NDP focuses on creating are mainly non-agricultural. There are two problems with the NDP's approach. The first is that the GDP growth rate is too high – South Africa's four-year average since the 1971 has not exceed 5 percent. The second is that the employment elasticity is too high. Overall, the growth assumptions proposed by the NDP are unrealistic, meaning that achieving 11 million jobs by 2030 is unlikely. What does this mean for institutionalizing inclusive growth?

Including people in the process of growth means expanding low-productivity jobs, which means less growth but more labour-intensity. South Africa has no revealed comparative advantage in low-productivity tradables and global shifts in comparative advantage have worsened South Africa's position in the world market. Overall, there is no current real strategy for inclusive growth for South Africa –

redistributive strategies face challenges of plausibility and approaches to economic development deepens rather than broadens inclusion.

Discussion

After the presentation one question was asked by an audience member which Mr. Altbeker addressed:

1) *Given your stark conclusion, do you feel like inclusiveness can be institutionalized in South Africa? Is this within the realm of possibility?*

Another way of looking at this is asking the question: how effectively does South Africa operationalize and institutionalize policy proposals that might accelerate the achievement of economic transformation and inclusive development in the country? In an era of load-shedding, of near permanent crisis in multiple public institutions and state-owned enterprises from the SAPS and NPA to the SABC and SAA, and across all spheres of government, it is tempting to suggest that this is a question that answers itself. Whether one thinks of these institutional crises as acute or chronic matters, of course, as does one's assessment of the degree to which it is possible to turn them around. What is clear, however, is that it is quite possible to find grounds for pessimism about the depth and persistence of these crises.

Overall Key Points

- Low levels of growth, falling tax revenues, and increased expenditures have deepened fiscal budget deficits in South Africa which have been structural in nature and contribute to growing national debt. Austerity measures run the risk of reversing socioeconomic gains, thus public investment into infrastructure which can establish industrial linkages should be pursued. Monetary policy in South Africa utilizes inflation targeting as a key mechanism, but exchange rate management does not exist. Taxing capital flows could be used to manage the exchange rate, but due to South Africa's dependency on capital inflows, adverse effects could arise from such policy.
- Comparing South Korea to South Africa, the former invested more into intangible capital while the latter relied on its natural resources to gain rents. Poor resource management and dynamics of political and economic elites have held South Africa back from utilising natural resource rents to invest in higher value-adding economic activities for sustained and re-distributional growth.
- Political economy lessons for South Africa in regards to South Korea's developmental path include the need for government to establish a collective mind-set and become more pragmatic in policy prescriptions; and an establishment of "growth coalitions" between the bureaucracy, business, organised labour and civil society. This is key in securing buy-in for economic development reforms. The challenge for the country is how to make the public bureaucracy meritocratic – an essential element of the successful developmental state – while pursuing affirmative action and equity programs at the same time.
- There are high levels of contestation over institutions in South Africa. Three features of this contestation include incoherence in economic policy, profound tensions between democratic and traditional leadership and evidence of elite defection and other strategies.
- It is not the quantity of public service provision that is lacking in South Africa but rather the quality. Establishing better structure of negotiation relationships between business and government is

crucial so that growth can fund the provision of better services designed to enhance economic activity outside the formal sector.

- Adaptive, incremental tactical approaches to achieve development initiatives in South Africa include promoting skills development programmes along with export industries. A Multi-stakeholder approach would take on an informational and participatory approach to strengthening public service provision through developing the agricultural sector by building the bargaining power of small farmers; increasing human development for all by bringing transparency and participation out of technocratic shadows; and establishing cities that work for all citizens by incorporating inclusive services.
- The National Development Plan’s current approach to job growth assumes unrealistic elasticities and growth rates which over estimate job projections. The process of growth which is inclusive means expanding low-productivity jobs, which means less growth but more labour-intensity. Overall, an inclusive growth strategy in South Africa is lacking.